AMENDED

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, David L. Baty
Name of the Holding Company Director and Official

President/Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

06/26/2017
Date of Signature

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

TXRB Holdings, Inc
Legal Title of Holding Company

2595 Preston Rd, Suite 100
(Mailing Address of the Holding Company) Street / P.O. Box

Frisco	TX	75034
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Larry T. Bowman	CFO
Name	Title

972/334/0700
Area Code / Phone Number / Extension

972/334/0114
Area Code / FAX Number

lbowman@texasrepublicbank.com
E-mail Address

none
Address (URL) for the Holding Company's web page

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

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

For Federal Reserve Bank Use Only

RSSD ID _____
C.I. _____

Is confidential treatment requested for any portion of this report submission? ..... 0=No 1=Yes: 0

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

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

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

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.

N/A
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)

N/A
Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

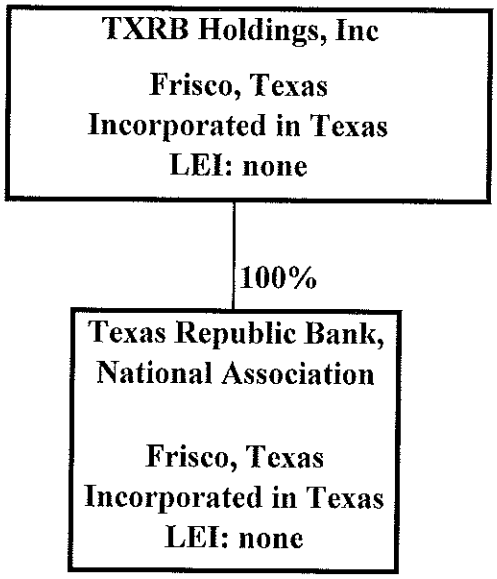
Physical Location (if different from mailing address)

Form FR Y-6

TXRB Holdings, Inc
Frisco, Texas
Fiscal Year Ending December 31, 2016

Report Item

1 The bank holding company prepares an annual report for its securities holders
The report is not complete - Two copies will be mailed when complete.
2 Organizational Chart



None of the above entities have a LEI number

Results: A list of branches for your holding company: TXRB HOLDINGS, INC. (4215745) of FRISCO, 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)	735067	TEXAS REPUBLIC BANK, NATIONAL ASSOCIATION	2595 PRESTON ROAD, BUILDING 100	FRISCO	TX	75034	COLLIN	UNITED STATES	2214	0	TEXAS REPUBLIC BANK, NATIONAL ASSOCIATION	735067	
OK		Full Service	3730988	QUANAH BRANCH	211 SOUTH MAIN STREET	QUANAH	TX	79252	HARDEMAN	UNITED STATES	442425	1	TEXAS REPUBLIC BANK, NATIONAL ASSOCIATION	735067	
OK		Full Service	4844293	RICHARDSON BRANCH	690 WEST CAMPBELL ROAD, SUITE 100	RICHARDSON	TX	75080	DALLAS	UNITED STATES	Not Required	Not Required	TEXAS REPUBLIC BANK, NATIONAL ASSOCIATION	735067	

Form FR Y-6
TXRB Holding, Inc.
Fiscal Year Ending December 31,2016

Report Item 3: Securities holders
(1)(a)(b)('c) and (2)(a)(b)('c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending *12/31/2011*

(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1) (c) Number and percentage of Each Class of Voting Securities
David Baty Richardson, TX, USA	USA	94,385 5% Common Stock
Timothy Cantrell Dallas, TX, USA	USA	99,346 5% Common Stock

Securities holders not listed in 3(1)(a) throught 3(1)('c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending *12/31/2011*

(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)© Number and percentage of Each Class of Voting Securities
N/A		
N/A		
N/A		
N/A		

AMENDED

Form FR Y-6
TXRB Holdings, Inc
Fiscal Year Ending December 31, 2015

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, 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 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)
David L. Baty Richardson, Tx USA	Banker	Director & President	Director & President (Texas Republic Bank)	None	5%	None	N/A
Charles Rolfe McKinney, Tx USA	Retired Banker	Director & Chairman	Director & Chairman (Texas Republic Bank)	None	1%	None	N/A
Steve Pirkey, DVM Wylie, Tx USA	Veterinarian	Director	Director (Texas Republic Bank)	President Veterinary Services P.C.	4%	None	Veterinary Services P.C. 100%
				President Pirkey Management LLC			Pirkey Management LLC 49%
Scott Anderson Richardson, Tx USA	Attorney	Director	Director (Texas Republic Bank)	Managing Member Anderson Tobin, PLLC	1%	None	Anderson Tobin, PLLC 42%
Barry Pryor Dallas, Tx USA	Retired Car Dealer	Director	Director (Texas Republic Bank)	None	3%	None	N/A
				Member Real Estate Investment			2595 Preston, LLC 26%

Form FR Y-6
TXRB Holdings, Inc
Fiscal Year Ending December 31, 2015

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, 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 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)
Timothy Cantrell Dallas, Tx USA	Real Estate Investor	Director & Vice Chairman	Director & Vice Chairman (Texas Republic Bank)	President Cantrell Investment Corp	5%	None	Cantrell Investment Corp 100%
				Treasurer Cantrell McCulloch			Cantrell McCulloch 33%
				President Fidelity Realty Advisors, Inc			Fidelity Realty Advisors, Inc 100%
				President Fidelity Bldg & Const, Ltd			Fidelity Bldg & Const, Ltd 100%
				President Monticello Asset Mgt, Inc			Monticello Asset Mgt, Inc 100%
				Vice President The Cantrell Company, Inc			The Cantrell Company, Inc 50%
				President Apartment Inspection Services			Apartment Inspection Services 100%
				Director Annunity Transfers, Ltd			Annunity Transfers, Ltd 50%

AMENDED

Form FR Y-6
TXRB Holdings, Inc
Fiscal Year Ending December 31, 2015

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, 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 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)
Timothy Cantrell Dallas, Tx USA	*Continued*			Owner/Investor P R Assoc. III, Ltd.			P R Assoc. III, Ltd. 15% Limited Partner 13% General Partner
				Owner/Investor P R Assoc, IV, Ltd.			P R Assoc, IV, Ltd. 16% Limited Partner 13% General Partner
				Managing Member 2700 S Travis, LLC			2700 S Travis, LLC 100%
				Owner/Investor Buffalo Run, Ltd.			Buffalo Run, Ltd. 99%
				Managing Member Anchor Laundry Services, LLC			Anchor Laundry Services, LLC 100%
				Managing Member Vernon Oaks Capital Funding, LLC			Vernon Oaks Capital Funding, LLC 100%
				Owner/Investor Mesquite-CV Apts., Ltd.			Mesquite-CV Apts., Ltd. 99%
				Owner/Investor Lakeview on Shady Oaks, LLC			Lakeview on Shady Oaks, LLC 99%
				Managing Member 2595 Preston, LLC			2595 Preston, LLC 33%

2016 ANNUAL REPORT

The Holding Company for

Banking like it oughta be!

Celebrating 125 years!

1891 - 2016

April 14, 2017

Dear Fellow Shareholders:

This month marks the sixth anniversary of our holding company's acquisition of **Texas Republic Bank, N.A.**, and while this may seem a long time to some, for the management and employees here at the bank, the time has seemingly flown by. This sense of brevity has been aided by the constant challenges before our bank, and the satisfaction of seeing our staff and board respond over the years to each new horizon and challenge with determination leading to tremendous success. Admittedly, the strength of our local economy has provided a robust setting in which the bank operates, but our staff members continue to be the most significant contributor to our success. This is evidenced by the fact that TRB continues to perform well above its peer group in pretty much every category of comparison. Also, we recognize and appreciate the continued support of you, our shareholders, and are very thankful that many of you are significant customers of the bank which you own.

This letter covers our ***sixth annual report*** to shareholders. You will recall that 2016 was the bank's **125th** birthday, and we had several events and activities during the year to recognize and celebrate that fact, including community-wide parties in each of our banking locations. It is only fitting that our 125th birthday year continued our string of new milestones, record earnings, and growth. Some of the more notable achievements and recognitions during 2016 were:

- Our bank made the list of ***Top 100 Best Performing Community Banks*** in the United States, and was ranked ***#14***, out of over 5,000 community banks in the U.S. There was only one other bank in Texas ranked ahead of us. This prestigious list is objectively determined based on metrics set by S & P Global (fka SNL Financial) and is not something applied for – every bank in the country is measured. Return on Equity, Growth, Margins, Efficiency, and Loan Quality are evaluated. Most notably, this was the ***3rd year*** out of the last 4 years that our bank made this list (we ranked **#65** in 2013 and **#59** in 2014). No other bank in Texas, located in a major metropolitan area, made this list 3 out of the last 4 years.

- continued ***A+*** rating as one of "Healthiest Banks in the U.S." by *DepositAccounts.com*

- winner of ***Medium Size Business of the Year*** by Frisco Chamber of Commerce at annual banquet

- moved into our Frisco headquarters office expansion, an additional roughly 4,500 sf of space (Suite 300), which now houses all of our Frisco loan officers, lending assistants, credit analysts, and loan operations and has room to absorb additional staff

- attained a pre-tax return on total shareholder investment of **19.8%**

Included with this letter is some graphical information together with the annual report by our outside auditors, Payne & Smith. The graphs highlight several facts on the bank covered in more detail in the auditor's report. Some of those we consider most noteworthy are:

- Total Assets: $189 million at year end, for an annual increase of 23%
- Total Loans: $171 million at year end, for an annual increase of 27%
- Total Deposits: $159 million at year end, for an annual increase of 20%
- Net Income: continued record profits, with net after tax profit of $2,271,000, or 56% increase over 2015
- Net Interest Margin: continued its high level and was 150 basis points greater than the average of banks in our peer group
- Credit Quality: continued improvement through strong underwriting standards and diligence in managing the loan portfolio. Significantly, the bank ended 2016, for the *third year in a row*, with ***zero*** loans over 30 days past due, and we ended the year with no loans on non-accrual. Also, our reserve for loan loss continues to grow, and sits at a healthy $1.9 million, or 1.16% of loans.

As reflected above, 2016 was a tremendous year on all fronts and, as stated earlier, is a reflection of the smart, hardworking, dedicated staff and board of the bank. Some of the key staff developments during the year that position the bank for an even brighter future, include:

- Maureen McGuire promoted to President of our Richardson Branch
- Pamela Folkman promoted to SVP - Senior Operations Officer
- Lane Troiani hired as SVP - Senior Credit Officer

In summary, much has been accomplished and we have much for which to be thankful, but we are far from being satisfied. We are humbled, yet greatly encouraged by the achievements over the past 6 years, and 2016 in particular, and look forward to continued growth on a firm foundation. Blessed with a staff of 40+ hard-working banking professionals, a dedicated board of directors, and a loyal family of fellow shareholders, we feel most fortunate that we get to come to work every day and deliver ***"Banking like it oughta be!"***. We sincerely hope to see all of you at the annual shareholders meeting on May 9th.

Sincerely,

David Baty
President/CEO

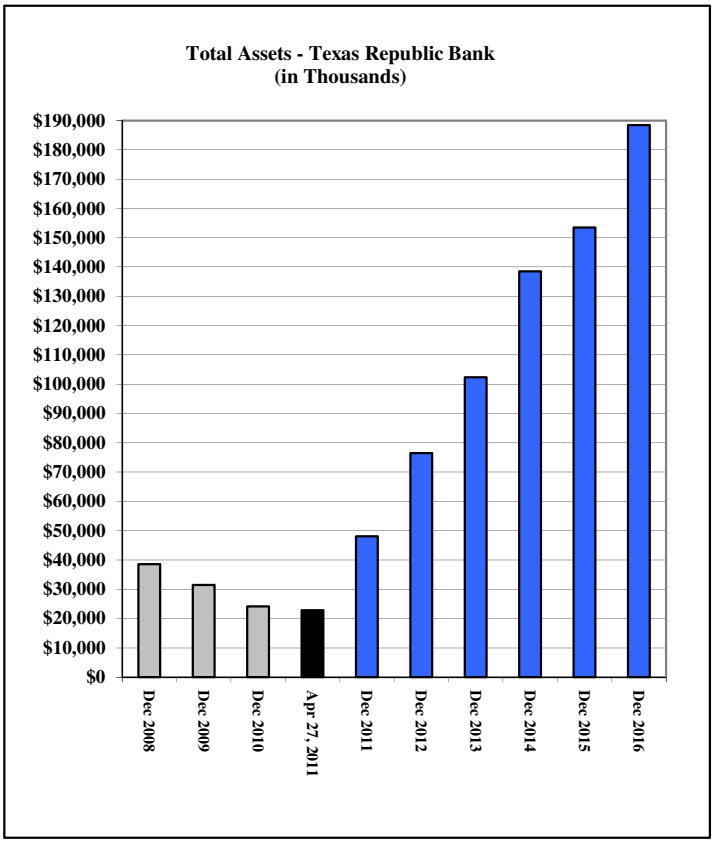
Charles O. Rolfe, Jr.
Chairman of the Board

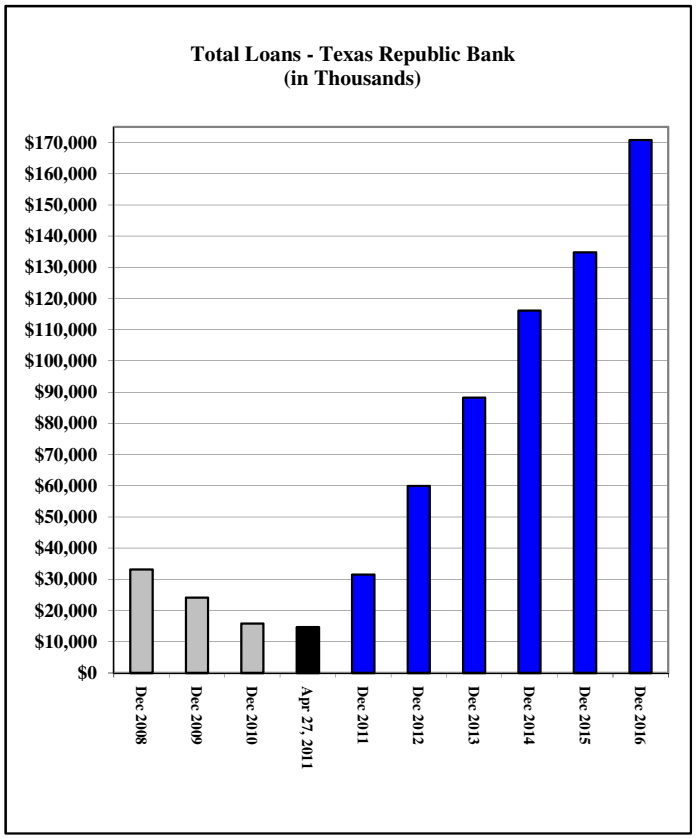
TXRB Holdings, Inc.

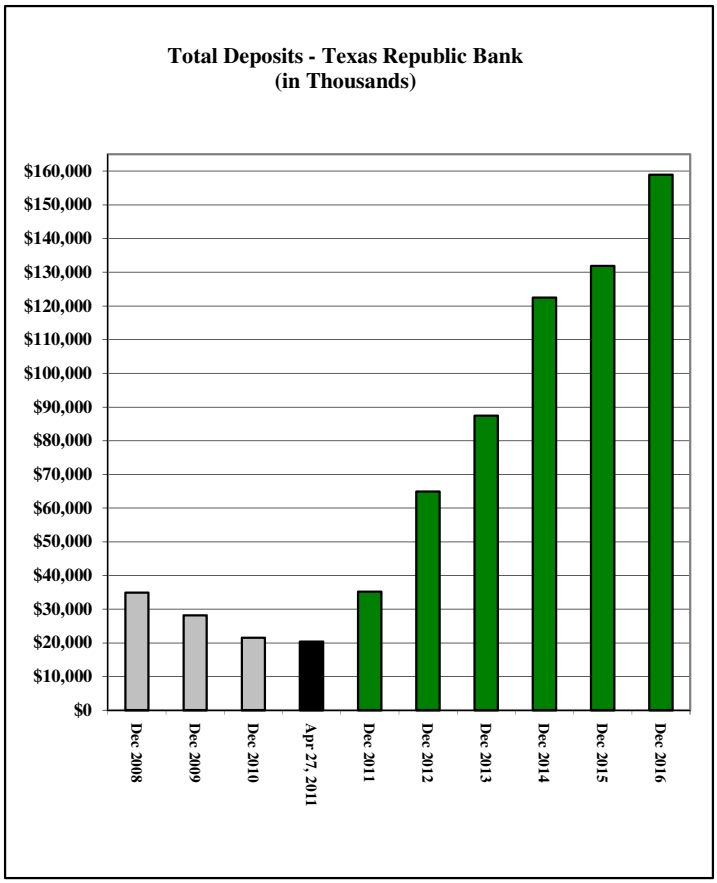
TXRB Holdings, Inc.
is a one-bank holding company with assets of $188.8 million as of December 31, 2016. The company has offices in three banking markets – Frisco/Collin County, Richardson/Dallas County, and Quanah/Hardeman County.

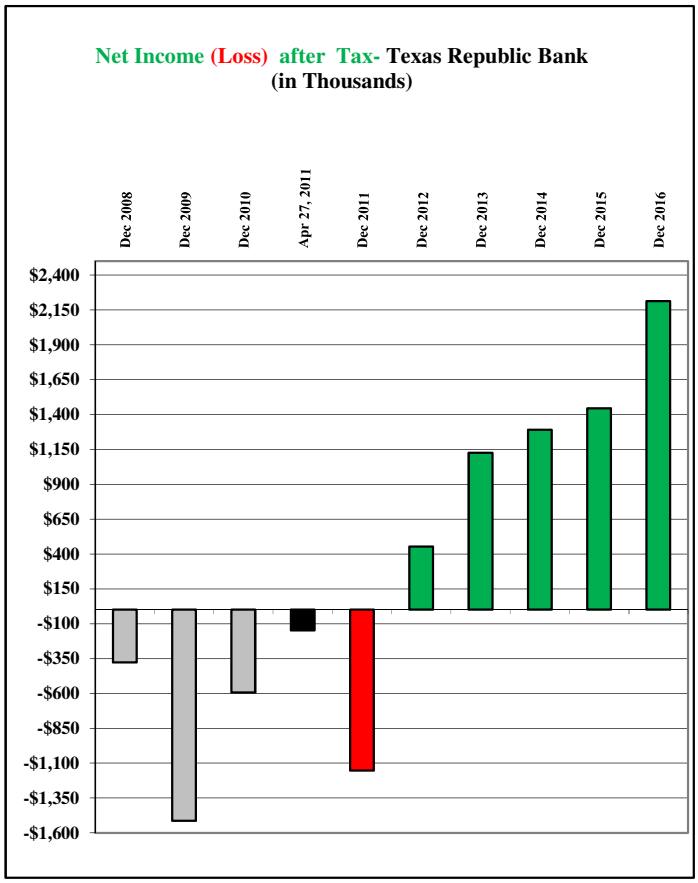
The Annual Meeting of Shareholders
is scheduled for May 9, 2017 at 6:00 p.m. at Bent Tree Country Club located at 5201 Westgrove Drive, Dallas, TX 75248.

The Corporate Headquarters
is located at 2595 Preston Road, Suite 100 Frisco, Texas 75034 and the telephone number is 972-334-0700. The President/CEO's e-mail address is banker@texasrepublicbank.com.

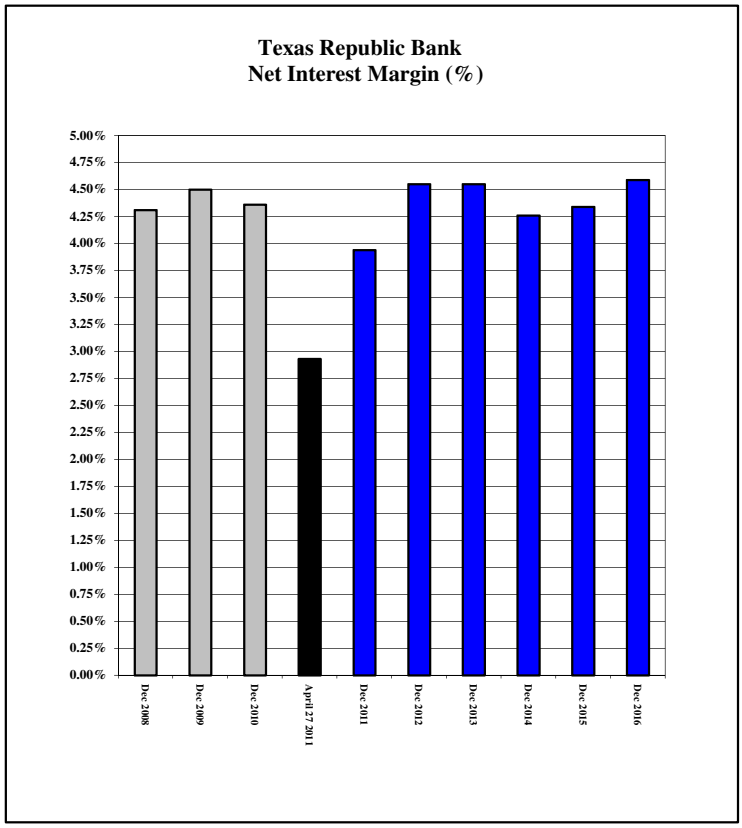


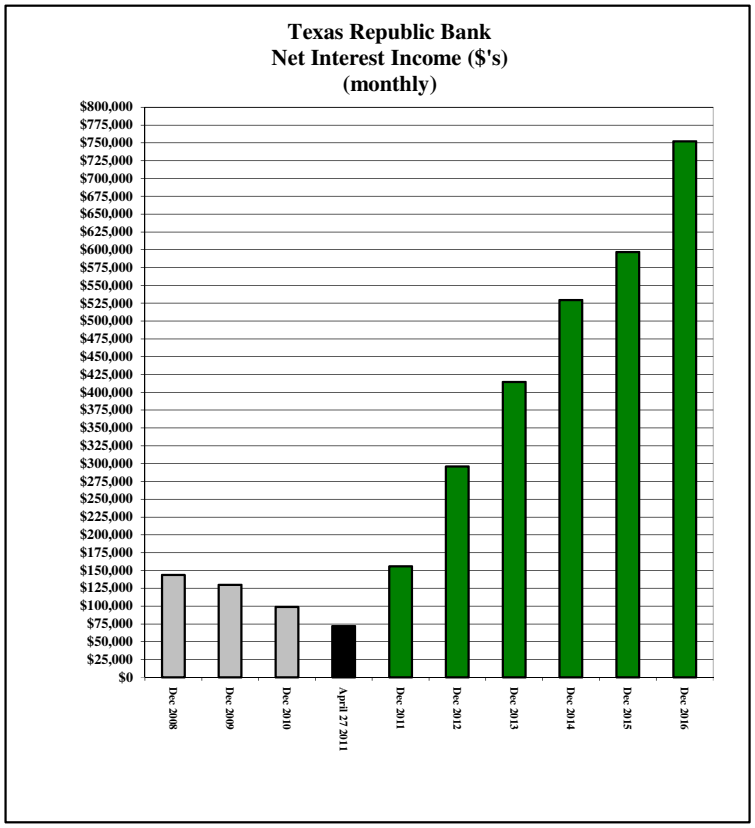


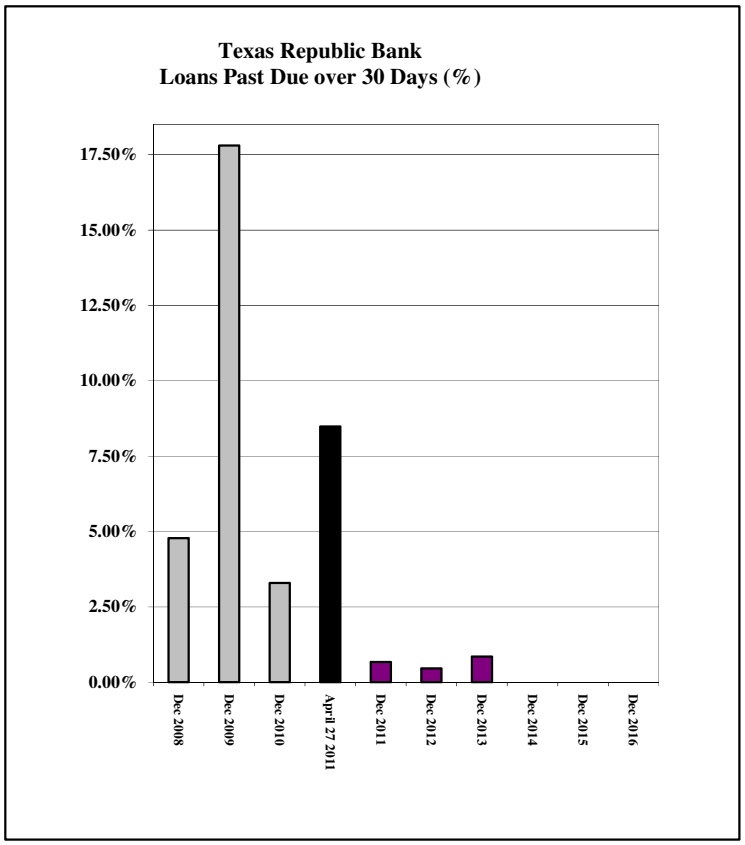


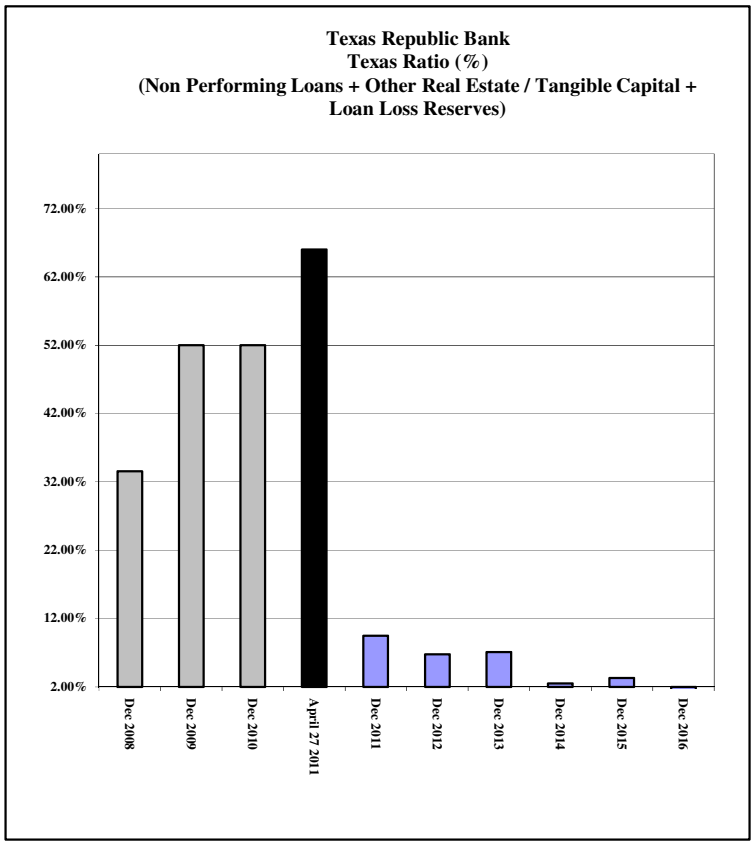


Note: The Black lines in each graph represent the information at the time the bank was purchased. Grey lines represent information before the bank purchase and the Colored lines represent information after the bank was purchased.









Note: The Black lines in each graph represent the information at the time the bank was purchased. Grey lines represent information before the bank purchase and the Colored lines represent information after the bank was purchased

DONNY**PALMER**
TBA MEMBER RELATIONS OFFICER

Texas Republic Bank celebrates 125th anniversary

Texas Republic Bank in Frisco recently marked 125 years of service with a reception and ribbon cutting at their new facility in Frisco. TBA Member Relations Officer Zach Malone and I attended the event, which was popular with customers and community leaders.

While there are 25-plus other banks operating in Frisco, Texas Republic Bank is the only bank chartered in this fast-growing community. The bank originated in 1891 in Quanah in Hardeman County. The original charter was Quanah National Bank until 1910 when it merged with Citizens National Bank. In 1917, the combined banks became Security State Bank of Quanah and later Security National Bank of Quanah in 1923. Do I have you confused at this point?

Finally, in 2001, TXRB Holding acquired the bank and branched into Frisco under the Texas Republic Bank banner. In 2005, the charter was moved to Frisco and, in 2009, CEO David Baty and Tim Cantrell acquired control of the institution. Many of the employees are shareholders so there is a great community feel among the staff. The Quanah location does business as Security Bank, a division of Texas Republic Bank.

Hardeman County borders Oklahoma to the north, and the name Quanah is derived from Comanche Indian chief Quanah Parker. Over the centuries, the area was inhabited by the Lipan Apaches, Wichita, Kiowa and Comanche Indian tribes.

Donny Palmer (center) presents Texas Republic Bank CEO David Baty (right) with a TBA proclamation honoring their 125th anniversary. At left is Mike Simmons of the Frisco Chamber of Commerce.

Quanah was slow to develop even after the Fort Worth and Denver City Railway surveyed the town in 1884. The first settler was W.J. Jones and over time more and more ranchers and farmers were attracted by the cheap price of land.

Prior to the Civil War, there were only a few buffalo hunters and ranchers that braved the isolation of the country due to the constant threat of Indian attacks. One of the main lines of business in the early days was cattle rustling. In time, other railways came through the area and Quanah became a major hub for cattle drives on the Dodge City Trail. Farming became prominent and for quite a while Hardeman County was the cotton capital of the state. This all began to change in the 20s and 30s due to droughts and crop failures.

Oil was discovered during WWII, so many cash-poor farmers were able to pull out of the hazards of farming, which helped the overall economy. Wheat production flourished and the farming industry slowly recovered.

Needless to say, the two markets are vastly different but this allows for diversification, which is always good for an institution. I have no doubt the bank will continue to serve its two markets as the enthusiasm we witnessed in Frisco was very positive.

We wish David and his staff the very best as they prosper and expand in the future.

donny@texasbankers.com

Welcome new member

TBA is proud to welcome this new member to our Texas Banking family:

Trinity Bank, N.A.
Jeffrey M. Harp
Chairman, President & CEO
3500 W. Vickery Blvd.
Fort Worth, TX 76107-5618
Phone: 817-763-9966
www.trinitybk.com

TEXAS REPUBLIC BANK

Est. 1891

Board of Directors: Tim Cantrell, Barry Pryor, David Baty, Charles "Buz" Rolfe, Jr., Scott Anderson, Steve Pirkey, DVM

Texas Republic Bank, *a true community bank*, is proud to celebrate these recognitions for 2016:

- Ranked ***#14*** in ***Top 100 Best Performing Community Banks*** in the United States, per *S&P Global* (out of 5,100 community banks in the U.S.).
- ***Only*** bank in Texas to make this prestigious list **3 times** in past 4 years*, placing the bank in the ***top 1%*** of all community banks in the U.S.

How can "banking like it oughta be!" help you & your business?

TEXAS REPUBLIC BANK

Est. 1891

Banking like it oughta be!

Frisco
Preston & 121
Next to Sam Moon
972-334-0700

Richardson
Floyd & Campbell
Next to UTD
972-685-2040

www.texasrepublicbank.com

**Of banks located in a major metropolitan area*

EQUAL HOUSING LENDER

Member FDIC

TXRB Holdings, Inc.

Stockholders
136 shareholders own 1,641,716 shares of TXRB Holdings, Inc.

TXRB Holdings, Inc. Owns 12,500 shares (100%) of common stock of Texas Republic Bank, N.A

TXRB Holdings, Inc. Board of Directors
6 Members

Texas Republic Bank., N.A. Board of Directors
6 Members

TEXAS REPUBLIC BANK Est. 1891
Banking like it oughta be!

SECURITY Bank
Banking like it oughta be!

43 Full-time Bankers

TXRB Holdings, Inc.

History and Significant Dates

May 1891
Bank Chartered as Quanah National Bank in Quanah, Hardeman County, TX

December 1910
Bank was succeeded by The Citizens National Bank of Quanah

August 1917
Bank went into voluntary liquidation and was succeeded by Security State Bank of Quanah

January 1923
Bank converted from state to national charter and name changed from Security State Bank to Security National Bank of Quanah

January 1934
With formation of the FDIC, bank becomes FDIC insured

October 1958
Bank moved to new location at 211 Main, Quanah, TX (we still operate a branch from this location)

1980
Weldon “Butch” Tabor, longtime Quanah farmer/rancher, buys controlling interest in Security National Bank of Quanah

2001
Weldon “Butch” Tabor sells controlling interest in Security National Bank to TRB Bancorp

November 2002
Frisco branch opens at 2595 Preston Rd, Frisco, TX under the name Texas Republic Bank

January 2003
Bank name formally changed to Texas Republic Bank, N.A. and Quanah location re-named Security Bank, an office of Texas Republic Bank, N.A.

March 2005
Bank headquarters moved from Quanah to Frisco

December 2009
TXRB Holdings, Inc. formed by David Baty and Tim Cantrell with intent to acquire a community bank

June, 2010
TXRB Holdings, Inc. Founder group is finalized

Late 2010 – Early 2011
TXRB Holdings, Inc. Founder group leads successful capital raise effort to provide funds for bank acquisition, and ultimately raises $16.4 million

April 2011
TXRB Holdings, Inc. buys 100% of Texas Republic Bank, including Security Bank in Quanah

May 2014
Richardson branch opens at 690 W. Campbell Rd., Suite 100 Richardson, TX

January 2016
Frisco headquarters expands to add Suite 300

TXRB Holdings, Inc.
Board of Directors

R. Scott Anderson
Attorney

David L. Baty
President/CEO
Banker

Charles O. "Buz" Rolfe
Chairman
Retired Banking Executive

Barry Pryor
Retired Executive

Tim L. Cantrell
Vice Chairman
Real Estate Investments

Steve Pirkey, DVM
Veterinarian

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Board of Directors

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Chairman
Retired Banking Executive

Barry Pryor
Retired Executive

Tim L. Cantrell
Vice Chairman
Real Estate Investments

Steve Pirkey, DVM
Veterinarian

Texas Republic Bank, N. A.
Officers

David L. Baty (F)
President/CEO

Lane Troiani (F)
Senior Vice President
Senior Credit Officer

Pamela Folkman (F)
Senior Vice President
Senior Operations Officer

Maureen McGuire (R)
President/Richardson

Ron Corcoran (F)
Senior Vice President

Tammy Martinez (Q)
Senior Vice President

Tom Golas (F)
Chief Financial Officer

Jerry Song (F)
Vice President

Kelly McBrayer (R)
Vice President

Larry Bowman (F)
Financial Consultant

Jerrica Anderson (F)
Vice President

John Henderson (F)
Vice President

Ben Holloway (F)
Vice President

Ted Kim (F)
Vice President

Kim Sale (F)
Assistant Vice President

Carly Hollaway (F)
Vice President

Drew MIxon (F)
Banking Officer

F-Frisco
R-Richardson
Q-Quanah

Kathy Selvidge (F)
Assistant Vice President

Kaili Parde Baines (R)
Banking Officer

TXRB HOLDINGS, INC.
AND SUBSIDIARY

Consolidated Financial Statements
and Additional Information

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
TXRB Holdings, Inc. and Subsidiary
Frisco, Texas

We have audited the accompanying consolidated financial statements of TXRB Holdings, Inc. and Subsidiary (Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TXRB Holdings, Inc. and Subsidiary 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.

Payne & Smith, LLC

March 15, 2017

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

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2016 and 2015

(In thousands of dollars, except for share amounts)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 14,260	$ 13,944
Interest bearing deposits in other banks	-	1,559
Loans, net	169,080	133,419
Bank premises and equipment, net	1,541	1,288
Other real estate owned	168	384
Core deposit intangible	129	154
Goodwill	1,092	1,092
Other assets	2,484	2,034
	$ 188,754	$ 153,874
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 51,711	$ 31,392
Interest bearing	106,992	100,363
Total deposits	158,703	131,755
Other borrowings	8,538	2,896
Other liabilities	708	606
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $1 par value; 10,000,000 shares authorized, 1,641,716 shares issued and 1,638,382 shares outstanding at December 31, 2016 and 1,641,716 shares issued and outstanding at December 31, 2015	1,641	1,641
Capital surplus	14,869	14,912
Retained earnings	4,335	2,064
Treasury stock	(40)	-
Total stockholders' equity	20,805	18,617
	$ 188,754	$ 153,874

See accompanying notes to consolidated financial statements.

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	2016	2015
Interest income:		
Interest and fees on loans	$ 9,744	$ 7,987
Interest on deposits in other banks	128	118
Other	32	29
Total interest income	9,904	8,134
Interest expense:		
Interest on deposit accounts	801	792
Other	104	-
Total interest expense	905	792
Net interest income	8,999	7,342
Provision for loan losses	208	400
Net interest income after provision for loan losses	8,791	6,942
Noninterest income:		
Service charges on deposit accounts	255	238
Gain on sale of other real estate owned	39	24
Other	223	197
Total noninterest income	517	459
Noninterest expense:		
Salaries and employee benefits	3,741	3,102
Occupancy expense	626	532
Writedowns of other real estate owned	10	15
Other	1,673	1,518
Total noninterest expense	6,050	5,167
Income before income tax expense	3,258	2,234
Income tax expense	987	785
Net income	$ 2,271	$ 1,449

See accompanying notes to consolidated financial statements.

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	2016	2015
Net income	$ 2,271	$ 1,449
Other comprehensive income, net of tax	-	-
Total comprehensive income	$ 2,271	$ 1,449

See accompanying notes to consolidated financial statements.

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
Balance January 1, 2015	$ 1,641	$ 14,859	$ 615	$ -	$ 17,115
Net income	-	-	1,449		1,449
Stock compensation expense related to stock options	-	53	-	-	53
Balance December 31, 2015	1,641	14,912	2,064	-	18,617
Net income	-	-	2,271	-	2,271
Reversal of stock compensation expense related to stock options	-	(43)	-	-	(43)
Purchase of treasury stock	-	-	-	(40)	(40)
Balance December 31, 2016	$ 1,641	$ 14,869	$ 4,335	$ (40)	$ 20,805

See accompanying notes to consolidated financial statements.

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Net income	$ 2,271	$ 1,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	243	174
Amortization	25	26
Provision for loan losses	208	400
Stock compensation	(43)	53
Writedown of other real estate owned	10	15
Net gain on sales of other real estate owned	(39)	(24)
Deferred tax benefit	(204)	(125)
Increase in other assets	(246)	(185)
Increase in other liabilities	102	95
Net cash provided by operating activities	2,327	1,878
Cash flows from investing activities:		
Decrease (increase) in interest bearing deposits in other banks	1,559	(16)
Purchases of securities available for sale	(79,000)	(62,000)
Proceeds from sales, maturities and principal reductions of securities available for sale	79,000	62,000
Net originations of loans	(35,789)	(18,784)
Net additions to bank premises and equipment	(496)	(345)
Net proceeds from sales of other real estate owned	234	39
Improvements to other real estate owned	(69)	-
Net cash used in investing activities	(34,561)	(19,106)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings deposits	28,607	17,284
Net decrease in certificates of deposits	(1,659)	(7,230)
Proceeds from other borrowings	5,642	2,896
Purchase of treasury stock	(40)	-
Net cash provided by financing activities	32,550	12,950
Net increase (decrease) in cash and cash equivalents	316	(4,278)
Cash and cash equivalents at beginning of year	13,944	18,222
Cash and cash equivalents at end of year	$ 14,260	$ 13,944

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by TXRB Holdings, Inc. and Subsidiary (referred to collectively as the Company), in the preparation of its consolidated financial statements. These accounting policies conform to generally accepted accounting principles and practices generally followed within the banking industry. A description of the more significant of these policies follows.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of TXRB Holdings, Inc. (TXRB) and its wholly owned subsidiary, Texas Republic Bank, N.A. (Bank). All significant inter-company transactions and balances have been eliminated in consolidation.

Business

TXRB acquired 100% of the common stock of Texas Republic Bank, N.A. (Bank) on April 27, 2011. The Bank, a national bank located in Frisco, Texas, with branches in Richardson and Quanah, Texas, began operations in 1891. The Bank provides a full range of banking services to individual and corporate customers and is subject to competition from other local, regional, and national financial institutions. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The summary of the significant accounting policies of the Company is presented to assist in understanding the Company's consolidated financial statements. The consolidated financial statements and notes are the representation of the Company's management, who are responsible for their integrity and objectivity.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of other real estate owned. While management uses available information to recognize losses on loans and other real estate owned, future provisions may be necessary based on changes in local economic conditions. In addition, banking regulators, as an integral part of their examination process, periodically review the Company's allowance for loan and other real estate losses. They may require the Company to record additional provisions for losses based on their judgment about information available to them at the time of their examination.

A significant portion of the Company's loans are secured by real estate and related assets located in local markets. Accordingly, the ultimate collectability of this portion of the Company's loan portfolio is susceptible to changes in local market conditions.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, other short-term investments and federal funds sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents.

Interest Bearing Deposits in Other Banks

Investments in certificates of deposit are carried at cost and generally mature within three years of purchase.

Federal Reserve Bank (FRB) Stock

The bank is a member of its regional Federal Reserve Bank (FRB). FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. FRB stock is included in other assets in the accompanying consolidated balance sheets.

Federal Home Loan Bank (FHLB) Stock

The bank is a member of the Federal Home Loan Bank (FHLB). Members are required to own a certain amount of stock based on the level of its borrowings and also may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. FHLB stock is included in other assets in the accompanying consolidated balance sheets.

Loans

The Company grants commercial, real estate, agricultural, and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in its geographic area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Fees and costs associated with originating loans with maturities greater than one year are deferred and recognized over the life of the loan as an adjustment of yield.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest on nonaccrual loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on historical loss experience, current economic conditions, and performance trends.

Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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 will be assessed periodically for further impairment.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with Accounting Standards Codification (ASC) Topic 310, *Receivables* and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The allowance consists of specific and general allocations. The specific allocation relates to loans that are impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general allocation 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.

Off-Balance Sheet Credit Related 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.

Bank Premises and Equipment

Land is carried at cost. Premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the related property.

Foreclosed Assets

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

Intangible Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The Company's intangible assets relate to core deposits acquired in the purchase of the Bank. Intangible assets with definite useful lives are amortized over their estimated life.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. At least annually or more frequently if circumstances dictate, management assesses qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that goodwill is impaired. If, after assessing the totality of events and circumstances, management concludes that it is not more likely than not that goodwill is impaired, then no further action is taken. If, however, management concludes otherwise, then the fair value of goodwill is determined and tested for impairment by comparing the fair value with the carrying amount in accordance with ASC Topic 350, *Intangibles-Goodwill and Other*.

Income Taxes

The Company files a consolidated income tax return with its Subsidiary. Federal income tax expense or benefit has been allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2013.

Treasury Stock

Treasury stock is recorded at cost. At December 31, 2016, the Company had 3,334 shares held in treasury. At December 31, 2015, the Company had no shares held in treasury.

Stock Compensation Plans

Compensation expense for stock options and warrants is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The fair value of stock options and warrants is estimated using the Black-Scholes option-pricing model. The fair value on non-vested stock awards is generally the market price of the Company's stock on the date of grant.

Advertising

Advertising consists of the Company's advertising in its local market area. Advertising is expensed as incurred. Advertising expense was approximately $101,000 and $102,000 for the years ended December 31, 2016 and 2015, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale.

Fair Values of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure through March 15, 2017, the date the consolidated financial statements were available to be issued.

Reclassification

Certain amounts previously reported have been reclassified to conform to the current format. The reclassifications have no impact on the consolidated financial statements.

2. Recent Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update 2016-1, *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 2016-2, *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 2016-5, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationship*s. 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 2016-7*, 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 2016-9*, 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 2016-9 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 2016-9 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, 2020. The Company is evaluating the impact this amendment will have on the Company's consolidated financial statements.

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, 2018. Early adoption is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

3. Statement of Cash Flows

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2016 and 2015 is presented as follows (in thousands):

	2016	2015
Cash transactions:		
Interest expense paid	$ 890	$ 792
Federal income taxes paid	$ 1,170	$ 925
Noncash transactions:		
Net (disposition) acquisition of other real estate owned	$ (80)	$ 309

4. Loans and Allowance for Loan Losses

Loans at December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Real estate:		
Construction, land development, land	$ 28,437	$ 20,929
Farmland	7,767	4,222
1-4 family residential properties	82,917	65,436
Multi-family residential	1,498	2,622
Nonfarm nonresidential owner occupied	14,410	12,479
Nonfarm nonresidential other	14,986	9,819
Total real estate	150,015	115,507
Commercial	18,136	16,393
Agricultural	709	820
Consumer	1,933	2,134
Other	276	336
	171,069	135,190
Allowance for loan losses	(1,989)	(1,771)
	$ 169,080	$ 133,419

At December 31, 2016 and 2015, the Company had total commercial real estate loans of $59,331,000 and $45,849,000, respectively. Included in these amounts, the Company had construction, land development, and other land loans representing 136% and 114% respectively, of total risk based capital at December 31, 2016 and 2015. The Company had non-owner occupied commercial real estate loans representing 214% and 181%, respectively, of total risk based capital at December 31, 2016 and 2015. 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-based capital, 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.

The Company extends commercial and consumer credit primarily to customers in the state of Texas. 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.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2016 and 2015 is as follows (in thousands):

	Beginning Balance	Provision	Charge offs	Recoveries	Ending Balance
December 31, 2016:					
Real estate:					
Construction, land development, land	$ 269	$ 57	$ -	$ -	$ 326
Farmland	54	35	-	-	89
1-4 family residential properties	845	107	-	-	952
Multi-family residential	34	(17)	-	-	17
Nonfarm nonresidential owner occupied	161	4	-	-	165
Nonfarm nonresidential other	126	46	-	-	172
Total real estate	1,489	232	-	-	1,721
Commercial	238	(8)	-	5	235
Agricultural	11	(3)	-	-	8
Consumer	32	(15)	-	5	22
Other	1	2	-	-	3
	$ 1,771	$ 208	$ -	$ 10	$ 1,989
December 31, 2015:					
Real estate:					
Construction, land development, land	$ 225	$ 44	$ -	$ -	$ 269
Farmland	34	20	-	-	54
1-4 family residential properties	648	197	-	-	845
Multi-family residential	35	(1)	-	-	34
Nonfarm nonresidential owner occupied	176	(15)	-	-	161
Nonfarm nonresidential other	66	60	-	-	126
Total real estate	1,184	305	-	-	1,489
Commercial	212	115	(96)	7	238
Agricultural	9	2	-	-	11
Consumer	50	(22)	(1)	5	32
Other	1	-	-	-	1
	$ 1,456	$ 400	$ (97)	$ 12	$ 1,771

The Company's individual ALLL allocations are established for probable losses on specific loans. The Company's general ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics and on economic conditions and other qualitative risk factors both internal and external to the Company. Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2016 and 2015 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations			
					General		
	Individually	General	Total loans	Individually	Historical	Other	Total ALLL
December 31, 2016:							
Real estate:							
Construction, land development, land	$ -	$ 28,437	$ 28,437	$ -	$ -	$ 326	$ 326
Farmland	-	7,767	7,767	-	-	89	89
1-4 family residential properties	-	82,917	82,917	-	2	950	952
Multi-family residential	-	1,498	1,498	-	-	17	17
Nonfarm nonresidential owner occupied	-	14,410	14,410	-	-	165	165
Nonfarm nonresidential other	-	14,986	14,986	-	-	172	172
Total real estate	-	150,015	150,015	-	2	1,719	1,721
Commercial	-	18,136	18,136	-	27	208	235
Agricultural	-	709	709	-	-	8	8
Consumer	-	1,933	1,933	-	-	22	22
Other	-	276	276	-	-	3	3
	$ -	$ 171,069	$ 171,069	$ -	$ 29	$ 1,960	$ 1,989
December 31, 2015:							
Real estate:							
Construction, land development, land	$ -	$ 20,929	$ 20,929	$ -	$ -	$ 269	$ 269
Farmland	-	4,222	4,222	-	-	54	54
1-4 family residential properties	-	65,436	65,436	-	2	843	845
Multi-family residential	-	2,622	2,622	-	-	34	34
Nonfarm nonresidential owner occupied	-	12,479	12,479	-	-	161	161
Nonfarm nonresidential other	-	9,819	9,819	-	-	126	126
Total real estate	-	115,507	115,507	-	2	1,487	1,489
Commercial	-	16,393	16,393	-	27	211	238
Agricultural	-	820	820	-	-	11	11
Consumer	-	2,134	2,134	-	5	27	32
Other	240	96	336	-	-	1	1
	$ 240	$ 134,950	$ 135,190	$ -	$ 34	$ 1,737	$ 1,771

Impaired Loans

Average impaired loans during 2016 and 2015 were approximately $181,000 and $286,000 respectively. No significant interest income was recognized on impaired loans during 2016 and 2015. The Company had no impaired loans at December 31, 2016. The following is a summary of information pertaining to impaired loans at December 31, 2015 (in thousands):

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment Total	Related Allowance
December 31, 2015:					
Real estate:					
Construction, land development, land	$ -	$ -	$ -	$ -	$ -
Farmland	-	-	-	-	-
1-4 family residential properties	-	-	-	-	-
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-	-
Nonfarm nonresidential other	-	-	-	-	-
Total real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Consumer	-	-	-	-	-
Other	240	240	-	240	-
	$ 240	$ 240	$ -	$ 240	$ -

Past Due and Nonaccrual Loans

The Company had no past due loans or nonaccrual loans at December 31, 2016. The following is a summary of past due and nonaccrual loans at December 31, 2015 (in thousands):

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
December 31, 2015:				
Real estate:				
Construction, land development, land	$ -	$ -	$ -	$ -
Farmland	-	-	-	-
1-4 family residential properties	-	-	-	-
Multi-family residential	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-
Nonfarm nonresidential other	-	-	-	-
Total real estate	-	-	-	-
Commercial	-	-	-	-
Agricultural	-	-	-	-
Consumer	-	-	-	-
Other	-	-	240	240
	$ -	$ -	$ 240	$ 240

Approximately $10,000 and $17,000 of additional interest would have been recognized if the impaired loan on nonaccrual had been on accrual status during 2016 and 2015, respectively.

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (TDR) if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. The Company did not have any TDR's during the years ended December 31, 2016 and 2015. The Company is not committed to lend additional funds to debtors whose loans have been modified.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings:

Pass

Loans classified as pass are loans with low to average risk.

Special Mention

Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

As of December 31, 2016 and 2015, based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016:					
Real estate:					
Construction, land development, land	$ 28,437	$ -	$ -	$ -	$ 28,437
Farmland	7,767	-	-	-	7,767
1-4 family residential properties	82,625	49	243	-	82,917
Multi-family residential	1,498	-	-	-	1,498
Nonfarm nonresidential owner occupied	14,410	-	-	-	14,410
Nonfarm nonresidential other	14,986	-	-	-	14,986
Total real estate	149,723	49	243	-	150,015
Commercial	18,030	-	106	-	18,136
Agricultural	709	-	-	-	709
Consumer	1,933	-	-	-	1,933
Other	276	-	-	-	276
	$ 170,671	$ 49	$ 349	$ -	$ 171,069
December 31, 2015:					
Real estate:					
Construction, land development, land	$ 20,929	$ -	$ -	$ -	$ 20,929
Farmland	4,222	-	-	-	4,222
1-4 family residential properties	65,143	51	242	-	65,436
Multi-family residential	2,622	-	-	-	2,622
Nonfarm nonresidential owner occupied	12,479	-	-	-	12,479
Nonfarm nonresidential other	9,819	-	-	-	9,819
Total real estate	115,214	51	242	-	115,507
Commercial	16,393	-	-	-	16,393
Agricultural	820	-	-	-	820
Consumer	2,134	-	-	-	2,134
Other	96	-	240	-	336
	$ 134,657	$ 51	$ 482	$ -	$ 135,190

5. Bank Premises and Equipment

Bank premises and equipment at December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Bank building	$ 1,595	$ 954
Furniture and equipment	690	519
Automobiles	36	36
Construction in process	-	316
	2,321	1,825
Accumulated depreciation	(780)	(537)
	$ 1,541	$ 1,288

The Company leases a portion of its bank premises under non-cancelable operating leases. Rental expense totaled approximately $292,000 and $277,000 for the years ended December 31, 2016 and 2015, respectively. Pursuant to the terms of the lease agreements in effect at December 31, 2016, pertaining to banking premises, future minimum rent commitments are as follows (in thousands):

Year	Amount
2017	$ 121
2018	50
2019	21
2020	-
2021	-
Thereafter	-
	$ 192

6. Goodwill

Goodwill of approximately $1,092,000 resulting from the acquisition of the Bank is included in the accompanying consolidated financial statements at December 31, 2016 and 2015. As provided by ASC Topic 350, *Intangibles – Goodwill and Other*, the Company performs an annual impairment test for goodwill if it is determined that it is not more likely than not that the asset is impaired. At December 31, 2016 and 2015, management has determined that there is no impairment of goodwill.

7. Core Deposit Intangible

Core deposit intangibles resulting from the acquisition of the Bank during 2011, are being amortized using the straight-line method over a period of 10 years. Assigned costs and accumulated amortization at December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Gross amount	$ 273	$ 273
Accumulated amortization	(144)	(119)
	$ 129	$ 154

Changes in the carrying amount of the core deposit intangible for the years ended December 31, 2016 and 2015 are summarized as follows (in thousands):

	2016	2015
Net core deposit intangible asset at the beginning of the year	$ 154	$ 180
Additions during the year	-	-
Amortization during the year	(25)	(26)
Net core deposit intangible asset at the end of the year	$ 129	$ 154

8. Deposits

Deposits at December 31, 2016 and 2015 are summarized as follows (in thousands):

	2016		2015	
	Amount	Percent	Amount	Percent
Noninterest bearing demand accounts	$ 51,711	32.6	$ 31,392	23.8
Interest bearing demand accounts	55,932	35.2	51,318	39.0
Savings accounts	17,664	11.1	13,990	10.6
Certificates of deposit, $250,000 or less	31,025	19.6	33,124	25.1
Certificates of deposit, greater than $250,000	2,371	1.5	1,931	1.5
	$ 158,703	100.0	$ 131,755	100.0

The Company had no brokered deposits at December 31, 2016 and 2015.

At December 31, 2016, scheduled maturities of certificates of deposit are as follows (in thousands):

Year	Amount
Less than one year	$ 21,216
One to three years	12,180
Over three years	-
	$ 33,396

9. Other Borrowings

Federal Home Loan Bank

At December 31, 2016 and 2015, the Company had advances from the Federal Home Loan Bank (FHLB) in the amount of approximately $8,538,000 and $2,896,000, respectively. Advances from the FHLB are collateralized by a security agreement, which requires the borrowing bank to maintain a certain level of qualified first mortgage collateral in relation to the amount of outstanding debt. The advances bear interest at rates of 1.55% to 1.77%. At December 31, 2016 scheduled maturities are as follows (in thousands):

Year	Amount
2017	$ 541
2018	550
2019	559
2020	2,533
2021	2,300
Thereafter	2,055
	$ 8,538

At December 31, 2016, the Company has additional unused borrowing capacity with the FHLB of approximately $54,510,000.

Other

The Company had unused federal fund lines available from commercial banks of approximately $12,189,000 at December 31, 2016.

10. Income Taxes

The provision for income tax for the years ended December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Income tax expense (benefit):		
Current	$ 1,191	$ 910
Deferred	(204)	(125)
Income tax expense	$ 987	$ 785

The Company's effective tax rate is different than what would be expected if the federal statutory rate were applied to income before income tax expense primarily because of changes in the valuation allowance.

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax return purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deferred tax assets:		
Allowance for loan losses for book in excess tax	$ 676	$ 602
Organizational expenses	50	55
Stock compensation expense	66	81
Other real estate owned	14	19
Loan fees	108	55
Other	16	11
Total deferred tax assets	930	823
Deferred tax liabilities:		
Depreciation	51	46
Goodwill	126	103
Total deferred tax liabilities	177	149
Net deferred tax asset	753	674
Valuation allowance	-	(125)
Net deferred tax asset less valuation allowance	$ 753	$ 549

The Company's ability to realize the net deferred tax asset involves certain risks and uncertainties. The asset is based, in part, on estimates that are particularly sensitive to change in the near term. At December 31, 2015, management believed the above indicated valuation allowance was necessary to comply with the provisions of ASC Topic 740, *Income Taxes*. During the year ended December 31, 2016, the Company determined that it was more likely than not that all of the deferred tax asset would be realized. Accordingly, the change in the valuation allowance of $125,000 is included in the Company's deferred tax benefit for the year ended December 31, 2016.

At December 31, 2016 and 2015, the Company had an income tax receivable of approximately $71,000 and $97,000, respectively, included in other assets in the accompanying consolidated balance sheets.

11. Commitments and Contingencies

The Company is involved in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial position or results of operations of the Company.

The Company does not anticipate any material losses as a result of commitments and contingent liabilities.

12. Employee Benefits

The Company maintains a contributory 401(k) employee benefit plan (Plan) covering substantially all employees whereby the Company may contribute, 100% of the first 3% compensation contributed and 50% of an additional 2% of compensation contributed by the eligible employees. During 2016 and 2015, the Company contributed approximately $89,000 and $65,000, respectively, to the Plan.

13. Financial Instruments

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit 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.

At December 31, 2016 and 2015, the approximate amounts of these financial instruments were as follows (in thousands):

	2016	2015
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 31,772	$ 20,526
Standby letters of credit	60	88
	$ 31,832	$ 20,614

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

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

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

14. Significant Group Concentrations of Credit Risk

Most of the Company's business activity is with customers located within Texas. Such customers are normally also depositors of the Company.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial 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 become worthless.

The nature of the Company's business requires that it maintain amounts due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses from such accounts.

15. Related Party Transactions

In the ordinary course of business, the Company may have transactions, including borrowings, with its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. At December 31, 2016 and 2015, there were no significant related party transactions.

16. Fair Value Disclosures

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, *Fair Value Measurements and Disclosures,* establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the 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. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

At December 31, 2016 and 2015, the Company had no assets or liabilities recorded at fair value on a recurring basis.

Certain financial and non-financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table summarizes financial assets and non-financial assets, measured at fair value on a non-recurring basis as of December 31, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2016:				
Financial assets - impaired loans	$ -	$ -	$ -	$ -
Other real estate owned	-	168	-	168
December 31, 2015:				
Financial assets - impaired loans	$ -	$ -	$ 240	$ 240
Other real estate owned	-	384	-	384

At December 31, 2016, the Company had no impaired loans which were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral. At December 31, 2015, impaired loans with a carrying value of $240,000 with no specific valuation allowance allocations, was 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 year ended December 31, 2016, there were no acquisitions of other real estate owned. During the year ended December 31, 2015, there were acquisitions of other real estate owned of approximately $309,000. During 2016 and 2015, there were write-downs of other real estate owned of approximately $10,000 and $15,000, respectively.

Following 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.

A summary of the carrying amounts and estimated fair values of financial instruments at December 31, 2016 and 2015 is as follows (in thousands):

		Total Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
December 31, 2016:				
Financial assets:				
Cash and cash equivalents	$ 14,260	$ 14,260	$ -	$ -
Loans	169,080	-	-	169,112
Accrued interest receivable	504	504	-	-
FHLB and FRB stock	871	N/A	-	-
Financial liabilities:				
Deposits	158,703	-	-	157,099
Other borrowings	8,538	-	8,542	-
Accrued interest payable	54	54	-	-
Off-balance sheet financial instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit and financial guarantees	-	-	-	-
December 31, 2015:				
Financial assets:				
Cash and cash equivalents	$ 13,944	$ 13,944	$ -	$ -
Investments in certificates of deposit in other banks	1,559	-	1,559	-
Loans	133,419	-	-	131,295
Accrued interest receivable	380	380	-	-
FHLB and FRB stock	629	N/A	-	-
Financial liabilities:				
Deposits	131,755	-	-	131,296
Other borrowings	2,896	-	2,866	-
Accrued interest payable	39	39	-	-
Off-balance sheet financial instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit and financial guarantees	-	-	-	-

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

Cash and Cash Equivalents

The carrying amounts reported in the consolidated statement of financial condition for cash and cash equivalents approximate the fair values of those assets.

Investments in Certificate of Deposits in Other Banks

The carrying value of investments in certificate of deposits in other banks approximates the fair value due to the short term nature of those instruments.

Loans

Fair values for mortgage loans are based upon the yields for each type of mortgage when sold into the most efficient market available. Fair values for fixed-rate 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.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest approximates its fair value.

FHLB and FRB Stock

It is not practical to determine the fair value of FHLB and FRB stock due to the restrictions placed on its transferability.

Deposits and Accrued Interest Payable

Fair values for passbook, checking and money market accounts, variable rate certificates of deposit, and noninterest bearing deposits are equal to their carrying amounts. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities. The carrying amount of accrued interest approximates its fair value.

Other borrowings

Fair values for variable rate advances from the Federal Home Loan Bank are equal to their carrying amounts. Fair values for fixed rate advances are estimated using a discounted cash flow calculation that applies interest rates currently being offered for advances of similar remaining maturities.

Off-balance sheet financial instruments

Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standings.

17. Stock Options

The Company has established a non-qualified stock option plan (Option Plan) which allows for issuance of up to 130,000 shares of the Company's common stock. Under the Option Plan, options are to be granted to certain key employees of the Company. The Option Plan is administered by the Board of Directors. The stock options (options) become exercisable on a pro rata annual basis over a four-year period and expire ten years from the date of the grant. The Company granted 3,900 options of its common stock for the option price of $13.27 per share during the year ended December 31, 2016. The Company recognized a reversal of approximately $43,000 of a compensation expense during 2016. The Company recognized approximately $53,000 of compensation expense related to the granting of awards during 2015. At December 31, 2016, the Company had 56,500 options available for grant under the Option Plan.

A summary of option activity under the Option Plan as of December 31, 2016 and 2015 and changes during the years then ended are as follows:

	2016		2015	
	Option Price Per Share	Shares Under Option	Option Price Per Share	Shares Under Option
Outstanding at beginning of year	$ 10.00 - $ 12.19	73,600	$ 10.00	62,350
Granted during the year	13.27	3,900	12.19	11,250
Exercised during the year	-	-	-	-
Forefeited during the year	12.19	(4,000)	-	-
Outstanding at the end of year	$ 10.00 - $ 13.27	73,500	$ 10.00 - $ 12.19	73,600
Exercisable at end of year		64,511		62,725
Weighted average remaining contractual life		5.47		6.10

A summary of the status of the Company's nonvested shares at December 31, 2016 and 2015 and the changes during the years then ended are as follows:

	2016		2015	
	Shares	Weighted Average Grant Fair Value	Shares	Weighted Average Grant Fair Value
Nonvested at January 1	10,875	$ 2.55	2,417	$ 2.11
Granted during the year	3,900	2.02	11,250	2.57
Vested during the year	(2,619)	2.45	(2,792)	2.26
Forefeited during the year	(3,167)	2.63	-	-
Nonvested at December 31	8,989	$ 2.33	10,875	$ 2.55

Stock compensation cost is to be measured using the fair value of an award on the grant date and recognized over the service (vesting) period. The fair value of each option grant during 2016 and 2015 was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2016	2015
Dividend yield	0.00%	0.00%
Expected life	10 years	10 years
Expected volatility	5.29%	5.36% to 5.53%
Risk-free interest rate	1.46%	2.20% to 2.35%

The expected volatility is based upon historical volatility of commercially insured banks in the state of Texas. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield in effect at the date of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the dividend history of the Company.

18. Stockholders' Equity and Regulatory Matters

The Bank is 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 Bank on January 1, 2015 with full compliance with all 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, 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 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). 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.

The Bank's actual and required capital amounts and ratios at December 31, 2016 and 2015 are presented below (in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum for Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016:								
Total capital to risk weighted assets	$ 20,978	14.79%	$ 11,349	8.00%	$ 12,235	8.625%	$ 14,186	10.00%
Tier 1 (core) capital to risk weighted assets	19,203	13.54%	8,512	6.00%	9,398	6.625%	11,349	8.00%
Common Tier 1 (CET1)	19,203	13.54%	6,384	4.50%	7,270	5.125%	9,221	6.50%
Tier 1 (core) capital to average assets	19,203	10.28%	7,471	4.00%	7,471	4.000%	9,339	5.00%
December 31, 2015:								
Total capital to risk weighted assets	$ 18,392	17.17%	$ 8,568	8.00%	NA	NA	$ 10,710	10.00%
Tier 1 (core) capital to risk weighted assets	17,048	15.92%	6,426	6.00%	NA	NA	8,568	8.00%
Common Tier 1 (CET1)	17,048	15.92%	4,820	4.50%	NA	NA	6,962	6.50%
Tier 1 (core) capital to average assets	17,048	10.36%	6,583	4.00%	NA	NA	8,229	5.00%

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

On Additional Information

The Board of Directors
TXRB Holdings, Inc. and Subsidiary
Frisco, Texas

We have audited the consolidated financial statements of TXRB Holdings, Inc. and Subsidiary as of and for the year ended December 31, 2016, and have issued our report thereon dated March 15, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 34 and 35 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Payne & Smith, LLC

March 15, 2017

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

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidating Balance Sheet

December 31, 2016

(In thousands of dollars)

	TXRB Holdings, Inc.	Texas Republic Bank	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	$ 158	$ 14,260	$ (158) (1)	$ 14,260
Investment in subsidiary	20,372	-	(20,372) (2)	-
Loans, net	227	168,853	-	169,080
Bank premises and equipment, net	-	1,541	-	1,541
Other real estate owned	-	168	-	168
Core deposit intangible	-	129	-	129
Goodwill	-	1,092	-	1,092
Other assets	48	2,436	-	2,484
	$ 20,805	$ 188,479	$ (20,530)	$ 188,754
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest bearing	$ -	$ 51,869	$ (158) (1)	$ 51,711
Interest bearing	-	106,992	-	106,992
Total deposits	-	158,861	(158)	158,703
Other borrowings	-	8,538	-	8,538
Other liabilities	-	708	-	708
Commitments and contigencies	-	-	-	-
Stockholders' equity:				
Common stock	1,641	125	(125) (2)	1,641
Capital surplus	14,869	14,876	(14,876) (2)	14,869
Retained earnings	4,335	5,371	(5,371) (2)	4,335
Treasury stock	(40)	-	-	(40)
Total stockholders' equity	20,805	20,372	(20,372)	20,805
	$ 20,805	$ 188,479	$ (20,530)	$ 188,754

See description of consolidating entries on page 36 and accompanying independent auditor's report on additional information

TXRB HOLDINGS, INC. AND SUBSIDIARY

Consolidating Statement of Operations and Comprehensive Income

For the Year ended December 31, 2016

(In thousands of dollars)

	TXRB Holdings, Inc.	Texas Republic Bank	Eliminations	Consolidated
Interest income:				
Interest and fees on loans	$ 16	$ 9,728	$ -	$ 9,744
Interest on deposits in other banks	-	128	-	128
Other	-	32	-	32
Total interest income	16	9,888	-	9,904
Interest expense:				
Interest on deposits accounts	-	801	-	801
Other	-	104	-	104
Total interest expense	-	905	-	905
Net interest income	16	8,983	-	8,999
Provision for loan losses	-	208	-	208
Net interest income after provision for loan losses	16	8,775	-	8,791
Noninterest income:				
Service charges on deposit accounts	-	255	-	255
Net income from subsidiary	2,213	-	(2,213) (3)	-
Gain on sale of other real estate owned	-	39	-	39
Other	-	223	-	223
Total noninterest income	2,213	517	(2,213)	517
Noninterest expense:				
Salaries and employee benefits	1	3,740	-	3,741
Occupancy expense	-	626	-	626
Writedowns of other real estate owned	-	10	-	10
Other	6	1,667	-	1,673
Total noninterest expense	7	6,043	-	6,050
Income before income tax expense	2,222	3,249	(2,213)	3,258
Income tax (benefit) expense	(49)	1,036	-	987
Net income	2,271	2,213	(2,213)	2,271
Other comprehensive income	-	-	-	-
Total comprehensive income	$ 2,271	$ 2,213	$ (2,213)	$ 2,271

See description of consolidating entries on page 36 and accompanying independent auditor's report on additional information

TXRB HOLDINGS, INC. AND SUBSIDIARY

Description of Consolidating Entries

For the Year Ended December 31, 2016

(1) To eliminate intercompany cash and deposits.

(2) To eliminate the Company's investment account against the stockholder's equity accounts of the subsidiary.

(3) To eliminate the net income of the subsidiary.

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