FR Y-6
OMB Number 7100-0297
Approval expires September 30, 2018
Page 1 of 2

Board of Governors of the Federal Reserve System

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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 Salinas
Name of the Holding Company Director and Official

President
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/21/2017
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 504 1286
C.I.

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

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

Reporter's Name, Street, and Mailing Address

Greater State Bancshares Corp
Legal Title of Holding Company

3300 N 10th Street
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
McAllen	TX	78501

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
David Salinas	President

(956) 687-4782
Area Code / Phone Number / Extension

(956) 631-6777
Area Code / FAX Number

ds@gstbank.com
E-mail Address

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

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

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

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

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

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

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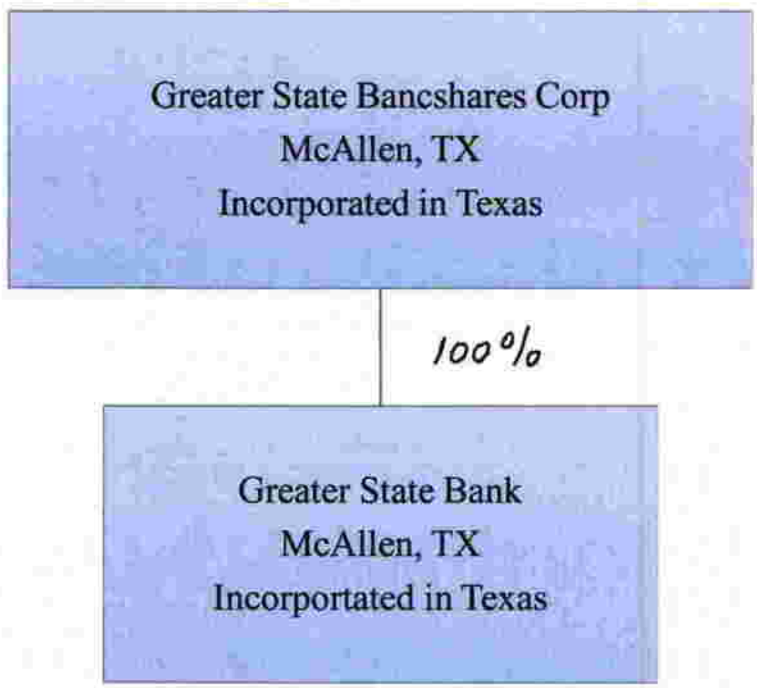
Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

Report Item

1. The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. The bank holding company will send one copy under a separate cover.

2a: Organizational Chart



2b: Domestic branch listing submitted via email on March 21, 2017.

Results: A list of branches for your holding company: GREATER STATE BANCSHARES CORP. (5041286) of MCALLEN, 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)	518877	GREATER STATE BANK	3300 NORTH 10TH STREET	MCALLEN	TX	78501	HIDALGO	UNITED STATES	44596	0	GREATER STATE BANK	518877	
OK		Full Service	4234205	FALFURRIAS BRANCH	131 EAST RICE STREET	FALFURRIAS	TX	78355	BROOKS	UNITED STATES	520567	102	GREATER STATE BANK	518877	
OK		Full Service	3637434	HEBBRONVILLE BRANCH	412 NORTH SMITH AVENUE	HEBBRONVILLE	TX	78361	JIM HOGG	UNITED STATES	285860	100	GREATER STATE BANK	518877	
OK		Full Service	4587956	WESLACO BRANCH	255 N TEXAS BLVD	WESLACO	TX	78596	HIDALGO	UNITED STATES	Not Required	Not Required	GREATER STATE BANK	518877	

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Greater State Bancshares Corp
McAllen, Texas
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 holding of 5% or more with power to vote as of fiscal year ending 12-31-2016			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(1)(a) Name, City, State, Country	**(1)(b) Country of Citizenship or Incorporation**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name, City, State, Country**	**(2)(b) Country of Citizenship or Incorporation**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
Charles T. Hornsby Premont, TX, USA	USA	28,000 - 31.19% Common Stock	**-NONE-**		
S. Foss Jones McAllen, TX USA	USA	14,132 - 15.74% Common Stock 298 - .32% Options on Common Stock			
Jones Family Trust S. Foss Jones – Trustee McAllen, TX USA	USA	1,458 - 1.62% Common Stock 298 - .32% Options on Common Stock			
Robert L. Lozano Edinburg, TX USA	USA	14,152 - 15.76% [1] Common Stock			
Edwin M. Payne Weslaco, TX USA	USA	16,419 - 18.29% Common Stock 298 - .32% Option on Common Stock			

1. Includes 6,000 shares held in the name Robert L. Lozano, 2,647 shares held in the name R & R Veloz, LTD, and 5,505 shares held in the name R & L Lozano, LTD.

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Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

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

(1) Name, City, State, Country	(2) Principal Occupation of other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include names of Subsidiaries)	(3)(c) Title & Position with Other Business (include names of other businesses)	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Charles T. Hornsby Premont, TX USA	Oil & Gas, Ranching, Investments, Real Estate	Director / Vice Chairman	Director / Vice Chairman	Partner - Dos Primos Partnership Partner - GC Hornsby Partnership, LTD Partner - Hornsby 1992 Partnership, LTD Partner - Tomasita Canales Heirs Partner - L6C, LLC	31.19%	None	50% - Dos Primos Partnership 50% - Hornsby 1992 Partnership, LTD

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Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

AMENDED AUG 01 2017

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

(1) Name, City, State, Country	(2) Principal Occupation of other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include names of Subsidiaries)	(3)(c) Title & Position with Other Business (include names of other businesses)	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
S. Foss Jones McAllen, TX USA	Rental R/E, Investments & Agricultural R/E and Cattle	Director	Director	President - Jones Office Supply President - Jones Office Equipment & Stationery President - CamaLeon Company Partner - Frank Schuster Farms, Inc.	16.06%	None	100% - Jones Office Supply 100% - Jones Office Equipment & Stationery 100% - CamaLeon Company 50% - Frank Schuster Farms, Inc.

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Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

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

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S. Foss Jones – Cont. McAllen, TX USA				Partner - 2MJ Management, LLC Partner - 2MJ Management, LTD Partner - L6C, LLC			33% - 2MJ Management, LLC 33% - 2MJ Management, LTD
Jones Family Trust McAllen, TX USA	N/A	N/A	N/A	N/A	1.94 %**	None	None

AMENDED AUG 01 2017

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Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

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

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Robert L. Lozano Edinburg, TX USA	National Fast Food Franchisee – Dairy Queens, Real Estate, Investments	Director / Chairman	Director / Chairman	President - Lynn Lee Inc. Partner - R&L Lozano LTD Partner - R&L Lozano Leasing, LTD President - Pharr DQ, LTD President - L & L Patio, Inc. Partner - R & L Lozano Operating, LTD	15.76%	None	100% - Lynn Lee Inc. 94% - R&L Lozano LTD 100% - Pharr DQ, LTD 100% - L &L Patio, Inc.

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Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

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

(1) Name, City, State, Country	(2) Principal Occupation of other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include names of Subsidiaries)	(3)(c) Title & Position with Other Business (include names of other businesses)	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Robert L. Lozano – Cont. Edinburg, TX USA				Partner - R & R Veloz, LTD Partner - FAL CO, LLC Partner - L6C, LLC			49% - R & R Veloz, LTD
Edwin M. Payne Weslaco, TX USA	Auto Dealership, Investments, Real Estate	Director	Director	See Exhibit (A)	18.61%	None	See Exhibit (A)

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Greater State Bancshares Corp
McAllen, Texas
Fiscal Year Ending December 31, 2016

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

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David Salinas McAllen, TX USA	Banker	Director / President	Director / President / CEO	Partner - Sarah Development, LTD Partner - INB Properties II Paseo, LTD	1.13%	None	None
Bill E. Talley Falfurrias, TX USA	Ranching / Real Estate	Director	Director	Partner - L6C, LLC	4.16%	None	None

****Note:** Although Jones Family Trust is not a director or officer of the holding company, information must be provided because S. Foss Jones is a trustee of the Family Trust and he is considered a "principal securities holder".

Exhibit(A)

UNAUDITED STATEMENT
FOR INTERNAL USE ONLY

EDWIN M PAYNE
PROPRIETARY INTERESTS
January 1, 2016

COMPANY NAME LOCATION	DESCRIPTION	% OWNERSHIP	FMV	
PAYNE PRE-OWNED WESLACO, TX	AUTOMOBILE DEALERSHIP	100%	750,000	
ED PAYNE MOTORS, WESLACO, TX WESLACO, TX	AUTOMOBILE	56%	1,269,822	RENVOATION IN PROGRESS
WESLACO FORD WESLACO, TX - NEW LOCATION	AUTOMOBILE DEALERSHIP	100%	1,984,179	
PAYNE MISSION VW MITSUBISHI MISSION, TX	AUTOMOBILE DEALERSHIP	100%	1,971,674	
PAYNE VOLKSWAGEN - SUZUKI BROWNSVILLE, TX	AUTOMOBILE DEALERSHIP	100%	1,407,661	RENVOATION IN PROGRESS
PAYNE RIO GRANDE CITY FORD	DEALERSHIP	100%	750,000	
PAYNE RIO CHRYSLER	DEALERSHIP	100%	500,000	
WESLACO DODGE TRUCK CENTER WESLACO, TX	FINANCE	44%	16,000	
PAYNE COLLISION CENTER WESLACO, TX	BODY SHOP	100%	75,000	
PAYNE DLR GROUP MANAGEMENT CO WESLACO, TX	MANAGEMENT	100%	150,000	
BRASADA ENERGY LLP WESLACO, TX	ENERGY	100%	1,500,000	
PAYNE-McBRIDE CATTLE CO KENEDY COUNTY, TX	CATTLE OPERATION	50%	150,000	
La MANANA FARMS WESLACO, TX	FARM OPERATIONS	50%	400,000	
ODYSSEY INVESTORS - REAL ESTATE		45%	375,000	
PAYNE CARIBBEAN LIFE, LTD	RE-INSURER	75%	2,500,000	STATUTORY BASIS
TEJAS BUILDING & DEVELOPMENT	REAL ESTATE DEV	67%	2,500,000	
PAYNE MANAGEMENT CORP	BUDGET RENT A CAR	100%	50,000	
STOCKS	INVESTMENTS	100%	950,000	
L6C, LLC	INVESTMENTS	17%		
RANCH HQ, LLC	INVESTMENTS	100%	1,000	
PAYNE RANCH LP	INVESTMENTS	6%	628,885	
COTULLA VILLAGE LLC		100%	150,000	HOTEL
PAYNE PROPERTIES LLC		100%	150,000	SUB-DIVISION - HOUSES
PAYNE PROPERTIES			150,000	
TOTALS			18,379,221	

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY

FINANCIAL STATEMENTS

December 31, 2016 (Consolidated) and 2015 (Bank-Only)

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY

FINANCIAL STATEMENTS

December 31, 2016 (Consolidated) and 2015 (Bank-Only)

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY

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GF Valdez, P.C.

A Public Accounting Firm

5430 Holly Road, Suite 1
Corpus Christi, Texas 78411
Phone 361-991-1650
Fax 361-991-1655

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of
Greater State Bancshares Corporation and Subsidiary
McAllen, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Greater State Bancshares Corporation and Subsidiary (Greater State Bank), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying financial statements of Greater State Bank (Bank-Only), which comprise the balance sheet as of December 31, 2015, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

GF Valdez, P.C.

A Public Accounting Firm

5430 Holly Road, Suite 1
Corpus Christi, Texas 78411
Phone 361-991-1650
Fax 361-991-1655

Opinion

In our opinion, the consolidated and Bank-Only financial statements referred to above present fairly, in all material respects, the financial position of Greater State Bancshares Corporation and Subsidiary as of December 31, 2016 and Greater State Bank as of December 31, 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information in Schedules 1 through 3

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as of and for the year ending December 31, 2016 as a whole. The consolidating information in schedules 1 through 3 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 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.

GF Valdez, P.C.

Corpus Christi, Texas
March 26, 2017

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
BALANCE SHEETS
December 31, 2016 and 2015

	(Consolidated) 2016	(Bank-Only) 2015
ASSETS		
Cash and cash equivalents	$ 5,378,719	$ 2,479,429
Investment securities:		
Available-for-sale	6,187,663	7,707,698
Loans, net of allowance for possible loan losses	53,675,949	51,502,158
Property and equipment, net	3,801,340	3,851,216
Other real estate owned, net	426,077	642,853
Deferred tax asset, net	304,890	272,091
Accrued interest receivable	176,384	194,794
Federal Home Loan Bank stock	67,900	67,900
Other assets	251,837	144,678
	$ 70,270,759	$ 66,862,817
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 63,212,834	$ 59,303,095
Accrued interest payable	49,285	35,682
Accrued expenses and other liabilities	57,552	87,568
Total current liabilities	63,319,671	59,426,345
Notes payable	1,000,000	-
Borrowed funds	-	2,000,000
Total liabilities	64,319,671	61,426,345
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $35 par value, 100,000 shares authorized, 89,841 and 84,994 shares issued and outstanding at December 31, 2016 and 2015, respectively	3,144,435	2,974,790
Surplus	3,183,218	3,098,090
Retained earnings	(172,955)	(496,466)
Accumulated other comprehensive income (loss), net of deferred income tax	(203,610)	(139,942)
Total stockholders' equity	5,951,088	5,436,472
	$ 70,270,759	$ 66,862,817

See accompanying notes.

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
STATEMENTS OF INCOME
For The Years Ended December 31, 2016 and 2015

	(Consolidated) 2016	(Bank-Only) 2015
INTEREST INCOME:		
Interest and fees on loans	$ 3,320,759	$ 3,203,477
Interest on investment securities	160,199	191,403
Total interest income	3,480,958	3,394,880
INTEREST EXPENSE:		
Interest on deposits	406,186	348,913
Interest on borrowed funds	5,286	3,068
Interest on notes payable	2,164	-
Total interest expense	413,636	351,981
Net interest income	3,067,322	3,042,899
Provision for possible loan losses	168,000	235,257
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN LOSSES	2,899,322	2,807,642
NON-INTEREST INCOME:		
Service fees on deposit accounts	270,543	288,415
Net gain on sales of securities available-for-sale	44,154	-
Net gain (loss) on sales of other real estate owned	1,564	(9,292)
Net loss on sales of repossessed assets	(3,000)	(69,779)
Other operating income	155,340	119,721
Total non-interest income	468,601	329,065
NON-INTEREST EXPENSE:		
Salaries and employee benefits	1,620,382	1,833,976
Occupancy expense	490,671	562,119
Market value write-downs on other real estate owned	-	154,168
Market value write-downs on repossessed assets	-	6,917
Other operating expenses	996,930	1,058,565
Total non-interest expense	3,107,983	3,615,745
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	259,940	(479,038)
FEDERAL INCOME TAXES		
Federal income tax credit	-	5,190
NET INCOME (LOSS)	$ 259,940	$ (473,848)

See accompanying notes.

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
STATEMENTS OF COMPREHENSIVE INCOME
For The Years Ended December 31, 2016 and 2015

	(Consolidated) 2016	(Bank-Only) 2015
NET INCOME (LOSS)	$ 259,940	$ (473,848)
Changes in net unrealized loss on securities available-for-sale, net of income taxes of $0 in 2016 and 2015	(63,667)	51,879
Reclassification adjustment for gains (losses) realized, on sales of securities available-for-sale, net of income taxes of $0 in 2016 and 2015	-	-
Total unrealized (loss) gain on securities available-for-sale	(63,667)	51,879
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 196,273	$ (421,969)

See accompanying notes.

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For The Years Ended December 31, 2016 (Consolidated) and 2015 (Bank-Only)

	Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2015	$ 2,950,115	$ 3,072,556	$ (22,618)	$ (191,822)	$ 5,808,231
Comprehensive income:					
Net loss	-	-	(473,848)	-	(473,848)
Other comprehensive income (loss): Net change in unrealized loss on available-for-sale securities, net of deferred income tax	-	-	-	51,879	51,879
Total comprehensive income (loss)	-	-	-	-	(421,969)
Issuance of common stock	24,675	25,535	-	-	50,210
Balance at December 31, 2015 (Bank-Only)	2,974,790	3,098,091	(496,466)	(139,943)	5,436,472
Comprehensive income:					
Net income	-	-	259,940	-	259,940
Other comprehensive income (loss): Net change in unrealized loss on available-for-sale securities, net of deferred income tax	-	-	-	(63,667)	(63,667)
Total comprehensive income (loss)	-	-	-	-	196,273
Consolidating entry	-	(63,571)	63,571	-	-
Issuance of common stock	169,645	148,698	-	-	318,343
Balance at December 31, 2016 (Consolidated)	$ 3,144,435	$ 3,183,218	$ (172,955)	$ (203,610)	$ 5,951,088

See accompanying notes.

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2016 and 2015

	(Consolidated) 2016	(Bank-Only) 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 259,940	$ (473,848)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	239,786	242,951
Discount accretion and premium amortization on investment securities, net	19,222	27,165
Provision for possible loan losses	168,000	235,257
Provision for writedowns on other real estate owned	-	154,168
Provision for writedowns on repossessed assets	-	6,917
Gain on sales of securities available-for-sale	(44,154)	-
(Gain) loss on sales of other real estate owned	(1,564)	9,292
Loss on sales of repossessed assets	3,000	52,593
Loss on disposal of automobile	-	17,186
(Increase) decrease in:		
Accrued interest receivable	18,410	2,207
Other assets	(60,380)	(21,771)
Decrease (increase) in:		
Accrued interest payable	13,603	5,175
Accrued expenses and other liabilities	(30,016)	45,347
Net cash provided by operating activities	585,847	302,639
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal payments of securities available-for-sale	392,412	409,708
Proceeds from sales of securities available-for-sale	4,156,089	-
Purchases of securities available-for-sale	(5,100,000)	-
Proceeds from maturities/calls of securities available-for-sale	2,000,000	-
Proceeds from sales of other real estate owned	236,175	395,759
Proceeds from sales of repossessed assets	12,000	62,500
Net increase in loans	(2,421,405)	(7,379,429)
Purchase of property and equipment	(189,910)	(51,456)
Net cash used in investing activities	(914,639)	(6,562,918)

(Continued)

See accompanying notes.

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2016 and 2015

(Continued)

	(Consolidated) 2016	(Bank-Only) 2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in non-interest-bearing deposits	$ (666,364)	$ (241,348)
(Decrease) increase in interest-bearing deposits	(1,831,572)	1,514,873
Decrease in savings deposits	(80,320)	(319,086)
Increase in certificates of deposits	6,487,995	1,774,595
Proceeds from issuance of common stock	318,343	50,210
Proceeds from issuance of notes payable	1,000,000	-
Payments on borrowed funds	(2,000,000)	-
Proceeds from borrowed funds	-	2,000,000
Net cash provided by financing activities	3,228,082	4,779,244
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,899,290	(1,481,035)
Cash and cash equivalents at beginning of year	2,479,429	3,960,464
Cash and cash equivalents at end of year	$ 5,378,719	$ 2,479,429

	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 400,033	$ 343,738
Non-monetary transactions:		
Change in net unrealized loss on securities available-for-sale, net of deferred income tax	$ (63,667)	$ 51,879
Other real estate owned acquired in satisfaction of loans	17,835	846,773
Repossessed assets acquired in satisfaction of loans	61,779	105,010

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting practices of Greater State Bancshares Corporation. (Bancshares) and its wholly-owned subsidiary, Greater State Bank (the Bank), conform to generally accepted accounting principles in the United States and to general practice within the banking industry. The following is a description of the more significant policies.

Principles of Consolidation

The consolidated financial statements as of and for the year ending December 31, 2016, include the accounts of Greater State Bancshares Corporation and its wholly-owned subsidiary, Greater State Bank. Significant inter-company transactions and balances have been eliminated in consolidation.

Organization and Nature of Operations

Greater State Bank (formerly Greater South Texas Bank) was incorporated in May 1974 as a State Savings and Loan Bank. In September 2004, the Bank applied and was granted permission to become a state chartered bank. The Bank provides an array of products and services to the consumer and commercial banking markets primarily in South Texas and the Rio Grande Valley and operates under a state bank charter. As a state bank, the Bank is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation.

On December 13, 2016, a Certificate of Merger was granted to Greater State Bank's parent company, Greater State Bancshares Corporation, to obtain all assets, obligations, and liabilities of Greater State Bank. At the date of merger, each owner of common stock shares of Greater State Bank was to receive an equal number of common shares of Bancshares stock, the parent company.

Certain one-time costs incurred by Greater State Bancshares Corporation in relation to its formation and merger with Greater State Bank and the formation of the Greater State Banchares Corporation Employee Stock Ownership Plan amounted to $142,951 during 2016. (See Schedule 2 – Consolidating Statement of Income, page 40).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate and repossessed assets acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant properties and repossessed assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

While management uses available information to recognize losses on loans, foreclosed real estate and repossessed assets, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change cannot be estimated.

Presentation of Cash Flows
For the purposes of reporting cash flows, "cash and cash equivalents" include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Investment Securities
Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third-party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income, which is reported as a separate component of stockholder's equity, net of the related deferred tax effect.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the statements of income.

Gains or losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred, include, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Bank does not intend to sell these securities, and (iv) it is more likely than not that the Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Stock

Restricted stock is stock purchased from the Federal Home Loan Bank of Dallas which is restricted as to its marketability. Because no ready market exists for this investment and it does not have a quoted market value, the Bank's investment in this stock is carried at cost.

Loans

Loans are stated at unpaid principal balances, less allowance for possible loan losses. Loan origination fees are deferred and recognized over the life of the loan as an adjustment of yield using the interest method.

In most cases, the accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impairment is measured on a loan-by-loan basis for loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Loans are placed into a non-accruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt "is well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Real Estate Owned and Repossessed Assets

Real estate properties and repossessed assets acquired through or in lieu of a loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property of the asset are expensed. Valuations are periodically performed by independent appraisers or management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property or repossessed asset to the lower of its cost or fair value less cost to sell.

Bank Premises and Equipment

Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Buildings and improvements	5-50 years
Furniture and equipment	3-10 years
Leasehold improvements	5-15 years

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of federal and state taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, accumulated depreciation on property and equipment, and net operating loss carryforwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Income tax returns for the years ending 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they are filed.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising
Advertising costs are expensed as incurred. Advertising expense amounted to $13,629 and $11,062 for the years ending December 31, 2016 and 2015, respectively.

Reclassification
Certain reclassifications, none affecting net income, have been made to the prior year amounts to conform to the current year presentation.

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

Significant Group Concentrations of Credit Risk
Most of the Bank's activities are with customers located within the South Texas Region. Note 3 identifies the types of securities the Bank invests in and Note 4 identifies the types of lending it engages in. The Bank does not have any significant concentrations to any one industry or customer.

Adoption of New Financial Accounting Standards
The Financial Accounting Standards Board (the "FASB") issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. This update will be effective for interim and annual periods beginning after December 15, 2015, and is to be applied retrospectively. The guidance is not expected to have a material impact on these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Financial Accounting Standards (continued)
ASU 2015-16, Business Combinations (Topic 805)—Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 requires that adjustments to provisional amounts that are identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the statement of income effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date. The amendments under this guidance require an entity to present separately on the face of the statement of income or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Under previous guidance, adjustments to provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 will be effective for annual periods beginning after December 15, 2016, and interim periods beginning after December 15, 2017, and is to be applied prospectively to adjustments to provisional amounts that occur after the effective date. The guidance is not expected to have a material impact on these financial statements.

Recent Accounting Pronouncements
Accounting standards that have been issued or proposed by the Financial Accounting Standards Board (FASB) and other standard setting entities that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

Subsequent Events
Management of Greater State Bancshares Corporation and Greater State Bank have evaluated subsequent events for disclosure through March 26, 2017, the date the consolidated and Bank-Only financial statements were available to be issued, and conclude there were no events or transactions occurring during this period that require recognition or disclosure in the consolidated and Bank-Only financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, are summarized as follows:

	2016	2015
Cash and due from banks	$ 5,378,719	$ 2,479,429
Federal funds sold	--	--
Total cash and cash equivalents	$ 5,378,719	$ 2,479,429

The Bank is not required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank.

NOTE 3 – INVESTMENT SECURITIES

Investments in the balance sheets have been classified according to management's intent. The amortized cost of securities and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
Available-for-sale				
U.S. government agencies	$ 5,100,000	$ --	$ 252,120	$ 4,847,880
Mortgage-backed securities	1,396,162	--	56,379	1,339,783
Total investment securities	$ 6,496,162	$ --	$ 308,499	$ 6,187,663
December 31, 2015				
Available-for-sale				
U.S. government agencies	$ 4,638,443	$ 5,760	$ 133,254	$ 4,510,949
Mortgage-backed securities	3,281,288	--	84,539	3,196,749
Total investment securities	$ 7,919,731	$ 5,760	$ 217,793	$ 7,707,698

Investment securities with carrying values of $1,255,352 and $6,085,011 as of December 31, 2016 and 2015, respectively, were pledged as collateral for public deposits and for other purposes as required by law. Realized gains of $44,154 on sales of investment securities were recorded in 2016. There were no sales of investment securities in 2015.

NOTE 3 – INVESTMENT SECURITIES (continued)

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

	Available-for-sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ --	$ --
Due after one year through five years	--	--
Due after five years through ten years	4,100,000	3,917,880
Due after ten years	1,000,000	930,000
	5,100,000	4,847,880
Mortgage-backed securities	1,396,162	1,339,783
	$ 6,496,162	$ 6,187,663

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

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016						
Available-for-sale						
Mortgage-backed securities	$ 1,255	$ 56	$ 85	$ --	$ 1,340	$ 56
U.S. government agencies	4,848	252	--	--	4,848	252
Total	$ 6,103	$ 308	$ 85	$ --	$ 6,188	$ 308

NOTE 3 – INVESTMENT SECURITIES (continued)

Management evaluates securities for impairment at least on a quarterly basis, and more frequently, when economic or market concerns warrant such evaluation. Consideration is given to several factors, including, the length of time and the extent to which the fair value has been less than the cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

All of the investments held by the Bank are guaranteed by either the U.S. Government or its agencies. These unrealized losses relate principally to current interest rates for similar securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or municipalities, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

Loans at December 31 are classified as follows:

	2016	2015
Real Estate	$ 41,444,803	$ 39,159,854
Commercial	11,116,957	11,047,148
Consumer	1,663,704	1,794,768
Other	6,648	17,896
	54,232,112	52,019,666
Less: Allowance for possible loan losses	(556,163)	(517,508)
	$ 53,675,949	$ 51,502,158

An analysis of the allowance for possible loan losses is as follows:

	2016	2015
Balance, beginning of year	$ 517,508	$ 318,849
Provision for loan losses	168,000	235,257
Loans fully or partially charged off	(131,976)	(57,786)
Recoveries on loans previously charged off	2,631	21,188
Balance, end of year	$ 556,163	$ 517,508

NOTE 4 - LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

At December 31, 2016 and 2015, the total recorded investment in impaired loans, all of which had allowances determined in accordance with U.S. generally accepted accounting principles, amounted to $555,528 and $1,114,413 respectively. The allowance for loan losses related to these impaired loans amounted to $0 and $95,785 at December 31, 2016 and 2015, respectively.

Loans on non-accrual status were $432,040 and $635,602 at December 31, 2016 and 2015, respectively. There was no interest income recognized on nonaccrual loans on a cash basis for the years ending December 31, 2016 and 2015. There were no loans past due more than 90 days and still accruing interest income at December 31, 2016 and 2015. The amount of restructured loans at December 31, 2016 and 2015 were $249,128 and $161,779, respectively. The Bank has no commitments to loan additional funds to borrowers whose loans were classified as impaired.

Reflected in the portions of the allowance previously described is an amount for imprecision that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. The amount is the result of management's judgment of risks inherent in the portfolios, economic uncertainty, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

Loans by Segment
The total allowance reflects management's estimate of loan losses in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $556,163 and $517,508 adequate to cover loan losses inherent in the loan portfolio at December 31, 2016 and 2015, respectively. The following tables present by portfolio segment, the recorded investment in loans and the changes in the allowance.

Investment in loans 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Ending balance: individually evaluated for impairment	$ --	$ 344	$ 161	$ 50	$ 555
Ending balance: collectively evaluated for impairment	3,152	10,232	10,956	29,337	53,677
Ending Balance:	$ 3,152	$ 10,576	$ 11,117	$ 29,387	$54,232

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

Investment in loans 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Ending balance: individually evaluated for impairment	$ 11	$ 296	$ 162	$ 645	$1,114
Ending balance: collectively evaluated for impairment	3,162	10,083	10,885	26,776	50,906
Ending Balance:	$ 3,173	$ 10,379	$ 11,407	$ 27,421	$52,020

Allowance for loan losses 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Unallocated	Total
Beg. balance:	$ 10	$ 60	$ 216	$ 178	$ 53	$ 517
Charge-offs	(32)	--	(100)	--	--	(132)
Recoveries	2	--	--	1	--	3
Provision	50	--	100	--	18	168
Ending Balance	$ 30	$ 60	$ 216	$ 179	$ 71	$ 556
End. balance: individually evaluated for impairment	$ --	$ --	$ --	$ --	$ --	$ --
End. balance collectively evaluated for impairment	$ 30	$ 60	$ 216	$ 179	$ 71	$ 556

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

Allowance for loan losses 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Unallocated	Total
Beg. balance:	$ 3	$ 60	$ 129	$ 127	$ --	$ 319
Charge-offs	(30)	--	(28)	--	--	(58)
Recoveries	5	--	15	1	--	21
Provision	32	--	100	50	53	235
Ending Balance	$ 10	$ 60	$ 216	$ 178	$ 53	$ 517
End. balance: individually evaluated for impairment	$ --	$ --	$ 96	$ --	$ --	$ 96
End. balance collectively evaluated for impairment	$ 10	$ 60	$ 120	$ 178	$ 53	$ 421

Credit Quality Indicators
The following tables represent credit exposures by creditworthiness category for the years ended December 31, 2016 and 2015. The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of credit risk. The Bank's creditworthiness grading system is based on their experience with similarly graded loans. Category ratings are reviewed each quarter, at which time the Bank's management analyzes the grade, as well as other external statistics and factors, to track the migration of loan performance. Loans that trend upward toward higher levels generally have a lower risk grade associated; whereas, loans that migrate toward lower ratings generally will result in a higher risk factor(s) being applied to those related balances.

Grade definition
Pass Loans – Loans that meet all criteria identified by the Bank as having sound worth and paying capacity (the ability to repay all principal and interest as described in the loan agreement).

Special Mention Loans – Loans that meet most of the criteria identified by the Bank as having sound paying capacity. The Bank has some knowledge that may hamper the borrower's ability to pay the full amount of principal and interest as defined in the loan agreement.

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

Substandard Loans – Loans that are inadequately protected by the current sound worth and paying capacity of the loan customer or the collateral pledged, if any. Substandard loans have well-defined weaknesses that jeopardize the repayment of the debt. Substandard loans are characterized by the possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Loans – Loans that have all of the weaknesses inherent in a substandard loan 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.

Loss Loans – Loans that are considered uncollectible and of such little value that continuance as a bankable asset is not warranted.

Credit Quality Indicators – Loan Balances 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Pass	$ 3,152	$ 10,115	$ 10,898	$ 29,337	$53,502
Special Mention	--	117	58	--	175
Substandard	--	344	161	50	555
Doubtful	--	--	--	--	--
Loss	--	--	--	--	--
Total	$ 3,152	$ 10,576	$ 11,117	$ 29,387	$54,232

Credit Quality Indicators – Loan Balances 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Pass	$ 3,162	$ 9,944	$ 10,885	$ 26,776	$50,767
Special Mention	--	139	--	--	139
Substandard	11	296	162	645	1,114
Doubtful	--	--	--	--	--
Loss	--	--	--	--	--
Total	$ 3,173	$ 10,379	$ 11,047	$ 27,421	$52,020

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

Age Analysis of Past Due Loans by Segment

The following are tables which includes an aging analysis of the recorded investment of past due loans as of December 31, 2016 and 2015. Included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (a) well-secured and in the process of collection or (b) real estate loans or loans exempt from being classified as non-accrual under regulatory rules.

Past Due Loans by Segment 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
30-59 days past due	$ 180	$ 123	$ --	$ 51	$ 354
60-89 days past due	--	--	--	--	--
> 90 days past due	--	--	--	--	--
Total loans past due	180	123	--	51	354
Current loans	2,972	10,453	11,117	29,336	53,878
Total Loans	$ 3,152	$ 10,576	$ 11,117	$ 29,387	$54,232
90 days past due and still accruing	$ --	$ --	$ --	$ --	$ --

Past Due Loans by Segment 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
30-59 days past due	$ 3	$ 65	$ 233	$ --	$ 301
60-89 days past due	--	11	--	--	11
> 90 days past due	11	150	162	42	365
Total loans past due	14	226	395	42	677
Current loans	3,159	10,153	10,652	27,379	51,343
Total Loans	$ 3,173	$ 10,379	$ 11,047	$ 27,421	$52,020
90 days past due and still accruing	$ --	$ --	$ --	$ --	$ --

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

Impaired Loans

The Bank considers a loan to be impaired when, based on current information and events, it determines that it will not collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is based on the Bank's specific criteria set by management and reviewed on a quarterly basis. In most cases, the Bank measures impairment based on the value of the loan's collateral. In these cases, the Bank uses the current fair value of the collateral, less estimated selling costs when foreclosure is probable. Management's judgment regarding the discounting of appraised values of the collateral are also considered.

Impaired Loans 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Unpaid principal balance	$ --	$ 344	$ 161	$ 50	$ 555
Related allowance	--	--	--	--	--
Interest income recognized	--	--	--	--	--

Impaired Loans 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Unpaid principal balance	$ 11	$ 296	$ 162	$ 645	$ 1,114
Related allowance	--	--	96	--	96
Interest income recognized	--	--	--	--	--

Non-Accrual Loans

The Bank generally places loans on non-accrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loans reach a certain number of days past due.

Generally, consumer loans are charged off or charged down to the net realizable value of the collateral when deemed uncollectible, due to bankruptcy or other factors, or when they reach a defined number of days past due and other factors.

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

When the Bank places a loan on non-accrual status, the Bank reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, the Bank returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The following tables presents the financing receivables on non-accrual status as of December 31, 2016 and 2015. The balances are presented by class of financing receivable.

Non-Accrual Loans 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Non-accrual loans	$ --	$ 381	$ --	$ 51	$ 432

Non-Accrual Loans 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Non-accrual loans	$ 11	$ 414	$ 162	$ 49	$ 636

Trouble-debt Restructures (TDR)
The following tables present non-performing loans based on payment activity for the year ended December 31, 2016 and 2015. Payment activity is reviewed by management on a quarterly basis to determine how loans are performing. Generally, loans are considered to be non-performing when day's delinquent is greater than 90 days in the previous quarter.

Non-performing loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as non-performing at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. Management believes the likelihood of loss for non-performing loans is increased for the current period due to the continued weak economy and the growth of performing loans transferred to non-performing status upon modification in a TDR.

NOTE 4 – LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (continued)

Trouble-debt Restructures 2016
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Number of contracts	--	2	2	1	5
Pre-modification recorded investment	$ --	$ 254	$ 117	$ --	$ 426
Post-modification recorded investment	$ --	$ 180	$ 22	$ --	$ 248

Trouble-debt Restructures 2015
(dollars in thousands)

	Consumer	1-4 Real Estate	Commercial	Commercial Real Estate	Total
Number of contracts	--	--	1	--	1
Pre-modification recorded investment	$ --	$ --	$ 525	$ --	$ 525
Post-modification recorded investment	$ --	$ --	$ 162	$ --	$ 162

The Bank has no commitments to loan additional funds to borrowers whose loan terms have been modified in a trouble-debt restructuring.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 are summarized as follows:

	2016	2015
Building and improvements	$ 3,368,561	$ 3,322,070
Equipment, furniture and fixtures	1,492,439	1,403,895
Land	1,123,931	1,123,931
Autos	83,053	28,179
	6,067,984	5,878,075
Less accumulated depreciation	(2,266,644)	(2,026,859)
	$ 3,801,340	$ 3,851,216

Depreciation expense included in the statements of income amounted to $239,786 and $242,951 for the years ending December 31, 2016 and 2015, respectively.

NOTE 6 – DEPOSITS

Deposits at December 31 are summarized as follows:

	2016	2015
Non-interest-bearing	$ 9,177,902	$ 9,844,266
Interest-bearing	12,485,260	14,316,832
Savings	5,210,107	5,290,427
Certificates of deposit over $100,000	26,560,365	21,229,122
Other certificates of deposit	9,779,200	8,622,448
Total deposits	$ 63,212,834	$ 59,303,095

NOTE 6 – DEPOSITS (continued)

Certificates of deposit maturing in years ending December 31 are as follows:

Year	
2017	$ 25,583,384
2018	5,407,245
2019	4,580,568
2020	151,326
2021	617,042
	$ 36,339,565

Certificates of deposit and other time deposits issued in denominations that meet or exceed the FDIC limit of $250,000 or more totaled $10,767,933 at December 31, 2016.

NOTE 7 – RESTRICTIONS ON DIVIDENDS

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval.

NOTE 8 – NOTES PAYABLE

In connection with reorganizing the Bank into a holding company structure, subordinated promissory notes of Greater State Bancshares Corporation were issued on December 13, 2016. Up to $2,000,000 in aggregate principle amount of subordinated promissory notes, in the form of Series A notes ($1,000,000) and Series B notes ($1,000,000) were to be offered in December 2016. If any of the $2,000,000 offering amount remains unsubscribed for after round one, the remainder were to be offered during a second round, expected to commence in the first or second quarter of 2017.

Series A notes accrue interest at a fixed rate equal to 4.0% per annum. Series B notes accrue interest at a fixed rate equal to 4.25% per annum. The noted are unsecured and rank senior to Greater State Bancshares Corporation's common stock and any other class or classes of capital stock of Greater State Bancshares Corporation. The notes are subordinated to any senior indebtedness that Greater State Bancshares Corporation incurs.

NOTE 8 – NOTES PAYABLE (continued)

Investors are granted a warrant for each $100,000 note purchased. Each warrant entitles the holder to purchase up to $10,000 of common stock at a per share price equal to the book value per share of Bancshares common stock as of the last day of the month immediately preceding the month in which the warrant is exercised. Warrants not exercised on or before the end of the calendar quarter immediately following the maturity date of the corresponding note automatically expire.

Notes payable issued by Greater State Bancshares Corporation at December 31, 2016, consisted of the following:

	2016
Series A 4.00% Subordinated Promissory Notes due December 13, 2018	$ 600,000
Series B 4.25% Subordinated Promissory Notes due December 13, 2019	400,000
	$ 1,000,000

NOTE 9 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank extends credit to officers, directors, principal stockholders, and affiliated entities, (related parties) to meet their business and personal requirements. These loans are made on terms and conditions comparable to other loans. Loans to related parties totaled $1,617,082 and $1,081,720 as of December 31, 2016 and 2015, respectively. Advances made to such related parties amounted to $148,000 and $1,126,551 for the years ended December 31, 2016 and 2015, respectively. Payments amounted to $52,752 and $1,081,531 and for the years ended December 31, 2016 and 2015, respectively.

Related party deposits at December 31, 2016 and 2015 amounted to $10,324,999 and $8,798,450, respectively.

NOTE 10 – FEDERAL FUNDS PURCHASED

The Bank renewed its federal funds line of credit agreement with Frost Bank, San Antonio, Texas on August 13, 2016 for $1,250,000. The line carries a variable interest rate. Investment securities are used to collateralize the line of credit. No federal funds were purchased at December 31, 2016 or December 31, 2015.

NOTE 11 – REPURCHASE AGREEMENT

The Bank entered into a Global Master Repurchase Agreement (repurchase agreement) with Frost Bank, San Antonio, Texas on February 26, 2010 whereby the Bank could borrow funds on a short-term basis. The Bank did not have funds borrowed under this agreement at December 31, 2016. At December 31, 2015, the Bank borrowed funds in the amount of $2,000,000 under this agreement.

NOTE 12 – FEDERAL INCOME TAXES

There is no provision for Federal income tax expense for the years ended December 31, 2016 and 2015. The following is a reconciliation between the reported income tax and the amount computed by multiplying the income before income tax by the federal statutory rate:

	2016	2015
Tax provision at the statutory rate	$ --	$ --
Deferred Federal income tax credit	--	--
	$ --	$ --

The tax effect of each type of significant item that gave rise to deferred income taxes follows:

	2016	2015
Net operating losses	$ 256,047	$ 316,336
Devaluation of other real estate owned and other repossessed assets	45,035	54,769
Depreciation on property and equipment	(7,833)	(24,588)
Unrealized loss on investment securities	104,890	72,091
Contributions	14,560	12,260
Allowance for possible loan losses	32,346	19,203
Valuation allowance	(140,155)	(177,980)
Deferred Federal income tax asset, net	$ 304,890	$ 272,091

NOTE 12 – FEDERAL INCOME TAXES (continued)

For Federal income tax purposes, the Bank has an estimated net operating loss carryforward of $753,078 at December 31, 2016. The losses will expire as follows:

Year	
2024	$ 134,486
2029	56,010
2030	225,838
2031	42,548
2033	129,754
2034	132,178
2035	32,264
	$ 753,078

NOTE 13 – OTHER OPERATING EXPENSES

Other operating expenses at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Data processing	$ 189,397	$ 332,011
Legal and consulting	159,473	86,216
Telephone	85,043	84,518
Audit and accounting	47,000	90,000
Directors fees	45,450	59,200
FDIC assessment	57,088	56,202
Office supplies	35,210	37,161
Expenses associated with other real estate owned	21,367	45,474
Debit card expenses	54,899	38,953
Other	302,003	228,830
	$ 996,930	$ 1,058,565

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has entered into various long-term agreements for certain data processing and software products and services. The data processing contract provides for monthly payments and additional charges based on volume. Total computer processing expense amounted to approximately $189,397 and $332,011 for the years ended December 31, 2016 and 2015, respectively.

NOTE 15 – LEASES

The Bank leases certain office equipment under operating leases with different terms. Total expense under these operating leases was approximately $62,000 and $63,000 for the years ended December 31, 2016 and 2015, respectively.

Approximate minimum annual rentals under these lease agreements for the years ending December 31 are as follows:

Year		
2017	$	45,000
2018		28,000
2019		17,000
2020		16,000
Thereafter		4,000
	$	110,000

NOTE 16 – CONTINGENCIES

The Bank is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Bank.

NOTE 17 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitment to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet. Commitments to extend credit and letters of credit totaled $1,647,587 and $2,621,986 at December 31, 2016 and 2015, respectively.

NOTE 17 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

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

Standby letters of credit are conditional commitments issued by the Bank 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 Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

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

NOTE 18 – EMPLOYEE STOCK OWNERSHIP PLAN

On October 20, 2016, Greater State Bancshares Corporation adopted an Employee Stock Ownership Plan (ESOP). The ESOP, with an effective date of January 1, 2016, was established to provide eligible employees of Bancshares and its subsidiary bank, Greater State Bank, with an opportunity to accumulate capital for their future economic security by acquiring stock ownership in Bancshares.

Greater State Bancshares ESOP owned 285 shares of Greater State Bancshares Corporation at December 31, 2016, which constitutes .32% of the outstanding shares of Bancshares. The Bank's contribution to the ESOP will be determined annually by the Board.

The Plan Administrator/trustees, approve the granting of options to eligible persons and the setting of vesting schedules. The options expire either: three months after termination of employment; twelve months after death; or no longer than ten years after the date of grant. Stock options are granted with an exercise price equal to the stock's market value at the date of grant.

NOTE 19 – REGULATORY CAPITAL

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

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

On December 31, 2012, the FDIC and Texas Department of Banking (TDOB) jointly issued a Board Resolution (Resolution) to the Bank advising the Bank's Directorate and management to set specific goals and timeframes to address certain criticisms noted in their examination report, dated October 29, 2012, conducted as of September 30, 2012. The Resolution shall remain in effect until such time as the FDIC and TDOB release the Bank from these goals. The goals include the reduction of classified assets and delinquent loans, capital ratios maintenance, restriction of dividends and bonuses, submission of a strategic plan, a budget, audit program and compliance committee objectives, submission of progress reports, and implementation of procedures to prevent future banking violations. Specific capital ratios the Bank is required to keep include Tier1 Leverage capital of 8%, Tier 1 risk-base capital of 11% and Total risk-base capital of 12%.

As of September 30, 2016, the most recent examination from the Texas Department of Banking, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

NOTE 19 – REGULATORY CAPITAL (continued)

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

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total risk-based capital (to risk-weighted assets)	$ 7,406	15.2%	$ 3,912	≥8.0%	$ 4,890	≥10.0%
Tier 1 capital (to risk-weighted assets)	6,849	14.0%	1,956	≥4.0%	2,934	≥6.0%
Tier 1 capital (to average total assets)	6,849	10.0%	2,733	≥4.0%	3,416	≥5.0%
As of December 31, 2015						
Total risk-based capital (to risk-weighted assets)	$ 6,049	12.2%	$ 3,976	≥8.0%	$ 4,970	≥10.0%
Tier 1 capital (to risk-weighted assets)	5,531	11.1%	1,988	≥4.0%	2,982	≥6.0%
Tier 1 capital (to average total assets)	5,531	8.3%	2,680	≥4.0%	3,350	≥5.0%

NOTE 20 – FAIR VALUE MEASUREMENTS

The Bank follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. The guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognized a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

NOTE 20 – FAIR VALUE MEASUREMENTS (continued)

FASB ASU 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described below.

- Level 1 Inputs – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 Inputs – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.

- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Bank'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.

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

NOTE 20 – FAIR VALUE MEASUREMENTS (continued)

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

Impaired loans – A loan is considered impaired when it is determined that it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the agreement. Once a loan is identified as individually impaired, management measures for impairment using the practical expedients permitted by applicable authoritative accounting guidance, at the fair value of the loan's collateral, if the loan is collateral dependent. If a loan is determined to be collateral dependent, the fair value of the collateral is determined by independent appraisals or valuations, either externally or internally generated, adjusted for costs related to the liquidation of the collateral and are classified as Level 3.

Other Real Estate Owned – Real estate properties acquired through or in lieu of a loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed. Valuations are periodically performed by management or independent appraisers, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. The fair values of the properties are classified as Level 3.

NOTE 20 – FAIR VALUE MEASUREMENTS (continued)

Fair values of assets and liabilities measured on a recurring and non-recurring basis, segregated by the level of the valuation within the fair value hierarchy utilized to measure fair value at December 31, 2016 and 2015 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Available-for-sale securities	$ 6,187,663	$ --	$ 6,187,663	$ --
Impaired loans	555,528	--	--	555,528
Other real estate owned	426,077	--	--	426,077
December 31, 2015				
Available-for-sale securities	$ 7,707,698	$ --	$ 7,707,698	$ --
Impaired loans	1,114,413	--	--	1,114,413
Other real estate owned	642,853	--	--	642,853

During the years ended December 31, 2016 and 2015, the Bank had certain impaired loans which were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses upon the fair value of the underlying collateral.

The Bank has no non-financial assets and non-financial liabilities measured at fair value on a recurring or non-recurring basis.

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2016

	Greater State Bank	Greater State Bancshares Corp.	Greater State Bank and Greater State Bancshares Corp.	Consolidating Entries	Consolidated Greater State Bancshares Corp.
ASSETS					
Cash and cash equivalents	$ 5,378,719	$ 123,040	$ 5,501,759	$ (123,040)	$ 5,378,719
Investment securities:					
Available-for-sale	6,187,663	-	6,187,663	-	6,187,663
Loans, net of allowance for possible loan losses	53,675,949	-	53,675,949	-	53,675,949
Property and equipment, net	3,801,340	-	3,801,340	-	3,801,340
Other real estate owned, net	426,077	-	426,077	-	426,077
Accrued interest receivable	176,384	-	176,384	-	176,384
Deferred tax asset, net	304,890	-	304,890	-	304,890
Federal Home Loan Bank stock	67,900	-	67,900	-	67,900
Other assets	251,837	-	251,837	-	251,837
Investment in Greater State Bank	-	6,846,203	6,846,203	(6,846,203)	-
	$ 70,270,759	$ 6,969,243	$ 77,240,002	$ (6,969,243)	$ 70,270,759
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Deposits	$ 63,335,874	$ -	$ 63,335,874	$ (123,040)	$ 63,212,834
Accrued interest payable	47,121	2,164	49,285	-	49,285
Accrued expenses and other liabilities	41,561	15,991	57,552	-	57,552
Total current liabilities	63,424,556	18,155	63,442,711	(123,040)	63,319,671
Notes payable	-	1,000,000	1,000,000	-	1,000,000
Total liabilities	63,424,556	1,018,155	64,442,711	(123,040)	64,319,671
Stockholders' equity:					
Common stock	3,144,435	3,144,435	6,288,870	(3,144,435)	3,144,435
Surplus	3,996,789	3,183,218	7,180,007	(3,996,789)	3,183,218
Accumulated other comprehensive income (loss)	(203,610)	(203,610)	(407,220)	203,610	(203,610)
Retained earnings	(91,411)	(172,955)	(264,366)	91,411	(172,955)
Total stockholders' equity	6,846,203	5,951,088	12,797,291	(6,846,203)	5,951,088
	$ 70,270,759	$ 6,969,243	$ 77,240,002	$ (6,969,243)	$ 70,270,759

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
December 31, 2016

	Greater State Bank	Greater State Bancshares Corp.	Greater State Bank and Greater State Bancshares Corp.	Consolidating Entries	Consolidated Greater State Bancshares Corp.
OPERATING INCOME					
Loan income	$ 3,320,759	$ -	$ 3,320,759	$ -	$ 3,320,759
Investment income	160,199	-	160,199	-	160,199
Realized gain on sales securities available-for-sale	44,154	-	44,154	-	44,154
Realized gain on sales of other real estate owned	1,564	-	1,564	-	1,564
Realized (loss) on sales of repossessed assets	(3,000)	-	(3,000)	-	(3,000)
Service fees on deposit accounts	270,543	-	270,543	-	270,543
Other operating income	155,340	-	155,340	-	155,340
Equity in earnings of subsidiary bank	-	(27,840)	(27,840)	27,840	-
Total income	3,949,559	(27,840)	3,921,719	27,840	3,949,559
OPERATING EXPENSES					
Interest on deposits	406,186	-	406,186	-	406,186
Interest on borrowed funds	5,286	-	5,286	-	5,286
Interest on notes payable	-	2,164	2,164	-	2,164
Provision for possible loan losses	168,000	-	168,000	-	168,000
Salaries and employee benefits	1,620,382	-	1,620,382	-	1,620,382
Occupancy expense	490,671	-	490,671	-	490,671
Other operating expenses	853,979	142,951	996,930	-	996,930
Total expenses	3,544,504	145,115	3,689,619	-	3,689,619
NET INCOME (LOSS)	$ 405,055	$ (172,955)	$ 232,100	$ 27,840	$ 259,940

Schedule 3

GREATER STATE BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Greater State Bank	Greater State Bancshares Corp	Greater State Bank and Greater State Bancshares Corp	Consolidating Entries	Consolidated Greater State Bancshares Corp.
Cash flows from operating activities:					
Net income (losss)	$ 405,055	$ (172,955)	$ 232,100	$ 27,840	$ 259,940
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation expense	239,786	-	239,786	-	239,786
Provision for possible loan losses	168,000	-	168,000	-	168,000
Equity earnings of subsidiary	-	27,840	27,840	(27,840)	-
Discount accretion and premium amortization on investment securities, net	19,222	-	19,222	-	19,222
(Gain) loss on sales of securities available-for-sale	(44,154)	-	(44,154)	-	(44,154)
(Gain) loss on sales of other real estate owned	(1,564)	-	(1,564)	-	(1,564)
(Gain) loss on sales of repossessed assets	3,000	-	3,000	-	3,000
Change in accrued interest receivable	18,410	-	18,410	-	18,410
Change in other assets	(60,380)	-	(60,380)	-	(60,380)
Change in accrued interest payable	11,439	-	11,439	2,164	13,603
Change in accrued expenses payable and other liabilities	(46,007)	15,991	(30,016)	-	(30,016)
Net cash provided by operating activities	712,807	(129,124)	583,683	2,164	585,847
Cash flows from investing activities:					
Proceeds from maturities/calls of securities available-for-sale	2,000,000	-	2,000,000	-	2,000,000
Proceeds from principal repayments of securities available-for-sale	392,412	-	392,412	-	392,412
Proceeds from sales of securities available-for-sale	4,156,089	-	4,156,089	-	4,156,089
Proceeds from sales of repossessed assets	12,000	-	12,000	-	12,000
Purchases of securities available-for-sale	(5,100,000)	-	(5,100,000)	-	(5,100,000)
Net (increase) decrease in loans	(2,421,405)	-	(2,421,405)	-	(2,421,405)
Proceeds from sales of other real estate owned	236,175	-	236,175	-	236,175
Purchase of property and equipment	(189,910)	-	(189,910)	-	(189,910)
Net cash used in investing activites	(914,639)	-	(914,639)	-	(914,639)
Cash flows from financing activities:					
Net increase (decrease) in non-interest-bearing deposits	(543,324)	-	(543,324)	(123,040)	(666,364)
Net increase (decrease) in interest-bearing deposits	(1,831,572)	-	(1,831,572)	-	(1,831,572)
Net increase (decrease) in time deposits	6,487,995	-	6,487,995	-	6,487,995
Net increase (decrease) in savings	(80,320)	-	(80,320)	-	(80,320)
Proceeds from issuance of common stock	318,343	-	318,343	-	318,343
Proceeds from issuance of notes payable	-	1,000,000	1,000,000	-	1,000,000
Payments on borrowed funds	(2,000,000)	-	(2,000,000)	-	(2,000,000)
Capital injection into subsidiary bank	750,000	(750,000)	-	-	-
Net cash provided by financing activities	3,101,122	250,000	3,351,122	(123,040)	3,228,082
Net change in cash and cash equivalents	2,899,290	120,876	3,020,166	(120,876)	2,899,290
Cash and cash equivalents at beginning of year	2,479,429	-	2,479,429	-	2,479,429
Cash and cash equivalents at end of year	$ 5,378,719	$ 120,876	$ 5,499,595	$ (120,876)	$ 5,378,719