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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, Dennis Bonnen
Name of the Holding Company Director and Official

Chairman, President, and CEO
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.

Dennis Bonnen
Signature of Holding Company Director and Official

03/17/2017
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 3792285
C.I. ______

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

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Heritage Bancorp, Inc.
Legal Title of Holding Company

1850 Pearland Parkway
(Mailing Address of the Holding Company) Street / P.O. Box

Pearland	TX	77581
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Michael S. Cotter	Secretary
Name	Title

281-412-0094
Area Code / Phone Number / Extension

281-485-0282
Area Code / FAX Number

cotter@bankheritage.com
E-mail Address

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

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

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

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

Form FR Y-6

HERITAGE BANCORP, INC.

Pearland, Texas

Fiscal Year Ending December 31, 2016

Report Item 1

Annual Reports to Shareholders

An annual report to shareholders of Heritage Bancorp, Inc. will be sent out under separate cover once completed in June 2017.

Report Item 2a:

Organization Chart

Heritage Bancorp, Inc.
Pearland, Texas
Incorporated in Delaware

Heritage Bank
Pearland, Texas
Incorporated in Texas
Ownership: 100% of the outstanding common stock

2a: N/A *

2b: Domestic branch listing was emailed to the Federal Reserve Bank on March 15, 2017.

***Note: NO ENTITY IN THE ORGANIZATION HAS AN LEI NUMBER.**

Results: A list of branches for your depository institution: HERITAGE BANK (ID_RSSD: 574051).
This depository institution is held by HERITAGE BANCORP, INC. (3792285) of PEARLAND, TX.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	574051	HERITAGE BANK	1850 PEARLAND PARKWAY	PEARLAND	TX	77581	BRAZORIA	UNITED STATES	32969	0	HERITAGE BANK	574051	
OK		Full Service	3884827	DETROIT BRANCH	12038 HIGHWAY 82 WEST	DETROIT	TX	75436	RED RIVER	UNITED STATES	494888	1	HERITAGE BANK	574051	
OK		Full Service	2325903	LA VERNIA BRANCH	13809 HIGHWAY 87	LA VERNIA	TX	78121	WILSON	UNITED STATES	221633	3	HERITAGE BANK	574051	
OK		Full Service	4802024	LAKE JACKSON BRANCH	130-A PARKING WAY	LAKE JACKSON	TX	77566	BRAZORIA	UNITED STATES	Not Required	Not Required	HERITAGE BANK	574051	
OK		Full Service	705565	NIXON BRANCH	200 NORTH NIXON AVENUE	NIXON	TX	78140	GONZALES	UNITED STATES	6372	2	HERITAGE BANK	574051	

AMENDED
JUL 12 2017

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HERITAGE BANCORP, INC.
Pearland, Texas
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Bonnen Family	**USA**	**284,128 - 10.31% Common Stock**	None		
Dennis Bonnen Angleton, Texas USA	USA	*86,579 - 3.14%* *Common Stock*			
Kimberly Bonnen Angleton, Texas USA	USA	*5,109 - .20%* *Common Stock*			
Dennis & Kimberly Bonnen Angleton, Texas USA	USA USA	*38,440 - 1.39%* *Common Stock*			
David & Matina Bonnen Angleton, Texas USA	USA	2,500 - .10% *Common Stock*			
Greg Bonnen Bonnen Investments LLP Friendswood, TX USA	USA	10,000 - .36% 116,500 - 4.23% *Common Stock*			

Mark Bonnen Lake Jackson, TX USA	USA	5,000 - .20% *Common Stock*
Dr. Mark Bonnen, Styles Bayou Co. Lake Jackson, TX USA	USA	20,000 - .73% *Common Stock*
KOZA FAMILY	**USA**	**270,918 - 9.83% Common Stock**
Gerald & Mary Koza Pearland, TX USA	USA	40,000 - 1.45%
Mary & Gerald Koza Grandchildrens Trust Pearland, TX USA	USA	60,000 - 2.18%
Gerald L.& Kimberly D. Koza Pearland, TX USA	USA	10,000 - .36%
Gerald Lynn Koza Jr. Trust Pearland, TX USA	USA	43,000 - 1.56%
Kimberly Koza Pearland, TX USA	USA	5,918 - .21%
Collin W. Koza Pearland, TX USA	USA	6,000 - .22%
Nicole L. Koza Pearland, TX USA	USA	6,000 - .22%
Jeff Koza Pearland, TX USA	USA	49,000 - 1.78%

Jeffery W. Koza Trust Pearland, TX USA	USA	36,000 - 1.31%
Jake Koza Pearland, TX USA	USA	7,500 - .27%
Elizabeth Koza Pearland, TX USA	USA	7,500 - .27%

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JUL 12 2017

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HERITAGE BANCORP, INC.
Pearland, Texas
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with 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 Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Dennis Bonnen Angleton, Texas, USA	Banking	Chairman, Director, President, and CEO	Chairman, Director, President, and CEO of Heritage Bank	General Partner,Chois Management; Partner, Denson Texas Holdings	4.5359%	N/A	Chois Management 33.00%, Denson Texas Holdings 50%
James Gregory Bonnen Friendswood, Texas, USA	Physician	Director	Director of Heritage Bank	President/Owner Texas Brain and Spine Center; Partner, Chois Management	0.3628%	N/A	Texas Brain and Spine Center 100%; Chois Management 33.33%

AMENDED JUL 12 2017

Randall K. Ellis Friendswood, Texas, USA	Orthodontist	Director	Director of Heritage Bank	President/Owner, Randy K. Ellis DDS Inc.; President/Owner RK Ellis Pediatric Dentistry PA; General Partner,R Ellis Management LLC; General Partner, H & E Management LLC; General Partner, Ketell Management LLC; General Partner, Moon Ellis Orthodontics PLLC	2.3923%	N/A	Randy K. Ellis DDS Inc. 100%; RK Ellis Pediatric Dentistry PA 100%; R Ellis Management LLC 50%; H & E Management LLC 50%; Ketell Management LLC 25%: Moon Ellis Orthodontics PLLC 50%

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Suzanne Elliott Pearland, Texas, USA	Business Owner and Management	Director	Director of Heritage Bank	President, O'Day Hardware; Vice President, Elliott's Automotive; Partner, MOSE Development	1.3196%	N/A	O'Day Hardware 51%; Elliott's Automotive 50%; MOSE Development 50%
Robert Gulledge Houston, Texas, USA	Business Owner	Director	Director of Heritage Bank	President, Standard Constructors, Inc.; President, Industrial Environment Casualty Corp; Partner, 9208 Winkler Partnership; Oresident, Gulledge Oyster Creek LLC; Vice President,Tractor Traders; Partner, Capital Equipment Finance; Part Owner, Stabilization Casualty Corp; President, Excavation Casualty Corp; Partner/Director, 55 S Hardway LLC	1.9955%	N/A	Standard Constructors, Inc. 50%; Industrial Environment Casualty Corp 50%; 9208 Winkler Partnership 33%; Gulledge Oyster Creek LLC 50%; Tractor Traders 50%; Capital Equipment Finance 25%, Stabilization Casualty Corp 50%; Excavation Casualty Corp 50%; 55 S Hardway LLC 50%
Kimberly Koza Pearland, Texas, USA	Homemaker	Director	Director of Heritage Bank	President Net Supply	0.5575%	N/A	Net Supply 100%

Daniel Flynn Van, Texas, USA	State Representative	Director	Director of Heritage Bank	Owner,Circle F Land and Cattle Co., Inc.	0.1814%	N/A	Circle F Land and Cattle Co., Inc. 50%
Russell Kelley, Sr. Austin, Texas, USA	Business Owner	Director	Director of Heritage Bank	President/Owner, Blackridge Consulting Firm; President/Owner, BR Advisory Services LLC; General Partner, Brol I, LLC; Partner, Brol GP, LLC	3.3517%	N/A	Blackridge 100%; BR Advisory Services LLC 100%; Brol I, LLC 50%; Brol GP, LLC 50%
Michael S. Cotter Pearland, Texas, USA	Banking	Secretary	Sr. VP & Cashier of Heritage Bank	N/A	0.2848%	N/A	N/A
Kimberly Bonnen Angleton, Texas USA	Attorney	Principal Security Holder	N/A	N/A	0.1854%	N/A	N/A
David & Matina Bonnen Angleton, Texas USA	Retired Attorney	Principal Security Holder	N/A	N/A	0.0907%	N/A	N/A
Mark Bonnen Angleton, Texas USA	Doctor	Principal Security Holder	N/A	N/A	0.1814%	N/A	N/A
Dr. Mark Bonnen, Styles Bayou Co., Lake Jackson, Texas USA	Doctor	Principal Security Holder	N/A	N/A	0.7256%	N/A	N/A
Bonnen Investments LLP, Friendswood, Texas USA	LLP Owned by James Gregory Bonnen	Principal Security Holder	N/A	N/A	4.2268%	N/A	N/A

HERITAGE BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements
with Independent Auditor's Report
December 31, 2016 and 2015

Heritage Bancorp Inc. and Subsidiary
Index
December 31, 2016 and 2015

Page(s)

Ham, Langston & Brezina, L.L.P.

Independent Auditor's Report

To the Board of Directors of
Heritage Bancorp, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Heritage Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 financial statements.

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

Opinion

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

Ham, Langston & Brezina, LLP

Houston, Texas
May 31, 2017

Heritage Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 14,160,369	$ 8,371,685
Interest bearing deposits with other banks	249,000	1,742,000
Investment securities:		
Securities available-for-sale, at fair value	8,955,590	11,637,377
Non-marketable securities, at cost	1,963,904	1,743,304
Loans held-for-sale	-	274,685
Loans receivable, net of allowance of $2,538,871 and $2,247,759 at December 31, 2016 and 2015, respectively	204,663,773	174,083,746
Accrued interest and investment income	701,705	562,918
Premises and equipment, net	7,588,383	5,812,167
Other assets	5,654,995	4,539,245
Goodwill	3,521,851	3,521,851
Core deposit intangible, net	882,572	1,026,215
Total assets	$ 248,342,142	$ 213,315,193
Liabilities and Stockholders' Equity		
Deposits:		
Demand	$ 68,562,763	$ 67,163,231
Interest-bearing demand	60,522,581	57,221,977
Savings	12,925,301	12,083,760
Certificates of deposit and other	60,272,703	39,134,393
Total deposits	202,283,348	175,603,361
Federal Home Loan Bank advance	17,000,000	12,000,000
Accrued expenses and other liabilities	677,502	726,152
Federal income taxes payable	-	805,899
Deferred tax liability	117,947	72,949
Total liabilities	220,078,797	189,208,361
Commitments and contingencies		
Stockholders' equity:		
Common stock of $1 par value; 10,000,000 shares authorized; 2,519,192 and 2,377,173 shares issued and outstanding at December 31, 2016 and 2015	2,519,192	2,377,173
Additional paid-in capital	23,540,578	21,715,818
Accumulated other comprehensive income	15,168	57,737
Retained earnings	2,188,407	(43,896)
Total stockholders' equity	28,263,345	24,106,832
Total liabilities and stockholders' equity	$ 248,342,142	$ 213,315,193

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

Heritage Bancorp, Inc. and Subsidiary
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2016 and 2015

	2016	2015
Interest income		
Interest on loans, including fees	$10,556,359	$ 8,525,582
Interest on investment securities	251,132	291,251
Interest on federal funds sold and interest-bearing deposits with other banks	50,658	50,928
Total interest income	10,858,149	8,867,761
Interest expense		
Interest-bearing demand deposits	153,243	142,096
Savings deposits	9,955	9,056
Certificates of deposit and other	440,426	234,726
Total interest expense	603,624	385,878
Net interest income	10,254,525	8,481,883
Provision for loan losses	913,000	910,000
Net interest income after provision for loan losses	9,341,525	7,571,883
Non-interest income		
Service charges on deposit accounts	199,112	218,924
Other non-interest income	847,763	844,336
Total non-interest income	1,046,875	1,063,260
Non-interest expense		
Salaries and benefits	4,117,564	3,363,758
Data processing	585,571	582,247
Occupancy expense	480,776	462,518
Furniture and equipment expense	386,912	395,687
Professional fees	229,801	222,008
Regulatory fees and assessments	181,545	165,700
Advertising and marketing	120,165	111,797
Other non-interest expense	888,614	912,314
Total non-interest expense	6,990,948	6,216,029
Income before federal income taxes	3,439,424	2,419,114
Income tax expense – current	(1,139,320)	(817,957)
Income tax expense – deferred	(67,801)	13,187
Net income	2,232,303	1,614,344
Other comprehensive income		
Change in unrealized gain on available-for-sale securities, net	(42,569)	24,854
Total comprehensive income	$ 2,189,734	$ 1,639,198

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

Heritage Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2016 and 2015

	Common Stock		Additional Paid–In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at December 31, 2014	2,377,173	$ 2,377,173	$ 21,671,458	$ (1,658,240)	$ 32,883	$ 22,423,274
Share based compensation	-	-	44,360	-	-	44,360
Change in unrealized gain on securities, net	-	-	-	-	24,854	24,854
Net income	-	-	-	1,614,344	-	1,614,344
Balance at December 31, 2015	2,377,173	2,377,173	21,715,818	(43,896)	57,737	24,106,832
Shares issued for cash	132,019	132,019	1,650,238	-	-	1,782,257
Share based compensation	-	-	84,522	-	-	84,522
Shares issued upon exercise of stock warrants	10,000	10,000	90,000	-	-	100,000
Change in unrealized gain on securities, net	-	-	-	-	(42,569)	(42,569)
Net income	-	-	-	2,232,303	-	2,232,303
Balance at December 31, 2016	2,519,192	$ 2,519,192	$ 23,540,578	$ 2,188,407	$ 15,168	$ 28,263,345

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

Heritage Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Year Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net income	$ 2,232,303	$ 1,614,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	913,000	910,000
Depreciation and amortization	430,906	466,597
Gain on sale of premises and equipment	(13,000)	(15,600)
Deferred income tax (benefit) expense	67,801	(13,187)
Stock based compensation expense	84,522	44,360
Net amortization of premiums on available-for-sale securities	65,870	107,171
Increase in cash surrender value of Bank Owned Life Insurance	(122,443)	(29,717)
Changes in operating assets and liabilities:		
Net change in funding of loans held for sale	274,685	(135,692)
Increase in accrued income and other assets	(50,810)	(58,186)
(Decrease) increase in accrued expenses and other liabilities	(48,650)	347,298
(Decrease) increase in federal income taxes payable	(805,899)	805,899
Net cash provided by operating activities	3,028,285	4,043,287
Cash flows from investing activities		
Net increase in loans receivable	(32,574,311)	(32,630,145)
Decrease in deposits in other banks	1,493,000	3,985,000
Purchase of premises and equipment	(2,063,479)	(510,610)
Proceeds from the sale of premises and equipment	13,000	21,675
Purchase of Bank Owned Life Insurance	-	(3,000,000)
Proceeds from maturity, paydowns or calls of securities	2,550,545	5,901,913
Purchase of non-marketable securities	(220,600)	(291,250)
Net cash used in investing activities	(30,801,845)	(26,523,417)
Cash flows from financing activities		
Net increase in deposits	26,679,987	17,518,152
Increase in advances from Federal Home Loan Bank	5,000,000	2,000,000
Proceeds from sale of stock	1,782,257	-
Proceeds from exercise of stock options	100,000	-
Net cash provided by financing activities	33,562,244	19,518,152
Net increase (decrease) in cash and cash equivalents	5,788,684	(2,961,978)
Cash and cash equivalents at beginning of year	8,371,685	11,333,663
Cash and cash equivalents at end of year	$14,160,369	$ 8,371,685
Supplemental cash flow information:		
Interest paid	$ 603,184	$ 385,544
Income taxes paid	$ 1,167,432	$ 12,060
Supplemental disclosure of non-cash investing and financing activities:		
Loans foreclosed and included in other assets	$ -	$ 104,563
Guaranty receivable from the Small Business Administration	$ 1,081,284	$ -

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

1. Summary of Significant Accounting and Reporting Policies

Heritage Bancorp, Inc. (the "Holding Company") is a Texas-based holding company that serves communities in Lamar, Red River, Gonzalez, Wilson, Harris, Galveston and Brazoria counties through its wholly owned subsidiary, Heritage Bank (the "Bank"). The Bank operated under a national charter through December 31, 2009. Effective January 4, 2010, the Bank converted to a state charter. The Bank provides a broad array of financial services to the public. Heritage Bancorp, Inc. and Heritage Bank are collectively referred to as the "Company". The Company's accounting and reporting policies conform to accounting principles generally accepted in the United States of America ("US GAAP") and to general practices of the banking industry.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and the Holding Company. All material intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and amounts due from other banks. The Company considers all short-term highly liquid investments with original maturities of three months or less to be cash equivalents.

Interest Bearing Deposits with Other Banks

Interest bearing deposits with other banks totaling $249,000 and $1,742,000 at December 31, 2016 and 2015, respectively, consists of certificates of deposits with original maturities of greater than three months at the date purchased. Each of these interest bearing deposits are within the federally insured limits on deposits.

Investment Securities

Investment securities are classified into one of three categories and accounted for as follows:

- Held-to-maturity securities - investment securities where the Company has the positive intent and ability to hold such investments to maturity are reported at amortized cost;
- Trading securities - investment securities where the Company has the intent to sale, generally in the short-term, are reported at fair value, with unrealized gains and losses included in earnings; and
- Available-for-sale securities - investment securities not classified as held-to-maturity or trading securities are reported at fair value, with unrealized gains and temporary losses excluded from earnings and reported in other comprehensive income.

There were no held-to-maturity or trading securities at December 31, 2016 and 2015.

Accretion of discounts and amortization of premiums are recognized as adjustments to interest income over the holding period of the related investment securities using the interest method. Realized gains and losses are recognized in earnings at the time of sale and are based on specific identification. Declines in the fair value of individual securities below their cost that are other-than-temporary result in write-downs, as a realized loss, of the individual securities to their fair value. The review for other-than-temporary declines takes into account the severity and duration of the impairment, recent events specific to the issuer or industry, creditworthiness of the issuer including external credit ratings and recent downgrades, trends and volatility of earnings, current analysts' evaluations, and other key measures. Declines in fair value of securities below their cost where the Company does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its cost basis, are not assumed to be other-than-temporary. As of December 31, 2016 and 2015, there are no other-than-temporary impairments in investment securities.

1. Summary of Significant Accounting and Reporting Policies, continued

Investment Securities, continued

The Company has non-marketable securities of $1,963,904 and $1,743,304 at December 31, 2016 and 2015, respectively, which represent investments in Texas Independent Bank ("TIB") stock, Federal Reserve Bank ("FRB") stock and Federal Home Loan Bank ("FHLB") stock. These investments are restricted securities and not readily marketable, therefore, these investments are carried at cost, which approximates fair value. As a member of the TIB, FRB and FHLB systems, the Company is required to maintain a minimum level of investments in stock based on percentages of its outstanding mortgages, total assets or advances.

Loans

Loans are stated at the principal amount less unearned discount and allowance for credit losses. The accrual of interest on a loan is discontinued when, in the opinion of management, there is significant doubt about the ability of the borrower to pay interest or principal. Subsequent interest on such loans is recognized as income only when collected.

Loans held for sale consist of mortgage loans to be sold to permanent investors in the secondary mortgage market and are stated at the lower of cost or estimated market value in the aggregate. Loan origination and commitment fees and related direct loan origination costs are deferred and not recognized until the related loan is sold. Gains and losses are recorded in non-interest income, based on the difference between the sales proceeds and carrying value of the loan.

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 of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis 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.

Nonrefundable Fees and Costs Associated with Lending Activities

Loan origination and commitment fees are recorded as income when received as an offset to the direct origination costs. Management does not deem the effect of recording origination fees as income at the time received and direct origination costs at the time incurred, to be substantially different from deferring origination fees and direct origination costs and the amortization thereof as an adjustment of the yield over the life of the related loan, as required by U.S. GAAP.

Provision for and Allowance for Loan Losses

The provision for loan losses is based on past loan loss experience and other factors, which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, and current economic conditions.

The allowance is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segments' historical loss experience and adjustment factors derived from conditions in the Bank's internal and external environment. All loans considered to be impaired are evaluated on an individual basis to determine specific reserve allocations. Loans for which specific reserves are provided are excluded from the calculation of general reserves. Losses may ultimately be incurred that vary from management's current estimates. Changes in estimates occur due to changes in appraisals, economic conditions and economic prospects of borrowers, and financial statements upon which estimates are based. Adjustments to the allowance for loan losses are reported in the period that such adjustments become known or are reasonably estimable.

1. Summary of Significant Accounting and Reporting Policies, continued

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed on the straight-line basis over the estimated useful lives of the related assets or the remaining terms of the leases. Such lives generally range from thirty to forty years for buildings, from three to ten years for furniture and fixtures, from three to seven years for equipment, and five years for vehicles. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. The cost of assets retired or otherwise disposed of, and the related accumulated depreciation and amortization, are eliminated from the accounts in the year of disposal. The resulting gain or loss is credited or charged to operations.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets are evaluated whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of goodwill and other intangible assets is considered impaired when the projected undiscounted future cash flows are less than its carrying value. Impairment is measured based on the amount by which the carrying value exceeds the fair value. For the years ended December 31, 2016 and 2015, the Company recorded no impairment of goodwill or other intangible assets.

Also, in connection with business combinations involving banks and branch locations, the Company generally records core deposit intangibles representing the value of the acquired core deposit base. Core deposit intangibles are amortized over the estimated useful life of the deposit base which is 10 to 15 years. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization.

Impairment of Long-Lived Assets

The carrying value of long-lived assets to be held and used is evaluated whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the projected undiscounted future cash flows are less than its carrying value. Impairment is measured based on the amount by which the carrying value exceeds the fair value. Fair value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved.

Foreclosed Assets

Other real estate and repossessed assets acquired in lieu of payment of debts are included in other assets in the accompanying consolidated balance sheets. At the time a loan is foreclosed, the collateral is transferred to other real estate or repossessed assets at the lesser of the loan's remaining principal balance or the estimated fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuation allowances are established to reflect a decline in value as a current charge against earnings. Those provisions are included in other non-interest expense. Subsequent increases in fair value up to the amount of the valuation allowance are included in non-interest expense. Gains and losses on the disposition of such assets are included in other non-interest income or expense in the accompanying consolidated statements of income and comprehensive income.

Bank Owned Life Insurance

The Company owns life insurance policies covering 11 employees. The Company is the named beneficiary on the policies. The policies are carried at the cash surrender value of $4,332,105 and $4,209,662 at December 31, 2016 and 2015, respectively, and included in other assets in the accompanying consolidated balance sheets.

Service Charges on Deposit Accounts

Service charges on deposit accounts are recorded as the amount of fee income earned less any uncollectible charges in the accompanying consolidated statements of income and comprehensive income.

1. Summary of Significant Accounting and Reporting Policies, continued

Federal Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes resulting from temporary differences between financial statement and income tax reporting purposes.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are evaluated annually and a valuation allowance is provided if it is more likely than not that the deferred tax assets will not give rise to future tax benefits in the Company's tax return.

The Company records a liability for uncertain tax positions where it is more likely than not that the tax position will not be sustained upon examination by the appropriate taxing authority. Changes in the liability for uncertain tax positions are reflected in income tax expense in the period when a new uncertain tax position arises, judgment changes about the likelihood of uncertainty, the tax issue is settled or the statute of limitations expires. Any potential net interest income or expense and penalties related to uncertain tax positions are recorded in the consolidated statements of income and comprehensive income. The Company is not aware of any uncertain tax positions and hence no penalties or interest were recognized during the years ended December 31, 2016 and 2015.

The Company files a consolidated federal income tax return in the United States of America and a consolidated State of Texas Franchise tax return. .

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Account Standards Codification ("ASC") Topic 718, *Compensation – Stock Compensation*, which requires that such transactions be recognized as compensation expense in the consolidated statements of income and comprehensive income based on their fair value of the award on the date of grant

Recent Accounting Pronouncements

ASU 2016-01, Financial Instruments – Overall, requires all equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in the fair value recognized through net income. The amendments in ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. In addition, ASU 2016-01 eliminates the requirement to disclose fair value of financial instruments measured at amortized cost. ASU 2016-01 is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for the credit risk provision and the provision that eliminates the requirement to disclose fair value of instruments measured at amortized cost. The adoption of ASU 2016-01 is not expected to have a significant impact on the Company's consolidated financial statements or related disclosures.

ASU 2016-02, Leases (Topic 842), is aimed at making leasing activities more transparent and comparable and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability. The new guidance is effective for annual periods beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of the guidance on the consolidated financial statements and related disclosures.

1. Summary of Significant Accounting and Reporting Policies, continued

Recent Accounting Pronouncements, continued

ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting, which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification within the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. ASU 2016-09 will result in, among other matters, the immediate recognition for financial reporting purposes of excess tax benefits that currently are not recognized until such time as these tax benefits can be realized as a reduction of income taxes payable. Management is currently evaluating the impact of the guidance on the consolidated financial statements and related disclosures.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which sets forth a "current expected credit loss" (CECL) model that significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as is required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2020, although early adoption is permitted. Management is currently evaluating the future impact of the guidance on the consolidated financial statements and related disclosures.

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which intends to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. The update instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 must be applied prospectively and is effective for annual periods beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of the guidance on the consolidated financial statements and related disclosures.

2. Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of investment securities available-for-sale at December 31, 2016 and 2015 was as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Tax-exempt municipalities	$ 3,165,535	$ 13,987	$ (1,511)	$ 3,178,011
Taxable municipalities	3,993,835	28,355	(623)	4,021,567
Mortgage-backed securities	1,773,238	6,676	(23,902)	1,756,012
Total available-for-sale	$ 8,932,608	$ 49,018	$ (26,036)	$ 8,955,590

2. Investment Securities, continued

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Tax-exempt municipalities	$ 4,748,889	$ 33,742	$ (2,582)	$ 4,780,049
Taxable municipalities	4,516,341	48,193	(2,217)	4,562,317
Mortgage-backed securities	2,284,666	16,296	(5,951)	2,295,011
Total available-for-sale	$ 11,549,896	$ 98,231	$ (10,750)	$ 11,637,377

The amortized cost and market value of available-for-sale securities at December 31, 2016 and 2015, by contractual maturity, are shown below. Expected maturities will differ from contract maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,487,438	$ 2,485,787	$ 1,709,041	$ 1,711,660
Due after one year through five years	3,306,013	3,329,595	5,584,410	5,604,111
Due after five years through ten years	1,365,919	1,384,196	1,971,779	2,026,595
Due after ten years	-	-	-	-
Mortgage-backed securities	1,773,238	1,756,012	2,284,666	2,295,011
	$ 8,932,6087	$ 8,955,590	$ 11,549,896	$ 11,637,377

The Company had no sales of available-for-sale or non-marketable securities during 2016 and 2015. No gains or losses were realized on sales/calls of securities during 2016 and 2015.

Other comprehensive income includes changes in unrealized gains and losses, net of deferred taxes, of securities classified as available-for-sale. The Company had no reclassification adjustments for securities sold during 2016 and 2015.

At December 31, 2016 and 2015, securities with a carrying value of $1,396,797 and $1,518,272 respectively, and a fair value of $1,401,851 and $1,532,472, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The following table displays the gross unrealized losses and fair value of investments available-for-sale as of December 31, 2016 and 2015, which were in a continuous unrealized loss position for the periods as indicated.

	2016					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Tax-exempt municipalities	$ 1,325,172	$ (782)	$ 614,543	$ (729)	$ 1,939,715	$ (1,511)
Taxable municipalities	-	-	818,204	(623)	818,204	(623)
Mortgage-backed securities	-	-	1,514,443	(23,902)	1,514,443	(23,902)
	$ 1,325,172	$ (782)	$ 2,947,190	$ (25,254)	$ 4,272,362	$ (26,036)

2. Investment Securities, continued

	2015					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Tax-exempt municipalities	$ 274,015	$ (537)	$ 1,036,363	$ (2,045)	$ 1,310,378	$ (2,582)
Taxable municipalities	-	-	1,316,046	(2,217)	1,316,046	(2,217)
Mortgage-backed securities	1,679,115	(5,164)	190,242	(787)	1,869,357	(5,951)
	$ 1,953,130	$ (5,701)	$ 2,542,651	$ (5,049)	$ 4,495,781	$ (10,750)

The unrealized losses on the Company's investment in tax-exempt municipalities, taxable municipalities and mortgage-backed securities were caused by changes in interest rates. The contractual cash flows of these investments are guaranteed by a municipality or 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 of the Company's investment. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016 because (a) the decline in market value is attributable to changes in interest rates and not credit quality; (b) the Company does not have the intent to sell the security; and (c) it is more likely than not it will not have to sell the security before recovery of its cost basis.

3. Loans and Allowance for Loan Losses

The composition of the loan portfolio at December 31, 2016 and 2015 was as follows:

	2016	2015
Real estate	$ 183,968,929	$ 151,021,670
Commercial	20,535,099	23,008,168
Consumer	1,873,696	1,266,216
Agriculture	824,920	1,035,451
Total	207,202,644	176,331,505
Allowance for loan losses	(2,538,871)	(2,247,759)
Net loans	$ 204,663,773	$ 174,083,746

Impaired loans were $569,876 and $3,280,901 at December 31, 2016 and 2015, respectively, and the average balances during 2016 and 2015 were approximately $346,327 and $2,055,768, respectively. The Company established a specific allowance for loan losses of $66,000 and $464,090 on impaired loans at December 31, 2016 and 2015, respectively. Accrual of interest was discontinued for certain impaired loans totaling $422,459 and $2,859,238 at December 31, 2016 and 2015, respectively, and the total interest foregone was approximately $11,859 and $88,551, respectively.

Overdraft accounts included in loans were $21,464 and $21,306 at December 31, 2016 and 2015, respectively.

The allowance for loan losses represents the estimate of losses inherent in the loan portfolio as of the balance sheet date. Losses are charged to the allowance for loan losses when recognized. Generally, loans are charged-off or charged down to net realizable value at the point at which they are determined to be uncollectible in whole or in part, or when 90 days past due unless the loan is well secured and in the process of collection.

3. Loans and Allowance for Loan Losses, continued

The Bank establishes the amount of the allowance for loan losses by analyzing the portfolio on a quarterly basis using accounting guidance promulgated by ASC 450, *Contingencies* and ASC 310, *Receivables*. The Bank also utilizes regulatory guidance issued by United States of America financial institution regulatory agencies, including the guidance contained in Supervision and Regulation ("SR") 01-17, *Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions*, and SR 06-17, *Interagency Policy Statement on the Allowance for Loan and Lease Losses*. Upon establishing an appropriate allowance for loan losses, the Bank adjusts the provision for loan losses so the allowance for loan losses is at an appropriate level at the balance sheet date.

The methodologies the Bank uses to estimate the allowance for loan losses is dependent upon the historical loss rate that the Bank has experienced in each particular loan category. This historical loss rate is then further impacted by the following risk adjustment factors:

- Changes in national and local economic conditions
- Changes in lending policies, procedures, underwriting standards, collection, charge-off and recovery practices
- Changes in problem loan trends
- Changes in the nature and volume of the loan portfolio including the existence and effect of any concentrations, and changes in the level of such concentrations
- Changes in experience, ability and depth of lending management and staff
- The effect of external factors such as competition and legal and regulatory requirements
- Changes in the quality of the Bank's loan review system and the degree of oversight by the Board of Directors

These risk adjustment factors are reviewed by the Bank's Chief Executive Officer and Chief Lending Officer at least quarterly to ensure that changes in the level of the allowance for loan losses are consistent within these factors. These factors can have a significant impact on the influence and judgment regarding the level of the allowance for loan losses due to various environmental factors that have not yet been recognized in historical loss rates.

Changes in the allowance for loan losses during the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Balance at beginning of period	$ 2,247,759	$ 1,449,239
Provision for loan losses	913,000	910,000
Recoveries on loans previously charged off	531	27,419
Loans charged off	(622,419)	(138,899)
Balance at end of period	$ 2,538,871	$ 2,247,759

Changes in the allowance for loan losses by major portfolio segment for the years ended December 31, 2016 and 2015 are as follows:

	Real Estate	Commercial	Consumer	Agriculture	Total
Balance at December 31, 2014	$ 1,125,244	$ 274,992	$ 37,760	$ 11,243	$ 1,449,239
Provision for loan losses	779,383	118,738	6,535	5,344	910,000
Recoveries on loans previously charged off	4,436	22,983	-	-	27,419
Loans charge off	(33,924)	(104,975)	-	-	(138,899)
Balance at December 31, 2015	1,875,139	311,738	44,295	16,587	2,247,759
Provision for loan losses	810,789	90,436	8,142	3,633	913,000
Recoveries on loans previously charged off	-	-	531	-	531
Loans charged off	(379,940)	(230,412)	(12,067)	-	(622,419)
Balance at December 31, 2016	$ 2,305,988	$ 171,762	$ 40,901	$ 20,220	$ 2,538,871

3. Loans and Allowance for Loan Losses, continued

Nonaccrual and Past Due Loans

Loans are generally placed on nonaccrual status when payment in full of principal and interest is not expected, or the loan is 90 days or more past due as to principal or interest, unless the loan is both well collateralized and in the process of collection.

A nonaccrual loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement, the loan is well collateralized, the borrower has paid according to the contract terms for a minimum of six months, and analysis of the borrower indicates a reasonable assurance of the ability to maintain payments. Payments received on nonaccrual loans are applied as a reduction to the outstanding principal balance.

Loans are reported as past due when either the principal or interest is due and unpaid for a period of 31 days or more. Loans continue to be reported as past due until all delinquent principal and interest, as well as any late fees assessed, has been repaid by the borrower.

Accruing loans, including past due loans, and nonaccrual loans are as follows at December 31, 2016 and 2015:

	2016						
	Current	31-89 Days Past Due	90+ Days Past Due	Total Past Due	Non-Accrual	Total	Nonaccrual loans that are current
Real estate	$183,524,383	$ 337,121	$ 107,425	$ 444,546	$ 10,585	$183,968,929	$ 44,651
Commercial	20,525,822	-	9,277	9,277	341,833	20,535,099	1,308
Consumer	1,873,696	-	-	-	-	1,873,696	-
Agriculture	754,879	-	70,041	70,041	70,041	824,920	-
Total	$206,678,780	$ 337,121	$ 186,743	$ 523,864	$ 422,459	$207,202,644	$ 45,959

	2015						
	Current	31-89 Days Past Due	90+ Days Past Due	Total Past Due	Non-Accrual	Total	Nonaccrual loans that are current
Real estate	$148,617,330	$ 218,847	$2,185,493	$2,404,340	$2,257,542	$151,021,670	$ 72,048
Commercial	22,207,554	200,002	600,612	800,614	461,218	23,008,168	-
Consumer	1,199,575	66,641	-	66,641	17,087	1,266,216	10,876
Agriculture	959,221	-	76,230	76,230	123,392	1,035,451	53,373
Total	$172,983,680	$ 485,490	$2,862,335	$3,347,825	$2,859,238	$176,331,505	$ 136,297

Credit Quality Indicators

In addition to the past due and nonaccrual criteria, the Bank also analyzes loans using a nine point Risk Rating grading system. The Bank generally assigns internal Risk Rating to real estate, commercial, consumer and agriculture loans based on financial review of the borrower, loan review and loan officer judgment.

The Risk Ratings are summarized as follows:

Risk Rating – 1 (Pass) – Loans secured by cash or cash equivalents and 100% guaranteed SBA loans purchased.

Risk Rating – 2 (Pass) – Loans with satisfactory financial capacity and analysis ratios that represent satisfactory credit risk.

Risk Rating – 3 (Pass) – Loans with satisfactory financial capacity that represent a reasonable credit risk, but that have characteristics that make them slightly higher risk than a loan with a Risk Rating 2 grade. Loans in this category would be in an industry or market segment that typically have higher risks (such as construction, land development, or raw land loans); loans that have been approved with loan policy exceptions; or a performing loan with credit or collateral exceptions.

3. Loans and Allowance for Loan Losses, continued

Credit Quality Indicators, continued

Risk Rating – 4 (Monitored Pass) – Loans that appear prudently underwritten and are performing, but a negative trend or weakness may have been identified that requires special monitoring.

Risk Rating – 5 (Special Mention) – Loans that contain more than the normal amount of risk and require close attention by management. Loans in this category typically possess clearly identified temporary weaknesses or trends that, if not corrected, will result in a condition appropriately rated as Substandard.

Risk Rating – 6 (Substandard) – Loans that have been identified to have a well-defined weakness that could jeopardize the collection of the debt.

Risk Rating – 7 (Substandard – Nonaccrual) – Loans that are inadequately protected by the current worth and paying capacity of the obligor or collateral and accrual of interest has been discontinued.

Risk Rating – 8 (Doubtful) – Loans that have been identified to have a well-defined weakness and that weakness makes the collection or liquidation in full highly improbable.

Risk Rating – 9 (Loss) – Loans considered uncollectible.

Risk Rating 1 (Pass) thru Risk Rating 4 (Monitored Pass) are considered Pass loans and Risk Rating 6 (Substandard) thru Risk Rating 7 (Substandard – Nonaccrual) are considered Substandard loans and are reported as such. At December 31, 2016 and 2015, the Company had no loans assigned a Risk Rating 8 (Doubtful) or a Risk Rating 9 (Loss).

As of December 31, 2016 and 2015, based on the most recent loan analysis performed, the risk rating of loans by portfolio segment is as follows:

	2016				
	Real Estate	Commercial	Consumer	Agriculture	Total
Pass	$ 173,409,259	$ 19,441,675	$ 1,811,905	$ 742,791	$ 195,405,630
Special Mention	8,740,358	859,624	-	12,088	9,612,070
Substandard	1,819,311	233,800	61,791	70,041	2,184,943
Total	$ 183,968,929	$ 20,535,099	$ 1,873,696	$ 824,920	$ 207,202,644

	2015				
	Real Estate	Commercial	Consumer	Agriculture	Total
Pass	$ 145,615,406	$ 17,896,838	$ 1,183,221	$ 903,885	$ 165,599,350
Special Mention	1,631,819	4,287,625	17,087	8,174	5,942,898
Substandard	3,774,445	823,705	67,715	123,392	4,789,257
Total	$ 151,021,670	$ 23,008,168	$ 1,266,216	$ 1,035,451	$ 176,331,505

Impaired Loans

As of December 31, 2016, the Bank had twelve impaired loans with an unpaid principal balance of $569,876 and recorded investment amount of $503,876. As of December 31, 2015, the Bank had seventeen impaired loans with an unpaid principal balance of $3,280,901 and recorded investment amount of $2,816,811. Management evaluated these loans individually for impairment and established a specific reserve of $66,000 and $464,090 at December 31, 2016 and 2015, respectively. Management evaluated all other loans collectively for impairment.

3. Loans and Allowance for Loan Losses, continued

Small Business Administration ("SBA") Loans

The Company is a participant in the SBA 7(a) guaranteed lending program and regularly originates such guaranteed loans. Under the program, the SBA guarantees up to 90 percent of the principal on a qualifying loan. During 2016, the Company foreclosed on a SBA guaranteed loan and filed for reimbursement under the guaranty program and reported a receivable of $1,081,284 which is included in other assets in the accompanying December 31, 2016 consolidated balance sheet.

Loan Participations Purchased and Sold

In the normal course of business, the Bank acquires and sells interests in loans under participation agreements with other financial institutions. The outstanding balance of loan participations purchased and sold at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Purchased:		
Real estate	$ 5,633,931	$ 4,732,951
Sold:		
Real estate	$ 5,252,104	$ 2,249,486

At December 31, 2016 and 2015, the following were included in loans, net of applicable unearned discount:

	2016	2015
Fixed rate loans	$ 180,874,191	$ 154,388,444
Variable rate loans	$ 25,905,994	$ 19,083,823
Nonaccrual loans	$ 422,459	$ 2,859,238

4. Premises and Equipment

The following summarizes premises and equipment at December 31, 2016 and 2015:

	2016	2015
Land	$ 1,066,126	$ 1,066,126
Buildings	4,720,930	4,720,930
Furniture and fixtures	527,951	445,155
Equipment	849,945	660,514
Vehicles	73,050	114,896
Construction in progress	1,848,061	56,809
	9,086,063	7,064,430
Less: accumulated depreciation and amortization	(1,497,680)	(1,252,263)
	$ 7,588,383	$ 5,812,167

Depreciation and amortization expense on premises and equipment was $287,263 and $303,182 for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Company owns land held for development of approximately $376,000. The Company is committed to building a new location with an estimated cost of $3,100,000 of which the Company has incurred $1,848,061 as of December 31, 2016. The anticipated completion date of construction is April 2017.

5. Core Deposit Intangible Assets

A summary of core deposit intangible assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Gross carrying amount	$ 1,026,215	$ 1,308,259
Less accumulated amortization	(425,687)	(282,044)
Net carrying amount	$ 882,572	$ 1,026,215

Amortization expense on core deposit intangible assets was $143,643 and $163,415 for the years ended December 31, 2016 and 2015, respectively. Estimated amortization expense of core deposit intangible assets for each of the next five years is approximately $150,000 each year.

6. Certificates of Deposit

Certificates of deposit were as follows at December 31, 2016 and 2015:

	2016	2015
$250,000 or greater	$ 26,081,513	$ 14,261,631
Under $250,000	34,191,190	24,872,762
	$ 60,272,703	$ 39,134,393

The maturity distribution of certificates of deposit at December 31, 2016 and 2015 were as follows:

Maturity	2016	2015
0 to 12 months	$ 51,703,988	$ 32,883,981
1 to 2 years	6,366,289	3,283,541
2 to 3 years	1,942,456	1,778,057
3 to 4 years	259,970	762,948
4 to 5 years	-	425,866
	$ 60,272,703	$ 39,134,393

7. Federal Home Loan Bank Advance

The Company has outstanding advances from the FHLB totaling $17,000,000 and $12,000,000 at December 31, 2016 and 2015, respectively. At December 31, 2016, the Company's outstanding advances consisted of a fourteen day advance bearing interest of 0.65% and payable at maturity, January 13, 2017. FHLB advances are secured by a blanket lien on the Company's loan portfolio.

8. Line of Credit

The Bank has federal funds lines of credit, for liquidity purposes, as follows:

Federal Home Loan Bank, collateralized by loan portfolio	$ 54,200,000
TIB – The Independent Bankers Bank, uncollateralized	2,000,000
BBVA Compass Bank, uncollateralized	5,000,000
	$ 61,200,000

8. Line of Credit, continued

These lines are drawn upon as needed and funds are normally repaid on the following business day. The rates for the lines of credit change daily and are based on the lending bank's federal funds rate and whether the lending bank is in a buying or selling mode. No amounts were outstanding under the TIB and BBVA Compass Bank lines of credit as of December 31, 2016 and 2015.

At December 31, 2016 and 2015, the Company had undisbursed commitments of $37,200,000 and $27,250,000, respectively, on the FHLB line of credit pledged to secure public deposits and for other purposes as required or permitted by law.

9. Income Taxes

Components of the Company's deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 785,672	$ 923,626
Other	68,552	-
Total deferred tax assets	854,224	923,626
Deferred tax liabilities:		
Premises and equipment	(578,006)	(516,811)
Core deposits	(292,617)	(352,655)
Investment basis	(101,548)	(127,109)
Total deferred tax liabilities	(972,171)	(996,575)
Net deferred tax (liability) asset	$ (117,947)	$ (72,949)

Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of these deductible differences existing at December 31, 2016 and 2015. Therefore, no valuation allowance has been recorded.

The difference between the effective income tax rate reflected in the provision for federal income taxes and the amounts, which would be determined by applying the U.S. Federal and state income tax statutory rate of 35%, is summarized below:

	2016	2015
Income tax benefit at U.S. Federal statutory rate	$ 1,203,799	$ 846,690
Non-deductible stock compensation	29,583	15,526
Non-deducible meals and entertainment	3,533	3,191
Tax-exempt income	(20,181)	(26,786)
Other - accrual adjustments to tax return	(9,524)	(33,851)
	$ 1,207,209	$ 804,770

10. Stockholders' Equity

Common Stock

During the year ended December 31, 2016, the Company sold 132,019 shares of common stock at $13.50 per share in a private placement offering resulting in cash proceeds of $1,782,257. There were no issuances of common stock during the year ended December 31, 2015.

10. Stockholders' Equity, continued

Warrants

During 2008, the Company issued warrants to purchase 110,000 shares of the Company's common stock to the founding stockholders of the Holding Company. The warrants were issued as attachments to the original purchase of the Company's common stock and are exercisable at $10 per share over a 10-year period from the date of grant.

During the year ended December 31, 2016, one founding stockholder exercised warrants to purchase 10,000 shares of the Company's common stock. No warrants were exercised during the year ended December 31, 2015. During the years ended December 31, 2016 and 2015, the Company did not issue any additional warrants.

Stock Options

Effective July 20, 2009, the stockholders of the Company approved and the Company adopted the Heritage Bancorp, Inc. Stock Option Plan (the "Plan"). A total of 146,655 shares of the Company's common stock are reserved for issuance under the Plan. As of December 31, 2016, a total of 7,213 shares remain available for future grants without additional stockholder approval. The Plan also provides that the maximum number of shares with respect to which options may be granted to any individual during any calendar year is 25,000. The purpose of the Plan is to foster and promote the long-term financial success of the Company; to reward performance and to increase stockholder value by providing eligible participants appropriate incentives; to enable the Company to attract and retain the services of outstanding individuals; to encourage participants' ownership interest in the Company; and to align the interests of management and directors with that of the Company's stockholders. Eligible participants include employees, directors, consultants and advisors to the Company.

During 2016, the Company granted options to purchase 21,750 shares of common stock to various individuals at a price of $13.50 per share based on recent cash sales of the Company's common stock at or near the grant date of the options. The options vest over a one year period commencing on January 1, 2016. As of December 31, 2016, none of these options had vested. All of the options will vest on January 1, 2017.

During 2015, the Company granted options to purchase 19,250 shares of common stock to various individuals at a price of $11.50 per share based on recent cash sales of the Company's common stock at or near the grant date of the options. The options vest over a one year period commencing on January 1, 2015. As of December 31, 2016, all of these options had vested.

The Company recognizes compensation expense over the awards requisite service period based on the estimated fair value of the award on the date of grant of $3.89 and $2.30 per option for the years ended December 31, 2016 and 2015, respectively. The estimated fair values of the awards were calculated using the Black Scholes-Merton pricing model with the following assumptions:

	2016	2015
Expected volatility	14.20%	3.42%
Risk-free interest rate	2.43%	2.24%
Expected life	10 years	10 years

The total fair value of options expensed pursuant to the Plan during the years ended December 31, 2016 and 2015 was $84,522 and $44,360, respectively. As of December 31, 2016, all compensation costs associated with the share based compensation arrangements had been recognized.

10. Stockholders' Equity, continued

The following table summarizes certain information relative to the stock options:

	Shares	Weighted-Average Exercise Price
Outstanding, January 1, 2015	98,442	$ 10.37
Granted	19,250	11.50
Forfeited/cancelled	-	-
Outstanding, December 31, 2015	117,692	10.56
Granted	21,750	13.50
Exercised	-	-
Outstanding, December 31, 2016	139,442	$ 11.01
Exercisable, December 31, 2016	117,692	$ 10.56

The options expire 10 years from the date of grant. The weighted-average remaining life of all options outstanding at December 31, 2016 was 6.3 years.

11. Commitments and Contingencies

Operating Leases

The Company leases certain office equipment under non-cancellable operating leases expiring through 2019. Future annual minimum lease commitments at December 31, 2016 are as follows:

December 31,	
2017	$ 5,049
2018	3,932
2019	983
	$ 9,964

Total lease expense for the years ended December 31, 2016 and 2015 was approximately $20,997 and $22,760, respectively.

12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the Federal Reserve Bank, Federal Deposit Insurance Corporation and the Texas Department of Banking. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under regulatory capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. In July 2013, the Federal Reserve issued final rules that make technical changes to its capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. The final rules maintain the general structure of the prompt corrective action framework in effect at such time while incorporating certain increased minimum requirements.

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12. Regulatory Matters, continued

Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). These are the initial capital requirements, which will be phased in over a four-year period. When fully phased in on January 1, 2019, the rules will require the Bank to maintain such minimum ratios plus a 2.5% "capital conservation buffer" (other than for the leverage ratio). The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing by the same amount each year until fully implemented at 2.5% on January 1, 2019. Management believes as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject and is considered to be well capitalized under Prompt Corrective Action guidelines and that the Bank will be compliant with the fully phased-in requirements when they become effective.

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

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016 (in thousands)						
Total risk-based capital (to risk-weighted assets)	$27,017	13.0%	$16,686	8.0%	$20,858	10.0%
Common equity tier I capital (to risk-weighted assets)	$24,478	9.9%	$ 9,386	4.5%	$13,558	6.5%
Tier I capital (to risk-weighted assets)	$24,478	11.7%	$12,515	6.0%	$16,686	8.0%
Tier I capital (to average assets)	$24,478	9.9%	$ 9,920	4.0%	$12,400	5.0%
As of December 31, 2015 (in thousands)						
Total risk-based capital (to risk-weighted assets)	$22,616	12.7%	$14,252	8.0%	$17,815	10.0%
Common equity tier I capital (to risk-weighted assets)	$20,389	9.6%	$ 9,527	4.5%	$11,579	6.5%
Tier I capital (to risk-weighted assets)	$20,389	11.5%	$10,689	6.0%	$14,252	8.0%
Tier I capital (to average assets)	$20,389	9.5%	$ 8,594	4.0%	$10,742	5.0%

13. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company invests cash and federal funds sold with various financial institutions in amounts that at times exceed the federally insured amount. The Company performs ongoing evaluations of the financial institutions in which it invests deposits and constantly assesses its credit risk with respect to these accounts. The Company has not experienced any losses on its investments in deposit accounts and federal funds and typically limits the term of these instruments to limit risk.

13. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk, continued

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The contract amount of financial instruments with off-balance sheet risk at December 31, 2016 and 2015 is as follows:

	2016	2015
Loan commitments	$ 27,603,900	$ 25,514,483
Standby letters of credit	$ 1,427,054	$ 477,054

Since loan commitments and letters of credit may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include certificates of deposit, accounts receivable, inventory, property, plant and equipment, and real estate.

The Company enters into a standby letter of credit to guarantee performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved is represented by the contractual amounts of those instruments. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary so long as all performance criteria have been met. Most guarantees extend up to one year.

The Company operates in three territorial markets in Texas and all loans and deposits at December 31, 2016 and 2015 are attributable to these markets.

14. Related Party Transactions

The Company held cash deposits of approximately $9,049,070 and $6,190,813 that relate to the Company's principal stockholders, executive officers, board of directors, and other affiliated parties at December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, loans outstanding to principal stockholders, executive officers, board of directors and other affiliated parties of the Company totaled $1,443,044 and $934,088, respectively. The following table presents activity for the years ended December 31, 2016 and 2015 for such loans:

	2016	2015
Balance at beginning of period	$ 934,088	$ 1,003,868
Additional borrowings	1,823,667	-
Principal payments	(1,314,711)	(69,780)
Balance at end of period	$ 1,443,044	$ 934,088

15. Fair Value of Financial Instruments

The Company follows the guidance promulgated by ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, addresses aspects of the expanding application of fair value accounting and establishes a consistent framework for measuring fair value. Fair values represent the estimated price that would be received from selling an asset or paid to transfer a liability, otherwise known as an "exit price". In accordance with guidance contained in ASC Topic 820, the Company has not applied the provisions of this statement to non-financial assets and liabilities such as other real estate owned and repossessed assets.

15. Fair Value of Financial Instruments, continued

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and held-to-maturity securities.

Fair Value Hierarchy

ASC Topic 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC Topic 820, these inputs are summarized in the three broad levels listed below:

- Level 1 - Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2 - Quoted prices which are not active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3 - Prices, inputs or exotic modeling techniques which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As required by ASC Topic 820-10, investments are classified within the level of the lowest significant input considered in determining fair value. Investments classified within Level 3 whose fair value measurement considers several inputs may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

Financial Instruments Recorded at Fair Value

Assets measured at fair value on a recurring basis are summarized as follows at December 31, 2016 and 2015:

	Assets at Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Tax-exempt municipalities	$ -	$ 3,178,011	$ -	$ 3,178,011
Taxable municipalities	-	4,021,566	-	4,021,566
Mortgage-backed securities	-	1,756,013	-	1,756,013
Total	$ -	$ 8,955,590	$ -	$ 8,955,590

	Assets at Fair Value at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Tax-exempt municipalities	$ -	$ 4,780,049	$ -	$ 4,780,049
Taxable municipalities	-	4,562,317	-	4,562,317
Mortgage-backed securities	-	2,295,011	-	2,295,011
Total	$	$ 11,637,377	$ -	$ 11,637,377

Assets measured at fair value on a non-recurring basis included impaired loans and loans held for sale. Impaired loans are collateral-dependent and fair valued under level 2 based on the fair value of the collateral, which is determined when appropriate from appraisals and other observable market data. Impaired loans were valued at $503,876 and $2,816,811 at December 31, 2016 and 2015, respectively. Loans held for sale are fair valued under level 2 based on quotes of comparable instruments. Loans held for sale were valued at $0 and $274,685 at December 31, 2016 and 2015, respectively.

Fair Value Disclosure for all Financial Instruments

The Company is subject to the requirements under ASC Topic 820, *Disclosures about Fair Value of Financial Instruments*, to disclose the fair value of all financial instruments, including those financial assets and financial liabilities not recorded at fair value in the accompanying consolidated balance sheets, for which it is practicable to estimate fair value.

15. Fair Value of Financial Instruments, continued

The estimated fair values of the Company's financial instruments as of December 31, 2016 and 2015 are as follows (in thousands):

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 14,160	$ 14,160	$ 8,372	$ 8,372
Interest bearing deposits with other banks	249	249	1,742	1,742
Available-for-sale securities	8,956	8,956	11,637	11,637
Non-marketable securities	1,964	1,964	1,743	1,743
Loans held-for-sale	-	-	275	275
Loans receivable, net	204,664	205,129	174,084	175,590
	$ 229,993	$ 230,458	$ 197,853	$ 199,359
Financial Liabilities				
Demand deposits	$ 68,563	$ 68,563	$ 67,163	$ 67,163
Interest-bearing demand deposits	60,523	60,523	57,222	57,222
Savings	12,925	12,925	12,084	12,084
Certificates of deposits and others	60,273	60,372	39,134	39,169
Federal Home Loan Bank advance	17,000	17,000	12,000	12,000
	$ 219,284	$ 219,383	$ 187,603	$ 187,638

The fair value of financial instruments represents estimates of fair value at a point in time. Significant estimates regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors were used for the purposes of this disclosure. These estimates are subjective in nature and involve matters of judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could have a material impact on the amounts estimated.

While the estimated fair value amounts are designed to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Company's financial instruments lack an available trading market as characterized by willing parties engaging in an exchange transaction.

The fair values of all financial instruments have been determined as follows:

Cash and cash equivalents -- For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Interest bearing deposits with other banks – For these short-term instruments, fair value is estimated using discounted cash flow analyses, using interest rates currently being offered for similar deposits with similar maturities. The carrying amounts for deposits with other banks approximate their fair value.

Available-for-sale securities – For these investments, fair value is based on quoted market prices.

Non-marketable securities – For these investments, cost, which is generally the carrying amount, is a reasonable estimate of fair value.

Loans held-for-sale – For loans held-for-sale, fair values are based on commitments on hand from investors or prevailing market rates.

Loans – For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on the carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using the underlying collateral values.

15. Fair Value of Financial Instruments, continued

Deposits – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., the carrying amount). Fair values for savings and fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar instruments with similar terms.

Federal Home Loan Bank advance – For these short-term borrowings, the carrying amount approximates fair value

16. Subsequent Events

Subsequent events have been evaluated through May 31, 2017, which is the date the financial statements were available to be issued.