Independent Bankers Financial Corporation and Subsidiaries

Auditor's Report and Consolidated Financial Statements
December 31, 2015 and 2014

C O N T E N T S

BKD LLP
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Independent Auditor's Report

Board of Directors
Independent Bankers Financial Corporation
and Subsidiaries
Farmers Branch, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Independent Bankers Financial Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 Independent Bankers Financial Corporation and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the internal control over financial reporting of TIB-The Independent BankersBank (the Bank), a wholly-owned subsidiary of Independent Bankers Financial Corporation, as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 23, 2016, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

BKD, LLP

Houston, Texas
March 23, 2016

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2015 and 2014
(Dollar amounts in thousands, except per share amounts)

	2015	2014
Assets		
Cash and due from banks	$ 3,031	$ 12,952
Interest-bearing deposits in banks	1,028,786	635,843
Federal funds sold and securities purchased under agreements to resell	69,429	95,941
Cash and cash equivalents	1,101,246	744,736
Available-for-sale securities	421,268	463,192
Loans held for sale	13,040	31,892
Loans, net of allowance for loan losses of $15,083 and $15,618 at 2015 and 2014, respectively	897,952	813,504
Premises and equipment, net of accumulated depreciation of $5,516 and $11,014 at 2015 and 2014, respectively	25,343	27,570
Federal Reserve and Federal Home Loan Bank stock	8,488	3,365
Foreclosed assets held for sale	90	197
Interest receivable	5,418	5,016
Deferred income taxes	3,562	3,900
Mortgage servicing rights	16,229	14,582
Cash surrender value of life insurance	44,297	44,757
Goodwill	2,000	2,000
Core deposits and other intangibles	3,737	4,798
Other	24,779	23,815
Total Assets	$ 2,567,449	$ 2,183,324

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets (Continued)
December 31, 2015 and 2014
(Dollar amounts in thousands, except per share amounts)

	2015	2014
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	$ 567,911	$ 526,005
Interest-bearing	1,496,274	1,217,475
Total deposits	2,064,185	1,743,480
Short-term borrowings	101,737	132,839
Federal Home Loan Bank advances	125,000	-
Junior subordinated debentures	30,928	30,928
Derivatives	5,201	6,258
Interest payable and other liabilities	20,380	23,971
Total liabilities	2,347,431	1,937,476
Shareholders' Equity		
Preferred stock, $1 par value, liquidation value $1,000 per share, 1,000,000 shares authorized		
Series A fixed rate preferred stock		
No shares outstanding in 2015; 30,230 shares issued and outstanding in 2014	-	30
Series A floating rate preferred stock		
No shares outstanding in 2015; 9,775 shares issued and outstanding in 2014	-	10
Common stock, $10 par value; 5,000,000 shares authorized, 1,193,219 and 1,210,458 shares issued and outstanding in 2015 and 2014, respectively	11,932	12,105
Preferred surplus	-	39,965
Additional paid-in capital	37,297	37,824
Retained earnings	169,883	154,358
Accumulated other comprehensive income	906	1,556
Total shareholders' equity	220,018	245,848
Total Liabilities and Shareholders' Equity	$ 2,567,449	$ 2,183,324

The Notes to Consolidated Financial Statements
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Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2015 and 2014
(Dollar amounts in thousands)

	2015	2014
Interest Income		
Loans, including fees, taxable	$ 28,344	$ 25,335
Loans, including fees, tax exempt	6,333	5,696
Securities, taxable	9,634	12,123
Federal funds sold and securities purchased under agreements to resell	744	621
Deposits with financial institutions	2,834	2,637
Other	169	169
Total interest income	48,058	46,581
Interest Expense		
Deposits	11,431	9,314
Short-term borrowings	110	2,713
Junior subordinated debentures and other borrowings	558	538
Total interest expense	12,099	12,565
Net Interest Income	35,959	34,016
Provision for Loan Losses	1,140	200
Net Interest Income After Provision for Loan Losses	34,819	33,816
Noninterest Income		
Credit card fees	68,795	65,801
Safekeeping fees	3,716	3,426
Mortgage servicing fees	4,649	4,669
Customer security transaction fees	6,805	3,973
Audit and loan review fees	2,439	2,668
Gain on sale of loans	4,482	3,155
Gain on sale of available-for-sale securities, net	-	419
Gain on sale of fixed assets	2,358	-
Gain on non-hedging derivative transactions	467	2,441
Other	13,485	13,399
Total noninterest income	107,196	99,951

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Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Income (Continued)
Years Ended December 31, 2015 and 2014
(Dollar amounts in thousands)

	2015	2014
Noninterest Expense		
Credit card	$ 48,455	$ 44,838
Salaries and employee benefits	38,763	36,691
Premises, furniture and equipment	4,402	4,414
Telephone	1,818	2,103
Software	3,704	3,371
Mortgage operations	3,287	3,752
Decrease in fair value of mortgage servicing rights	2,313	2,818
Loss on sale of foreclosed assets held for sale	-	132
Item processing	737	898
Intangible amortization	1,061	1,265
Professional fees	2,066	1,777
Other	9,207	7,918
Total noninterest expense	115,813	109,977
Income Before Income Taxes	26,202	23,790
Provision for Income Taxes	6,682	6,175
Net Income	$ 19,520	$ 17,615

The Notes to Consolidated Financial Statements
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Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014
(Dollar amounts in thousands)

	2015	2014
Net Income	$ 19,520	$ 17,615
Other Comprehensive Income (Loss)		
Change in fair value of interest rate swap contracts	1,399	3,969
Net tax effect	(490)	(1,389)
Fair value of interest rate swap contracts, net	909	2,580
Unrealized gains (losses) on available-for-sale securities	(2,399)	16,032
Net tax effect	840	(5,611)
Unrealized gains (losses) on available-for-sale securities, net	(1,559)	10,421
Reclassification adjustment for gain on sale of securities	-	419
Net tax effect	-	(147)
Reclassification adjustment for gain on sale of securities, net	-	272
Total other comprehensive income (loss)	(650)	13,273
Comprehensive Income	$ 18,870	$ 30,888

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Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2015 and 2014
(Dollar amounts in thousands, except per share amounts)

	Preferred Stock	Common Stock	Preferred Surplus	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of January 1, 2014	$ 40	$ 11,864	$ 39,965	$ 34,054	$ 141,611	$ (11,717)	$ 215,817
Net income	-	-	-	-	17,615	-	17,615
Other comprehensive income	-	-	-	-	-	13,273	13,273
Purchase and retirement of common stock (1,691 shares)	-	(17)	-	(206)	-	-	(223)
Issuance of common stock (25,507 shares)	-	258	-	3,976	-	-	4,234
Preferred stock dividends	-	-	-	-	(2,205)	-	(2,205)
Common stock dividends declared ($2.20 per share)	-	-	-	-	(2,663)	-	(2,663)
Balance as of December 31, 2014	40	12,105	39,965	37,824	154,358	1,556	245,848
Net income	-	-	-	-	19,520	-	19,520
Other comprehensive loss	-	-	-	-	-	(650)	(650)
Purchase and retirement of common stock (30,999 shares)	-	(310)	-	(2,833)	-	-	(3,143)
Issuance of common stock (13,759 shares)	-	137	-	2,306	-	-	2,443
Purchase and retirement of preferred stock (40,005 shares)	(40)	-	(39,965)	-	-	-	(40,005)
Preferred stock dividends	-	-	-	-	(1,251)	-	(1,251)
Common stock dividends declared ($2.30 per share)	-	-	-	-	(2,744)	-	(2,744)
Balance as of December 31, 2015	$ -	$ 11,932	$ -	$ 37,297	$ 169,883	$ 906	$ 220,018

The Notes to Consolidated Financial Statements
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Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Dollar amounts in thousands)

	2015	2014
Operating Activities		
Net income	$ 19,520	$ 17,615
Items not requiring (providing) cash:		
Depreciation and amortization	8,144	8,274
Provision for loan losses	1,140	200
Deferred income taxes	688	446
Deferred compensation and stock-based compensation expense	1,911	1,560
Change in fair value of mortgage servicing rights	3,709	3,823
Net gains on sale of loans	(5,879)	(4,160)
Net realized gains on available-for-sale securities	-	(419)
Net realized gains on non-hedging derivative financial instruments	(467)	(2,441)
Net realized other (gains) losses	(2,380)	82
Changes in:		
Originations and purchases of loans held for sale	(376,854)	(323,247)
Proceeds from sale of loans held for sale	401,585	316,871
Interest receivable	(402)	(453)
Other assets	(2,435)	(4,209)
Interest payable and other liabilities	(4,893)	(1,290)
Net cash provided by operating activities	43,387	12,652
Investing Activities		
Purchases of available-for-sale securities	(42,240)	-
Proceeds from maturities, calls and pay downs of available-for-sale securities	76,744	67,389
Proceeds from the sale of available-for-sale securities	-	5,596
Purchases of mortgage servicing rights	(5,356)	(3,998)
Proceeds from non-hedging derivative transactions	925	1,746
Purchase of Federal Home Loan stock	(5,123)	-
Proceeds from Federal Home Loan and Federal Reserve Bank stock	-	161
Net change in loans	(85,825)	(187,990)
Redemption of cash surrender value life insurance	1,610	-
Proceeds from the sale of fixed assets	4,174	57
Purchase of premises and equipment	(1,700)	(9,335)
Proceeds from the sale of foreclosed assets held for sale	486	576
Net cash used in investing activities	(56,305)	(125,798)

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Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014
(Dollar amounts in thousands)

	2015	2014
Financing Activities		
Net change in deposits	320,705	47,665
Net change in federal funds purchased and securities sold under agreements to repurchase	(31,102)	(77,593)
Federal Home Loan Bank advances	125,000	-
Purchase and retirement of common stock	(3,143)	(223)
Purchase and retirement of preferred stock	(40,005)	-
Proceeds from issuance of common stock	2,443	4,234
Dividends paid	(4,470)	(4,696)
Net cash provided by (used in) financing activities	369,428	(30,613)
Increase (decrease) in Cash and Cash Equivalents	356,510	(143,759)
Cash and Cash Equivalents, Beginning of Year	744,736	888,495
Cash and Cash Equivalents, End of Year	$ 1,101,246	$ 744,736
Supplemental Cash Flows Information		
Interest paid	$ 12,106	$ 12,558
Income taxes paid	7,435	5,385
Sale and financing of foreclosed assets	237	197
Dividends declared but unpaid	2,744	3,219

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The Notes to Consolidated Financial Statements
are an integral part of these statements.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Independent Bankers Financial Corporation and Subsidiaries (the Corporation) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, TIB-The Independent Bankers Bank (the Bank). The Bank is an entity defined by statute as a "bankers' bank." The statute requires all shareholders of the Bank to be depository institutions or holding companies for depository institutions and that the Bank provides services only for depository institutions or at the request of depository institutions. In this context, the Bank provides various banking and banking-related services to financial institutions in the United States, many of which are shareholders of the Corporation. The Bank is subject to competition from other financial institutions and service organizations. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of Independent Bankers Financial Corporation (IBFC), the Bank and two nonbanking subsidiaries, ALX Consulting, Inc., (ALX) and TIB Service Company dba TIB-Bequeaith Solutions. In addition, the Corporation wholly owns IBFC Statutory Capital Trust II (Trust II). See Note 20 for further discussion regarding Trust II. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired with foreclosures or to satisfy loans, valuation of mortgage servicing rights, valuation of deferred tax assets, other-than-temporary impairments and fair values of financial instruments.

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Cash and Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of cash items, amounts due from banks, interest-bearing deposits in banks, federal funds sold and securities purchased under agreements to resell.

At December 31, 2015, the Corporation had bank accounts exceeding FDIC insured limits by approximately $412,642.

Federal funds sold are uncollateralized loans to other financial institutions.

Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

Interest-bearing Deposits in Banks

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

Securities

Securities with readily determinable fair values are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchased premiums and discounts are recognized in interest income using the prospective level yield to estimated maturity method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Corporation does not intend to sell a debt security, and it is more likely than not the Corporation will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss).

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Loans Held for Sale

Mortgage loans purchased and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to noninterest income. Gains and losses recognized upon the sale of the loans are determined on a specific identification method and are recorded in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for charge-offs, and the allowance for loan losses.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on loans is discontinued when 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. Loans are always placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is doubtful.

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

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans classified as impaired, an allowance is established when the discounted cash flows (or collateral value or

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observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given the default rate derived from the Corporation's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality not fully reflected in the historical loss or risk rating data.

A loan is impaired when, based on current information and events, the Corporation will probably be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, considering all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the respective lease term or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods if the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are:

Buildings	30 years
Building improvements	10 - 20 years
Leasehold improvements	5 - 10 years
Furniture and equipment	3 - 10 years

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Long-lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2015 and 2014.

Federal Reserve and Federal Home Loan Bank (FHLB) Stock

Federal Reserve and FHLB stock are required investments for membership in these entities. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs 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 costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are amortized on the straight-line basis over periods ranging from five to ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

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Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange-traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation. The Corporation's hedging policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specified assets and liabilities. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. The Corporation considers a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80 percent to 120 percent of the opposite change in the fair value of the hedged item attributable to the hedged risk. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedges and the hedged items are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income (loss). Ineffective portions of hedges are reflected in earnings as they occur. During the life of the hedge, the Corporation formally assesses whether derivatives designated as hedging instruments continue to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Corporation will discontinue hedge accounting prospectively and the derivative instrument is reclassified to a trading position recorded at fair value.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through the purchase or sale of financial assets. Under the servicing assets and liabilities accounting guidance (Accounting Standards Codification [ASC] 860-50), servicing rights resulting from the sale of loans purchased by the Corporation are initially measured at fair value at the date of transfer. The Corporation subsequently measures each class of servicing asset using the fair value method. Under the fair value method, the servicing rights are carried in the consolidated balance sheets at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available or on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an

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adverse impact on the value of the mortgage servicing rights and may cause an increase in noninterest expense.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

Transactions as Agent

The Corporation acts as an agent in facilitating an overnight investment transaction between participating respondent banks and the Federal Reserve System. Transactions with the Federal Reserve System are facilitated via the Excess Balance Account (EBA) pursuant to Regulation D for correspondent banks and similarly purposed institutions. The Corporation acts as intermediary for these transactions but is not otherwise obligated by the transaction. The Corporation's consolidated financial statements do not reflect these transactions except for the fees earned. At December 31, 2015 and 2014, the Corporation was agent for participating respondent banks on EBA funds totaling $2,046,466 and $2,493,165, respectively.

The Corporation generates significant revenues attributable to the services it provides to customer banks. The majority of these fees are related to interchange and merchant fees derived from the Corporation's card services products. Fees related to these transactions are recognized as revenue when the transaction is processed and the fees are earned.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Corporation—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the enacted tax law to the taxable income or excess of deductions over revenues.

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The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of over 50 percent; the terms examined and upon examination, also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority with full knowledge of all relevant information. Determining whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Corporation is no longer subject to U.S. Federal, state and local tax examinations by tax authorities for years before 2012.

The Corporation recognizes interest and penalties on income taxes as a component of income tax expense.

The Corporation files consolidated income tax returns with its subsidiaries.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and unrealized and realized gains and losses in derivative financial instruments that qualify for hedge accounting.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

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(Dollar amounts in thousands)

Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications did not affect net income.

NOTE 2. RESTRICTION ON CASH AND DUE FROM BANKS

The Corporation must maintain cash on deposit with the Federal Reserve Bank. The reserve required at December 31, 2015 and 2014 was $55,103 and $53,747, respectively.

NOTE 3. SECURITIES

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Mortgage-backed U.S. Government - sponsored enterprises (GSEs) - residential	$ 415,190	$ 7,213	$ 1,136	$ 421,268
December 31, 2014				
Mortgage-backed securities U.S. GSEs - residential	$ 454,716	$ 9,846	$ 1,370	$ 463,192

Mortgage-backed securities owned by the Corporation are backed by pools of residential mortgages insured or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC), the Government National Mortgage Corporation (GNMA) or the Federal National Mortgage Corporation (FNMA).

At December 31, 2015, there were no holdings of securities of any one issuer, other than the U.S. Government and its government sponsored entities, in an amount greater than 10 percent of shareholders' equity.

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(Dollar amounts in thousands)

Mortgage-backed securities are not due at a single due date.

Securities with estimated fair values of $277,525 and $333,080 at December 31, 2015 and 2014, respectively, were pledged to secure securities sold under agreements to repurchase or lines of credit as permitted by law.

There were no sales of available-for-sale securities in 2015. Gross gains of $419 resulting from sales of available-for-sale securities were realized for 2014.

The following table shows the Corporation's available-for-sale securities' gross unrealized losses and fair value of the Corporation's securities with unrealized losses not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015						
Mortgage-backed securities						
U.S. GSEs - residential	$ 190,563	$ 1,136	$ -	$ -	$ 190,563	$ 1,136
December 31, 2014						
Mortgage-backed securities						
U.S. GSEs - residential	$ -	$ -	$ 174,150	$ 1,370	$ 174,150	$ 1,370

For those securities with unrealized losses at December 31, 2015 and 2014, the losses are due to changes in interest rates and are considered by management to be temporary. Management has the ability and intent to hold these securities for a period of time sufficient for a recovery of cost.

NOTE 4. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

The Corporation enters into purchases of securities under agreements to resell substantially identical securities. Securities purchased under agreements to resell at December 31, 2015, consist of marketable government securities.

The amounts advanced under these agreements are reflected as assets in the consolidated balance sheets. It is the Corporation's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Corporation's rights to request additional collateral, based on its monitoring of the fair value of the underlying

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(Dollar amounts in thousands)

securities daily. The securities are delivered by entry into the Corporation's custody account maintained at the Federal Reserve Bank or into a third-party custodian's account designated by the Corporation under a written custodial agreement that explicitly recognizes the Corporation's interest in the securities. At December 31, 2015 and 2014, resell agreements outstanding are $11,558 and $16,000, respectively, and are scheduled to mature within 90 days. No material amount of agreements to resell securities purchased was outstanding with any individual dealer.

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, include:

	2015	2014
Correspondent loans		
Bank stock	$ 176,274	$ 148,817
Real estate	187,810	166,101
Mortgage warehouse	45,100	60,239
Commercial and industrial	35,609	20,623
Shared national credits	27,827	17,683
Agriculture	2,092	2,320
Consumer	373	414
Other	8,638	9,547
	483,723	425,744
Municipal	268,698	244,182
Credit card	153,802	150,519
Mortgage	6,812	8,677
Gross loans	913,035	829,122
Less allowance for loan losses	(15,083)	(15,618)
Net loans	$ 897,952	$ 813,504

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(Dollar amounts in thousands)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2015 and 2014.

	2015						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Allowance for loan losses							
Balance, beginning of year	$ 4,519	$ 6,142	$ 625	$ 873	$ 321	$ 3,138	$ 15,618
Provision charged to expense	163	(22)	339	(288)	(179)	1,127	1,140
Losses charged off	-	-	-	-	(91)	(2,131)	(2,222)
Recoveries	-	71	1	-	78	397	547
Balance, end of year	$ 4,682	$ 6,191	$ 965	$ 585	$ 129	$ 2,531	$ 15,083
Ending balance individually evaluated for impairment	$ 3	$ -	$ 312	$ -	$ 15	$ 17	$ 347
Ending balance collectively evaluated for impairment	$ 4,679	$ 6,191	$ 653	$ 585	$ 114	$ 2,514	$ 14,736
Loans							
Ending balance	$ 176,274	$ 187,810	$ 119,639	$ 268,698	$ 6,812	$ 153,802	$ 913,035
Ending balance individually evaluated for impairment	$ 47	$ 1,926	$ 3,500	$ -	$ 394	$ 771	$ 6,638
Ending balance collectively evaluated for impairment	$ 176,227	$ 185,884	$ 116,139	$ 268,698	$ 6,418	$ 153,031	$ 906,397

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(Dollar amounts in thousands)

	2014						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Allowance for loan losses							
Balance, beginning of year	$ 4,537	$ 5,977	$ 922	$ 711	$ 376	$ 4,547	$ 17,070
Provision charged to expense	(18)	165	(297)	162	46	142	200
Losses charged off	-	-	-	-	(165)	(1,890)	(2,055)
Recoveries	-	-	-	-	64	339	403
Balance, end of year	$ 4,519	$ 6,142	$ 625	$ 873	$ 321	$ 3,138	$ 15,618
Ending balance individually evaluated for impairment	$ 2	$ -	$ -	$ -	$ 149	$ 17	$ 168
Ending balance collectively evaluated for impairment	$ 4,517	$ 6,142	$ 625	$ 873	$ 172	$ 3,121	$ 15,450
Loans							
Ending balance	$ 148,817	$ 166,101	$ 110,826	$ 244,182	$ 8,677	$ 150,519	$ 829,122
Ending balance individually evaluated for impairment	$ 39	$ 4,882	$ -	$ -	$ 1,114	$ 632	$ 6,667
Ending balance collectively evaluated for impairment	$ 148,778	$ 161,219	$ 110,826	$ 244,182	$ 7,563	$ 149,887	$ 822,455

Internal Risk Categories

Loan grades are numbered 1 through 10. Grades 1 through 6 are satisfactory grades. The grade of 7, or Special Mention, represents loans of lower quality and is criticized. The grades of 8, or Substandard, and 9, or Doubtful, refer to assets that are classified. The grade of 10, or Loss, refers to loans considered uncollectible. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

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- **Grade 1** – A SUPERIOR asset is secured by highly liquid collateral. If a loan is secured by marketable securities, it should be adequately margined. This loan grade includes Municipal Loans with the guaranty of the Permanent School Fund. A superior asset should have no documentation deficiencies and minimal servicing issues.

- **Grade 2** – A STRONG asset is a secured loan with some other form of credit enhancement, other than liquid collateral, adequately margined. This will typically apply to Municipal Loans backed by the local taxing authority where law requires taxes to be sufficient to cover the debt obligation (i.e. General Obligations or Certificates of Obligations). Loans could be secured by marketable securities, but have margin smaller than those in the Superior category. Mortgage Warehouse Revolving Lines of Credits secured by mortgage notes, further secured by deeds of trusts, having liquid collateral able to be sold in the secondary market may also be a strong asset. A strong asset should have no documentation deficiencies and minimal servicing issues.

- **Grade 3** – A GOOD asset is based on an individual's or a company's financial capacity and/or secured by collateral where there is no impairment to liquidation. A good asset may have some vulnerability to changing economic or industry conditions but is a satisfactory risk. Revenue backed Municipal Loans could fall into this loan grade. Leveraged Loans and/or Shared National Credits with grades of risk matrices of 3-A, B, or C ratings may also fall into this category of a good asset, while maintaining a S&P rating of B or better, and remain a liquid loan to be sold at a near par value.

- **Grade 4** – A SATISFACTORY asset is based on an individual's or a company's financial capacity and/or secured by collateral where there is no impairment to liquidation. A satisfactory asset may have some deficiency or vulnerability above the norm, based on adverse economic trends and/or industry conditions but is an acceptable risk with the vulnerability noted. Borrowers typically reflect acceptable, but minimum debt service coverage ratios.

- **Grade 5 –** An ACCEPTABLE asset is similar in repayment capacity with increased vulnerability to changing economic or industry conditions based on underwriting concessions; excessive levels of guideline non-compliance (for bank stock loans); acceptable, but marginal debt service coverage ratios (for real estate loans); acceptable erratic financial trends but, not to the point of potential weakness. This loan grade would include unsecured or marginally secured loans to Borrower's with reasonable credit risk.

- **Grade 6 –** A PASS/NEEDS ATTENTION asset is used to identify credits which may have one or some of these characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack current or

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complete financial data and/or analysis, need additional monitoring, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others. This loan grade may include loan participations with a financially weak selling bank or a selling bank lacking the knowledge or expertise to lead the credit.

- **Grade 7** – A SPECIAL MENTION asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may cause 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 expose no institution to sufficient risk to warrent adverse classification.

- **Grade 8** – 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 bank will sustain some loss if the deficiencies are not corrected.

- **Grade 9** – An asset classified as DOUBTFUL has all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where on the basis of current information, and values, collection or liquidation in full is highly improbable. The length of time an asset may be classified doubtful is a matter of judgment.

- **Grade 10** – Assets classified LOSS are uncollectible and of such little value that their continuance as active assets of the bank is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may be affected. Amounts classified Loss should be promptly charged off.

Loan Origination Risk Management

The Corporation has certain lending policies and procedures in place designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures regularly. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Loans are generally in four primary categories: correspondent lending, credit cards, mortgage and municipal lending. Correspondent lending may further include bank stock,

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real estate, commercial and industrial, mortgage warehouse lines, shared national credits and other correspondent loans.

Correspondent bank loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and manage its business. Underwriting standards determine that the borrower's management possesses sound ethics and solid business acumen. The Corporation's management examines past, current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Correspondent loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most correspondent loans are generally secured by the assets being financed or other business assets. However, some short-term loans may be made on an unsecured basis. Included in correspondent loans are mortgage warehouse participations and ownership interests assigned in shared national credits/leveraged lending (secured term debt).

Mortgage warehouse borrowers generally have higher leverage and a low level of liquidity in relation to monthly operating expenses. The Corporation underwrites these loans on the borrower’s financial capacity to service debt requirements, the quality of the collateral portfolio, and the short-term nature of the Corporation’s participation interest in each of the residential mortgage loans secured by one-to-four family residences before they are sold into the secondary market. The risk of fraud is mitigated by a fraud insurance policy. The Corporation has partnered with an experienced servicer in the mortgage warehouse lending industry to purchase participation interests in mortgages.

The purchases of interests into Shared National Credit debt are marketable and can be sold at the current market price. These loans are underwritten on the cash flow of the borrower as well as other financial ratios, the borrower’s ability to obtain refinancing of the subject loan, and the tradability of the loan ownership interest on the open market. These loans have market risk as well as economic risk to the borrower’s cash flow. These loans are generally secured by all assets of the borrower except real estate.

Bank stock loans are those generally made to holding companies, control groups or individuals. Those loans to holding companies and control groups are generally for the purpose of bank capitalization, bank/branch purchases or liquidity. These loans are generally secured by a majority of the outstanding stock of the bank unless, through the underwriting process, it is determined the borrower warrants either unsecured debt or a minority position in collateral. Loans are also offered secured by minority interest bank stock or minority interest holding company stock. There is value in this underlying collateral, but emphasis is given to the overall creditworthiness of the borrower. Specific minimum guidelines are considered for both secured and unsecured debts.

Real estate loans noted above exclude "held-for-sale" loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real

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estate. Commercial real estate depends largely on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Corporation's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity can help reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. Within the category of commercial real estate, the volume of construction and development loans is insignificant. As a general rule, the Corporation avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The level of commercial real estate is monitored consistent with regulatory guidelines with levels substantially below those guidelines. Changes in real property values may affect the collectability of these loans, along with the condition of the collateral if foreclosed.

The majority of the residential 1-4 family real estate mortgage loans are underwritten utilizing agency guidelines and booked to sell in the secondary market. Risks on these loans are limited to early payment default and breaches of representations and warranties. A few loans are held to maturity and are accommodations for Bank officers and directors. Repayment of these loans depends primarily on the personal income and credit rating of the borrowers. Credit risk in these loans can be affected by economic conditions within the market areas that might affect either property values or a borrower's personal income.

The credit card portfolio comprises consumer and business loans extended through credit card accounts to individuals and entities. These loans are unsecured. The Corporation has a marketing relationship and provides an agent bank credit card program to customer banks across the country, which results in a geographically diverse portfolio. The portfolio is composed of stable, relationship-based applicants referred to the Corporation by these customer banks. The credit card program originated in the 1980s; therefore, the portfolio is seasoned and mature. The employment status of borrowers is a key risk factor that may affect the collectability of these receivables.

The Corporation will make loans to tax-exempt municipal entities. These entities will primarily be governmental entities such as cities, counties, school districts and economic development authorities, but may also include hospital districts, utility districts, universities, colleges and private schools. These entities are often well known to local bankers who desire to maintain or expand their relationship with the entity. In the risk assessment, municipal loans are categorized as General Obligations, Revenue Bonds and Permanent School Fund (PSF) guaranteed loans. Changes in real property value are a key risk factor that may affect the collectability of these loans along with the nature, value and condition of the collateral if repossessed.

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(Dollar amounts in thousands)

The Corporation engages TIBSCO (dba TIB-Bequeaith Banking Solutions), a consulting company wholly owned by the Corporation, to review and validate the credit risk program annually. Results of these reviews are presented to management and the Board of Directors. The independent loan review process complements and reinforces the risk identification and assessment decisions, made by lenders and credit personnel, and the Corporation's policies and procedures.

Concentrations of Credit

Most of the Corporation's lending activity occurs within the State of Texas and, to a much lesser degree, in other markets.

The following tables present the credit risk profile of the Corporation's loan portfolio based on internal rating category and payment activity as of December 31, 2015 and 2014.

	2015						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Grade:							
Pass (1-6)	$ 176,227	$ 187,810	$ 116,139	$ 268,698	$ 6,550	$ 153,031	$ 908,455
Special Mention	47	-	-	-	-	-	47
Substandard	-	-	3,500	-	262	703	4,465
Doubtful	-	-	-	-	-	68	68
Loss	-	-	-	-	-	-	-
Total	$ 176,274	$ 187,810	$ 119,639	$ 268,698	$ 6,812	$ 153,802	$ 913,035

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(Dollar amounts in thousands)

	2014						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Grade:							
Pass (1-6)	$ 148,778	$ 166,101	$ 110,826	$ 244,182	$ 7,632	$ 149,887	$ 827,406
Special Mention	39	-	-	-	-	-	39
Substandard	-	-	-	-	1,045	551	1,596
Doubtful	-	-	-	-	-	81	81
Loss	-	-	-	-	-	-	-
Total	$ 148,817	$ 166,101	$ 110,826	$ 244,182	$ 8,677	$ 150,519	$ 829,122

The Corporation evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during 2015 and 2014.

The following tables present the Corporation's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2015 and 2014:

	2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Correspondent loans:							
Bank stock	$ -	$ -	$ -	$ -	$ 176,274	$ 176,274	$ -
Real estate	-	-	-	-	187,810	187,810	-
Mortgage warehouse	-	-	-	-	45,100	45,100	-
Commercial and industrial	-	-	-	-	35,609	35,609	-
Shared national credits	-	-	-	-	27,827	27,827	-
Agriculture	-	-	-	-	2,092	2,092	-
Consumer	-	-	-	-	373	373	-
Other	-	-	-	-	8,638	8,638	-
Municipal	-	-	-	-	268,698	268,698	-
Credit card	728	414	357	1,499	152,303	153,802	-
Mortgage	299	154	-	453	6,359	6,812	-
Total	$ 1,027	$ 568	$ 357	$ 1,952	$ 911,083	$ 913,035	$ -

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(Dollar amounts in thousands)

	2014						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Correspondent loans:							
Bank stock	$ -	$ -	$ -	$ -	$ 148,817	$ 148,817	$ -
Real estate	-	-	-	-	166,101	166,101	-
Mortgage warehouse	-	-	-	-	60,239	60,239	-
Commercial and industrial	-	-	-	-	20,623	20,623	-
Shared national credits	-	-	-	-	17,683	17,683	-
Agriculture	-	-	-	-	2,320	2,320	-
Consumer	-	-	-	-	414	414	-
Other	-	-	-	-	9,547	9,547	-
Municipal	-	-	-	-	244,182	244,182	-
Credit card	528	364	268	1,160	149,359	150,519	-
Mortgage	-	31	-	31	8,646	8,677	-
Total	$ 528	$ 395	$ 268	$ 1,191	$ 827,931	$ 829,122	$ -

A loan is impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, the Corporation will probably be unable to collect all amounts due from the borrower under the contractual terms of the loan. Impaired loans include nonperforming correspondent and mortgage loans, but also include loans modified in troubled debt restructurings (TDRs).

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(Dollar amounts in thousands)

The following tables present impaired loans for the years ended December 31, 2015 and 2014:

	2015				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Real estate	$ 1,926	$ 1,926	$ -	$ 2,320	$ 138
Mortgage	240	240	-	306	27
Total loans without a specific valuation allowance	2,166	2,166	-	2,626	165
Loans with a specific valuation allowance:					
Mortgage	154	154	15	155	10
Total impaired loans	$ 2,320	$ 2,320	$ 15	$ 2,781	$ 175

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(Dollar amounts in thousands)

	2014				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Bank stock	$ -	$ -	$ -	$ 162	$ 5
Real estate	4,882	4,882	-	5,680	555
Mortgage	369	389	-	659	1
Total loans without a specific valuation allowance	5,251	5,271	-	6,501	561
Loans with a specific valuation allowance:					
Mortgage	374	380	143	506	-
Total impaired loans	$ 5,625	$ 5,651	$ 143	$ 7,007	$ 561

The following table presents the Corporation's nonaccrual loans at December 31, 2015 and 2014. This table excludes purchased impaired loans and performing troubled debt restructurings.

	2015	2014
Mortgage	$ 108	$ 674
Total	$ 108	$ 674

At December 31, 2015 and 2014, the Corporation had loans modified in TDRs and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

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(Dollar amounts in thousands)

The following tables present information regarding new TDRs by class for the years ended December 31, 2015 and December 31, 2014.

Newly classified TDRs:

	2015		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Mortgage - extension of maturity and reduction in interest rate	1	$ 142	$ 156

	2014		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Mortgage - extension of maturity and reduction in interest rate	2	$ 127	$ 127

There were no TDRs during the previous 12 months that subsequently defaulted during the years ended December 31, 2015 and 2014, respectively.

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Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2015 and 2014
(Dollar amounts in thousands)

NOTE 6. FORECLOSED ASSETS HELD FOR SALE

Activity applicable to foreclosed assets during 2015 and 2014 includes the following:

	2015	2014
Net gain (loss) on sale of foreclosed assets held for sale	$ 11	$ (132)
Net operating income (expense)	(14)	11
	$ (3)	$ (121)

NOTE 7. PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	2015	2014
Land	$ 2,334	$ 2,916
Buildings and improvements	22,118	27,482
Furniture and equipment	6,187	7,976
Leasehold improvements	220	210
	30,859	38,584
Less accumulated depreciation	5,516	11,014
Net premises and equipment	$ 25,343	$ 27,570

In June 2015, the Corporation sold the Phelps location for $4,350 and recorded a net gain on sale of $2,355.

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(Dollar amounts in thousands)

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation uses various derivative financial instruments to manage its interest rate risk and market risks in accommodating the needs of its customers. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the Corporation's accompanying consolidated financial statements and are measured at fair value.

Cash Flow Hedge

The Corporation utilizes interest rate swap contracts to mitigate interest rate risk in a rising rate environment. The Corporation entered into certain interest rate swap contracts designed to offset some of its risk on forecasted variable interest obligations arising from its federal funds principal purchases and brokered deposits. In 2015 and 2014, the Corporation entered into three and two swap contracts, respectively, related to certain brokered deposits. The contracts are designated as highly effective cash flow hedges. There were no amounts reclassified to earnings due to ineffectiveness during 2015 or 2014.

The swap contracts at December 31, 2015 and 2014, are summarized as follows:

	Effective Date	Termination Date	Fixed Rate	Variable Rate	Notional Amount	Fair Value 2015	Fair Value 2014
Agreement 1	November 28, 2008	May 31, 2016	2.685%	Fed Funds Daily Rate	50,000	$ (485)	$ (1,606)
Agreement 2	November 28, 2008	November 28, 2015	2.620%	Fed Funds Daily Rate	50,000	-	(1,101)
Agreement 3	May 4, 2011	May 1, 2017	2.258%	Fed Funds Daily Rate	25,000	(565)	(878)
Agreement 4	May 4, 2011	November 1, 2016	2.097%	Fed Funds Daily Rate	25,000	(366)	(717)
Agreement 5	December 29, 2014	December 29, 2022	2.310%	1 Month Libor Daily Rate	50,000	(1,479)	(890)
Agreement 6	December 29, 2014	December 29, 2022	2.310%	1 Month Libor Daily Rate	50,000	(1,479)	(890)
Agreement 7	December 30, 2015	December 29,2023	2.050%	1 Month Libor Daily Rate	50,000	(445)	-
Agreement 8	December 30, 2015	December 29,2023	1.913%	1 Month Libor Daily Rate	25,000	24	-
Agreement 9	December 30, 2015	December 29,2021	1.660%	1 Month Libor Daily Rate	25,000	112	-
						$ (4,683)	$ (6,082)

An asset of $136 is included in other assets at December 31, 2015. At December 31, 2014, there were no swap contracts included in other assets. A liability of $4,819 and $6,082 is included in derivative liabilities at December 31, 2015 and 2014, respectively, and an unrealized gain of $909 and $2,580, net of deferred tax of $490 and $1,389, is included in other comprehensive income (loss) for the years ended December 31, 2015 and 2014, respectively.

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(Dollar amounts in thousands)

Swap Collateral

The aggregate fair value of marketable government securities pledged as collateral by the Corporation related to swap contracts totaled $21,578 and $35,182 at December 31, 2015 and 2014, respectively.

Non-hedging derivatives

The Corporation purchases various U.S. treasury puts, calls and futures contracts to offset changes in the fair value of mortgage servicing rights. These positions mature or expire approximately every 90 days and are replaced with similar positions. The average positions outstanding during the year are materially consistent with the positions outstanding at December 31, 2015. The Corporation recorded a gain of $467 and $2,441 in 2015 and 2014, respectively, for these derivatives.

The table below presents the fair value of derivative instruments as of December 31, 2015 and 2014.

	2015		2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate derivatives designated as cash flow hedges:				
Interest rate swaps on brokered deposits	$ 300,000	$ (4,683)	$ 250,000	$ (6,082)
	300,000	(4,683)	250,000	(6,082)
Derivatives not designated as hedging instruments:				
Futures contracts	27,500	(61)	27,000	232
Written options	25,000	(321)	20,500	(176)
Purchased options	13,000	14	14,500	34
	65,500	(368)	62,000	90
Total derivatives	$ 365,500	$ (5,051)	$ 312,000	$ (5,992)
Derivative - assets		$ 150		$ 266
Derivative - liabilities		(5,201)		(6,258)
		$ (5,051)		$ (5,992)

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(Dollar amounts in thousands)

NOTE 9. OTHER INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2015 and 2014, were:

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 1,066	$ (1,066)	$ 1,066	$ (1,048)
Other	9,082	(5,345)	9,082	(4,302)
	$ 10,148	$ (6,411)	$ 10,148	$ (5,350)

Amortization expense for the years ended December 31, 2015 and 2014, was $1,061 and $1,265, respectively. Estimated amortization expense for each of these five years is:

2016	$ 1,043
2017	1,020
2018	1,001
2019	540
2020	124

NOTE 10. LOAN SERVICING

Loans serviced for others are not included in the Corporation's accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage and other loans serviced for others were $1,662,204 and $1,585,932 at December 31, 2015 and 2014, respectively.

The table on the following page summarizes the activity in mortgage servicing rights measured using the fair value method for the years ended December 31, 2015 and 2014.

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(Dollar amounts in thousands)

	2015	2014
Fair value as of the beginning of the period	$ 14,582	$ 14,407
Additions		
Purchases	5,356	3,998
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model*	(3,709)	(3,823)
Fair value at the end of the period	$ 16,229	$ 14,582

*Reflects changes in discount rates and prepayment speed assumptions.

NOTE 11. TIME DEPOSITS

Time deposits in denominations of $250 or more were $900 and $44,772 on December 31, 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	$ 307,763

NOTE 12. SHORT-TERM BORROWINGS

Short-term borrowings included the following at December 31, 2015 and 2014:

	2015	2014
Federal funds purchased and agreements to repurchase	$ 101,737	$ 132,839
FHLB advances	$ 125,000	$ -

The Corporation sells certain securities under agreements to repurchase. The agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. At December 31, 2015, repurchase agreements outstanding were $7,700 and matured within 90 days. At December 31, 2014, there were no repurchase agreements outstanding. The maximum and minimum amount of outstanding agreements during 2015 totaled $15,000 and $5,000,

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(Dollar amounts in thousands)

respectively. The interest rate on these agreements are based on the federal funds rate and ranged from 0.05% to 0.30% in 2015.

At December 31, 2015 and 2014, the Bank had a primary credit line with the Federal Reserve Bank of Dallas with an advanceable amount of $354,000 and $345,000, respectively. The line is secured by marketable securities and loans. There were no balances outstanding on this credit line at December 31, 2015. At December 31, 2015 and 2014, the Bank also had a credit line with the Federal Home Loan Bank of Dallas with an advanceable amount of up to $20,000 and $176,000, respectively. At December 31, 2015, the Bank had an outstanding advance of $125,000 with an interest rate of 0.31% and maturity date of January 14, 2016 secured by marketable securities. There were no balances outstanding on either credit line in 2014.

NOTE 13. INCOME TAXES

The Corporation or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various states' jurisdictions.

The provision for income taxes includes these components:

	2015	2014
Taxes currently payable	$ 5,994	$ 5,729
Deferred income taxes	688	446
Income tax expense	$ 6,682	$ 6,175

A reconciliation of income tax expense at the statutory rate to the Corporation's actual income tax expense is as follows:

	2015	2014
Computed at the statutory rate (35%)	$ 9,171	$ 8,327
Increase (decrease) resulting from		
Tax-exempt interest	(2,217)	(1,994)
Nondeductible expenses	321	262
Life insurance proceeds	(191)	-
Increase in cash value of life insurance	(402)	(420)
Actual tax expense	$ 6,682	$ 6,175

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(Dollar amounts in thousands)

The tax effects of temporary differences related to deferred taxes on the consolidated balance sheets were:

	2015	2014
Deferred tax assets		
Allowance for loan losses	$ 5,093	$ 5,319
Premises and equipment	76	416
Interest rate swap derivative	1,639	2,129
Derivatives	129	-
Credit card premiums and intangibles	246	-
Accrued expenses and other liabilities	4,570	4,256
Other	386	230
Total deferred tax assets	12,139	12,350
Deferred tax liabilities		
Derivatives	-	31
Credit card premiums and intangibles	-	332
Mortgage servicing rights	6,450	5,120
Unrealized gains on available-for-sale securities	2,127	2,967
Total deferred tax liabilities	8,577	8,450
Net deferred tax assets	$ 3,562	$ 3,900

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income, included in shareholders' equity, are as follows:

	2015	2014
Net unrealized gains on available-for-sale securities	$ 6,077	$ 8,476
Cash flow hedges	(4,683)	(6,082)
	1,394	2,394
Tax effect	(488)	(838)
Net-of-tax amount	$ 906	$ 1,556

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NOTE 15. SHAREHOLDERS' EQUITY

The Corporation has 2,000,000 authorized shares of convertible redeemable Class B common stock, $10.00 par value per share and 1,000,000 authorized shares of preferred stock (Series A, B, C and D), $1.00 par value per share. There were no shares outstanding of convertible redeemable common stock or preferred stock (Series B, C and D) as of December 31, 2015 and 2014. There were no shares of Series A preferred stock outstanding at December 31, 2015. There were 40,005 shares of Series A preferred stock outstanding as of December 31, 2014.

Series A preferred stock dividend rights are cumulative and payable quarterly. The Corporation had the option after the 5th anniversary of issuance to redeem the stock at a price equal to $1.00 per share plus any accrued and unpaid dividends. The Corporation exercised the option to redeem preferred stock on the 5th anniversary date of each issuance. All outstanding Series A preferred stock was redeemed in 2015. Series A preferred stock rank senior to common stock regarding dividend rights and liquidation preferences. Series A preferred stock shareholders have no voting rights.

The Corporation maintains a Dividend Reinvestment and Share Purchase Plan whereby shareholders may elect to: (1) reinvest common stock dividends in the common stock of the Corporation, and (2) make optional cash payments to purchase additional common stock of the Corporation. The purchase price of common shares issued under the Plan is based on the book value of the stock (excluding other comprehensive income) as of the quarter ended immediately preceding the reinvestment date. During 2015 and 2014, 5,482 and 5,568 shares of common stock were issued under the Plan with an average issue price of $168.77 and $158.06 per share, respectively.

NOTE 16. REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measure of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The Corporation and the Bank are subject to minimum capital ratios in the Basel III capital framework effective January 1, 2015. Basel III mandates minimum capital ratios plus a phased in Capital Conservation Buffer of 2.5% to be achieved by January 1, 2019. The buffer serves as additional capital protection to weather periods of

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(Dollar amounts in thousands)

economic stress. Banking organizations with a buffer greater than 2.5% are not subject to limits on distributions or payments; however, an organization with a buffer of less than 2.5% is subject to increasingly stringent limitations as the buffer approaches zero. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules.

Management believes as of December 31, 2015, the Corporation and Bank meet all capital adequacy requirements to which they are subject. At year end 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since last notification that management believes have changed the Bank's category

The Corporation's and the Bank's actual capital amounts and ratios are also presented in the following tables:

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Tier I capital to average assets						
Consolidated	$ 245,132	9.4%	$ 104,042	4.0%	N/A	N/A
Bank only	235,963	9.1%	103,912	4.0%	$ 129,891	5.0%
Common Equity Tier I capital to risk-weighted assets						
Consolidated	215,132	16.7%	58,009	4.5%	N/A	N/A
Bank only	235,963	18.4%	57,868	4.5%	83,587	6.5%
Tier I capital to risk-weighted assets						
Consolidated	245,132	19.0%	77,345	6.0%	N/A	N/A
Bank only	235,963	18.4%	77,158	6.0%	102,877	8.0%
Total capital to risk-weighted assets						
Consolidated	260,215	20.2%	103,127	8.0%	N/A	N/A
Bank only	251,046	19.5%	102,877	8.0%	128,596	10.0%

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(Dollar amounts in thousands)

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Tier I capital to average assets						
Consolidated	$ 263,995	11.8%	$ 89,603	4.0%	N/A	N/A
Bank only	221,609	9.9%	89,461	4.0%	$ 111,826	5.0%
Tier I capital to risk-weighted assets						
Consolidated	263,995	22.3%	47,463	4.0%	N/A	N/A
Bank only	221,609	18.7%	47,327	4.0%	70,990	6.0%
Total capital to risk-weighted assets						
Consolidated	281,413	23.7%	94,925	8.0%	N/A	N/A
Bank only	236,409	20.0%	94,653	8.0%	118,317	10.0%

NOTE 17. RELATED-PARTY TRANSACTIONS

At December 31, 2015 and 2014, the Corporation had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of $4,266 and $5,528, respectively.

Annual activity consisted of the following:

	2015	2014
Beginning balance	$ 5,528	$ 600
New loans	155	6,049
Repayments	(1,417)	(1,121)
Ending balance	$ 4,266	$ 5,528

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

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Deposits from related parties held by the Bank at December 31, 2015 and 2014, totaled $80,248 and $57,332, respectively.

NOTE 18. EMPLOYEE BENEFITS

The Corporation maintains a savings plan for employees. Employees are eligible to participate immediately upon hire subject to the next enrollment date. Maximum annual employer and employee contributions to the plan are limited to $53 or 100 percent of an employee's gross earnings, whichever is less. The Corporation may make contributions in an amount necessary to match up to a maximum of 5 percent of the employee's annual compensation. Both employer and employee contributions to the savings plan vest immediately. The Corporation's contributions were $1,079 and $1,055 in 2015 and 2014, respectively.

The Corporation has nonqualified deferred compensation plans, which provide death and retirement benefits to certain officers. Benefits under the plans are payable over a 15-year period following death or retirement. Deferred compensation expense of $1,071 and $630 was recorded in 2015 and 2014, respectively. Deferred compensation payable totaled $10,119 and $9,550 at December 31, 2015 and 2014, respectively. The Corporation purchased life insurance policies to fund future plan obligations. These policies had an aggregate cash surrender value of $44,297 and $44,757 at December 31, 2015 and 2014, respectively

During 2002, the Corporation adopted a Phantom Stock Ownership and Long-term Incentive Plan under which eligible employees may be granted phantom shares from an initial pool of 108,000 shares and such shares generally vest over five years. The value of the phantom shares is calculated using an intrinsic method based on the change in the book value of the Corporation's stock from the original grant date. Holders of the phantom shares have no rights as a shareholder of the Corporation, but may redeem vested phantom shares held for cash in an amount equal to the increase in the book value of the Corporation's common stock subsequent to the grant date.

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(Dollar amounts in thousands)

Information regarding phantom shares is as follows:

	2015	2014
Phantom shares outstanding, beginning of year	4,909	6,506
Redeemed	(3,809)	(1,597)
Phantom shares outstanding, end of year	1,100	4,909
Available for grant, end of year	27,039	27,039
Vested, end of year	1,100	4,909

All phantom shares were vested as of December 31, 2009. The value of phantom shares redeemed in 2015 and 2014 was $507 and $184, respectively. The tax benefit recognized in 2015 and 2014 was $178 and $65, respectively. There were no phantom shares granted in 2015 and 2014.

In 2006, the Corporation adopted a Stock Appreciation Right Plan (SAR) under which eligible employees are awarded the right to receive a lump sum cash payment in an amount equal to the increase in the fair market value of the Corporation's stock on an established date, after the vesting period of generally five years, over the grant date price of the SAR. The value of the SAR awards is calculated using an intrinsic method based on the change in the book value of the Corporation's stock from the original grant date.

	2015	2014
SAR awards outstanding, beginning of year	67,750	63,850
Redeemed	-	(11,300)
Forfeited	(1,400)	(250)
Granted	17,000	15,450
SAR awards outstanding, end of year	83,350	67,750

The number of shares of SAR awards granted in 2015 and 2014 was 17,000 and 15,450, respectively. The value of SAR awards vested totaled $783 and $683 in 2015 and 2014, respectively. No SAR awards were redeemed in 2015. The value of SAR awards redeemed totaled $683 in 2014. The tax benefit recognized in 2014 was $239.

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(Dollar amounts in thousands)

Compensation expense related to phantom shares and stock appreciation rights is accrued over the vesting period of the award, plus any increases in intrinsic value. Accrued compensation payable under the plans totaled $2,114 and $1,782 at December 31, 2015 and 2014, respectively. Compensation expense recognized under the plans totaled $840 and $930 in 2015 and 2014, respectively.

NOTE 19. OPERATING LEASES

The Corporation has several non-cancellable operating leases, primarily for certain office facilities and office equipment that expire at various dates through 2018. These leases generally contain renewal options and require the Corporation to pay all executory costs such as taxes, maintenance and insurance. Rental expense for these leases was $520 and $877 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under operating leases are:

	Operating Leases
2016	$ 296
2017	99
2018	53
Total minimum lease payments	$ 448

NOTE 20. JUNIOR SUBORDINATED DEBENTURES

On January 25, 2006, the Corporation issued $30,928 of Floating Rate Junior Subordinated Debentures to a newly formed wholly owned subsidiary, Trust II. Trust II sold Capital Securities of $30,000. The Corporation also made an equity contribution of $928 to form Trust II. Interest on the debentures is payable quarterly at 3-month LIBOR plus 1.480 percent (1.9920 percent and 1.7206 percent at December 31, 2015 and 2014, respectively) and the debentures mature on March 15, 2036.

The Corporation’s obligations under the Capital Securities and Junior Subordinated Debentures are unsecured and rank junior in priority to any existing and future indebtedness of the Corporation. The Corporation may dissolve Trust II and distribute the Junior Subordinated Debentures to holders of the Capital Securities in exchange for the Capital Securities.

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The Corporation accounts for Trust II in accordance with ASC Topic 810, *Consolidation*. ASC 810 establishes accounting guidance for consolidation of variable interest entities (VIEs) that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE is the entity that absorbs most of the VIE's expected losses, receives most of the VIE's expected residual returns, or both, because of ownership, controlling interest, contractual relationship, or other business relationship with the VIE. Prior to the implementation of ASC 810, VIEs were consolidated when an enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. ASC 810 requires the Corporation to deconsolidate its investment in trust subsidiaries because the Corporation is not the primary beneficiary.

NOTE 21. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. A hierarchy of three levels of inputs may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as 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 assets or liabilities.

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

Recurring Measurements

The table on the following page presents the fair value measurements of assets and liabilities recognized in the Corporation's accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014.

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(Dollar amounts in thousands)

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015:				
Available-for-sale securities				
U.S. GSEs - residential	$ 421,268	$ -	$ 421,268	$ -
Mortgage servicing rights	16,229	-		16,229
Derivative assets	150	14	136	-
Derivative liabilities	(5,201)	(382)	(4,819)	-
December 31, 2014:				
Available-for-sale securities				
U.S. GSEs - residential	$ 463,192	$ -	$ 463,192	$ -
Mortgage servicing rights	14,582	-	-	14,582
Derivative assets	266	266	-	-
Derivative liabilities	(6,258)	(176)	(6,082)	-

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, and the general classification of such assets and liabilities under the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2015 and 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not indicate net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, using different methodologies or assumptions to determine the

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fair value of certain financial instruments could cause a different estimate of fair value at the reporting date. The reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the consolidated balance sheets date may differ significantly from the amounts presented herein.

Available-for-sale Securities

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

Derivatives

Derivatives are reported at fair value utilizing Level 1 and Level 2 inputs. The Corporation uses dealer quotations obtained from third-party firms for derivatives used for hedging mortgage servicing rights. Third-party firms make use of exchange settlement prices (Level 1), which are published daily to value these derivatives. The Corporation performs an internal evaluation to estimate fair value of interest rate swap contracts through valuation models with observable market data inputs (Level 2).

Mortgage Servicing Rights

Mortgage servicing rights are reported at fair value utilizing Level 3 inputs. The Corporation uses an independent valuation firm to estimate the fair value of mortgage servicing rights through prevailing market participant assumptions and market participant valuation processes. This valuation and its techniques are periodically tested and validated against other third-party firm valuations. To determine the fair value of mortgage servicing rights, they are placed in homogeneous groups by investor, remittance requirements, loan type, interest rate and year of origination. At December 31, 2015 and 2014, prepayment speeds were determined using Andrew Davidson's MBS Enhanced Prepayment Model and resulted in weighted-average years to payoff of 6.75 years and 6.15 years, respectively. At December 31, 2015 and 2014, the primary discount rates averaged 9.93 percent and 9.84 percent, respectively. During the years ended December 31, 2015 and 2014, changes in fair value were attributable to changes in valuation inputs and assumptions.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the Corporation's accompanying consolidated balance sheets using significant unobservable (Level 3) inputs.

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(Dollar amounts in thousands)

	Mortgage Servicing Rights
Balance, January 1, 2014	$ 14,407
Included in net income:	
Decrease in fair value	(3,823)
Purchases	3,998
Balance, December 31, 2014	14,582
Included in net income:	
Decrease in fair value	(3,709)
Purchases	5,356
Balance, December 31, 2015	$ 16,229

Changes in fair value reflected in the table above are included in noninterest expense for the years ended December 31, 2015 and 2014.

For the years ended December 31, 2015 and 2014, there were no significant transfers among Levels 1, 2 and 3.

Nonrecurring Measurements

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

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of cost or fair value less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and are classified as Level 3.

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(Dollar amounts in thousands)

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015:				
Foreclosed assets held for sale	$ 90	$ -	$ -	$ 90
December 31, 2014:				
Foreclosed assets held for sale	$ 197	$ -	$ -	$ 197

Unobservable (Level 3) Inputs

The table on the following page presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at December 31, 2015 and 2014.

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(Dollar amounts in thousands)

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 16,229	Discounted cash flow	Discount rate Prepayments Delinquencies	9.5% - 10.5% (9.94%) 8.5% - 9.5% (8.93%) 4.5% - 5.5% (4.8%)
Foreclosed assets held for sale	90	Market comparable properties	Comparability adjustments	Not available

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 14,582	Discounted cash flow	Discount rate Prepayments Delinquencies	9% - 10% (9.84%) 10% - 11% (10.4%) 4.5% - 5.5% (4.9%)
Foreclosed assets held for sale	197	Market comparable properties	Comparability adjustments	Not available

Fair Value of Financial Instruments

The estimated fair value approximates carrying value for financial instruments except those described below:

Loans Held For Sale

The carrying amount approximates fair value due to the insignificant time between origination and date of sale. The carrying amount is the amount funded and accrued interest.

Loans

Fair value of fixed-rate loans and variable-rate loans, which re-price infrequently, is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. For variable-rate loans that re-price frequently and have no significant changes in credit risk, fair values are based on carrying values. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market

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participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans, with local economic and market conditions.

Federal Home Loan Bank of Dallas and Federal Reserve Bank of Dallas Stock

The fair values of Federal Reserve Bank of Dallas and Federal Home Loan Bank of Dallas stocks approximate their carrying values based on their respective redemption provisions.

Deposits

The fair value of fixed-rate deposit liabilities with defined maturities is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Corporation. The rates were the average of current rates offered by local competition.

Subordinated Debentures

Fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates. The market rates used were averages of currently traded trust preferred securities with similar characteristics to the Corporation's issuances and obtained from an independent third party.

Off-Balance Sheet Instruments

Fair values of these items are not material and are, therefore, not included on the schedule on the following page.

The table on the following page presents estimated fair values of the Corporation's financial instruments, not previously disclosed, at December 31, 2015 and 2014.

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(Dollar amounts in thousands)

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 1,101,246	$ 1,101,246	$ 744,736	$ 744,736
Federal Reserve and FHLB stock	8,488	8,488	3,356	3,356
Interest receivable	5,418	5,418	5,016	5,016
Loans held for sale	13,040	13,040	31,892	31,892
Loans	897,952	899,539	813,504	829,041
Financial liabilities:				
Interest payable	$ 64	$ 64	$ 71	$ 71
Deposits	2,064,185	2,069,483	1,743,480	1,745,999
FHLB advances	125,000	125,000	-	-
Junior subordinated debentu	30,928	30,928	30,928	30,928
Short-term borrowings	101,737	101,737	132,839	132,839

NOTE 22. SIGNIFICANT ESTIMATES, CONCENTRATIONS, COMMITMENTS AND CREDIT RISK

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans.

General Litigation

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

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Corporation be obligated to perform under the standby letters of credit, the Corporation may seek recourse from the customer for reimbursement of amounts paid.

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The Corporation had total outstanding standby letters of credit amounting to $5,229 and $2,473 at December 31, 2015 and 2014, respectively, with terms ranging from 30 to 365 days.

Lines of Credit

Lines of credit are agreements to lend customer if there is no violation of any condition established in the contract. Lines of credit have fixed expiration dates. Since a portion of the line of credit may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. Collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2015, unused lines of credit to borrowers aggregated approximately $901,859 and $541,994 for commercial lines and open-end consumer lines, respectively. At December 31, 2014, the Corporation had unused lines of credit to borrowers aggregating approximately $724,229 and $524,771 for commercial lines and open-end consumer lines, respectively.

Securities

The Corporation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

NOTE 23. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued. There have been no subsequent events that would have a material impact on the financial statements.

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(Dollar amounts in thousands)

NOTE 24. CONDENSED FINANCIAL INFORMATION (PARENT CORPORATION ONLY)

Presented below is condensed financial information on financial position, results of operations and cash flows of the Corporation:

	December 31, 2015	December 31, 2014
Condensed Balance Sheets		
Assets		
Cash and cash equivalents	$ 11,854	$ 46,892
Investment in common stock of subsidiaries	240,849	231,553
Other assets	3,130	3,356
Total assets	$ 255,833	$ 281,801
Liabilities		
Dividends payable	$ 2,744	$ 3,219
Junior subordinated debentures	30,928	30,928
Other liabilities	2,143	1,806
Total liabilities	35,815	35,953
Shareholders' Equity	220,018	245,848
Total liabilities and shareholders' equity	$ 255,833	$ 281,801

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Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2015 and 2014
(Dollar amounts in thousands)

	Years Ended December 31,	
	2015	2014
Condensed Statements of Income and Comprehensive Income		
Income		
Dividends from subsidiaries	$ 10,500	$ 13,000
Interest income	16	16
Other income	34	22
Total income	10,550	13,038
Expenses		
Interest expense	557	538
Other expenses	919	980
Total expenses	1,476	1,518
Income before income tax and equity in undistributed net income of subsidiaries	9,074	11,520
Income tax benefit	499	518
Income before equity in undistributed net income of subsidiaries	9,573	12,038
Equity in undistributed net income of subsidiaries	9,947	5,577
Net income	$ 19,520	$ 17,615
Comprehensive income	$ 18,870	$ 30,888

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(Dollar amounts in thousands)

	Years Ended December 31, 2015	Years Ended December 31, 2014
Condensed Statements of Cash Flows		
Operating activities		
Net income	$ 19,520	$ 17,615
Items not providing cash	(9,384)	(4,997)
Net cash provided by operating activities	10,136	12,618
Financing activities		
Sale of common stock	2,444	4,234
Purchase and retirement of common stock	(3,143)	(223)
Purchase and retirement of preferred stock	(40,005)	-
Cash dividends paid on common and preferred stock	(4,470)	(4,696)
Net cash used in financing activities	(45,174)	(685)
Net change in cash and cash equivalents	(35,038)	11,933
Cash and cash equivalents, beginning of year	46,892	34,959
Cash and cash equivalents, end of year	$ 11,854	$ 46,892

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