Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Ricardo Velazquez
Name of the Holding Company Director and Official

Chief Executive Officer
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

02/17/2017
Date of Signature

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

For Federal Reserve Bank Use Only
RSSD ID 3434624
C.I.

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

N
R rter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Re orter's Name, Street, and Mailing Address

Ba orte USA Cor oration
L l Title of Holding Company

18 1 S 2nd Street
(Mailing Address of the Holding Company) Street / P.O. Box

McAllen	TX	7503
City	State	Zip Code

140 E 45th St. New York, NY, 10017
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Sonia Altamirano	Treasury Manager
Name	Title

956-664-8410
Area Code / Phone Number / Extension

956-632-5866
Area Code / FAX Number

saltamirano@inbweb.com
E-mail Address

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

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

In accordance with the General Instructions for this report (check only one),
1. **a letter justifying this request is being provided along with the report** ☐
2. **a letter justifying this request has been provided separately** ☐

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

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

For Use By Tiered Holding Companies

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

INB Financial Corp.
Legal Title of Subsidiary Holding Company

1801 S 2nd Street
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

McAllen	TX	78503
City	State	Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

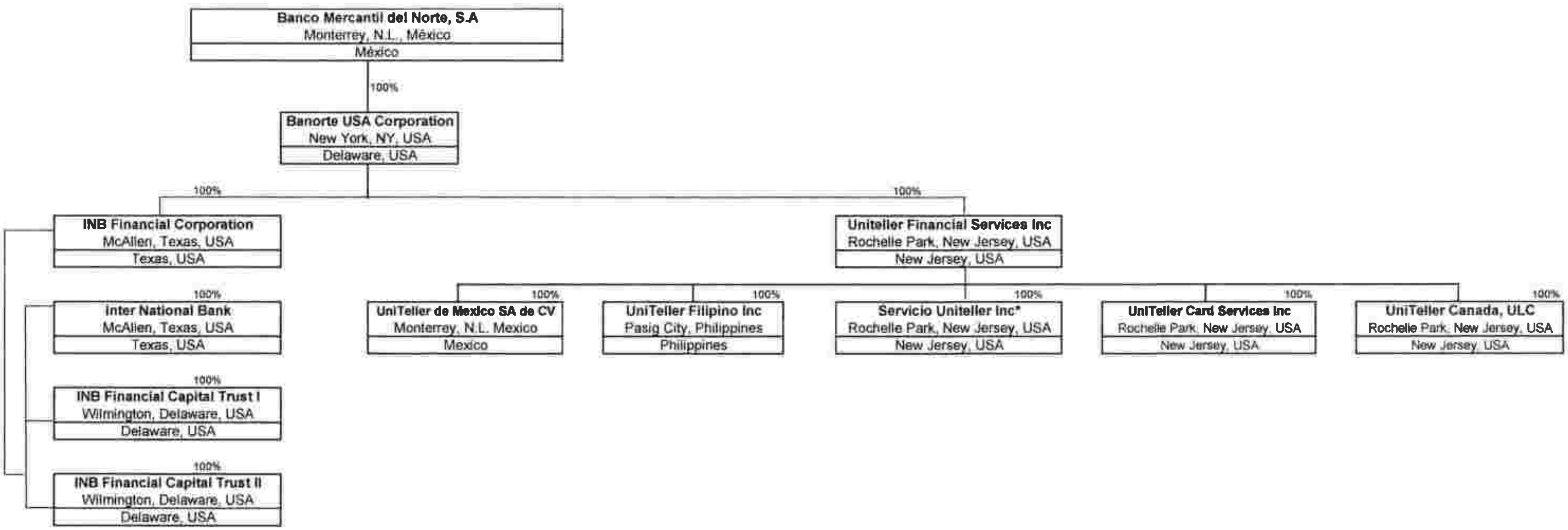
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

FORM FR Y-6
BANORTE USA CORPORATION
McAllen, Texas

Report Item 2a: Organizational Chart
December 31, 2016



No entity has a LEI Number

Results: A list of branches for your depository institution: INTER NATIONAL BANK (ID_RSSD: 894553).
This depository institution is held by BANORTE USA CORPORATION (3434624) of NEW YORK, NY.
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)	894553	INTER NATIONAL BANK	1801 S 2ND ST	MCALLEN	TX	78503	HIDALGO	UNITED STATES	32122	0	INTER NATIONAL BANK	894553	
ok		Full Service	3742628	BROWNSVILLE BRANCH	1785 RUBEN M. TORRES BLVD.	BROWNSVILLE	TX	78521	CAMERON	UNITED STATES	478970	22	INTER NATIONAL BANK	894553	
ok		Full Service	2995379	EDINBURG BRANCH	1502 S SUGAR RD	EDINBURG	TX	78539	HIDALGO	UNITED STATES	258356	7	INTER NATIONAL BANK	894553	
ok		Full Service	3542921	EL PASO EAST BRANCH	2828 NORTH LEE TREVINO	EL PASO	TX	79936	EL PASO	UNITED STATES	361185	9	INTER NATIONAL BANK	894553	
ok		Full Service	3376911	EL PASO MAIN BRANCH	175 EAST ARIZONA	EL PASO	TX	79902	EL PASO	UNITED STATES	444055	14	INTER NATIONAL BANK	894553	
ok		Full Service	3542912	EL PASO WEST BRANCH	125 SHADOW MOUNTAIN DR	EL PASO	TX	79912	EL PASO	UNITED STATES	361186	10	INTER NATIONAL BANK	894553	
ok		Full Service	5006687	I-35 BRANCH	4819 SAN DARIO AVENUE	LAREDO	TX	78041	WEBB	UNITED STATES	Not Required	Not Required	INTER NATIONAL BANK	894553	
ok		Full Service	3749186	LAREDO BRANCH	7219 MCPHERSON ROAD	LAREDO	TX	78041	WEBB	UNITED STATES	477393	21	INTER NATIONAL BANK	894553	
ok		Full Service	3295142	EXPRESS BRANCH	1700 S 10TH, SUITE 100	MCALLEN	TX	78503	HIDALGO	UNITED STATES	443198	13	INTER NATIONAL BANK	894553	
ok		Full Service	1879098	MCALLEN BRANCH	1705 NORTH 23RD STREET	MCALLEN	TX	78501	HIDALGO	UNITED STATES	283401	3	INTER NATIONAL BANK	894553	
ok		Full Service	2995351	NORTH MCALLEN BRANCH	730 W NOLANA	MCALLEN	TX	78504	HIDALGO	UNITED STATES	258355	6	INTER NATIONAL BANK	894553	
ok		Full Service	3295133	NORTH MCCOLL BRANCH	1524 N MCCOLL, SUITE 100	MCALLEN	TX	78501	HIDALGO	UNITED STATES	430843	12	INTER NATIONAL BANK	894553	
ok		Full Service	3388156	TRENTON BRANCH	2228 TRENTON RD	MCALLEN	TX	78504	HIDALGO	UNITED STATES	445449	18	INTER NATIONAL BANK	894553	
ok		Full Service	1879100	MISSION BRANCH	713 EAST TOM LANDRY DRIVE	MISSION	TX	78572	HIDALGO	UNITED STATES	283402	4	INTER NATIONAL BANK	894553	
ok		Full Service	3542949	PLANTATION GROVE BRANCH	3605 PLANTATION GROVE	MISSION	TX	78572	HIDALGO	UNITED STATES	362557	11	INTER NATIONAL BANK	894553	
ok		Full Service	3589766	SHARY EXPRESS #3 BRANCH	2401 E EXPRESSWAY 83	MISSION	TX	78572	HIDALGO	UNITED STATES	457059	19	INTER NATIONAL BANK	894553	
ok		Full Service	2995360	SHARYLAND BRANCH	1926 E GRIFFIN PARKWAY	MISSION	TX	78572	HIDALGO	UNITED STATES	258354	5	INTER NATIONAL BANK	894553	
ok		Full Service	3717765	PHARR EXPRESS BRANCH	1200 EAST EXPRESSWAY 83	PHARR	TX	78577	HIDALGO	UNITED STATES	457888	20	INTER NATIONAL BANK	894553	
ok		Full Service	289065	INB - WESLACO MAIN BRANCH	400 NORTH TEXAS BOULEVARD	WESLACO	TX	78596	HIDALGO	UNITED STATES	16239	15	INTER NATIONAL BANK	894553	
ok		Limited Service	1162697	WESLACO KANSAS AVENUE BRANCH	501 SOUTH KANSAS AVENUE	WESLACO	TX	78596	HIDALGO	UNITED STATES	256007	16	INTER NATIONAL BANK	894553	

Form FR Y-6
BANORTE USA CORPORATION
McAllen, Texas

Report Item 3: Shareholders
December 31, 2016

1.-

Name and Address	Country of Citizenship	Number	Shares Controlled Percent
Banco Mercantil del Norte S.A. Monterrey, N.L., Mexico	Mexico	1,000	100%

2.- Does not apply

Form FR Y-6
INB Financial Corp
McAllen, Texas

Report Item 3: Shareholders
December 31, 2016

1.-

Name and Address	Country of Citizenship	Number	Shares Controlled Percent
Banorte USA Corporation New York, New York, USA	USA	1,910,887	100%

2.- Does not apply

AMENDED

FORM FR Y-6
BANORTE USA CORPORATION
McAllen, Texas

Report Item 4 - Insiders
December 31, 2016

(1) Name and address	(2) Principal Occupation if other than Bank Holding Company	3(a) Title & Position with Bank Holding Company	3(b) Title & Position with Subsidiaries (Include names of subsidiaries)	3(c) Title & Position with Other Businesses (Include names of other businesses)	4(a) Percentage of Voting Shares in Bank Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	4(c) List names of other companies (Includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Banco Mercantil del Norte, S A Monterrey, Nuevo Leon, Mexico	N/A	Principal Securities Holder	N/A	N/A	100%	N/A	N/A
Ricardo Velazquez Rodriguez Cuajimapla, Mexico City, Mexico	Banker	Director, CEO & Chariman	Advisory Director (Inter National Bank) Chairman (Uniteller Financial Services, Inc.)	Managing Director and Head International Banking (Banorte)	0	0	N/A
Amy Birt McAllen, Texas, USA	Banker	CFO	Ex. Vice President & CFO, (Inter National Bank)	N/A	0	0	N/A
Alberto Raúl Guerra Rodriguez McAllen, Texas, USA	Banker	Director	Director, Ex. Vice President & CEO (UniTeller Financial Services, Inc.) Director, Ex. Vice President & CEO (Servicio UniTeller, Inc.)	N/A	0	0	N/A
Jorge Eduardo Vega Camargo Cuajimalpa, Mexico City, Mexico	Banker	Director	N/A	Deputy Manager Director of Comptrollership (Banorte)	0	0	N/A
Rafael Arana de la Garza Cuajimalpa, Mexico City, Mexico	Banker	Director	N/A	Chief Operating and Chief Financial Officer (Banorte)	0	0	N/A
Javier Beltran Cantu Monterrey, Nuevo Leon, Mexico	Banker	Director	Director (Uniteller Financial Services, Inc.)	Chief Human Resources (Banorte)	0	0	N/A
Jose Luis Sosa Ibarra Monterrey, Nuevo Leon, Mexico	Banker	Officer	N/A	VP of International Banking & Financial Institutions (Banorte)	0	0	N/A
Sonia Lorena Altamirano Chapa McAllen, Texas, USA	Banker	Secretary	Treasury Manager (Inter National Bank)	N/A	0	0	N/A

AMENDED

FORM FR Y-6
INB Financial Corp.
McAllen, Texas

Report Item 4 - Insiders
December 31, 2016

(1) Name and address	(2) Principal Occupation if other than Bank Holding Company	3(a) Title & Position with Bank Holding Company	3(b) Title & Position with Subsidiaries (Include names of subsidiaries)	3(c) Title & Position with Other Businesses (Include names of other businesses)	4(a) Percentage of Voting Shares in Bank Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	4(c) List names of other companies (Includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Banorte USA Corp New York, New York, USA	N/A	Principal Securities Holder	N/A	N/A	100%	N/A	N/A
Samuel Munafo McAllen, Texas, USA	Banker	Director	Ex. Vice President, CEO & Director (Inter National Bank)	N/A	0	0	N/A
Ricardo Velazquez Cuajimalpa, Mexico City, Mexico	Banker	Director	Advisory Director (Inter National Bank)	Managing Director and Head International Banking (Banorte)	0	0	N/A

BANORTE USA CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

and

INDEPENDENT AUDITOR'S REPORT

December 31, 2016 and 2015

Banorte USA Corporation and Subsidiaries

Contents

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors and Shareholder
of Banorte USA Corporation and Subsidiaries

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As more fully discussed in Note 1 to the financial statements, the Company has entered into an agreement to sell 100% of the outstanding common stock of its wholly owned banking subsidiary. The sale is expected to close during the first or second quarter of 2017. The financial statements do not include any adjustments that might result from the effects of this sale.

Payne & Smith, LLC

March 1, 2017

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

Banorte USA Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2016 and 2015
(in thousands, except share amounts)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 31,142	$ 15,754
Wire transfers receivable	6,315	3,798
Other receivables	3,633	3,172
Prepaid expenses and other current assets	231	229
Total current assets	41,321	22,953
Property, plant & equipment, net	4,223	3,409
Other assets		
Goodwill	19,097	19,097
Intangible assets, net	1,098	1,177
Other assets	3,289	3,805
Total other assets	23,484	24,079
Assets of bank held for sale	1,616,233	1,746,093
Total assets	$ 1,685,261	$ 1,796,534
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Agent deposits	$ 16,905	$ 8,674
Line of credit	5,107	3,350
Unsettled wire transactions	3,069	1,879
Due to paying agents	4,530	1,706
Federal income tax payable	-	719
Accrued interest payable	150	128
Accrued expenses and other current liabilities	3,074	3,638
Total current liabilities	32,835	20,094
Long-term liabilities		
Deferred income tax payable	1,342	1,094
Other long-term liabilities	2,120	1,067
Subordinated debentures	20,562	20,559
Payable to Banco Mercantil	2,500	2,500
Total long-term liabilities	26,524	25,220
Liabilities of bank held for sale	1,356,809	1,298,645
Total liabilities	1,416,168	1,343,959
Commitments and contingencies	-	-
Shareholder's equity		
Common stock, $1 par value;		
1,000 shares issued and outstanding	1	1
Additional paid-in capital	371,311	371,311
(Accumulated deficit) retained earnings	(96,302)	87,034
Accumulated other comprehensive loss	(5,917)	(5,771)
Total shareholder's equity	269,093	452,575
Total liabilities and shareholder's equity	$ 1,685,261	$ 1,796,534

See notes to consolidated financial statements.

Banorte USA Corporation and Subsidiaries

Consolidated Statements of Operations

Years Ended December 31, 2016 and 2015

(in thousands)

	2016	2015
Revenue		
Fees	$ 43,900	$ 27,701
Foreign exchange	4,599	3,658
Selling agent commissions	9	2,145
Other income	972	1,216
Total revenue	49,480	34,720
Cost of sales		
Paying agent commissions	19,147	8,181
Selling agent commissions	15,279	12,739
Total cost of sales	34,426	20,920
Selling, general and administrative expenses	9,808	9,164
Operating income	5,246	4,636
Other income (expense)		
Interest income	22	19
Interest expense	(876)	(769)
Total other income (expense)	(854)	(750)
Income from continuing operations before income taxes	4,392	3,886
Income tax expense on continuing operations	(1,791)	(1,838)
Income from continuing operations	2,601	2,048
Discontinued operations		
(Loss) income from operations of bank held for sale	(177,507)	23,257
Income tax expense	(8,430)	(7,698)
Loss (income) from discontinued operations	(185,937)	15,559
Net (loss) income	$ (183,336)	$ 17,607

See notes to consolidated financial statements.

Banorte USA Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2016 and 2015
(in thousands)

	2016	2015
Net (loss) income	$ (183,336)	$ 17,607
Other items of comprehensive (loss) income:		
Continuing operations:		
Currency translation adjustments	(91)	(399)
Discontinued operations:		
Net change in unrealized (loss) gain on securities available for sale, net of income tax	(7)	(628)
Reclassification adjustment for realized gains on sale of securities, net of income tax	(48)	(110)
Other comprehensive loss	(146)	(1,137)
Comprehensive (loss) income	$ (183,482)	$ 16,470

See notes to consolidated financial statements.

Banorte USA Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholder's Equity
Years Ended December 31, 2016 and 2015
(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
Balance at January 1, 2015	$ 1	$ 371,311	$ 69,427	$ (4,634)	$ 436,105
Net income	-	-	17,607	-	17,607
Currency translation adjustments	-	-	-	(399)	(399)
Net change in unrealized loss on securities available for sale, net of income tax benefit of $339	-	-	-	(628)	(628)
Reclassified adjustment for realized gains on sale of securities, net of income tax expense of $59	-	-	-	(110)	(110)
Balance at December 31, 2015	1	371,311	87,034	(5,771)	452,575
Net loss	-	-	(183,336)	-	(183,336)
Currency translation adjustments, net	-	-	-	(91)	(91)
Net change in unrealized loss on securities available for sale, net of income tax benefit of $3	-	-	-	(7)	(7)
Reclassified adjustment for realized gains on sale of securities, net of income tax expense of $26	-	-	-	(48)	(48)
Balance at December 31, 2016	$ 1	$ 371,311	$ (96,302)	$ (5,917)	$ 269,093

See notes to consolidated financial statements.

Banorte USA Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(in thousands)

	2016	2015
Cash flows from operating activities		
Income from continuing operations	$ 2,601	$ 2,048
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Depreciation and amortization	843	765
Deferred income taxes	(308)	562
Net change in:		
Accrued interest receivable	(1)	-
Federal income tax payable	(798)	(143)
Other assets	(660)	(7,332)
Other liabilities	13,316	1,926
Net cash provided by (used in) operating activities	14,993	(2,174)
Net cash from bank held for sale provided by operating activities	16,935	21,974
Net cash provided by operations	31,928	19,800
Cash flows from investing activities		
Additions to premises and equipment	(1,563)	(1,233)
Net cash from continuing operations used in investing activities	(1,563)	(1,233)
Net cash from bank held for sale (used in) provided by investing activities	(82,762)	120,459
Net cash (used in) provided by investing activities	(84,325)	119,226
Cash flows from financing activities		
Net change in line of credit	1,758	(1,177)
Net change in intercompany payable to Banco Mercantil	-	(500)
Net cash from continuing operations provided by (used in) operating activities	1,758	(1,677)
Net cash from bank held for sale provided by (used in) investing activities	60,497	(153,035)
Net cash provided by (used in) financing activities	62,255	(154,712)
Net change in cash and cash equivalents	9,858	(15,686)
Cash and cash equivalents at beginning of year	39,659	55,345
Cash and cash equivalents at end of year	49,517	39,659
Less cash at the end of the year of bank held for sale	(18,375)	(23,905)
Cash and cash equivalents at end of year	$ 31,142	$ 15,754

See notes to consolidated financial statements.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Banorte USA Corporation (Banorte) (a wholly owned subsidiary of Banco Mercantil del Norte, S.A. (Banco Mercantil)) and its subsidiaries, INB Financial Corp (INBFC) and Inter National Bank (the Bank), provide loans and banking services to consumers and commercial customers throughout southern Texas and Mexico. Additionally, Banorte provides money transfer services worldwide from its wholly owned subsidiary, Uniteller Financial Services, Inc. (Uniteller), which has operations in 41 states within the United States. Banorte and all of its subsidiary entities are hereafter referred to as "the Company." The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (GAAP) and to general practices of the banking industry. Policies and practices, which materially affect the determination of the Company's consolidated financial position, results of operations, and cash flows, are summarized as follows:

Pending Sale of Inter National Bank

On October 31, 2016 INBFC entered into an agreement to sell 100% of the outstanding common stock of the Bank to a private group of Purchasers (Purchasing Group).

On the effective date of the sale transaction all of the outstanding equity interests of the Bank are to be sold to the Purchasing Group for approximately $200,000,000. The transaction is expected to close during the first or second quarter of 2017.

The agreement contains both customary and specific representation, warranties, and covenants for each of the parties. The completion of the transaction is subject to various customary closing and other conditions, including but not limited to, the receipt of required regulatory approvals.

The foregoing limited description of the transaction does not purport to be complete and is qualified in its entirety by reference to the stock purchase agreement.

SIGNIFICANT ACCOUNTING POLICIES

Discontinued Operations

In April 2014, FASB issued ASU 2014-08 "*Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity*" which requires that discontinued operations include those corporate disposals that represent a strategic shift or have a major impact on the entity's financial results and operations. Examples included a disposal of a major geographical location, line of business, or other significant part of the entity. All revenue, expenses, impairment charges and disposal costs are to aggregated in a single caption "income or loss from discontinued operations, net of tax effect" for all reporting periods presented. Further, all assets are to be segregated from continuing operations and presented as assets held for sale. Liabilities are presented in a similar manner in the liability section of the consolidated balance sheets.

Principles of Consolidation

The consolidated financial statements include the accounts of Banorte and its subsidiaries: INBFC, Uniteller, and the Bank. All intercompany transactions and balances have been eliminated in consolidation. See Note 2 for additional information on the corporate disposition.

Use of Estimates

In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, the estimate of the fair value of securities, the valuation of goodwill, and the valuation of deferred tax assets.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES – continued

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in southern Texas and Mexico. The types of securities that the Company invests in are described in Note 4. The types of lending that the Company engages in are described in Note 6.

The majority of cash and cash equivalents of the Company are maintained with major financial institutions in the United States and all of the transaction accounts held by the Company are at financial institutions subject to the provisions of the Dodd-Frank Act. As such, interest bearing, nontransaction account deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and, therefore, bear minimal risk. In monitoring this credit risk, the Bank periodically evaluates the stability of the financial institutions with which it has deposits.

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheet captions "cash and due from banks" and "federal funds sold." Generally, federal funds are purchased and sold in one-day periods. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Interest Bearing Deposits in Banks

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

Investment Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. In determining whether other-than-temporary impairment exists, management considers many factors, including the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank (FHLB) Stock

The Company's investment in FHLB stock is a restricted investment carried at cost ($100 per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Company may request redemption at par value of any stock in excess of the amount it is required to hold. Stock redemptions are made at the discretion of FHLB. During the years ended December 31, 2016 and 2015, FHLB did not redeem any shares held by the Company.

Loans

The Company grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and real estate loans throughout southern Texas and Mexico. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off, which are measured at historical cost, are generally reported at their outstanding unpaid principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Unearned income is amortized to interest income using a level yield methodology.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES – continued

The accrual of interest on mortgage and commercial loans is discontinued at the time when, in management's opinion, the borrower may be unable to meet payments as they become due. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, are reversed against interest income. The interest on these loans is accounted for on the cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Company previously adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2010-20 (Topic 310), *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* that addressed disclosures of loans and other financing receivables and the related allowance. The accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for loan losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics, and methods for assessing risk. The Company's portfolio segments are commercial, real estate, cash secured, and consumer. Each portfolio segment contains a single class of financing receivables. Under this accounting guidance, the allowance is presented by portfolio segment (See Note 6).

Advances from Borrowers for Taxes and Insurance

The Company collects escrow amounts for taxes and insurance on certain of its residential mortgage loans. At December 31, 2016 and 2015, these advances amounted to $1,730 and $1,343, respectively. The advances are included in consolidated balance sheet in the caption other liabilities.

Troubled Debt Restructured (TDR) Loans

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

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan losses does not include amounts related to accrued interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations. Loss forecast models are utilized for these portfolios, which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions, and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes.

The attributes that are most significant to the probability of default and are used to estimate default include the risk ratings, historical loss, product type, and geography. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards, and the regulatory environment.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES - continued

The allowance on the remaining portfolio segments (commercial loans, cash secured, consumer, and other) is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity, and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves, which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Nonperforming loans are reviewed in accordance with FASB Accounting Standards Codification (ASC) 310-10-35 on impaired loans and TDRs. If necessary, a specific allowance is established for these loans if they are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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 the loan. An unallocated component for nonclassified loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on historical loss experience, current economic conditions, and performance trends. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk-rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for loan losses related to the loan portfolio is reported as a part of loans in the consolidated balance sheets whereas the reserve for unfunded lending commitments is reported on the consolidated balance sheets in other liabilities. Provision for credit losses related to the loan and lease portfolio and unfunded lending commitments is reported separately in the consolidated statements of operations.

Nonperforming Loans, Charge-Offs, and Delinquencies

Nonperforming loans generally include loans that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES - continued

The outstanding balance of real estate secured loans within the residential real estate portfolio segment that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The outstanding balance of real estate secured loans within the commercial real estate portfolio segment that is in excess of the present value of future cash flows discounted at the loan's effective rate, or collateral value as a practical expedient for collateral dependent loans, is charged off no later than the end of the month in which the account is determined to be impaired. The estimated property value is determined utilizing appraisals or broker price opinions of the fair value of the collateral. The present value of future cash flows is calculated in accordance with the guidance outlined in ASC 310-10.

The outstanding balance of consumer and other loans, that include overdrafts and credit cards, are treated in accordance with Office of the Comptroller of the Currency (OCC) Bulletin 2000-20, *Uniform Retail Credit Classification and Account Management*. Overdrafts are charged off when it is determined recovery is not likely or the overdraft becomes 60 days old, whichever comes first.

The outstanding balance of secured commercial loans, are written down to the fair value of the collateral upon determination that all or a portion of any loan balance is uncollectible. The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. The outstanding balance of unsecured commercial loans are charged off no later than the end of the month in which the account becomes 120 days past due.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on nonaccruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months. TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments. Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheets in other assets and other liabilities with changes in their fair values recorded in noninterest income.

Forward Loan Sale Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company uses both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Mandatory delivery contracts are accounted for as derivative instruments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated balance sheets in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Financial Instruments

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

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES - continued

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value, less estimated selling cost at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value, less estimated cost to sell and depreciation is not recorded. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value and depreciated based on the remaining useful life. Costs of significant property improvements are capitalized not to exceed fair value of property, whereas costs relating to holding property are expensed.

Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value, less estimated cost to sell.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as income or expense on the consolidated statements of operations.

Income Taxes

On January 1, 2009, the Company adopted changes to FASB ASC 740 – *Accounting for Income Taxes* related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Company had no unrecognized tax benefits and believes it has no uncertain tax positions at December 31, 2016 and 2015.

The Company's income tax expense consists of a current and a deferred component. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. During the years ended December 31, 2016 and 2015, the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2013.

Advertising

Advertising costs are expensed as incurred.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

The Company evaluates its goodwill on an annual basis for impairment or whenever a triggering event indicates that the carrying value may not be recoverable.

Intangible Assets

Intangible assets primarily include a core deposit intangible asset related to the initial purchase of the stock of the Bank and patent rights and applications include certain rights acquired from the son of a former Uniteller shareholder. Intangible assets with definite lives are being amortized over their estimated useful lives, which range from 3 to 18 years.

Software Development Costs

The Company capitalizes certain costs incurred to produce proprietary software used to process money transfers, including coding, testing, and product quality assurance, once technological feasibility has been established. Amortization is computed on a case-by-case basis over the estimated economic life of the software, which is 3 years.

Derivative Financial Instruments

The Company's cash flows are exposed to foreign currency risk from transactions denominated in foreign currencies, primarily the Mexican Peso. The Company utilizes forward exchange contracts to mitigate risk of volatility resulting from fluctuating foreign exchange rates. The maximum length of time that the forward exchange contracts hedges its exposure to the variability in future cash flows associated with foreign currency risk is 72 hours. As of December 31, 2016 and 2015, the Company did not have any outstanding contracts. These contracts are derivatives and do not qualify for hedge accounting; accordingly, they have been marked to market currently in earnings.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is considered the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated at the year-end exchange rate. Income and expense items are translated at average exchange rates in effect during the year. The resulting translation adjustments are recorded in the consolidated balance sheets in accumulated other comprehensive loss.

Gains and losses resulting from transactions denominated in currencies other than the functional currency are recorded in the consolidated statements of operations. Foreign exchange revenue attributable to foreign currency hedging on the consolidated statements of operations was $6,604 and $5,794 for the years ended December 31, 2016 and 2015, respectively. This results from the Company's daily settlement of most of its foreign currency denominated transactions.

Transfers of Financial Assets

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

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation. These reclassifications had no effect on 2015 net income or shareholder's equity.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

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

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

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

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

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

In June, 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The update requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment will be effective for reporting periods beginning after December 15, 2019. The Company is evaluating the impact this amendment will have on the Company's consolidated financial statements.

NOTE 1: BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

Subsequent Events

The Company has evaluated all subsequent events through March 1, 2017, the date the consolidated financial statements were available to be issued.

(in thousands)

NOTE 2: ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

As discussed in Note 1, on October 31, 2016, the Company entered into an agreement to sell Inter National Bank. This transaction represented a strategic shift whereby Banorte would be eliminating its commercial banking operations in the United States thereby requiring the Company to utilize the provisions of ASU 2014-08 in the preparation of its financial statements.

Because the discontinued operations portion of the Company's consolidated balance sheet represents such a significant portion of the total balance sheet, amounts and disclosures throughout the notes to the financial statements relate to both continued and discontinued operations and is specifically designated as to which it applies.

Financial information related to the balance sheets of the Bank included in the consolidated balance sheet as of December 31, 2016 and 2015 is presented below:

	2016	2015
Carrying amounts of major classes of assets included as discontinued operations:		
Cash and cash equivalents	$ 18,375	$ 23,905
Interest-bearing deposits in banks	121,516	27,174
Investment securities available for sale	299,612	435,828
Loans held for sale	1,686	1,129
Loans held for investment, net of allowance for loan losses	1,040,018	920,399
Property, plant and equipment	35,921	36,975
Goodwill	8,347	211,347
Cash surrender value of life insurance	60,427	58,670
Deferred federal income tax asset	8,250	10,548
Other classes of assets that are not major	22,081	20,118
Total assets of discontinued operations classified as held for sale in the consolidated balance sheet	$ 1,616,233	$ 1,746,093
Carrying amounts of major classes of liabilities included as discontinued operations:		
Deposits	$ 1,292,150	$ 1,291,653
Short-term borrowings	60,000	-
Other classes of liabilities that are not major	4,659	6,992
Total liabilities of discontinued operations classified as held for sale in the consolidated balance sheet	$ 1,356,809	$ 1,298,645

Financial information related to the statements of operations the Bank included in the consolidated statements of operations for the years ended December 31, 2016 and 2015 is presented below:

	2016	2015
Major classes of the line items consituting (loss) income from discontinued operations:		
Interest income	$ 57,618	$ 59,394
Interest expense	(4,337)	(6,621)
Credit to (provision for) loan losses	1,750	(312)
Noninterest income	13,929	14,379
Goodwill impairment charge	(203,000)	-
Noninterest expenses	(43,467)	(43,583)
(Loss) income before tax from discontinued operations	(177,507)	23,257
Income tax expense	(8,430)	(7,698)
Total net (loss) income from discontinued operations	$ (185,937)	$ 15,559

(in thousands)

NOTE 2: ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS – continued

During 2016, the Company determined the carrying value of the Bank's goodwill was impaired. Accordingly, the Company recorded an impairment charge of $203,000 in 2016. The impairment charge is recorded in the noninterest expense in the preceding schedule. The following is a reconciliation of goodwill for 2016:

Goodwill at January 1, 2016	$	211,347
Impairment charge		(203,000)
Goodwill at December 31, 2016	$	8,347

Subsequent to the recording of the impairment charge, the carrying value of the net assets to be disposed of approximated the sales proceeds to be received by the Company.

NOTE 3: GOODWILL AND INTANGIBLE ASSETS (continuing operations)

For the years ended December 31, 2016 and 2015, the Company evaluated its goodwill for impairment as of August 31, 2016 and 2015, respectively. The amounts reflected in continuing operations in the consolidated balance sheets are $19,097 at both December 31, 2016 and 2015.

The Company's intangible assets at December 31, 2016 and 2015 consisted of the following:

		2016		2015
Selling and paying agent lists	$	250	$	274
Trademarks		68		73
Patents		1,242		1,230
Covenants not to compete		75		75
		1,635		1,652
Accumulated amortization		(537)		(475)
Intangible assets, net	$	1,098	$	1,177

Amortization expense for the years ended December 31, 2016 and 2015 amounted to $91 and $100, respectively. Estimated future amortization expense for intangible assets owned at December 31, 2016 is as follows:

Years Ending December 31,		
2017	$	94
2018		94
2019		94
2020		94
2021		94
Thereafter		628
Total	$	1,098

(in thousands)

NOTE 4: SECURITIES (discontinued operations)

The amortized cost and fair value of securities, with gross unrealized gains and losses, at December 31, 2016 and 2015 are as follows:

Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
Mortgage-backed securities	$ 103,171	$ 58	$ (3,307)	$ 99,922
Collateralized mortgage obligations	87,713	-	(2,882)	84,831
SBA loan pools	116,897	9	(2,047)	114,859
Total	$ 307,781	$ 67	$ (8,236)	$ 299,612
December 31, 2015:				
Mortgage-backed securities	$ 151,529	$ 209	$ (2,590)	$ 149,148
Collateralized mortgage obligations	145,588	-	(4,123)	141,465
SBA loan pools	136,796	45	(1,617)	135,224
U.S. Government Agency	10,000	-	(9)	9,991
Total	$ 443,913	$ 254	$ (8,339)	$ 435,828

The Company has not entered into any interest rate swaps, options, or futures contracts relating to investment securities.

For the years ended December 31, 2016 and 2015, proceeds from sales of securities available for sale were $685,554 and $375,730, respectively. Realized gains amounted to $139 and $245 for the years ended December 31, 2016 and 2015, respectively. Realized losses amounted to $65 and $76 for the years ended December 31, 2016 and 2015, respectively.

The amortized cost and estimated fair value of 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.

	Available for Sale	
	Amortized Cost	Fair Value
Due from one to five years	$ 12,965	$ 12,832
Due from five to ten years	6,803	6,768
Due after ten years	288,013	280,012
Totals	$ 307,781	$ 299,612

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities.

At December 31, 2016 and 2015, securities with a carrying value of $273,758 and $306,488, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

(in thousands)

NOTE 4: SECURITIES – continued

The following table discloses, as of December 31, 2016 and 2015, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	Less than 12 months		12 months or longer	
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
December 31, 2016:				
Mortgage-backed securities	$ 86,684	$ (2,893)	$ 6,415	$ (414)
Collateralized mortgage obligations	26,414	(637)	58,416	(2,245)
SBA loan pools	21,953	(129)	86,405	(1,918)
Total	$ 135,051	$ (3,659)	$ 151,236	$ (4,577)
December 31, 2015:				
Mortgage-backed securities	$ 65,344	$ (798)	$ 75,761	$ (1,792)
Collateralized mortgage obligations	33,656	(370)	107,809	(3,753)
SBA loan pools	62,697	(451)	63,222	(1,166)
U.S. Government Agency	9,991	(9)	-	-
Total	$ 171,688	$ (1,628)	$ 246,792	$ (6,711)

Mortgage-Backed Securities

The unrealized losses on the Company's investment in mortgage-backed securities and collateralized mortgage obligations were primarily caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Other-than-Temporary Impairment

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2016 and 2015, no investment securities were other-than-temporarily impaired.

(in thousands)

NOTE 5: FORECLOSED ASSETS (discontinued operations)

A summary of the balances of foreclosed assets at December 31, 2016 and 2015 is presented below:

	2016	2015
Single family residences	$ 876	$ 390
Commercial real estate and other	2,630	3,508
Total	$ 3,506	$ 3,898

At December 31, 2016, single-family residences include 10 houses and commercial real estate and other consists of 11 foreclosures with various collateral types. At December 31, 2015, single-family residences include 4 houses and commercial real estate and other consists of 11 foreclosures with various collateral types.

NOTE 6: LOANS RECEIVABLE (discontinued operations)

A summary of the balances of loans receivable at December 31, 2016 and 2015 is as follows:

	2016	2015
Commercial	$ 28,739	$ 33,246
Real estate	971,248	852,899
Cash secured	54,880	51,819
Consumer and other	1,407	689
Subtotal	1,056,274	938,653
Less allowance for loan losses	16,256	18,254
Total	$ 1,040,018	$ 920,399

At December 31, 2016 and 2015, the Bank had total commercial real estate loans of $842,906 and $733,869, respectively. Included in these amounts, the Bank had construction, land development, and other land loans representing 117% and 95%, respectively, of total capital at December 31, 2016 and 2015. The Bank had non-owner occupied commercial real estate loans representing 262% and 239% of total capital at December 31, 2016 and 2015, respectively. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk-weighted assets, or total non-owner occupied commercial real estate loans representing 300% or more of the institution's total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

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

Included in real estate loans at December 31, 2016 and 2015 are participation loans purchased from other financial institutions amounting to $86,721 and $65,310, respectively. The original balance on these loans amounted to $147,280 and $88,030, respectively.

(in thousands)

NOTE 6: LOANS RECEIVABLE - continued

The following table sets forth information regarding the activity in the allowance for loan losses for December 31, 2016 and 2015:

	Commercial	Real Estate	Cash Secured	Consumer and Other	Total
December 31, 2016:					
Allowance for loan losses:					
Beginning balance, December 31, 2015	$ 1,414	$ 16,687	$ -	$ 153	$ 18,254
Charge-offs	(228)	(219)	-	(172)	(619)
Recoveries	151	163	-	57	371
Provision	(592)	(1,216)	-	58	(1,750)
Ending balance, December 31, 2016	$ 745	$ 15,415	$ -	$ 96	$ 16,256
Ending balance allocated to loans individually evaluated for impairment	$ -	$ 240	$ -	$ -	$ 240
Ending balance allocated to loans collectively evaluated for impairment	$ 745	$ 15,175	$ -	$ 96	$ 16,016
Loans receivable:					
Ending balance December 31, 2016	$ 28,739	$ 971,248	$ 54,880	$ 1,407	$ 1,056,274
Ending balance of loans individually evaluated for impairment at December 31, 2016	$ 2,603	$ 8,307	$ -	$ -	$ 10,910
Ending balance of loans collectively evaluated for impairment at December 31, 2016	$ 26,136	$ 962,941	$ 54,880	$ 1,407	$ 1,045,364

(in thousands)

NOTE 6: LOANS RECEIVABLE - continued

	Commercial	Real Estate	Cash Secured	Consumer and Other	Total
December 31, 2015:					
Allowance for loan losses:					
Beginning balance, December 31, 2014	$ 2,297	$ 14,712	$ (7)	$ 181	$ 17,183
Charge-offs	(79)	(418)	-	(248)	(745)
Recoveries	181	1,156	-	167	1,504
Provision	(985)	1,237	7	53	312
Ending balance, December 31, 2015	$ 1,414	$ 16,687	$ -	$ 153	$ 18,254
Ending balance allocated to loans individually evaluated for impairment	$ -	$ 108	$ -	$ -	$ 108
Ending balance allocated to loans collectively evaluated for impairment	$ 1,414	$ 16,579	$ -	$ 153	$ 18,146
Loans receivable:					
Ending balance December 31, 2015	$ 33,246	$ 852,899	$ 51,819	$ 689	$ 938,653
Ending balance of loans individually evaluated for impairment at December 31, 2015	$ -	$ 11,726	$ 16	$ -	$ 11,742
Ending balance of loans collectively evaluated for impairment at December 31, 2015	$ 33,246	$ 841,173	$ 51,803	$ 689	$ 926,911

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful, or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

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

Credits rated pass refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist, which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

(in thousands)

NOTE 6: LOANS RECEIVABLE - continued

Credits rated loss are those that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future.

The following table sets forth information regarding the internal classifications of the loan portfolio, the primary credit quality indicator, as of December 31, 2016 and 2015, as indicated:

	Commercial	Real Estate	Cash Secured	Consumer and Other	Total
December 31, 2016:					
Grade:					
Pass	$ 26,110	$ 952,546	$ 54,880	$ 1,407	$ 1,034,943
Special mention	-	5,975	-	-	5,975
Substandard nonimpaired	26	4,420	-	-	4,446
Pass impaired	-	5,458	-	-	5,458
Special mention impaired	-	558	-	-	558
Sutstandard impaired	2,603	2,291	-	-	4,894
Total	$ 28,739	$ 971,248	$ 54,880	$ 1,407	$ 1,056,274
Credit risk profile based on payment activity:					
Performing	$ 26,136	$ 968,994	$ 54,880	$ 1,407	$ 1,051,417
Nonperforming	2,603	2,254	-	-	4,857
Total	$ 28,739	$ 971,248	$ 54,880	$ 1,407	$ 1,056,274
December 31, 2015:					
Grade:					
Pass	$ 32,992	$ 838,712	$ 51,803	$ 689	$ 924,196
Special mention	57	1,065	-	-	1,122
Substandard nonimpaired	197	1,396	-	-	1,593
Pass impaired	-	8,367	16	-	8,383
Special mention impaired	-	80	-	-	80
Sutstandard impaired	-	3,279	-	-	3,279
Total	$ 33,246	$ 852,899	$ 51,819	$ 689	$ 938,653
Credit risk profile based on payment activity:					
Performing	$ 33,246	$ 847,987	$ 51,819	$ 689	$ 933,741
Nonperforming	-	4,912	-	-	4,912
Total	$ 33,246	$ 852,899	$ 51,819	$ 689	$ 938,653

(in thousands)

NOTE 6: LOANS RECEIVABLE - continued

The following table sets forth information regarding the delinquencies within the loan portfolio (excluding nonaccrual loans) as of December 31, 2016 and 2015:

	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
December 31, 2016:						
Commercial	$ -	$ -	$ -	$ 26,136	$ 28,739	$ -
Real estate	6,251	1,178	7,429	962,743	971,248	1,178
Cash secured	10	-	10	54,870	54,880	-
Consumer and other	35	-	35	1,372	1,407	-
Total	$ 6,296	$ 1,178	$ 7,474	$ 1,045,121	$ 1,056,274	$ 1,178
December 31, 2015:						
Commercial	$ 33	$ -	$ 33	$ 33,213	$ 33,246	$ -
Real estate	5,580	1,872	7,452	839,367	849,859	1,872
Cash secured	4	-	4	51,815	51,819	-
Consumer and other	38	-	38	651	689	-
Total	$ 5,655	$ 1,872	$ 7,527	$ 925,046	$ 935,613	$ 1,872

The following table sets forth information regarding the nonaccrual status within the loan portfolio as of December 31, 2016 and 2015:

	2016	2015
Commercial	$ 2,603	$ -
Real estate	1,076	3,040
Total	$ 3,679	$ 3,040

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. No significant interest income was recognized on a cash basis on impaired loans in the years ended December 31, 2016 and 2015, respectively.

(in thousands)

NOTE 6: LOANS RECEIVABLE - continued

The following table sets forth information regarding impaired loans as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016:					
With no related allowance:					
Commercial	$ 2,603	$ 2,603	$ -	$ 2,971	$ 135
Real estate	5,906	7,567	-	6,115	455
Cash secured	-	-	-	-	-
With a related allowance:					
Real estate	2,401	2,471	240	2,456	144
Total impaired loans:					
Commercial	2,603	2,603	-	2,971	135
Real estate	8,307	10,038	240	8,571	599
Cash secured	-	-	-	-	-
Total	$ 10,910	$ 12,641	$ 240	$ 11,542	$ 734
December 31, 2015:					
With no related allowance:					
Real estate	$ 10,558	$ 11,444	$ -	$ 10,753	$ 746
Cash secured	16	16	-	29	1
With a related allowance:					
Real estate	1,168	1,168	108	1,176	82
Total impaired loans:					
Real estate	11,726	12,612	108	11,929	828
Cash secured	16	16	-	29	1
Total	$ 11,742	$ 12,628	$ 108	$ 11,958	$ 829

(in thousands)

NOTE 6: LOANS RECEIVABLE - continued

The total of troubled debt restructurings included in impaired loans was $7,373 and $8,702 as of December 31, 2016 and 2015, respectively. The following table sets forth information regarding modifications within the loan portfolio during the years ended December 31, 2016 and 2015:

	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Oustanding Recorded Investment
December 31, 2016:			
Troubled debt restructuring:			
Real estate	2	$ 1,424	$ 1,424
Troubled debt restructurings that subsequently defaulted - real estate	5		1,459
December 31, 2015:			
Troubled debt restructuring:			
Real estate	8	$ 781	$ 761
Cash secured	1	16	16
Troubled debt restructurings that subsequently defaulted - real estate	3		203

At December 31, 2016 and 2015, the Company had no commitments to lend additional funds to customers with loans classified as TDRs.

Loans are granted to directors and officers of the Company in the ordinary course of business. Such loans are made in accordance with policies established for all loans of the Company, except that directors, officers, and employees may be eligible to receive discounts on loan origination costs.

Loans receivable from directors and senior officers of the Company at December 31, 2016 and 2015, was $6,678 and $8,233, respectively. During the years ended December 31, 2016 and 2015, total principal additions amounted to $171 and $888, respectively, and total principal reductions amounted to $1,726 and $620, respectively. Interest income from these loans was $349 and $361 for the years ended December 31, 2016 and 2015, respectively.

(in thousands)

NOTE 7: PREMISES AND EQUIPMENT (continuing and discontinued operations)

A summary of the cost and accumulated depreciation of premises and equipment at December 31, 2016 and 2015, is as follows:

	2016		2015		
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations	Estimated Useful Life
Land, buildings and improvements	$ 185	$ 45,897	$ 185	$ 45,565	10 - 40 years
Furniture, fixtures and equipment	3,636	18,595	3,267	18,489	3 - 5 years
Vehicles	-	257	-	317	3 - 5 years
Construction in progress	-	311	-	784	N/A
Software development costs	7,456	-	6,253	-	10 years
Total premises and equipment	11,277	65,060	9,705	65,155	
Accumulated depreciation	(7,054)	(29,139)	(6,296)	(28,180)	
Total premises and equipment - net of accumulated depreciation	$ 4,223	$ 35,921	$ 3,409	$ 36,975	
Depreciation expense	$ 749	$ 2,473	$ 3,222	$ 3,064	

NOTE 8: ALTERNATIVE FUNDING SOURCES (discontinued operations)

The Company has a line of credit totaling $15,000 for federal funds purchased. The line is unsecured and expired in February 2017. The Company renewed the line of credit upon expiration with no change in terms or amount. The new line of credit expires in February 2018. The line of credit was not drawn upon through the subsequent event date.

The Bank has a credit facility with a bank that allows the Bank to borrow as much as 95% of high quality unpledged securities. This facility provides for both overnight and term funding. The Bank's investment policy provides that the Bank maintains a ratio of securities/total deposits of 20% which will provide availability when needed in a liquidity event. In order to support this facility, the Bank has an arrangement with a bank to hold these securities when needed for pledging.

NOTE 9: REVOLVING LINE OF CREDIT (continuing operations)

The Company entered into a $5,500 revolving line of credit with a bank, of which $5,107 and $3,350 was funded at December 31, 2016 and 2015, respectively. Advances on the credit line are payable on demand and carry an interest rate of Wells Fargo prime, less .5% (currently 3.25%). The credit line is secured by a letter of credit from Banco Mercantil (See also Note 23). The Company was in compliance with all debt covenants in the revolving line of credit as of December 31, 2016 and 2015.

(in thousands)

NOTE 10: DEPOSITS (discontinued operations)

The weighted-average cost of funds related to deposits was 0.33% at both December 31, 2016 and 2015.

At December 31, 2016 and 2015, the scheduled maturities of time deposits, including public fund deposits, are as follows:

	2016	2015
Within one year	$ 255,854	$ 337,950
One to two years	80,706	64,553
Two to three years	48,433	42,553
Three to four years	11,867	10,255
Four to five years	2,164	7,185
Thereafter	-	200
Total	$ 399,024	$ 462,696

Interest expense for the years ended December 31, 2016 and 2015 on deposits are summarized as follows:

	2016	2015
NOW, money market, and savings	$ 461	$ 226
Certificates of deposit	2,862	5,630
Certificates of deposit - public funds	443	477
NOW - money market public funds	464	245
Total	$ 4,230	$ 6,578

The Company held $279,191 and $333,444 in time deposit accounts that were in excess of $250 at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, the Company reclassified $234 and $222, respectively, in overdrawn deposits as loans. Directors' and senior officers' deposit accounts at December 31, 2016 and 2015, were $8,735 and $7,156, respectively. Brokered deposits included in total deposits amounted to $3,184 and $3,178 at December 31, 2016 and 2015, respectively.

NOTE 11: ADVANCES FROM FEDERAL HOME LOAN BANK (FHLB) (discontinued operations)

Short term borrowings of $60,000 represent advances from FHLB as of December 31, 2016. There were no borrowings outstanding from the FHLB at December 31, 2015. The Company paid $71 in interest expense on advances from the FHLB during the year ended December 31, 2016. The Company paid no interest on advances from FHLB in the year ended December 31, 2015.

Under these agreements with the FHLB, the Company had unused lines of credit amounting to $380,621 and $432,886 at December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Company had $956,012 and $849,907 in loans pledged, respectively.

(in thousands)

NOTE 12: SUBORDINATED DEBENTURES (continuing operations)

In April 2004, INBFC formed Trust I, a trust formed under the laws of the state of Delaware, which issued $10,000 of trust preferred securities (the "trust preferred securities of Trust I") and $310 in common stock. These securities represent preferred beneficial interests in the assets of Trust I. Trust I used the proceeds of the offering of the trust preferred securities of Trust I to purchase $10,310 of three-month London InterBank Offered Rates (LIBOR), plus 2.72% (currently 3.60%) junior subordinated deferrable interest debentures (the "debentures of Trust I") issued by INBFC. Distributions of interest are due quarterly. The debentures of Trust I will mature on April 15, 2039, and are redeemable in whole or in part at the option of the Company at any time after April 15, 2009, with the approval of the Federal Reserve Board and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. The trust preferred securities of Trust I will be subject to mandatory redemption if certain events occur, including a change in the tax status, a change in Trust I's status under the Investment Company Act of 1940, or regulatory capital treatment of the trust preferred securities of Trust I.

In May 2004, INBFC formed Trust II, a trust formed under the laws of the state of Delaware, which issued $10,000 of trust preferred securities (the "trust preferred securities of Trust II") and $310 in common stock. These securities represent preferred beneficial interests in the assets of Trust II. Trust II used the proceeds of the offering of the trust preferred securities of Trust II to purchase $10,310 of three-month LIBOR, plus 2.75% (currently 3.63%) junior subordinated deferrable interest debentures (the "debentures of Trust II") issued by INBFC. Distributions of interest are due quarterly. The debentures of Trust II will mature on July 23, 2034, and are redeemable in whole or in part at the option of the Company at any time after July 23, 2009, with the approval of the Federal Reserve Board and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. The trust preferred securities of Trust II will be subject to mandatory redemption if certain events occur, including a change in the tax status, a change in Trust II's status under the Investment Company Act of 1940, or regulatory capital treatment of the trust preferred securities of Trust II. The obligations of INBFC are on the same terms as Trust I and Trust II's obligations.

For the years ended December 31, 2016 and 2015, interest expense on the subordinated debentures was $715 and $631, respectively. Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

NOTE 13: INCOME TAXES (continuing and discontinued operations)

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations
Current federal income tax expense	$ 946	$ 6,092	$ 304	$ 7,015
Current state income tax expense	597	10	641	56
Deferred state income tax expense (benefit)	-	12	(155)	4
Deferred federal income tax expense	248	2,316	1,048	623
Total	$ 1,791	$ 8,430	$ 1,838	$ 7,698

In 2016 income tax expense differs from the statutory tax rate times the pretax loss because of the nondeductibility of the goodwill impairment charge.

(in thousands)

NOTE 13: INCOME TAXES - continued

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations
Deferred tax assets:				
Loans	$ 20	$ 5,929	$ 15	$ 6,610
Deferred compensation	-	49	-	457
Foreclosed assets	-	271	-	354
Losses on sales of loans and foreclosed assets	-	3,903	-	4,950
Unrealized loss on securities available for sale	-	2,859	-	2,829
State deferred tax assets	-	16	-	28
Other, net	18	37	71	6
Total deferred tax assets	38	13,064	86	15,234
Deferred tax liabilities:				
Premises and equipment	1,237	2,551	1,041	2,639
Intangible assets	105	2,034	106	1,820
FHLB stock dividends	-	229	-	227
Other	38	-	33	-
Total deferred tax liabilities	1,380	4,814	1,180	4,686
Deferred tax asset (liability), net	$ (1,342)	$ 8,250	$ (1,094)	$ 10,548

Prior to 2015, the Company had established a valuation allowance against a deferred tax benefit related to a state net operating loss that it believed was likely not to be realized. This net operating loss expired in 2015 without being utilized and the corresponding valuation allowance was extinguished.

(in thousands)

NOTE 14: LEGAL CONTINGENCIES (discontinued operations)

Beginning in 2006, the Bank, along with other financial institutions, participated in a prepaid debit card program with a third party provider (NetSpend). An alleged discrepancy in the Netspend accounts held at the Bank was discovered in 2009. To resolve the alleged discrepancy, a settlement agreement and release was reached in May 2009 between NetSpend and the Bank in which the Bank transferred approximately $40 million to NetSpend and another participating financial institution. In June 2011, after the settlement agreement was reached, NetSpend alleged an approximate $10.5 million shortfall in the accounts held at the Bank. On June 13, 2012, the Bank filed suit against NetSpend seeking injunctive relief to protect the Bank from NetSpend overdrawing its accounts and also to terminate the Bank's involvement with the prepaid debit card program. NetSpend and the Bank filed cross motions for summary judgment based on mutual releases contained in a 2010 amendment to their governing agreement. In February 2013, NetSpend advanced approximately $10.5 million to close the accounts held at the Bank and the Bank terminated its participation in the program. On January 24, 2014, a state district court granted a partial summary judgment on the motion filed by NetSpend for reimbursement by INB of the $10.5 million and denied the motion requested by the Bank. Among other things, the court ruled that the Bank must pay NetSpend approximately $10.5 million plus interest. On January 28, 2016, the trial court denied INB's request that it reconsider its previous ruling and signed an order of final judgment making the court's original order against INB final, with the total amount becoming approximately $12.5 million, including interest. It is the opinion of management and outside counsel for the Bank that it is probable the ruling will be overturned on appeal due to the following:

- The ruling grants relief beyond which NetSpend requested in its motion and beyond which NetSpend is entitled,
- The court must resolve multiple legal and factual issues before the court can determine a liability for the $10.5 million award, if any, and,
- NetSpend's motion for partial summary judgment is based on a mutual release dated September 24, 2010. However, NetSpend had continuing obligations under the governing contract that continued until the program was transferred in February 2013, which included managing the program and reconciling the accounts on a daily basis. The nonperformance of these continuing obligations led to the allegation of the approximate $10.5 million shortfall. This allegation is a breach of a previous settlement between the Bank and NetSpend reached in May 2009 and the September 24, 2010 release between the parties. Such claims should not have been released by the award on summary judgment filed by NetSpend.

Based on the assessment of outside counsel and management's opinion of the probable likelihood of overturning the award on appeal, the Bank has not recorded a liability for these contingencies in the accompanying consolidated financial statements.

The Company is involved in various other legal proceedings in the normal course of business, which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION (continuing and discontinued operations)

Supplemental cash flow information for the years ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations
Supplemental Cash Flow Information				
Cash paid during the year for interest	$ 853	$ 4,313	$ 765	$ 6,781
Cash paid during the year for income taxes	1,586	7,057	1,560	5,613
Non-Cash Investing Activities:				
Decrease in market value of securities available for sale	-	(85)	-	(1,135)
Loans made to facilitate sales of foreclosed real estate	-	2,259	-	5,387
Real estate acquired in foreclosure	-	4,620	-	2,797
Transfers/reclass to other real estate owned	-	-	-	298

NOTE 16: REGULATORY CAPITAL REQUIREMENTS (discontinued operations)

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

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

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

NOTE 16: REGULATORY CAPITAL REQUIREMENTS (continued)

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

	Actual		Adequacy Purposes		Conservation Buffer		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016:								
Total capital to risk weighted assets								
Company	$ 253,555	22.0%	$ 92,397	8.0%	$ 99,405	8.625%	NA	NA
Bank	263,032	22.9%	91,938	8.0%	99,121	8.625%	114,923	10.0%
Tier 1 (core) capital to risk weighted assets								
Company	238,996	20.7%	69,298	6.0%	76,490	6.625%	NA	NA
Bank	248,533	21.6%	68,954	6.0%	76,136	6.625%	91,938	8.0%
Common Tier 1 (CET1)								
Company	238,996	20.7%	51,973	4.5%	59,171	5.125%	NA	NA
Bank	248,533	21.6%	51,715	4.5%	58,898	5.125%	74,700	6.5%
Tier 1 (core) capital to average assets								
Company	238,996	14.0%	68,274	4.0%	68,274	4.000%	NA	NA
Bank	248,533	14.4%	69,034	4.0%	69,034	4.000%	86,292	5.0%
December 31, 2015:								
Total capital to risk weighted assets								
Company	229,169	22.5%	81,418	8.0%	NA	NA	NA	NA
Bank	242,717	23.8%	81,429	8.0%	NA	NA	101,785	10.0%
Tier 1 (core) capital to risk weighted assets								
Company	216,371	21.3%	61,063	6.0%	NA	NA	NA	NA
Bank	229,788	22.6%	61,071	6.0%	NA	NA	81,428	6.5%
Common Tier 1 (CET1)								
Company	216,371	21.3%	45,797	4.5%	NA	NA	NA	NA
Bank	226,788	22.6%	45,803	4.5%	NA	NA	66,160	6.5%
Tier 1 (core) capital to average assets								
Company	216,371	14.2%	60,943	4.0%	NA	NA	NA	NA
Bank	229,788	14.9%	61,746	4.0%	NA	NA	77,182	5.0%

NOTE 17: LIMITATIONS ON DISTRIBUTIONS OF CAPITAL (discontinued operations)

At December 31, 2016, the Bank's balance sheet reflected an accumulated deficit of $49,583. Accordingly, under federal banking law, the Bank is precluded from declaring any distribution from equity capital without prior regulatory approval.

NOTE 18: EMPLOYEE BENEFITS (continuing and discontinued operations)

Continuing operations

Uniteller maintains a 401(k) profit-sharing plan for all eligible employees. Uniteller matches 50% of the employees' contribution up to the first 6% of the employees' compensation. The amount of profit-sharing plan cost recognized for the year ended December 31, 2016 and 2015 was $27 and $39, respectively.

Discontinued operations

Effective January 1, 1991, the Bank adopted a Section 401(k) contributory plan (the 401(k) Plan) for the benefit of all of the Bank's employees who elect to participate. The 401(k) Plan is available to all regular employees who meet certain requirements as to length of service and legal age requirements. An employee may contribute a percentage of their covered compensation to the 401(k) Plan according to INBFC plan program. Generally, covered compensation is all compensation paid to an employee for employee services rendered, including 401(k) Plan salary reductions. The Bank provides supplemental matching contributions to the plan on behalf of the participants, and pays some of the 401(k) Plan expenses. The 401(k) Plan contract states the Bank will match 50% of employees' contributions up to 6% of the employees' compensation, and up to allowable Internal Revenue Service limits. For the years ended December 31, 2016 and 2015, the Bank's match totaled $691 and $263, respectively.

NOTE 19: FINANCIAL INSTRUMENTS AND OFF-BALANCE-SHEET ACTIVITIES (discontinued operations)

All financial instruments held or issued by the Company are held or issued for purposes other than trading. In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and forward delivery commitments for the sale of whole loans to the secondary market.

Commitments to Extend Credit

In response to marketplace demands, the Company routinely makes commitments to extend credit for fixed rate and variable rate loans with or without rate-lock guarantees. When rate-lock guarantees are made to customers, the Company becomes subject to market risk for changes in interest rates that occur between the rate-lock date and the date that a firm commitment to purchase the loan is made by a secondary market investor.

Generally, as interest rates increase, the market value of the loan commitment goes down. The opposite effect takes place when interest rates decline.

Commitments to extend credit are agreements to lend to a customer as long as the borrower satisfies the Company's underwriting standards and related provisions of the borrowing agreements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Collateral is required for substantially all loans, and normally consists of real property. The Company's experience has been that substantially all loan commitments are completed or terminated by the borrower within 3 to 12 months.

The Company has lines of credit representing credit risk of approximately $66,047 and $313,338 at December 31, 2016 and 2015, respectively, of which approximately $40,929 and $173,597 had been drawn at December 31, 2016 and 2015, respectively. The notional amount of the Company's commitments to extend credit at fixed and variable interest rates was approximately $146,837 and $145,740 at December 31, 2016 and 2015, respectively. The Company has letters of credit issued representing credit risk of approximately $2,232 and $824 at December 31, 2016 and 2015, respectively.

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

(in thousands)

NOTE 19: FINANCIAL INSTRUMENTS AND OFF-BALANCE-SHEET ACTIVITIES (discontinued operations)

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of interest rate lock commitments was $1,974 and $978 at December 31, 2016 and 2015, respectively. The fair value of such commitments was insignificant.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the consolidated financial statements.

NOTE 20: LEASES (continuing and discontinued operations)

The Company leases space and equipment under operating leases expiring in various years through 2026. Future minimum rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2016, are as follows:

	Continuing Operations	Discontinued Operations
Years ended December 31,		
2017	$ 230	$ 682
2018	175	654
2019	173	535
2020	136	485
2021	136	458
Thereafter	102	2,733
Total	$ 952	$ 5,547

Lease expense for the years ended December 31, 2016 and 2015 was $854 and $860, respectively.

In addition, the Company has acquired equipment under the provisions of long-term capital leases. For financial reporting purposes, minimum lease payments relating to the equipment have been capitalized and included in equipment on the consolidated balance sheets. The leased equipment under capital leases have a carrying cost of $128 and $465 at December 31, 2016 and 2015. Amortization of the leased equipment is included in depreciation expense. The following is a schedule of future minimum lease payments under the capital leases:

	Continuing Operations	Discountinued Operations
Years ended December 31,		
2017	$ -	$ 152
2018	-	93
2019	-	-
2020	-	-
2021	-	-
Thereafter	-	-
Total	-	245
Less: amount attributable to interest	-	(22)
Total	$ -	$ 223

NOTE 21: FAIR VALUE DISCLOSURES (continuing and discontinued operations)

FASB ASC Topic 820 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 costs).

Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC Topic 820 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 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities 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. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

Foreclosed Real Estate Held for Sale – Foreclosed real estate held for sale is reported at fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by real estate appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

(in thousands)

NOTE 21: FAIR VALUE DISCLOSURES - continued

The following table summarizes financial assets and financial 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 fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
As of December 31, 2016				
Securities available for sale	$ -	$ 299,612	$ -	$ 299,612
As of December 31, 2015				
Securities available for sale	$ -	$ 435,828	$ -	$ 435,828

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

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
As of December 31, 2016				
Financial assets - impaired loans	$ -	$ -	$ 10,670	$ 10,670
Nonfinancial assets - foreclosed assets	-	3,506	-	3,506
As of December 31, 2015				
Financial assets - impaired loans	-	-	11,634	11,634
Nonfinancial assets - foreclosed assets	-	3,898	-	3,898

During the years ended December 31, 2016 and 2015, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the years ended December 31, 2016 and 2015, impaired loans with a carrying value of $10,910 and $11,742, respectively, were reduced by specific valuation allowance allocations totaling $240 and $108, respectively, to a total reported fair value of $10,670 and $11,634, respectively, based on collateral valuations utilizing Level 3 valuation inputs.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less estimated costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. During the years ended December 31, 2016 and 2015, additional write-downs of valuation on real estate owned of $336 and $466, respectively, were recorded.

NOTE 21: FAIR VALUE DISCLOSURES - continued

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Company's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the range of values for those inputs (in thousands):

Instrument	Fair Value at December 31, 2016	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 10,670	Appraisal of collateral (1)	Appraisal adjustment	10-30%

Instrument	Fair Value at December 31, 2015	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 11,742	Appraisal of collateral (1)	Appraisal adjustment	10-30%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include Level 3 inputs which are not identifiable.

(in thousands)

NOTE 21: FAIR VALUE DISCLOSURES - continued

Those financial instruments not subject to the initial implementation of this guidance, are required to have their fair value disclosed, both assets and liabilities recognized and not recognized in the consolidated balance sheets, for which it is practicable to estimate fair value. Below is a table that summarizes the fair values of all financial instruments of the Company at December 31, 2016 and 2015, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by FASB ASC Topic 820.

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

	Carrying Amount		Total Estimated Fair Value		
	Continued Operations	Discontinued Operations	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2016:					
Financial assets:					
Cash and cash equivalents	$ 31,142	$ 18,375	$ 49,517	$ -	$ -
Interest bearing deposits in banks	-	121,516	121,516	-	-
Securites available for sale	-	299,612	-	299,612	-
Loans held for sale	-	1,686	-	1,686	-
Loans receivable, net	-	1,040,018	-	-	1,037,155
Accrued interest receivable	-	3,788	3,788	-	-
Cash surrender value of life insurance	-	60,427	-	-	60,427
Financial liabilities:					
Deposits	-	1,292,150	-	-	1,154,547
Advances from Federal Home Loan Bank	-	60,000	60,000	-	-
Revolving line of credit	5,107	-	5,107	-	-
Subordinated debentures	20,562	-	-	-	20,562
Accrued interest payable	150	263	413	-	-
December 31, 2015:					
Financial assets:					
Cash and cash equivalents	$ 15,754	$ 23,905	$ 38,787	$ -	$ -
Interest bearing deposits in banks	-	27,124	27,174	-	-
Securites available for sale	-	435,828	-	435,828	-
Loans held for sale	-	1,129	-	1,129	-
Loans receivable, net	-	920,399	-	-	918,213
Accrued interest receivable	-	3,990	3,990	-	-
Cash surrender value of life insurance	-	58,670	-	-	58,670
Financial liabilities:					
Deposits	-	1,291,653	-	-	1,211,696
Revolving line of credit	3,350	-	3,350	-	-
Subordinated debentures	20,559	-	-	-	20,559
Accrued interest payable	128	239	367	-	-

NOTE 21: FAIR VALUE DISCLOSURES - continued

The following methods and assumptions were used by the Company in estimating the fair value of the above classes of financial instruments.

Cash and Cash Equivalents, Interest Bearing Deposits in Banks, and Accrued Interest Receivable – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Securities Available for Sale – Fair value estimates are based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Loans Held for Sale – These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds of sales contracts and commitments which are considered Level 2 inputs. At December 31, 2016, loans held for sale are reported at cost, which approximates the fair value of the loans.

Loans Receivable – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans and risk adjustments on the remaining portfolio based on credit-loss experience.

Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for nonspecific borrowers.

Cash Surrender Value of Life Insurance – The carrying amount of bank-owned life insurance is based on the cash surrender value of the policies and is a reasonable estimate of fair value. Bank-owned life insurance fair value measurements utilize Level 3 inputs.

Deposits – The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Subordinated Debentures – The fair value of subordinated debentures was calculated using the quoted market prices, if available. If quoted market prices are not available, fair value is estimated using quoted market prices for similar subordinated debentures. Subordinated debentures fair value measurements utilize Level 3 inputs.

Revolving Line of Credit – The carrying amount of the line of credit approximates its fair value.

Accrued Interest – The carrying amounts of accrued interest approximates their fair value.

Off-Balance-Sheet Instruments – Fair values for off-balance-sheet, credit-related financial instruments are insignificant. These instruments have no carrying value.

NOTE 22: CONCENTRATIONS (discontinued operations)

As of December 31, 2016 and 2015, the Company's commercial real estate and residential real estate loans approximated $953,224 and $838,875 (90.1% and 89.3% of total gross loans), respectively.

Generally, the Company's policy is to require collateral on all loans. Collateral requirements for other financings vary depending on the type of collateral involved, the equity of the borrower or project, and other subjective factors. Unsecured credit is granted to business concerns and individuals only if supported by satisfactory current financial statements and credit history.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company, as a matter of policy, does not extend credit in excess of its legal lending limit, calculated in accordance with applicable banking regulations, to any single borrower or group of related borrowers.

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

As of December 31, 2016 and 2015, the Company has loans to Mexican nationals totaling $65,736 and $69,410, respectively, of which $24,572 and $25,070, respectively, are secured by deposit accounts. As of December 31, 2016 and 2015, the Company has deposits from Mexican nationals totaling $531,756 and $554,949, respectively.

As of December 31, 2016 and 2015, the Company has noninterest bearing public fund deposits totaling $23,512 and $15,011, respectively. As of December 31, 2016 and 2015, the Company has interest bearing public fund deposits totaling $169,951 and $228,351, respectively. As of December 31, 2016, interest bearing public funds included $140,255 in interest bearing checking and money market accounts, and $29,695 in certificates of deposit. As of December 31, 2015, interest bearing public funds included $158,732 in interest bearing checking and money market accounts, and $69,619 in certificates of deposit.

NOTE 23: RELATED-PARTY TRANSACTIONS (continuing operations)

The Company signed a service agreement with Banco on April 25, 2012, which was amended in November 2012, November 2013, September 2014 and October 2015. Banorte, as a holding company, helps and/or assists Banco to control and watch over its interests and ownership over Banorte USA subsidiaries. The services rendered include, but are not limited to: general administration, regulatory and compliance management, accounting services, business development, reports to Banco, and corporate governance. This agreement remains in force for an indefinite term and can be terminated by written given notice of each party. Banco paid a total of $1,045 and $1,055 in fees to the Company for the services rendered in the years ended December 31, 2016 and 2015, respectively. The fee is reviewed annually and changes can be made with 90 day notice and agreement of both parties.

At December 31, 2016 and 2015, the Company has a $2,500 note payable due to Banco Mercantil at 4.26% that is funded and repaid on a monthly basis. This related party note payable has been classified as a long term liability in the accompanying consolidated balance sheets due to the intent of the two parties. Total interest expense during the years ended December 31, 2016 and 2015 for the note was $60 and $58, respectively.

Additionally, the Company has a line of credit with an independent bank in the amount of $5,500 (see Note 9). The line of credit is secured by a letter of credit from Banco Mercantil. The Company is charged a monthly fee by Banco Mercantil in regard to this letter of credit. During the years ended December 31, 2016 and 2015 the Company paid $97 and $96, respectively, in fees to Banco Mercantil.

During 2016 and 2015, the Company paid Banco Mercantil $4,879 and $4,593, respectively, in commission fees for acting as a paying agent processor.

(in thousands)

NOTE 24: CONDENSED PARENT COMPANY FINANCIAL STATEMENTS (continuing operations)

Set forth below is the condensed balance sheets as of December 31, 2016 and 2015 of the Company together with the related condensed statements of operations and cash flows for the years ended December 31, 2016 and 2015.

Condensed Balance Sheets

	2016	2015
Assets		
Cash and cash equivalents	$ 200	$ 297
Intercompany receivable	61	2,134
Deferred tax asset	16	52
Federal income tax receivable	1,239	-
Investment in subsidiaries	268,938	452,544
Total assets	$ 270,454	$ 455,027
Liabilities and shareholder's equity		
Federal income tax payable	$ -	$ 2,037
Intercompany payable	1,168	-
Other liabilities	193	415
Shareholder's equity	269,093	452,575
Total liabilities and shareholder's equity	$ 270,454	$ 455,027

Condensed Statements of Operations

	2016	2015
Other income	$ 1,046	$ 1,055
Equity in undistributed (loss) earnings of subsidiaries	(183,459)	17,591
Total interest income	(182,413)	18,646
Salaries and employee benefits	728	787
Legal and professional	121	238
Other expense	8	6
Total noninterest expense	857	1,031
(Loss) income before income taxes	(183,270)	17,615
Income tax expense	66	8
Net (loss) income	$ (183,336)	$ 17,607

(in thousands)

NOTE 24: CONDENSED PARENT COMPANY FINANCIAL STATEMENTS - continued

Condensed Statements of Cash Flows

	2016	2015
Cash flows from operating activities		
Net (loss) income	$ (183,336)	$ 17,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed loss (earnings) of INBFC	183,459	(17,591)
Deferred income tax	40	
Net change in:		
Federal income tax payable	(1,802)	1,326
Accrued expenses and other liabilities	(222)	(86)
Intercompany payable	1,764	(1,401)
Net cash (used in) provided by operating activities	(97)	(145)
Net change in cash and cash equivalents	(97)	(145)
Cash and cash equivalents at beginning of year	297	442
Cash and cash equivalents at end of year	$ 200	$ 297