Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Brian Schneider
Name of the Holding Company Director and Official

President/Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/30/2017
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

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

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

First Beeville Financial Corporation
Legal Title of Holding Company

1400 E Houston St
(Mailing Address of the Holding Company) Street / P.O. Box

Beeville	TX	78102
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

James Henshall	VP/Treasurer
Name	Title

361-360-6043
Area Code / Phone Number / Extension

361-358-6728
Area Code / FAX Number

jdhenshall@fnbsotx.com
E-mail Address

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

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

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

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

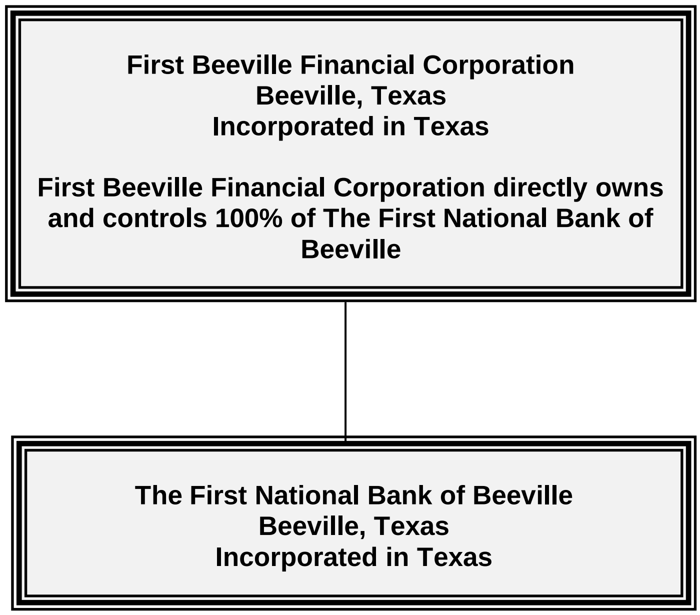
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Form FR Y-6
FIRST BEEVILLE FINANCIAL CORPORATION
Beeville, Texas
Fiscal Year Ending December 31, 2016

Report Item:

1. The bank holding company prepares an annual report for its shareholders.
   One copy is attached as appendix to this document.

2. a. Organizational Chart.



No entity in this organizational chart has an LEI.

2. b. Domestic Branch Listing
   Attached on the following page.

Results: A list of branches for your holding company: FIRST BEEVILLE FINANCIAL CORPORATION (1130771) of BEEVILLE, 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	12/31/2016	Full Service (Head Office)	28255	FIRST NATIONAL BANK OF BEEVILLE, THE	1400 E HOUSTON ST	BEEVILLE	TX	78102	BEE	UNITED STATES	1974	0	FIRST NATIONAL BANK OF BEEVILLE, THE	28255	
OK	12/31/2016	Full Service	3730157	SEGUIN BRANCH	125 SOUTH STATE HIGHWAY 46	SEGUIN	TX	78155	GUADALUPE	UNITED STATES	469350	2	FIRST NATIONAL BANK OF BEEVILLE, THE	28255	
OK	12/31/2016	Full Service	217769	YORKTOWN BRANCH	142 N RIEDEL	YORKTOWN	TX	78164	DEWITT	UNITED STATES	13174	1	FIRST NATIONAL BANK OF BEEVILLE, THE	28255	

Report Item 3: Shareholders
(1)(a)(b)(c) and (2)(a)(b)(c)

Form FR Y-6
First Beeville Financial Corporation
Fiscal Year Ending December 31, 2016

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

1.a Names & Address (City, State, Country)	1.b Country of Citizenship or Incorpoation	1.c Number & Percentage of Each Class of Voting Securities
F. A. Hause, II Beeville, TX	USA	3,303[(1)] - 5.56% Common Stock
A. C. Jones, IV Corpus Christi, TX	USA	6,213 - 10.45% Common Stock
George E. Tanner Corpus Christi, TX	USA	3,603[(2)] - 6.06% Common Stock

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

2.a Names & Address (City, State, Country)	2.b Country of Citizenship or Incorpoation	2.c Number & Percentage of Each Class of Voting Securities
None	None	None

[(1)] includes 150 shares owned by Hause II Protection Trust and controlled by Mr. Hause; 150 shares which Mr. Hause holds as custodian for Sarah Elizabeth Hause and 150 shares which Mr. Hause holds as custodian for Laura Ariel Hause; 1,534 shares owned by Hause Circle, LTD (which represents 1/3 of the total 4,601 shares owned by Hause Circle) and controlled by Hause Circle Mgt. LLC, which is controlled by its three members Mr. Hause, Daryl Ann Tanner (who is Mr. Tanner's spouse) and Sarah Carter Steves; and 1,319 shares owned by Mr. Hause.

[(2)] includes 2,049 shares owned by TANNCO, Ltd. and controlled by Mr. Tanner; 1,534 shares owned by Hause Circle, LTD (which represents 1/3 of the total 4,601 shares owned by Hause Circle) and controlled by Hause Circle Mgt. LLC, which is controlled by its three members F. A. Hause, Daryl Ann Tanner (who is Mr. Tanner's spouse), and Sarah Carter Steves; and 20 shares owned by Mr. Tanner.

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

Form FR Y-6
FIRST BEEVILLE FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2016

1 Names & Address (City, State, Country)	2 Principal Occupation if other than with Bank Holding Co.	3.a Title and Position with Bank Holding Co.	3.b Title and Position with Subsidiaries (include names of subsidiaries)	3.c Title and Position with Other Business (include names of other businesses)	4.a Percentage of Voting Shares in Bank Holding Company	4.b Percentage of Voting Shares in Subsidiaires (include names of subsidiaries)	4.c List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Luis Alaniz, Jr. Beeville, TX USA	Automotive Sales	Director	Director (First Nat'l Bank, Beeville)	Vice Pres-Alaniz & Perez Garage Corp Member-Different Shades of Brown LLC Stone Creek Bar & Grill LLC Mg Member-4 A Real Estate LLC	0.06%	None	Alaniz & Perez Garage Corp (25%) Different Shades of Brown LLC (33%)
Brannon Brooke Beeville, TX USA	Insurance Agency Owner	Director	Director (First Nat'l Bank, Beeville)	Partner-TCOR Insurance Agency LTD Member-Brookefield Holdings, LLC Member-Reserve at Jones Rd LLC Member-Reserve at Jones Rd Mgr LLC Member-BBD Investments LLC Partner-Townsend-Brooke Partnership Member-George West Housing LLC	1.14%	None	TCOR Ins. Agency LTD (38%) Brookefield Holdings LLC (50%) Reserve at Jones Rd LLC (34.5%) Reserve at Jones Rd Mgr LLC (50%) BBD Investments, LLC (30%) Townsend-Brooke Partnership (50%) George West Housing LLC (50%)
John W. Galloway Beeville, TX USA	Funeral Home Director	Director	Director (First Nat'l Bank, Beeville)	Partner-Galloway Brothers Member-Galloway & Sons LLC	0.34%	None	Galloway Brothers (33.3%) Galloway & Sons LLC (50%)
James A. Hatfield Beeville, TX USA	Chiropractor	Director	Director (First Nat'l Bank, Beeville)	Sole Proprietor-Hatfield Chiropractic Member-Brookefield Holdings LLC Member-Reserve at Jones Rd LLC Member-Reserve at Jones Rd Mgr LLC Member-George West Housing LLC	1.85%	None	Hatfield Chriopractic (100%) Brookefield Holdings LLC (50%) Reserve at Jones Rd LLC (34.5%) Reserve at Jones Rd Mgr LLC (50%) George West Housing LLC (50%)
Frank A. Hause Beeville, TX USA	Farming, Ranching, Investments	Director	Director (First Nat'l Bank, Beeville)	Partner-Hause Circle, LTD Member-Hause Circle Mgt. Partner-SEJALAH, LLC	5.56%	None	Hause Circle, LTD (33.3%) Hause Circle Management (33.3%) SEJALAH, LLC (25%)
A. C. Jones, IV Corpus Christi, TX USA	Rancher, Oil & Gas, Investments	Director	Director (First Nat'l Bank, Beeville)	Director-1st Nat'l Bank of Hebbronville Manager-Jones Ranch, LLC Lmt. Partner-Jones Cinco LTD Lmt. Partner-Jones Borregos, LTD Manager-Jones Cinco Mgt, LLC Manager-Jones Borregos GP. LLC	10.45%	None	Jones Ranch, LLC (58.13%) Jones Borregos, LTD (95.25%) Jones Borregos GP. LLC (95.81%)
Geoffrey G. Latcham Beeville, TX USA	Newspaper Publishing	Director	Director (First Nat'l Bank, Beeville)	Co-Publisher, Secretary/Treasurer Beeville Publishing Co., Inc.	4.21%	None	Beeville Publishing Co., Inc. (50.2%)
George P. Morrill, III Beeville, TX USA	Attorney	Director	Director (First Nat'l Bank, Beeville)	Member-Morrill & Morrill, PLLC Member-309 Downtown, LLC	0.76%	None	Morrill & Morrill, PLLC (49%) 309 Downtown, LLC (50%)

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

Form FR Y-6
FIRST BEEVILLE FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2016

1 Names & Address (City, State, Country)	2 Principal Occupation if other than with Bank Holding Co.	3.a Title and Position with Bank Holding Co.	3.b Title and Position with Subsidiaries (include names of subsidiaries)	3.c Title and Position with Other Business (include names of other businesses)	4.a Percentage of Voting Shares in Bank Holding Company	4.b Percentage of Voting Shares in Subsidiaires (include names of subsidiaries)	4.c List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
				Partner-Wild Goose Ranch			Wild Goose Ranch (33%)
Rodney Schorlemmer, MD Beeville, TX USA	Physician	Director	Director (First Nat'l Bank, Beeville)	Mgr/Pres.-RS & VS, LTD President-Beeville Surgical Asso. Pres.-SRSV, LLC Pres.-JSDSED, LLC Mgr/Pres.-SJDE, LLC Mgr/Member-Schorlemmer Management, LLC	0.03%	None	RS & VS, LTD (49.5%) Beeville Surgical Associates PA. (100%) SJDE, LLC (47%) Schorlemmer Management, LLC (50%)
Schneider, Brian Beeville, TX USA	Banker	President/Director	President/CEO (First Nat'l Bank, Beeville)	Member-Stone Creek Investment LLC	0.24%	None	None
George E. Tanner Corpus Christi, TX USA	Oil & Gas	Chm of Board/Director	Chm of Board/Director (First Nat'l Bank, Beeville)	President-Sumday, Inc. Lmt. Partner-TANNCO, Ltd. Lmt. Partner-Cuatro Estrellas, Ltd. Mgr-Buscador, LLC	6.06%	None	Sumday, Inc. (50%) TANNCO Ltd.(29.5%) Cuatro Estrellas Ltd. (49.5%) Buscador, LLC (50%)
Gwenyth M. Burris Beeville, TX USA	Banker	VP/Secretary	Sr. Vice President (First Nat'l Bank, Beeville)	None	0.02%	None	None
James D. Henshall Beeville, TX USA	Banker	VP/Treasurer	Controller (First Nat'l Bank, Beeville)	None	0.003%	None	None

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES

BEEVILLE, TEXAS

Consolidated Financial Statements

December 31, 2016 and 2015

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Financial Statements
December 31, 2016 and 2015

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Independent Auditors' Report

To the Board of Directors of First Beeville Financial Corporation

We have audited the accompanying consolidated statements of financial condition of First Beeville Financial Corporation and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Bumgardner, Morrison & Company, LLP

Bumgardner, Morrison & Company, LLP
Victoria, Texas
March 21, 2017

Bumgardner, Morrison & Company, LLP
Certified Public Accountants

Members: American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
AICPA Private Companies Practice Section
AICPA Employee Benefit Plan Audit Quality Center
AICPA Government Audit Quality Center

1501 E Mockingbird Lane, Suite 300
PO Box 3750
Victoria, Texas 77903-3750
Phone: 361.575.0271
Fax: 361.578.0880
Website: BMCcpa.com

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Statements of Financial Condition
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and Due From Banks (including interest-bearing deposits of $1,871 in 2016 and $489 in 2015)	$ 9,034,031	$ 4,206,633
Interest-bearing Deposit at the Federal Reserve Bank	9,500,654	10,049,776
Total Cash and Cash Equivalents	18,534,685	14,256,409
Certificates of Deposit in Other Banks	1,225,000	3,975,000
Investment Securities Available-for-Sale	11,332,799	35,295,399
Mortgage-Backed and Related Securities Available-for-Sale	6,261,738	7,904,440
Investment Securities Held-to-Maturity	16,602,174	17,724,431
Mortgage-Backed and Related Securities Held-to-Maturity	11,743,022	14,706,798
Loans Receivable (net of allowance for loan losses of $2,656,598 in 2016 and $2,554,623 in 2015)	236,659,316	204,523,823
Federal Home Loan Bank Stock, at Cost	1,033,100	455,900
Accrued Interest Receivable	964,169	1,094,845
Foreclosed Assets	1,136,400	1,906,947
Banking Premises and Equipment, Net	7,649,855	5,784,164
Prepaid Federal Income Tax	553,956	19,084
Deferred Federal Income Tax	714,215	786,211
Bank Owned Life Insurance	5,431,640	5,289,712
Other Assets	571,368	527,153
Total Assets	$ 320,413,437	$ 314,250,316
Liabilities and Stockholders' Equity		
Deposits	$ 288,369,986	$ 284,284,458
Borrowed Funds	926,183	1,464,437
Accrued Interest Payable	118,284	86,600
State Income Tax Payable	15,260	58,100
Dividends Payable	445,830	297,220
Other Liabilities	1,179,919	1,393,526
Total Liabilities	291,055,462	287,584,341
Stockholders' Equity		
Common stock ($5 par value; 1,000,000 shares authorized; 93,946 shares issued; 59,444 shares outstanding in 2016 and 2015)	469,730	469,730
Surplus	784,495	784,495
Retained earnings	30,706,739	27,888,980
Treasury stock, at cost (34,502 shares in 2016 and 2015)	(2,587,650)	(2,587,650)
Accumulated other comprehensive income		
Unrealized gain (loss) on securities available-for-sale (net of deferred income taxes of $7,902 in 2016 and $56,883 in 2015)	(15,339)	110,420
Total Stockholders' Equity	29,357,975	26,665,975
Total Liabilities and Stockholders' Equity	$ 320,413,437	$ 314,250,316

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

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Statements of Income
Years Ended December 31, 2016 and 2015

	2016	2015
Interest and Dividend Income		
Interest and fees on loans	$11,775,587	$ 9,905,073
Interest on mortgage-backed and related securities	359,356	398,691
Interest on investment account securities		
U.S. Treasury securities	202,607	312,687
Federal agency securities	141,954	191,688
Tax-exempt municipals	272,596	264,996
Corporate securities	3,546	4,641
Interest on deposits with banks	77,005	140,990
Dividend income	17,924	12,375
Total Interest and Dividend Income	12,850,575	11,231,141
Interest Expense		
Interest on deposits	672,017	460,011
Interest on borrowed funds	92,417	84,449
Total Interest Expense	764,434	544,460
Net Interest Income	12,086,141	10,686,681
Provision for Loan Losses	1,547,500	220,000
Net Interest Income After Provision for Loan Losses	10,538,641	10,466,681
Noninterest Income		
Service charges on deposit accounts	941,089	941,342
Other service charges and noninterest income	75,921	113,966
Bank owned life insurance income	141,928	138,502
Loss on sale of assets	(234,152)	(24,229)
Gain on foreclosure	566,215	-
Gain on sale of securities	251,644	-
Total Noninterest Income	1,742,645	1,169,581
Total Income After Interest Expense and Provision for Loan Losses	12,281,286	11,636,262
Noninterest Expenses		
Salaries and employee benefits	4,625,313	4,306,210
Occupancy and equipment expense	928,593	725,987
Other expense	1,990,885	2,152,335
Total Noninterest Expenses	7,544,791	7,184,532
Income Before Income Taxes	4,736,495	4,451,730
Income Tax Expense	1,472,906	1,421,634
Net Income	$ 3,263,589	$ 3,030,096
Net Income Per Share (Based on Weighted Average Number of Shares Outstanding - 59,444 shares in 2016 and 2015)	$ 54.90	$ 50.97

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

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

	2016	2015
Net Income for the Year	$ 3,263,589	$ 3,030,096
Other Comprehensive Income, Net of Federal Income Tax		
Net unrealized gain on securities available for sale	61,100	102,412
Less: reclassification adjustment for gain on sale of securities in consolidated statement of income	(251,644)	-
Other comprehensive income before tax effect	(190,544)	102,412
Tax expense (benefit)	(64,785)	34,820
Other Comprehensive Income, Net of FIT	(125,759)	67,592
Total Comprehensive Income	$ 3,137,830	$ 3,097,688

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

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2016 and 2015

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2014	$ 469,730	$ 784,495	$ 25,156,103	$ (2,587,650)	$ 42,828	$ 23,865,506
Net income for the year	-	-	3,030,096	-	-	3,030,096
Change in unrealized gain on securities available-for-sale, net of applicable deferred income taxes of $34,820	-	-	-	-	67,592	67,592
Dividends Declared			(297,219)			(297,219)
Balance at December 31, 2015	$ 469,730	$ 784,495	$ 27,888,980	$ (2,587,650)	$ 110,420	$ 26,665,975
Net income for the year	-	-	3,263,589	-	-	3,263,589
Change in unrealized gain on securities available-for-sale, net of applicable deferred income taxes of $64,785	-	-	-	-	(125,759)	(125,759)
Dividends Declared	-	-	(445,830)	-	-	(445,830)
Balance at December 31, 2016	$ 469,730	$ 784,495	$ 30,706,739	$ (2,587,650)	$ (15,339)	$ 29,357,975

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

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Interest and dividends received	$ 13,398,329	$ 11,585,385
Fees and commissions received	1,017,010	1,056,485
Interest paid	(732,749)	(529,495)
Cash paid to suppliers and employees	(7,381,910)	(6,021,550)
Federal and state income taxes paid	(1,913,837)	(1,567,697)
Net Cash Provided by Operating Activities	4,386,843	4,523,128
Cash Flows From Investing Activities		
Net decrease in certificates of deposit in other banks	2,750,000	9,410,000
Purchase of investment securities - available-for-sale	-	(401,142)
Maturities of investment securities - available-for-sale	8,120,000	600,000
Sales of investment securities- available for sale	15,829,937	-
Purchase of investment securities - held-to-maturity	-	(612,640)
Maturities of investment securities - held-to-maturity	1,000,000	2,000,000
Principal payments on mortgage-backed securities - available-for-sale	1,535,565	1,694,128
Principal payments on mortgage-backed securities - held to maturity	2,843,954	2,947,560
Purchase of mortgage-backed securities - held-to-maturity	-	(1,533,435)
Net increase in loans to customers	(34,153,178)	(34,224,766)
Purchase of fixed assets	(2,286,394)	(2,342,814)
Proceeds from sale of foreclosed assets	1,572,795	236,074
Purchase of Federal Home Loan Bank stock	(899,300)	(822,100)
Redemption of Federal Home Loan Bank stock	328,000	488,800
Net Cash Used in Investing Activities	(3,358,621)	(22,560,335)
Cash Flows From Financing Activities		
Net increase (decrease) in non-certificate of deposit accounts	(1,622,032)	(12,163,678)
Net increase (decrease) in certificate of deposit accounts	5,707,560	4,510,667
Repayments on note payable	(538,254)	(635,836)
Dividends paid	(297,220)	-
Net Cash Provided by (Used in) Financing Activities	3,250,054	(8,288,847)
Net Increase (Decrease) in Cash and Cash Equivalents	4,278,276	(26,326,054)
Cash and Cash Equivalents at Beginning of Year	14,256,409	40,582,463
Cash and Cash Equivalents at End of Year	$ 18,534,685	$ 14,256,409

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

FIRST BEEVILLE FINANCIAL CORPORATION AND SUBSIDIARIES
BEEVILLE, TEXAS

Consolidated Statements of Cash Flows, Continued
Years Ended December 31, 2016 and 2015

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2016	2015
Net Income	$ 3,263,589	$ 3,030,096
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation and amortization	420,703	318,285
Provision for possible loan losses	1,547,500	220,000
Net amortization of securities	422,978	533,295
Loss on sale of foreclosed assets	234,152	25,406
Gain on foreclosure of foreclosed assets	(566,215)	-
Gain on sale of securities	(251,644)	-
(Increase) decrease in accrued interest receivable	130,676	(178,451)
(Increase) decrease in prepaid federal income tax	(534,872)	89,123
(Increase) decrease in deferred federal income tax	136,781	(234,672)
(Increase) decrease in prepaid expenses and other assets	(44,215)	35,559
Increase (decrease) in accrued interest payable	31,684	14,965
Increase (decrease) in state income tax payable	(42,840)	(514)
Increase (decrease) in accrued expenses	(213,607)	809,138
Increase in cash surrender value of life insurance	(141,927)	(138,502)
Federal Home Loan Bank stock dividends	(5,900)	(600)
Total Adjustments	1,123,254	1,493,032
Net Cash Provided by Operating Activities	$ 4,386,843	$ 4,523,128

Supplemental Schedule of Noncash Investing and Financing Activities

Real Estate (Foreclosed Assets) Acquired in Settlement of Loans	$ 1,036,400	$ 2,028,677
Dividends Declared But Not Yet Paid	$ 445,830	$ 297,220

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

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of the Corporation, the subsidiary bank, and the real estate subsidiary conform with accounting principles generally accepted in the United States of America and within the banking industry. Those policies that materially affect financial position and results of operations are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of First Beeville Financial Corporation; its wholly-owned subsidiary bank, The First National Bank of Beeville (the Bank); and the Bank's wholly-owned subsidiary, FNB Asset Management, LLC. All significant intercompany transactions and balances are eliminated in consolidation.

Nature of Operations

The subsidiary bank provides a variety of financial services to individuals and businesses through its main office in Beeville, Texas, and its full-service branch banks in Yorktown and Seguin, Texas. Its primary deposit products are demand deposits and certificates of deposit. Its primary lending products are real estate, agricultural, commercial, and consumer loans. The Bank's subsidiary manages and holds foreclosed assets that were transferred to it by the Bank until their ultimate disposition.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Investment Securities and Mortgage-backed and Related Securities

Securities may be classified into three categories: held-to-maturity, available-for-sale, or trading. The subsidiary bank has determined that its securities will be classified as held-to-maturity and available-for-sale.

Securities which the subsidiary bank has the ability and intent to hold to maturity are classified as held-to-maturity. Such securities are recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as available-for-sale and are reported at fair value (in aggregate), determined as of the balance sheet date. Unrealized gains and losses on securities available-for-sale, net of the tax effect, are recognized as direct increases or decreases in accumulated other comprehensive income in stockholders' equity; current year increases or decreases in unrealized gains and losses, net of tax, are reported as a net amount in other comprehensive income.

Note 1 Summary of Significant Accounting Policies, Continued

Any permanent declines in the value of securities are charged to income in the period in which such declines are determined. Premiums and discounts are recognized in interest income using the interest method over the period to the call date or maturity. Gains and losses on the sales of securities are recognized in net income when realized. The cost of securities used in determining gains and losses is based on the specific-identification method.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans using the interest method. The accrual of interest on a loan 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 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 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

For financial reporting purposes, additions to the allowance are made principally from the loan loss provisions charged to operating expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of the 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. For income tax purposes, the subsidiary bank provides the addition to the allowance for loan losses based upon the applicable tax laws.

Loan Origination Fees and Costs

The subsidiary bank's policy is for loan origination fees and certain direct origination costs to be capitalized and recognized as an adjustment of the yield on the related loan.

Banking Premises and Equipment

Banking premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed and charged to expense using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses are included in current operations.

Note 1 Summary of Significant Accounting Policies, Continued

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the subsidiary bank has entered into off balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Such determination is made on an individual asset basis. If the fair value of the asset minus the estimated costs to sell the asset is less than the cost of the asset, the deficiency is recognized as a valuation allowance. If the fair value of the asset minus the estimated costs to sell the asset is more than its carrying amount, the valuation allowance is reduced, but not below zero. Increases or decreases in the valuation allowance are charged or credited to income. Foreclosed assets held for the production of income are treated the same way they would be had the assets been acquired in a manner other than through foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to the holding of property are expensed.

Income Taxes

Deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Under the provisions of the franchise tax law for the State of Texas, the franchise tax is based on net margin which is essentially revenues less the greater of interest expense or compensation and benefits. The franchise tax based on net margin is recorded as state income tax expense in the year the income was earned.

Bank Owned Life Insurance

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified in noninterest income.

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, short term interest-bearing deposits with maturities of 90 days or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Note 1 Summary of Significant Accounting Policies, Continued

Advertising

Advertising costs, which are expensed as incurred, totaled $113,997 and $98,845, for the years ending December 31, 2016 and 2015, respectively

Reclassification

Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform to the 2016 presentation. The reclassifications had no effect on net income for 2015.

Note 2 Related Party Transactions

The subsidiary bank has entered into transactions with its executive officers, directors, principal shareholders, and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Activity in related party loans during 2016 and 2015 is presented in the following table.

	2016			2015		
	Current	Unfunded	Total	Current	Unfunded	Total
Balance Beginning of the Year	$ 3,818,432	$ 2,257,882	$ 6,076,314	$ 2,426,554	$ 1,060,688	$ 3,487,242
Principal Additions	2,450,656	374,072	2,824,728	1,839,496	2,450,272	4,289,768
Principal Reductions	(626,333)	(1,691,821)	(2,318,154)	(447,618)	(1,253,078)	(1,700,696)
Balance End of the Year	$ 5,642,755	$ 940,133	$ 6,582,888	$ 3,818,432	$ 2,257,882	$ 6,076,314

Deposits from related parties held by the subsidiary bank at December 31, 2016 and 2015, amounted to $3,597,172 and $4,217,619, respectively.

Note 3 Investment Securities

The amortized cost and estimated fair values of investments in available-for-sale debt securities as of December 31, 2016 and 2015, are as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
U.S. Government and agencies	$ 3,007,306	2,844	$ -	$ 3,010,150
Corporate bonds	-	-	-	-
Tax-exempt municipal	8,295,800	35,359	8,510	8,322,649
Total Investment Securities	11,303,106	38,203	8,510	11,332,799
Mortgage-backed and related securities	6,314,672	2,430	55,364	6,261,738
Total Debt Securities Available-for-Sale	$ 17,617,778	$ 40,633	$ 63,874	$ 17,594,537

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
U.S. Government and agencies	$ 25,641,901	$ 86,543	$ 1,049	$ 25,727,395
Corporate bonds	499,573	587	-	500,160
Tax-exempt municipal	8,965,428	105,510	3,094	9,067,844
Total Investment Securities	35,106,902	192,640	4,143	35,295,399
Mortgage-backed and related securities	7,925,635	-	21,195	7,904,440
Total Debt Securities Available-for-Sale	$ 43,032,537	$ 192,640	$ 25,338	$ 43,199,839

The amortized cost and estimated fair values of investments in held-to-maturity debt securities as of December 31, 2016 and 2015, are as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity				
U.S. Government and agencies	$ 9,632,216	$ 109,631	$ 67	$ 9,741,780
Tax-exempt municipal	6,969,958	20,578	21,497	6,969,039
Total Investment Securities	16,602,174	130,209	21,564	16,710,819
Mortgage-backed and related securities	11,743,022	70,845	69,014	11,744,853
Total Debt Securities Held-to-Maturity	$ 28,345,196	$ 201,054	$ 90,578	$ 28,455,672

Note 3 Investment Securities, Continued

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity				
U.S. Government and agencies	$ 10,678,415	$ 131,797	$ 587	$ 10,809,625
Tax-exempt municipal	7,046,016	97,714	8,857	7,134,873
Total Investment Securities	17,724,431	229,511	9,444	17,944,498
Mortgage-backed and related securities	14,706,798	133,150	25,391	14,814,557
Total Debt Securities Held-to-Maturity	$ 32,431,229	$ 362,661	$ 34,835	$ 32,759,055

The amortized cost and estimated fair value of debt 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		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,593,491	$ 4,594,903	$ 2,000,141	$ 2,002,330
Due from one to five years	3,005,598	3,001,395	9,768,966	9,823,274
Due from five to ten years	3,704,017	3,736,501	4,833,067	4,885,215
Total Investment Securities	11,303,106	11,332,799	16,602,174	16,710,819
Mortgage-backed securities	6,314,672	6,261,738	11,743,022	11,744,853
Total Debt Securities	$ 17,617,778	$ 17,594,537	$ 28,345,196	$ 28,455,672

Total securities sold during the years ended December 31, 2016 or 2015 were $15,829,937 and $0, respectively.

There were no pledged investment securities as of December 31, 2016 or 2015.

Note 3 Investment Securities, Continued

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
Available-for-Sale				
Tax-exempt municipal	$ 6,436	$ 2,048,068	$ 2,074	$ 2,058,800
Mortgage-backed and related securities	55,364	5,634,698	-	-
Available-for-Sale Securities in Loss Position	$ 61,800	$ 7,682,766	$ 2,074	$ 2,058,800
Held-to-Maturity				
U.S. Government and agencies	$ 67	$ 1,000,000	$ -	$ -
Tax-exempt municipal	21,497	2,801,788	-	-
Mortgage-backed and related securities	69,014	7,379,506	-	-
Held-to-Maturity Securities in Loss Position	$ 90,578	$ 11,181,294	$ -	$ -

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015				
Available-for-Sale				
U.S. Government and agencies	$ 1,049	$ 3,046,950	$ -	$ -
Tax-exempt municipal	1,208	1,833,175	1,886	906,599
Mortgage-backed and related securities	21,195	7,904,440	-	-
Available-for-Sale Securities in Loss Position	$ 23,452	$ 12,784,565	$ 1,886	$ 906,599
Held-to-Maturity				
U.S. Government and agencies	$ 587	$ 1,002,920	$ -	$ -
Tax-exempt municipal	8,857	600,749	-	-
Mortgage-backed and related securities	25,391	1,329,529	-	-
Held-to-Maturity Securities in Loss Position	$ 34,835	$ 2,933,198	$ -	$ -

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluations. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and the ability of the subsidiary bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 3 Investment Securities, Continued

At December 31, 2016, twenty-four (24) debt securities have unrealized losses with aggregate depreciation of 0.73% from the Bank's amortized cost basis.

At December 31, 2015, seventeen (17) debt securities have unrealized losses with aggregate depreciation of 0.36% from the Bank's amortized cost basis.

These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. 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 Mortgage-backed Securities

The carrying values and estimated fair values of available for sale mortgage-backed securities as of December 31, 2016 and 2015, are as follows:

	2016				
	Principal Balance	Unamortized Premiums	Unearned Discounts	Amortized Cost	Estimated Fair Value
Available-for-Sale					
GNMA certificates	$ 610,496	$ 14,114	$ -	$ 624,610	$ 627,040
FNMA certificates	4,068,574	88,582	-	4,157,156	4,129,688
FHLMC certificates	1,515,714	17,192	-	1,532,906	1,505,010
Total Mortgage-backed Securities	$ 6,194,784	$ 119,888	$ -	$ 6,314,672	$ 6,261,738

	2015				
	Principal Balance	Unamortized Premiums	Unearned Discounts	Amortized Cost	Estimated Fair Value
Available-for-Sale					
GNMA certificates	$ 878,093	$ 22,565	$ -	$ 900,658	$ 899,694
FNMA certificates	5,065,837	146,969	-	5,212,806	5,201,623
FHLMC certificates	1,786,420	25,751	-	1,812,171	1,803,123
Total Mortgage-backed Securities	$ 7,730,350	$ 195,285	$ -	$ 7,925,635	$ 7,904,440

Note 4 Mortgage-backed Securities, Continued

The carrying values and estimated fair values of held-to-maturity mortgage-backed securities as of December 31, 2016 and 2015, are summarized as follows:

2016	Principal Balance	Unamortized Premiums	Unearned Discounts	Amortized Cost	Estimated Fair Value
Held-to-Maturity					
GNMA certificates	$ 10,442,957	$ 158,581	$ -	$ 10,601,538	$ 10,635,738
FNMA certificates	1,116,778	24,706	-	1,141,484	1,109,115
FHLMC certificates	-	-	-	-	-
Total Mortgage-backed Securities	$ 11,559,735	$ 183,287	$ -	$ 11,743,022	$ 11,744,853

2015	Principal Balance	Unamortized Premiums	Unearned Discounts	Amortized Cost	Estimated Fair Value
Held-to-Maturity					
GNMA certificates	$ 13,085,694	$ 266,184	$ -	$ 13,351,878	$ 13,485,028
FNMA certificates	1,317,996	36,924	-	1,354,920	1,329,529
FHLMC certificates	-	-	-	-	-
Total Mortgage-backed Securities	$ 14,403,690	$ 303,108	$ -	$ 14,706,798	$ 14,814,557

Note 5 Loans and Allowance for Loan Losses

Major classifications of loans at December 31, 2016 and 2015, are as follows:

	2016	2015
Commercial Loans	$ 27,230,116	$ 25,329,876
Agricultural Loans	2,882,488	2,881,324
Real Estate Loans	207,478,166	177,138,700
Installment and Consumer Term Loans	1,559,980	1,573,742
Other Loans (Virtual and Ready Credit)	92,526	103,353
Overdrafts	72,638	51,451
	239,315,914	207,078,446
Allowance for Loan Losses	(2,656,598)	(2,554,623)
Net Loans	$ 236,659,316	$ 204,523,823

Note 5 Loans and Allowance for Loan Losses, Continued

Loan Origination and Risk Management. The Corporation's subsidiary bank has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. These procedures are reviewed by management on an ongoing and regular basis and all policies are reviewed by the Board at least annually. Management information systems are available through the Bank's host data processing system. These reports include loan production, maturing loans, concentrations of credit, loan delinquencies, as well as non-accrual and non-performing loans. The adopted policies also require diversification within the loan portfolio to manage risk as it pertains to economic conditions.

The primary loan categories are commercial, real estate, agricultural, and consumer. The philosophies of the Bank are to promote banking relationships which would include not only lending to the customer but also providing deposit services, as well as other ancillary banking services.

Commercial loans are underwritten to assure an ability to repay the indebtedness without relying primarily on the collateral. The underwriting process includes gaining an understanding of the borrower's ability to operate their business profitably, then analyzing and forming a conclusion on the adequacy of their cash flow and financial stability in relation to their ability to service the indebtedness.

Real estate loans, for commercial purposes as well as agricultural and residential purposes, are underwritten in much the same way as a commercial loan. Analyzing the borrower's ability to service the indebtedness from established cash flows and structuring the payment streams to match such cash flow is integral to the success of loan repayment. The Bank has set boundaries within its policies that prohibit and/or limit speculative real estate investment loans and development loans due to the inherent risks in these types of loans. Trade territories have been established for the Bank as a whole and the majority of real estate loans are within these established trade territories. Lending beyond these areas is allowed on a limited basis when dealing with a seasoned customer who has established history with the Bank.

Agricultural loans are another segment of the loan portfolio, and financial analysis similar to that performed on commercial loans is performed on all agricultural loans. This portfolio includes loans to farming operations by providing annual lines of credit for expenditures incurred up until and through harvest. Livestock production loans also make up a portion of the portfolio, whereby loans are structured to match the income stream generated from the livestock with maturities that fully amortize within the productive life expectancy of the livestock. Equipment loans are also provided, with borrower equity injection being a critical requirement along with cash flow for debt service.

Consumer loans are also generated by the Bank, with analysis being based upon the consumer's income as compared to all debt and taking into consideration the consumer's credit report score which is based upon prior performance with other creditors. The consumer's income and credit report supplement the judgmental process used in consumer lending. The Bank presently has an established indirect lending program, which is monitored closely and for which special reserves are established.

Concentrations of credit may exist within the loan portfolio; however, reports to management and the Board make it possible to effectively manage these concentrations, and it is noted that there is diversification among borrowers and geographical distribution which mitigates risk from concentrations.

Note 5 Loans and Allowance for Loan Losses, Continued

Non-Accruals and Past Due Loans. Special monitoring is performed on loans that develop delinquencies or that evidence the development of serious deficiencies in cash flow, credit quality, collateral deficiencies, or other deteriorating factors. This monitoring is achieved through daily and weekly past due reports, weekly technical exceptions reports, daily account overdraft monitoring, monthly Classified Loans List review, and quarterly Loan Loss Allowance evaluations and action plans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet the payment obligations as they become due and there is doubt as to collectability of all principal and interest. As of December 31, 2016 and 2015, the Bank's past due loans were as follows:

	2016						
	Loans Receivable - Total Loan Balance					Total Loans 90 Days or More Past Due & Accruing	Non-Accrual
	Days Past Due						
	30 to 59	60 to 89	90 or More	Current (1)	Total		
Commercial Loans	$ 149,072	$ -	$ -	$ 27,081,044	$ 27,230,116	$ -	$ 1,333,862
Agricultural Loans	29,388	-	-	2,853,100	2,882,488	-	-
Real Estate Loans	-	318,255	-	207,159,911	207,478,166	-	1,805,741
Consumer Loans	6,928	22,650	-	1,695,566	1,725,144	-	-
Total	$ 185,388	$ 340,905	$ -	$ 238,789,621	$ 239,315,914	$ -	$ 3,139,603

(1) includes $32,373,095 of loans 1 to 29 days past due.

	2015						
	Loans Receivable - Total Loan Balance					Total Loans 90 Days or More Past Due & Accruing	Non-Accrual
	Days Past Due						
	30 to 59	60 to 89	90 or More	Current (2)	Total		
Commercial Loans	$ -	$ -	$ 868	$ 25,329,008	$ 25,329,876	$ -	$ 868
Agricultural Loans	8,836	-	-	2,872,488	2,881,324	-	-
Real Estate Loans	2,445,528	-	-	174,693,172	177,138,700	-	-
Consumer Loans	14,848	10,255	1,914	1,701,529	1,728,546	-	1,914
Total	$ 2,469,212	$ 10,255	$ 2,782	$ 204,596,197	$ 207,078,446	$ -	$ 2,782

(2) includes $27,952,281 of loans 1 to 29 days past due.

Loans on which the accrual of interest has been discontinued amounted to $3,139,603 and $2,782 at December 31, 2016 and 2015, respectively. Had non-accrual loans performed in accordance with their original terms, the Bank would have recognized additional interest income of approximately $2,430 in 2016 and $1,401 in 2015. Loans past due ninety days or more and still accruing interest amounted to $-0- at December 31, 2016 and 2015.

Impaired Loans and Troubled Debt Restructurings. A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. The primary concessions granted on loans that have been restructured are modified payment terms to enhance the debtors' probability for future repayment.

Note 5 Loans and Allowance for Loan Losses, Continued

The Bank had $3,146,089 and $3,215 of loans that were modified in troubled debt restructurings and impaired at December 31, 2016 and 2015, respectively. Real estate loan foreclosures during 2016 and 2015 were $1,036,400 and $2,028,677, respectively.

The table below presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2016.

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial	2	$ 2,401,821	$ 1,333,862
Real Estate	1	2,176,741	1,805,741
Consumer	2	16,863	6,486
	5	$ 4,595,425	$ 3,146,089

The modification performed during the year ended December 31, 2016 on the real estate loan included interest only payments for a term of 12 months. The modification of terms of the commercial TDR's included deferment of the scheduled principal payment. The modification on the consumer loans included restructuring of the amortization term to facilitate the debtors' ability to service the debt.

The Bank's recorded investment in impaired loans, the related valuation allowance, and income recognized for the years ended December 31, 2016 and 2015, are as follows:

	As of December 31, 2016			For the Year 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial loans	$ 763,339	$ 1,830,339	$ -	$ 868,143	$ 38,317
Agricultural loans	-	-	-	-	-
Real estate loans	1,805,741	1,805,741	-	2,158,803	119,909
Consumer loans	-	-	-	-	-
With an allowance recorded					
Commercial loans	142,631	570,523	5,705	60,359	33,507
Agricultural loans	-	-	-	-	-
Real estate loans	-	-	-	-	-
Consumer loans	6,486	6,486	2,623	10,681	1,194
Total					
Commercial loans	$ 905,970	$ 2,400,862	$ 5,705	$ 928,502	$ 71,824
Agricultural loans	$ -	$ -	$ -	$ -	$ -
Real estate loans	$ 1,805,741	$ 1,805,741	$ -	$ 2,158,803	$ 119,909
Consumer loans	$ 6,486	$ 6,486	$ 2,623	$ 10,681	$ 1,194

Note 5 Loans and Allowance for Loan Losses, Continued

	As of December 31, 2015			For the Year 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Agricultural loans	-	-	-	-	-
Real estate loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
With an allowance recorded					
Commercial loans	434	434	17	1,940,485	-
Agricultural loans	-	-	-	2,232	-
Real estate loans	-	-	-	-	-
Consumer loans	16,481	16,481	3,225	18,929	1,762
Total					
Commercial loans	$ 434	$ 434	$ 17	$ 1,940,485	$ -
Agricultural loans	$ -	$ -	$ -	$ 2,232	$ -
Real estate loans	$ -	$ -	$ -	$ -	$ -
Consumer loans	$ 16,481	$ 16,481	$ 3,225	$ 18,929	$ 1,762

An analysis of total loans by impairment method for the years ending December 31, 2016 and 2015, is as follows:

	December 31, 2016			
	Commercial	Agricultural	Real Estate	Consumer
Ending balance of loans individually evaluated for impairment	$ 905,970	$ -	$ 9,675,527	$ 6,486
Ending balance of loans collectively evaluated for impairment	26,324,146	2,882,488	197,802,639	1,718,658
Total Loans	$ 27,230,116	$ 2,882,488	$ 207,478,166	$ 1,725,144

	December 31, 2015			
	Commercial	Agricultural	Real Estate	Consumer
Ending balance of loans individually evaluated for impairment	$ 434	$ -	$ 9,924,315	$ 16,481
Ending balance of loans collectively evaluated for impairment	25,329,442	2,881,324	167,214,385	1,712,065
Total Loans	$ 25,329,876	$ 2,881,324	$ 177,138,700	$ 1,728,546

Note 5 Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators and the Allowance for Loan Losses. The risk rating system for the Bank is based upon the judgmental and credit analysis process that loan officers perform in conjunction with the Officers Loan Committee's and the Directors Loan Committee's review process. The substantial majority of all loans made by the Bank are considered Pass credits at the inception of the loan based upon underwriting standards and analysis of the cash flow, collateral, and creditworthiness of the customers in accordance with adopted policies and regulatory guidelines.

For loans that develop delinquencies or that evidence the development of serious deficiencies in cash flow, credit quality, collateral deficiencies, past delinquencies, or other derogatory criteria, ongoing monitoring is performed. This is achieved through daily and weekly past due reports, weekly technical exceptions reports, daily account overdraft monitoring, as well as monthly Classified Loans List review and quarterly Loan Loss Allowance evaluations and action plans.

Loans that reach a past-due status ranging from 60 to 90 days delinquency, or that are in the final stages of demand and acceleration, are in bankruptcy, or loans that display other negative trends or characteristics of deterioration in credit quality or collateral coverage are coded with a substandard loan rating. This loan rating carries a higher reserve allocation of 4% based upon the Bank's historical loan migration loss factor; however, the loan is not categorized as impaired until it reaches a status of non-accrual or is deemed to be impaired as to full collectability. Loan officers are responsible for timely identification of the deterioration of credits and the need to classify them more severely than pass.

Impaired loans are carried as line items on the Classified and Impaired Loans List for monitoring and for calculation of the reserve factor. Specific reserves are established when necessary and are based either upon the fair market value of the collateral if the loan is collateral dependent or on the best estimate of discounted cash flows when there is insufficient collateral coverage. All non-accrual loans are considered impaired.

The classifications for loans demonstrating some form of credit quality weakness or deficiency include Watch, Other Assets Especially Mentioned (OAEM), Substandard and Doubtful. The classification of a credit is determined according to the following definitions:

NON-CLASSIFIED/PASS. Non-classified loans are not considered a greater-than-normal risk. (This rating may also be referred to as pass.) Performing Loans for which the borrower demonstrates the ability to repay its obligations and the collateral value generally exceeds the loan amount.

WATCH. Assets in this category are adequately protected by either collateral values or sound net worth and capacity of the obligor to meet the indebtedness; however, it has been determined that there may be some risks or weaknesses, (i.e., recent past dues, overdrafts or negative trends in earnings) but such potential weaknesses are not yet significant, but there is increased risk for deterioration in the credit. This classification is solely for the purpose of providing management a monthly monitoring tool.

Note 5 Loans and Allowance for Loan Losses, Continued

OTHER ASSETS ESPECIALLY MENTIONED. A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

SUBSTANDARD. A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

DOUBTFUL. An asset classified doubtful has all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Pass credits carry an historical reserve factor of 0.10%. Watch credits carry a reserve factor of 1.00%, and credits that have been classified as OAEM carry a reserve of 2%. Allocating 2% to OAEM credits is considered conservative based upon the inherent risk in these loans. Loans categorized as substandard carry a reserve factor of 4% or a specific reserve amount that is generally determined by collateral valuation.

The following tables summarize the Bank's internal ratings of its loans as of December 31, 2016 and 2015.

	Classified and Impaired Loans as of December 31, 2016						
	Pass	Watch	OAEM	Substandard	Impaired	Doubtful	Total
Commercial Loans	$ 26,324,147	$ -	$ -	$ -	$ 905,969	$ -	$ 27,230,116
Agricultural Loans	2,882,488	-	-	-	-	-	2,882,488
Real Estate Loans	197,802,639	2,157,057	-	5,712,729	1,805,741	-	207,478,166
Consumer Loans	1,718,658	-	-	-	6,486	-	1,725,144
Total	$ 228,727,932	$ 2,157,057	$ -	$ 5,712,729	$ 2,718,196	$ -	$ 239,315,914

	Classified and Impaired Loans as of December 31, 2015						
	Pass	Watch	OAEM	Substandard	Impaired	Doubtful	Total
Commercial Loans	$ 25,329,442	$ -	$ -	$ -	$ 434	$ -	$ 25,329,876
Agricultural Loans	2,881,324	-	-	-	-	-	2,881,324
Real Estate Loans	167,214,385	5,167,208	41,240	4,715,867	-	-	177,138,700
Consumer Loans	1,712,065	-	-	-	16,481	-	1,728,546
Total	$ 197,137,216	$ 5,167,208	$ 41,240	$ 4,715,867	$ 16,915	$ -	$ 207,078,446

Note 5 Loans and Allowance for Loan Losses, Continued

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

	2016 Allowance for Loan Losses				
	Commercial	Agricultural	Real Estate	Consumer	Total
Balance at the Beginning of the Year	$ 672,860	$ 105,003	$ 1,749,422	$ 27,338	$ 2,554,623
Recoveries	2,671	-	-	4,899	7,570
Less Charge-offs	(1,067,000)	-	(371,000)	(15,095)	(1,453,095)
Provision	774,909	(82,516)	847,620	7,487	1,547,500
Balance at the End of the Year	$ 383,440	$ 22,487	$ 2,226,042	$ 24,629	$ 2,656,598
Ending balance allocated to loans collectively evaluated for impairment	$ 377,735	$ 22,487	$ 2,226,042	$ 22,006	$ 2,648,270
Ending balance allocated to loans individually evaluated for impairment	$ 5,705	$ -	$ -	$ 2,623	$ 8,328

	2015 Allowance for Loan Losses				
	Commercial	Agricultural	Real Estate	Consumer	Total
Balance at the Beginning of the Year	$ 691,606	$ 105,003	$ 1,530,087	$ 39,502	$ 2,366,198
Recoveries	654	-	-	8,123	8,777
Less Charge-offs	(20,065)	-	-	(20,287)	(40,352)
Provision	665	-	219,335	-	220,000
Balance at the End of the Year	$ 672,860	$ 105,003	$ 1,749,422	$ 27,338	$ 2,554,623
Ending balance allocated to loans collectively evaluated for impairment	$ 672,843	$ 105,003	$ 1,749,422	$ 24,113	$ 2,551,381
Ending balance allocated to loans individually evaluated for impairment	$ 17	$ -	$ -	$ 3,225	$ 3,242

Loan Maturities. Final loan maturities for fixed rate loans, interest rate repricing dates for variable rate loans, and rate sensitivity of the loan portfolio at December 31, 2016, are as follows:

	Within One Year	One - Five Years	After Five Years	Total
Loans at fixed interest rates *	$ 36,278,337	$ 48,733,673	$ 27,331,173	$ 112,343,183
Loans at variable interest rates	68,871,289	54,596,810	3,504,632	126,972,731
Total	$ 105,149,626	$ 103,330,483	$ 30,835,805	$ 239,315,914

* - Includes loans with temporary fixed floor rate feature in effect.

Deferred Loan Fees and Costs. Net unamortized deferred loan fees and costs included in loans as of December 31, 2016 and 2015, amounted to $718,651 and $580,913 respectively, in net deferred fees.

Note 6 Federal Home Loan Bank Stock

The Bank owns 10,331 and 4,559 shares of capital stock in the Federal Home Loan Bank of Dallas as of December 31, 2016 and 2015, respectively. The stock has a par value and cost of $100 per share. Ownership of Federal Home Loan Bank stock is restricted. The stock can be sold only at par and only to the Federal Home Loan Bank or to another member institution.

Note 7 Foreclosed Assets

Foreclosed assets consisted of the following properties as of December 31, 2016 and 2015.

Description	Location	Date Acquired	2016	2015
Commercial Grain Elevator and 3 lots	Beeville, Texas	9/1/2015	$ 100,000	$ 642,725
Commercial Grain Elevator	Kenedy, Texas	9/1/2015	-	719,088
Commercial Grain Elevator	Banquette, Texas	9/1/2015	-	518,998
Commercial Grain Elevator	Yorktown, Texas	9/1/2015	-	26,136
Commercial lot	Bexar/Comal County, Texas	9/6/2016	1,036,400	-
Total Foreclosed Assets			$ 1,136,400	$ 1,906,947

Note 8 Banking Premises and Equipment

An analysis of banking premises and equipment by categories as of December 31, 2016 and 2015, is as follows:

	Estimated Useful Lives In Years	2016	2015
Land		$ 893,482	$ 893,482
Buildings and improvements	15-40	8,229,391	4,409,395
Furniture and equipment	5-25	1,589,732	1,966,198
Data processing equipment and software	3-5	626,828	586,035
Construction in progress		255,046	2,224,230
Total		11,594,479	10,079,340
Less accumulated depreciation		3,944,624	4,295,176
Banking Premises and Equipment, Net		$ 7,649,855	$ 5,784,164

Depreciation and amortization expense on banking premises and equipment amounted to $420,703 and $318,285 for the years ended December 31, 2016 and 2015, respectively.

Note 9 Deposits

Deposits at December 31, 2016 and 2015, consisted of the following:

	2016	2015
Interest-bearing checking accounts	$ 139,774,039	$ 139,750,444
Demand deposits and official checks	69,236,479	70,036,984
Savings	34,437,353	35,282,475
Time, $100,000 and over	32,478,409	26,871,669
Other time	12,443,706	12,342,886
Total Deposits	$ 288,369,986	$ 284,284,458

Certificates of deposit at December 31, 2016, mature as follows:

2017	$ 34,816,249
2018	3,437,216
2019	4,736,770
2020	509,222
2021	1,422,658
Total Certificates of Deposit	$ 44,922,115

Note 10 Borrowed Funds

In December of 2009, the board of directors and management of the subsidiary bank developed and approved a capital plan to raise $4,000,000 in additional equity capital to support the subsidiary bank's rapid growth and resulting change in risk profile. On March 4, 2010, the Corporation executed documents to borrow $4,000,000 from Frost National Bank and subsequently contributed the proceeds as equity capital surplus to the subsidiary bank. On November 21, 2013, the Corporation executed a new document that renewed and extended the March 4, 2010 agreement.

The March 4, 2010 loan had a term of seven (7) years (maturing March 4, 2017), with interest only payments due quarterly during the first year followed by regular principal and interest payments due quarterly, starting June 4, 2011. The interest rate equaled Frost National Bank's prime rate plus 1.75% and could reset daily. The November 21, 2013 loan has a term of six (6) years (maturing November 21, 2019), with quarterly, interest only payments starting February 21, 2014, and interest payments continue quarterly throughout the life of the note. The interest rate equals The Wall Street Journal's prime rate plus 1.00% and can reset daily. This renewal loan is a revolving line of credit in the initial amount of $4,000,000. The credit limit is reduced by $166,667 each quarter beginning February 21, 2014. Reductions of the outstanding principal balance of the loan are required when any such outstanding principal amounts exceed the then current reduced credit limit amount. At December 31, 2016, the unused credit limit is $1,073,817.

Note 10 Borrowed Funds, Continued

As part of the business loan agreement, the Corporation (and subsidiary bank as indicated) must comply with the following financial covenants and ratios:

- (Prior Loan) Cash Flow Coverage Ratio. Maintain a ratio of Cash Flow Coverage in excess of 5.00 to 1.00 through March 4, 2011, and decreasing to 1.25 to 1.00 on March 5, 2011, and thereafter. (Renewal) Debt Service Coverage Ratio. Maintain a Debt Service Coverage Ratio in excess of 1.25 to 1.00.
- (Prior Loan) Tangible Net Worth Requirements. Maintain a minimum Tangible Net Worth of not less than $12,500,000. (Renewal) Tangible Net Worth Requirements. Maintain a minimum Tangible Net Worth of not less than $18,000,000.
- (Prior Loan) Return on Assets. The subsidiary bank shall not permit its Return on Assets to be less than 0.50% for fiscal year 2010, 0.75% for fiscal year 2011, and 1.00% for fiscal year 2012 and thereafter. (Renewal) This requirement is not included in the Financial Covenants and Ratios of the Business Loan Agreement.
- (Prior Loan) Return on Equity. The subsidiary bank shall not permit its Return on Equity to be less than 7.00% for fiscal year 2010, 7.50% for fiscal year 2011, and 8.00% for fiscal year 2012 and thereafter. (Renewal) Return on Average Equity. The subsidiary bank shall not permit its Return on Average Equity to be less than 7.50% for fiscal year 2013 and increasing to 8.00% for fiscal year 2014 and thereafter.
- (Prior Loan) Capital Ratio. The subsidiary bank shall not permit its Capital Ratio to be less than 7.00%. (Renewal) This requirement is not included in the Financial Covenants and Ratios of the Business Loan Agreement.
- (Prior Loan) Loan Loss Reserve. The subsidiary bank shall not permit its Loan Loss Reserve Ratio to be less than 1.00%. (Renewal) This requirement is not included in the Financial Covenants and Ratios of the Business Loan Agreement.
- (Prior Loan and Renewal) Non-performing Assets Ratio: The subsidiary bank shall not permit its Non-performing Assets Ratio to be greater than 15%.
- (Prior Loan) Additional Indebtedness. The subsidiary bank shall not incur additional indebtedness in excess of $250,000 without prior approval of Lender. (Renewal) The subsidiary bank shall not incur indebtedness without the prior written consent of the lender, except for trade debt incurred in the normal course of business.
- (Prior Loan) Total Risk Based Capital Ratio. The subsidiary bank shall maintain at all times a Total Risk Based Capital Ratio of not less than 10.00%. (Renewal) This requirement is not included in the Financial Covenants and Ratios of the Business Loan Agreement.

The Corporation has pledged 120,000 shares of The First National Bank of Beeville stock, Certificate Number 1217, as collateral for these borrowed funds.

Interest expense for the years ended December 31, 2016 and 2015, amounted to $57,733 and $81,976, respectively.

Principal payments on the December 31, 2016, outstanding balance mature as follows:

	Required Payments	Planned Discretionary Payments
2017	$ -	$ 443,475
2018	259,516	465,278
2019	666,667	17,430
2020	-	-
2021	-	-
Total Borrowed Funds	$ 926,183	$ 926,183

Note 11 Income Taxes

Income tax expense (benefit) for 2016 and 2015 is summarized as follows:

	2016	2015
Federal		
Current portion	$ 1,344,128	$ 1,633,124
Deferred portion	136,781	(269,492)
State (all current)	(8,003)	58,002
Provision for Income Tax	$ 1,472,906	$ 1,421,634

State income tax expense consists of the Texas franchise tax calculated based on net margin which is essentially revenues less the greater of interest expense or compensation and benefits.

Deferred tax expense results from temporary differences in the recognition of income and expense for tax and financial reporting purposes.

Total income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 34 percent to income before federal income taxes as a result of the following:

	2016	2015
Tax at Statutory Rate (34%)	$ 1,613,130	$ 1,493,868
Nontaxable municipal interest	(92,565)	(89,963)
Nontaxable BOLI income	(48,255)	(47,091)
Nondeductible interest expense	2,414	1,567
Nontaxable dividends	(97)	(97)
Nondeductible expenses	6,282	5,348
State income tax expense	(8,003)	58,002
Provision for Income Tax	$ 1,472,906	$ 1,421,634

The Corporation and subsidiary bank file a consolidated federal income tax return on a calendar year basis.

The tax years that remain open and are subject to examination by the IRS are the 2013-2016 consolidated federal income tax returns. The tax years that remain open and are subject to examination by the Texas Comptroller are the 2014-2016 combined Texas franchise tax returns.

Note 11 Income Taxes, Continued

Temporary differences between financial statement carrying amounts and tax bases of assets and liabilities that gave rise to significant portions of the deferred tax asset and liability relate to the following:

	2016	2015
Difference between recognition of loan origination fees/costs for books & income taxes	$ 244,341	$ 197,510
SAR plan expenses per books not currently deductible for income taxes	151,751	94,138
Deferred cash incentive plan expenses per books not currently deductible for income taxes	43,173	31,124
Salary continuation plan expenses per books not currently deductible for income taxes	98,339	63,905
Writedowns of foreclosed assets per books not deductible for income taxes until sold	-	19,654
Difference between loan loss provisions charged to operating expense and the bad debt deduction taken for income taxes	726,020	718,723
Net unrealized loss on securities available for sale	7,902	-
Deferred Tax Asset	$ 1,271,526	$ 1,125,054

	2016	2015
Net unrealized gain on securities available for sale	$ -	$ 56,883
Difference between the fixed asset basis used for books and income taxes	348,044	256,298
Difference between recognition of income from accretion of discount on bonds for books and recognition for income taxes of gain on sale	14,234	24,880
Difference between recognition of income on Federal Home Loan Bank stock dividends for books and recognition for income taxes of gain on stock redemption	2,520	782
Write-ups of foreclosed assets per books not taxable for income taxes until sold	192,513	-
Deferred Tax Liability	$ 557,311	$ 338,843

	2016	2016
Deferred Tax Asset	$ 1,271,526	$ 1,125,054
Deferred Tax Liability	557,311	338,843
Net Deferred Tax Asset (Liability)	$ 714,215	$ 786,211

Note 11 Income Taxes, Continued

Deferred tax expense results from temporary differences in the recognition of income tax and expense for tax and financial reporting purposes. The sources and tax effects of these temporary differences are as follows.:

	2016	2015
Difference between recognition of loan origination fees/costs for books & income taxes	$ 46,831	$ 59,810
SAR plan expenses per books not currently deductible for income taxes	57,613	49,394
Deferred cash incentive plan expenses per books not currently deductible for income taxes	12,049	16,143
Salary continuation plan expenses per books not currently deductible for income taxes	34,434	33,284
Writedowns of foreclosed assets per books not deductible for income taxes until sold	(19,654)	19,654
Write-ups of foreclosed assets per books not taxable for income taxes until sold	(192,513)	-
Difference between loan loss provisions charged to operating expense and the bad debt deduction taken for income taxes	7,297	64,065
Difference between the fixed asset basis used for books and income taxes	(91,746)	36,432
Difference between recognition of income from accretion of discount on bonds for books and recognition for income taxes of gain on sale	10,646	(11,529)
Difference between recognition of income on Federal Home Loan Bank stock dividends for books and recognition for income taxes of gain on stock redemption	(1,738)	2,239
Fair value adjustment on securities available-for-sale	64,785	(34,820)
Net (Decrease) Increase in Deferred Tax Asset	$ (71,996)	$ 234,672

Note 12 Regulatory Matters

The subsidiary bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the subsidiary bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification 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 (set forth in the table below) of total, Tier I, and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

Note 12 Regulatory Matters, Continued

As of December 31, 2016, the most recent date that the subsidiary bank filed a Call Report, 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 I risk-based, and Tier I leverage ratios as disclosed in the table below. There are no conditions or events since the most recent Call Report date that management believes have changed the Bank's category.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Correction Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to Risk-Weighted Assets)	$ 32,716,000	13.03 %	$ 20,082,400	8.00 %	$ 25,103,000	10.00 %
Tier I Capital (to Risk-Weighted Assets)	$ 30,059,000	11.97 %	$ 15,061,800	6.00 %	$ 20,082,400	8.00 %
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 30,059,000	11.97 %	$ 11,296,350	4.50 %	$ 16,316,950	6.50 %
Tier I Capital (to Average Assets)	$ 30,059,000	9.57 %	$ 12,570,000	4.00 %	$ 15,712,500	5.00 %
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets)	$ 30,550,000	13.59 %	$ 17,981,200	8.00 %	$ 22,476,500	10.00 %
Tier I Capital (to Risk-Weighted Assets)	$ 27,995,000	12.46 %	$ 13,485,900	6.00 %	$ 17,981,200	8.00 %
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 27,995,000	12.46 %	$ 10,114,425	4.50 %	$ 14,609,725	6.50 %
Tier I Capital (to Average Assets)	$ 27,995,000	9.00 %	$ 12,438,240	4.00 %	$ 15,547,800	5.00 %

Note 13 Financial Instruments with Off-Balance Sheet Risk, Commitments and Contingencies

The subsidiary bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk, and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. The subsidiary bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments is represented by the contractual or notional amount of those instruments. The subsidiary bank uses the same credit policies in making such commitments as it does for on-balance sheet instruments. At December 31, 2016 and 2015, the notional amounts of the subsidiary bank's commitments to extend credit (net of participations sold portions) were $21,955,957 and $31,770,785, respectively, and the notional amounts of the standby letters of credit were $824,964 and $455,464, respectively.

Note 13 Financial Instruments with Off-Balance Sheet Risk, Commitments and Contingencies, 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 future cash requirements. The subsidiary bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the subsidiary bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

Standby letters of credit are conditional lending commitments issued by the subsidiary 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 subsidiary 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 subsidiary bank has not had any losses on its commitments in either year.

The Corporation and subsidiary bank are also subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Corporation and subsidiary bank in connection with such possible claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation and subsidiary bank.

Note 14 Concentrations of Credit

A majority of the subsidiary bank's loans, commitments, and standby letters of credit have been granted to customers in the subsidiary bank's footprint of the South-Central Texas Region. The subsidiary bank's primary market area is comprised of Bee, Dewitt and Guadalupe Counties along with Loan Production Offices located in Comal and Nueces Counties. Additionally, 20 counties that are contiguous to the primary market areas are considered part of the subsidiary bank's footprint, for a total of 25 counties in the footprint. The concentrations of credit by type are set forth in Note 5.

The subsidiary bank maintains cash balances and sells federal funds to several financial institutions. During the year, the balances may at times exceed federally insured limits. At December 31, 2016 and 2015, the subsidiary bank's uninsured cash and federal funds balances totaled approximately $11,680,409 and $10,050,268, respectively. The Federal Reserve bank held the majority of the uninsured balances as of December 31, 2016 and 2015, $9,500,000 and $10,049,000, respectively. The subsidiary bank has not experienced any losses in such accounts which were the result of balances in excess of federally insured limits. The subsidiary bank believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 15 Lines of Credit

At December 31, 2016 and 2015, the subsidiary bank had $3,000,000 available under a federal funds line of credit with Texas Independent Bank. The interest rate due on advances is quoted on the date an advance request is made. There was no balance outstanding under this line of credit as of December 31, 2016 or 2015. This line of credit was established for contingent liquidity purposes.

At December 31, 2016 and 2015, the subsidiary bank had $4,000,000 available under a federal funds line of credit with Frost National Bank. The interest rate due on advances is quoted on the date an advance request is made. There was no balance outstanding under the line of credit as of December 31, 2016, or 2015. The line of credit was established for contingent liquidity purposes.

At December 31, 2016 and 2015, the subsidiary bank had a blanket lien collateral agreement with the Federal Home Loan Bank under which advances up to $107,252,950 and $98,976,183, respectively, were available. Advances, when made, will be secured by single family, multi-family, commercial, commercial construction, land, small business and small farm loans. The interest rate due on advances will be quoted on the date an advance request is made. There was no balance outstanding under this line of credit as of December 31, 2016 or 2015.

Note 16 Employee Benefit Plan

The subsidiary bank has a 401(k) plan whereby all full-time employees with at least one year of service are eligible to participate in the plan. The plan allows the Bank to make discretionary contributions, including matching contributions, which have immediate vesting to the employees. For each of the years ended December 31, 2016 and 2015, the Bank has elected to match employee contributions up to five percent of each employee's base salary. Total expenses of the plan, including employer contributions and administrative expenses, amounted to $118,536 and $98,097 for the years ended December 31, 2016 and 2015, respectively.

Note 17 Stock Appreciation Rights Plan

Effective July 1, 2013, The First National Bank of Beeville (the subsidiary bank) is providing an incentive-based Stock Appreciation Rights Plan (PSP) for a select member of the Bank's management team, the CEO (the "Participant"). This plan will provide the Participant with an initial award and the opportunity to earn additional shares if certain goals are met, which is then deferred and paid out at the Participant's retirement age over a 10-year period. Total expenses of the plan amounted to $169,450 and $145,275 for the years ended December 31, 2016 and 2015, respectively.

Initial Grant:	2,500 initial shares
Incentive Criteria:	Additional shares are available if certain goals pertaining to the return on equity and return on assets of the Bank are met. The proposal only assumes that the initial shares of 2,500 were granted over the life of the plan.
Plan Lifetime Cap:	$3,000,000

Note 17 Stock Appreciation Rights Plan, Continued

Normal Retirement Age:	67
Normal Retirement Payment:	10 years
Normal Retirement Payout:	5.00% discount rate
Disability Benefit:	100% of the accrued balance paid in a single lump sum.
Death Benefit:	The normal retirement benefit is paid monthly to the beneficiaries within sixty (60) days following the last day of the month after death.
Vesting:	Vesting Schedule – 10% per year for 10 years for each grant. Termination prior to age 67 – vested account balance. Termination for cause – entire plan is forfeited. Change of control – 100% vested in accrued account balance. Termination of plan – 100% vested in accrued account balance as of that date paid in a lump sum.
Note:	Shares are granted at book value, and continue to be measured based on book value. The SAR Plan is a 409A Plan. The SAR Plan does not grant the Participant a right to receive any stock; rather, it is a right to receive the value of the appreciation on the shares granted to the Participant.

Note 18 Deferred Cash Incentive Plan

Effective January 1, 2014, The First National Bank of Beeville (the subsidiary bank) is providing an incentive-based Deferred Cash Incentive Plan (DCIP) to a select group of the bank's management team (the "Participants"). This plan will provide each Participant with an annual incentive award in which a percentage of base salary is deferred until the Participant attains age 67, at which time it is paid to the Participant in cash by the Bank. Total expenses of the plan amounted to $35,439 and $47,478 for the years ended December 31, 2016 and 2015, respectively.

Components:	Yearly award granted if each Participant accomplishes certain goals set by Executive Management. The goals may be based on Bank and/or individual criteria.
Earnings Credit:	The deferred account balance will be credited with the return on equity of the Bank, which was illustrated at 9.09%.
Death Benefit:	Pay account balance in a lump sum to designated beneficiaries.
Normal Retirement Age:	67
Disability:	Pay account balance in a lump sum

Note 18 Deferred Cash Incentive Plan, Continued

Vesting:	Cliff-vesting (0%) until each grant is paid to the Participant
Plan Distribution:	Each year a grant is made; it is then deferred for 4 years and paid out early in the sixth year. The remaining account balance is paid in full following the Participant's attainment of age 67.

Note 19 Salary Continuation Plan

Effective January 1, 2014, The First National Bank of Beeville is providing a Salary Continuation Plan for a select group of the Bank's management team (the "Participants"). This plan will provide the Participants with a 10-year payout at retirement. One plan participant has a normal retirement age of 60. Total expenses of the plan amounted to $101,278 and $97,894 for the years ended December 31, 2016 and 2015, respectively.

Normal Retirement Age:	67
Normal Retirement Benefit:	Specified annual amount as noted in individual participant agreement
Normal Retirement Payment:	10 years
Normal Retirement Accrual:	5% Discount Rate
Disability Benefit:	100% of the accrued balance paid in a single lump sum.
Death Benefit:	The normal retirement benefit is paid monthly to the beneficiaries within sixty (60) days following the last day of the month after death.
Other Distributions:	1) Vesting Schedule – 10% per year for 10 years, as determined by the Board.
	2) Termination prior to age 67 – vested account balance.
	3) Termination for cause – entire plan is forfeited
	4) Change of control – accrued account balance

Note 20 Fair Values of Financial Instruments

The subsidiary bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of Financial Accounting Standards Board Accounting Standards Codification, the fair value of a financial instrument is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the subsidiary bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Note 20 Fair Values of Financial Instruments, Continued

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the subsidiary bank groups its financial assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1. Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2. Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in 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 liability.

- Level 3. Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The reported carrying amounts in the December 31, 2016 and 2015 consolidated financial statements and accompanying notes are reasonable estimates of the fair values of the following instruments, due to the short maturities of those instruments:

- Cash and due from banks
- Interest-bearing deposit at FRB
- Certificates of deposit in other banks
- Accrued interest receivable
- Demand deposits
- Savings deposits
- Accrued interest payable
- Dividends payable

Note 20 Fair Values of Financial Instruments, Continued

The carrying values of Federal Home Loan Bank stock and Federal Reserve Bank stock approximate fair values based on the redemption provisions of the Federal Home Loan Bank and the Federal Reserve Bank (Level 1).

The following financial instruments have been reported or disclosed in the consolidated financial statements at estimated fair values (based primarily on quoted market prices) that should approximate fair values at December 31, 2016 and 2015 (Level 1 for U.S. Governments and Level 2 for Agencies, Corporates and Municipals).

- Investment securities available-for-sale and held-to-maturity
- Mortgage-backed securities available-for-sale and held-to-maturity

Bank owned life insurance approximates fair value because it is recorded at the initial investment amount plus the increase in cash value (Level 2).

For loans and time deposits, the estimated fair values and related carrying amounts are as follows. The fair values were estimated using a discounted cash flow calculation that applies interest rates currently being offered (Level 3).

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans receivable, net of allowance	$ 236,659,316	$ 237,353,000	$ 204,523,823	$ 203,825,000
Financial liabilities				
Time deposits	$ 44,922,115	$ 44,975,000	$ 39,214,555	$ 39,258,000

The carrying value of the borrowed funds approximates fair value since the interest rate is variable and can reset daily (Level 3).

Note 21 First Beeville Financial Corporation (Parent Company Only)

Following are the condensed financial statements of First Beeville Financial Corporation, the parent company.

Condensed Balance Sheets

	December 31, 2016	December 31, 2015
Cash	$ 692,944	$ 329,912
Investment in subsidiary	30,044,123	28,105,698
Other assets	3,498	-
Total Assets	$ 30,740,565	$ 28,435,610
Borrowed funds	$ 926,183	$ 1,464,437
Dividends Payable	445,830	-
Other liabilities	10,577	305,198
Stockholders' equity	29,357,975	26,665,975
Total Liabilities and Stockholders' Equity	$ 30,740,565	$ 28,435,610

Condensed Statements of Income

	Year Ended December 31, 2016	Year Ended December 31, 2015
Dividends from subsidiary	$ 1,273,050	$ 997,220
Other income	-	-
Expenses	111,585	81,976
Income (loss) before equity in undistributed income of subsidiary and income tax expense (benefit)	1,161,465	915,244
Income tax expense (benefit)	(37,939)	(27,872)
Income (loss) before equity in undistributed income of subsidiary	1,199,404	943,116
Equity in undistributed income of subsidiary	2,064,185	2,086,980
Net Income	$ 3,263,589	$ 3,030,096

Note 21 First Beeville Financial Corporation (Parent Company Only), Continued

Condensed Statements of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash flows from operating activities		
Net income	$ 3,263,589	$ 3,030,096
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed income of subsidiary	(2,064,185)	(2,086,980)
(Increase) decrease in other assets	(3,497)	(206)
Increase (decrease) in other liabilities	(294,621)	(2,188)
Net cash provided by operating activities	901,286	940,722
Cash flows from investing activities		
Capital contributed to subsidiary	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities		
Principal payments on notes payable	(538,254)	(635,836)
Net cash used in financing activities	(538,254)	(635,836)
Net increase in cash	363,032	304,886
Cash at beginning of year	329,912	25,026
Cash at end of year	$ 692,944	$ 329,912

Note 22 Subsequent Events

Management has evaluated subsequent events through March 21, 2017, the date the consolidated financial statements were available to be issued.