

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

MAR 30 2016

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

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

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, **Robert Hemsath**

Name of the Holding Company Director and Official

President

Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/25/2016

Date of Signature

For holding companies not registered with the SEC—

Indicate status of Annual Report to Shareholders:

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

For Federal Reserve Bank Use Only

RSSD ID
C.I.

1103999

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2015

Month / Day / Year

N/A

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

Reporter's Name, Street, and Mailing Address

Goldthwaite Bancshares, Inc.

Legal Title of Holding Company

1017 Parker

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

Goldthwaite TX 76844

City State Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Mindy Hopper SVP/Cashier

Name Title

325-648-2216

Area Code / Phone Number / Extension

325-648-2773

Area Code / FAX Number

mhopper@mcsbtexas.com

E-mail Address

mcsbtexas.com

Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

Yes Please identify the report items to which this request applies:

- In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
 The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

No

Form FR Y-6

GOLDTHWAITE BANCSHARES, INC.

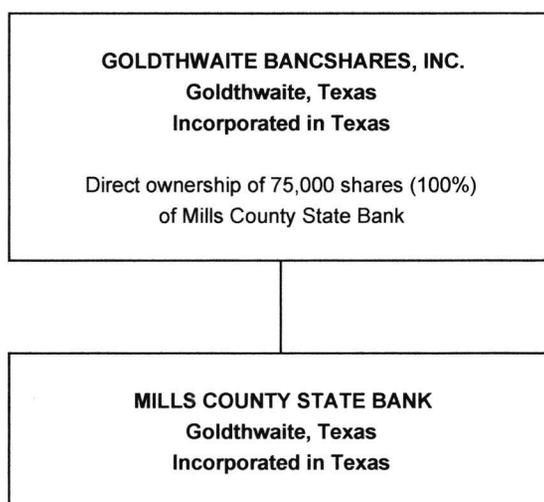
Goldthwaite, Texas

Fiscal Year Ending December 31, 2015

Report Item

- 1: a. The BHC is not required to file form 10(k) with the SEC.
- b. The BHC does prepare an annual report for its shareholders.
Enclosed are two copies of the Audited Financial Statements.

2. Organizational Chart



None of these entities have a LEI number.

AMENDED
JUL 12 2016

Results: A list of branches for your depository institution: MILLS COUNTY STATE BANK (ID_RSDD: 522753). This depository institution is held by GOLDTHWAITE BANCSHARES, INC. (11039999) of GOLDTHWAITE, TX. The data are as of 12/31/2015. Data reflects information that was received and processed through 07/11/2016.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

Note:

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSDD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSDD*	Comments
OK		Full Service (Head Office)	522753	MILLS COUNTY STATE BANK	1017 PARKER STREET	GOLDTHWAITE	TX	76844	MILLS	UNITED STATES	9943	0	MILLS COUNTY STATE BANK	522753	
OK		Full Service	2030010	BROWNWOOD BRANCH	3101 AUSTIN AVENUE	BROWNWOOD	TX	76801	BROWN	UNITED STATES	234927	1	MILLS COUNTY STATE BANK	522753	
OK		Full Service	2322425	EARLY BRANCH	411 EARLY BLVD.	EARLY	TX	76802	BROWN	UNITED STATES	234928	2	MILLS COUNTY STATE BANK	522753	
OK		Full Service	3387243	HAMILTON BRANCH	1005 EAST MAIN ST	HAMILTON	TX	76531-15	HAMILTON	UNITED STATES	453824	3	MILLS COUNTY STATE BANK	522753	
OK		Full Service	183051	HICO BRANCH	135 N. PECAN	HICO	TX	76457	HAMILTON	UNITED STATES	2101	5	MILLS COUNTY STATE BANK	522753	

**FORM FR Y-6
GOLDTHWAITE BANCSHARES, INC.
December 31, 2015**

REPORT ITEM 3: SHAREHOLDERS

Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-15.

(1)(a) NAME AND ADDRESS	(1)(b) CITIZENSHIP	(1)(c) SHARES OWNED, CONTROLLED, OR HELD WITH POWER TO VOTE	
		NUMBER	PERCENT*
Good Living Trust M. Carolyn Good, Trustee Los Ranchos, New Mexico	USA	36,622	21.16%
Tom Cody Graves Goldthwaite, Texas	USA	20,080	11.60%
C. T. Head Goldthwaite, Texas	USA	14,500	8.38%
T. A. Head Estate C. T. Head, Trustee Goldthwaite, Texas	USA	9,000	5.20%
(2) Shareholders not listed in 3(1) that had ownership, control or holdings of 5% or more with the power to vote during fiscal year ending 12-31-15.			
NONE			

* Total voting shares December 31, 2015

173,039

FORM FR Y-6 GOLDTHWAITE BANCSHARES, INC. December 31, 2015				
REPORT ITEM 4: Directors, Officers and Principal Shareholders				
(1) & (2) Name & Address Principal Occupation	Organization	(3)(a)&(3)(b)&(3)(c) Title or Position With	# of Voting Shares	4(a)&4(b)&4(c) Percentage of Voting Shares
Dr. Tom Cody Graves Goldthwaite, Texas Dentist	Goldthwaite Bancshares, Inc.	Chairman/ Director/Principal Shareholder	20,080	11.60%
	Mills County State Bank	Ch of Board/Director	-	N/A
	Other Business None		-	N/A
Robert Hemsath Goldthwaite, Texas Bank Officer	Goldthwaite Bancshares, Inc.	President/Director	-	N/A
	Mills County State Bank	CEO/Director	-	N/A
	Other Business None		-	N/A
C. T. Head Goldthwaite, Texas Bank Officer	Goldthwaite Bancshares, Inc.	Director	23,500	13.58%
	Mills County State Bank	Director	-	N/A
	Other Business None		-	N/A
Martha Carolyn Good Los Ranchos, New Mexico Retired Musician	Goldthwaite Bancshares, Inc.	Vice President/Director	-	N/A
	Mills County State Bank	N/A	-	N/A
	Other Business None		-	N/A
Elam Miles Goldthwaite, Texas Retired Bank Officer	Goldthwaite Bancshares, Inc.	Secretary/Director	500	0.29%
	Mills County State Bank	Director	-	N/A
	Other Business None		-	N/A
Melinda Hopper Priddy, Texas Bank Officer	Goldthwaite Bancshares, Inc.	Treasurer	-	N/A
	Mills County State Bank	SVP/Cashier	-	N/A
	Other Business None		-	N/A
Dr. Cody Graves Goldthwaite, Texas Dentist	Goldthwaite Bancshares, Inc.	Director	-	N/A
	Mills County State Bank	Director	-	N/A
	Other Business None		-	N/A
Dr. Melanie Bartek Goldthwaite, Texas Optomitrist	Goldthwaite Bancshares, Inc.	Director	-	N/A
	Mills County State Bank	Director	-	N/A
	Other Business None		-	N/A

**FORM FR Y-6
GOLDTHWAITE BANCSHARES, INC.
December 31, 2015**

REPORT ITEM 4: Directors, Officers and Principal Shareholders

(1) & (2) Name & Address Principal Occupation	Organization	(3)(a)&(3)(b)&(3)(c) Title or Position With	# of Voting Shares	4(a)&4(b)&4(c) Percentage of Voting Shares
Glynn Collier Goldthwaite, Texas Retired Bank Officer	Goldthwaite Bancshares, Inc. Mills County State Bank Other Business None	Director Director	6000 -	3.47% N/A N/A
Tom Duren Goldthwaite, Texas Attorney	Goldthwaite Bancshares, Inc. Mills County State Bank Other Business Mills County Abstract & Title Co. Tom Duren, Attorney at Law	Director Director Owner Owner	7182 -	4.15% N/A 100.00% 100.00%
Milton Schwartz Goldthwaite, Texas Retired Grocery Store Owner	Goldthwaite Bancshares, Inc. Mills County State Bank Other Business None	Director Director	8000 -	4.62% N/A N/A
Steven Bridges Goldthwaite, Texas Newspaper Owner	Goldthwaite Bancshares, Inc. Mills County State Bank Other Business Goldthwaite Eagle Newspaper	Director Director Owner	- -	N/A N/A 100.00%
Bill Blackwell Goldthwaite, Texas Rancher	Goldthwaite Bancshares, Inc. Mills County State Bank Other Business None	Director Director	1000 -	0.58% N/A N/A
Good Living Trust Martha Carolyn Good, Trustee Los Ranchos, New Mexico Trust	Goldthwaite Bancshares, Inc. Mills County State Bank Other Business None	Principal Shareholder N/A	36,622 -	21.16% N/A N/A

AMENDED
A JUL 12 2016 D

**GOLDTHWAITE BANCSHARES, INC.
AND SUBSIDIARY
GOLDTHWAITE, TEXAS**

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
AND
AUDITED BANK ONLY
FINANCIAL STATEMENTS**

DECEMBER 31, 2015 AND 2014

CONTENTS

	PAGE
AUDITED FINANCIAL STATEMENTS:	
Independent Auditor's Report	1
Goldthwaite Bancshares, Inc. and Subsidiary (Consolidated):	
Balance Sheets	3
Statements of Income	4
Statements of Comprehensive Income	5
Statements of Changes in Shareholders' Equity.....	6
Statements of Cash Flows	7
Mills County State Bank (Bank Only):	
Balance Sheets	9
Statements of Income	10
Statements of Comprehensive Income	11
Statements of Changes in Shareholder's Equity.....	12
Statements of Cash Flows	13
Notes to Financial Statements - Consolidated and Bank Only	15
OTHER FINANCIAL INFORMATION:	
Goldthwaite Bancshares, Inc. and Subsidiary:	
Consolidating Balance Sheet.....	45
Consolidating Statement of Income	46
Non-Interest Expense (Bank Only).....	47



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Goldthwaite Bancshares, Inc.
Goldthwaite, Texas

500 W. 7th Street
Suite 900
Fort Worth, Texas
76102-4702

Phone 817-632-2500
Fax 817-632-2598

www.sga-cpas.com

We have audited the accompanying consolidated financial statements of Goldthwaite Bancshares, Inc. and Subsidiary, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying balance sheets of Mills County State Bank (Bank Only) as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 45-47 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, L.L.P.
Fort Worth, Texas
February 22, 2016

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 2	\$ 10,387,200	\$ 9,226,238
Interest-bearing deposits in other financial institutions maturing in less than three months	10,660,487	13,927,253
Total cash and cash equivalents	21,047,687	23,153,491
Investment securities - Note 3	130,989,848	121,853,769
Other investments, at cost - Note 1	183,300	182,700
Loans, net of purchase discounts, net deferred loan fees and costs and allowance for loan losses - Note 4	126,593,486	128,894,494
Premises and equipment, net of accumulated depreciation - Note 5	2,904,227	2,868,528
Other real estate - Note 8	54,927	-
Accrued interest receivable	1,649,162	1,608,386
Goodwill - Note 6	2,156,980	2,156,980
Other intangible assets, net - Note 6	366,472	471,622
Corporate-owned life insurance - Note 7	6,217,748	1,585,800
Other assets	182,466	236,067
Total Assets	\$ 292,346,303	\$ 283,011,837
LIABILITIES		
Deposits - Note 9	\$ 259,551,891	\$ 250,954,221
Other liabilities:		
Dividends payable	359,406	648,039
Notes payable - Note 10	2,224,988	2,650,378
Accrued interest payable	89,971	79,418
Accrued expenses and other liabilities	258,921	218,830
Total other liabilities	2,933,286	3,596,665
Total Liabilities	262,485,177	254,550,886
Commitments and contingencies - Notes 11, 13, 14, 16, 17 and 18		
SHAREHOLDERS' EQUITY		
Common stock - non-voting, par value - \$25 a share:		
Authorized and issued - 17,312 shares	432,800	432,800
Common stock, par value \$.05 a share:		
Authorized - 1,000,000 shares		
Issued and outstanding - 173,120 shares	8,656	8,656
Capital surplus	831,710	831,710
Retained earnings	27,511,165	25,905,378
Accumulated other comprehensive income	1,196,503	1,355,367
	29,980,834	28,533,911
Less common stock - voting, held in treasury, 81 shares at cost as of December 31, 2015	(12,622)	-
Less common stock - non-voting, held in treasury, 1,379 and 1,160 shares at cost as of December 31, 2015 and 2014, respectively	(107,086)	(72,960)
Total Shareholders' Equity	29,861,126	28,460,951
Total Liabilities and Shareholders' Equity	\$ 292,346,303	\$ 283,011,837

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Interest income		
Interest and fees on loans	\$ 6,828,836	\$ 7,011,446
Interest on investment securities:		
Taxable	1,558,557	1,420,103
Exempt from federal income taxes	1,048,325	1,125,165
	2,606,882	2,545,268
Interest on federal funds sold and interest-bearing deposits with financial institutions	43,879	35,912
Total interest income	9,479,597	9,592,626
Interest expense		
On deposits	637,951	676,895
On borrowed funds	107,456	106,990
Total interest expense	745,407	783,885
Net interest income	8,734,190	8,808,741
Provision for loan losses - Note 4	58,076	-
Net interest income after provision for loan losses	8,676,114	8,808,741
Non-interest income		
Service charges on deposit accounts	1,105,604	1,195,340
Net gain on sales of other real estate	-	36,093
Loss on sales of premises and equipment	(8,366)	-
Earnings on corporate-owned life insurance	88,108	36,035
Other	610,256	530,588
Total non-interest income	1,795,602	1,798,056
Non-interest expense		
Salaries and employee benefits	4,248,039	4,093,184
Occupancy and furniture and equipment expense	759,352	835,974
Other	2,633,791	2,414,733
Total non-interest expense	7,641,182	7,343,891
Net Income	\$ 2,830,534	\$ 3,262,906

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

**GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Net Income	<u>\$ 2,830,534</u>	<u>\$ 3,262,906</u>
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Change in net unrealized gain during the year	<u>(158,864)</u>	<u>1,016,012</u>
Other comprehensive income (loss)	<u>(158,864)</u>	<u>1,016,012</u>
Comprehensive Income	<u><u>\$ 2,671,670</u></u>	<u><u>\$ 4,278,918</u></u>

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock Non-Voting	Common Stock Voting	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at January 1, 2014	\$ 432,800	\$ 8,656	\$ 791,448	\$ 24,332,866	\$ 339,355	\$ (104,459)	\$ 25,800,666
Sale of treasury stock			40,262			31,499	71,761
Comprehensive income for the year ended December 31, 2014				3,262,906	1,016,012		4,278,918
Cash dividends - \$8.93 a share				(1,690,394)			(1,690,394)
Balance at December 31, 2014	432,800	8,656	831,710	25,905,378	1,355,367	(72,960)	28,460,951
Purchases of treasury stock						(46,748)	(46,748)
Comprehensive income (loss) for the year ended December 31, 2015				2,830,534	(158,864)		2,671,670
Cash dividends - \$6.47 a share				(1,224,747)			(1,224,747)
Balance at December 31, 2015	<u>\$ 432,800</u>	<u>\$ 8,656</u>	<u>\$ 831,710</u>	<u>\$ 27,511,165</u>	<u>\$ 1,196,503</u>	<u>\$ (119,708)</u>	<u>\$ 29,861,126</u>

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,830,534	\$ 3,262,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	241,318	263,335
Provision for loan losses	58,076	-
Net premium amortization on investment securities	777,204	857,254
Stock dividends	(400)	(300)
Net gain on sales of other real estate	-	(36,093)
Writedowns on other real estate	22,120	-
Loss on sales of premises and equipment	8,366	-
Amortization of core deposit intangibles	105,150	105,151
Earnings on corporate-owned life insurance	(88,108)	(36,035)
(Increase) decrease in accrued income and other assets	(85,148)	136,070
Increase in accrued expenses and other liabilities	50,644	19,112
Total adjustments	1,089,222	1,308,494
Net Cash Provided by Operating Activities	3,919,756	4,571,400
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(99,146,564)	(80,454,415)
Maturities and calls of investment securities:		
Available-for-sale	82,975,000	69,450,000
Principal payments on investment securities:		
Available-for-sale	6,099,417	5,548,804
Purchases of FHLB stock	(200)	(19,700)
Net (increase) decrease in loans	2,271,622	(7,045,043)
Proceeds from sales of other real estate	-	248,635
Proceeds from sales of premises and equipment	15,100	613
Purchases of premises and equipment	(300,483)	(236,306)
Purchases of corporate-owned life insurance	(4,551,604)	-
Net Cash Used by Investing Activities	\$ (12,637,712)	\$ (12,507,412)

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	\$ 4,812,225	\$ 2,930,762
Net increase (decrease) in certificates of deposit	3,785,445	(4,425,196)
Principal payments on notes payable	(425,390)	(413,980)
Purchases of treasury stock	(46,748)	-
Proceeds from sale of treasury stock	-	71,761
Dividends paid	(1,513,380)	(1,490,844)
	6,612,152	(3,327,497)
Net Cash Provided (Used) by Financing Activities		
Net decrease in cash and cash equivalents	(2,105,804)	(11,263,509)
Cash and cash equivalents at beginning of year	23,153,491	34,417,000
Cash and cash equivalents at end of year	\$ 21,047,687	\$ 23,153,491
 Supplemental Schedule of Operating and Investing Activities:		
Interest paid	\$ 734,854	\$ 801,846
Other real estate acquired through loan foreclosure	77,047	-
Note payable issued for purchase of premises	-	270,000

**MILLS COUNTY STATE BANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 2	\$ 10,387,200	\$ 9,226,238
Interest-bearing deposits in financial institutions maturing in less than three months	10,660,487	13,927,253
Total cash and cash equivalents	21,047,687	23,153,491
Investment securities - Note 3	130,989,848	121,853,769
Other investments, at cost - Note 1	183,300	182,700
Loans, net of purchase discounts, net deferred loan fees and costs and allowance for loan losses - Note 4	126,593,486	128,894,494
Premises and equipment, net of accumulated depreciation - Note 5	2,904,227	2,868,528
Other real estate - Note 8	54,927	-
Accrued interest receivable	1,649,162	1,608,386
Goodwill - Note 6	2,156,980	2,156,980
Other intangible assets, net - Note 6	366,472	471,622
Corporate-owned life insurance	5,468,455	836,545
Other assets	182,466	236,067
Total Assets	\$ 291,597,010	\$ 282,262,582
 LIABILITIES		
Deposits	\$ 259,704,915	\$ 251,152,022
Other liabilities:		
Dividends payable	359,406	648,039
Note payable	258,591	270,000
Accrued interest payable	89,971	79,418
Accrued expenses and other liabilities	258,921	218,830
Total other liabilities	966,889	1,216,287
Total Liabilities	260,671,804	252,368,309
 Commitments and contingencies - Notes 11, 13, 14, 16, 17 and 18		
SHAREHOLDER'S EQUITY - Notes 19 and 20		
Common stock, par value \$20 a share:		
Authorized, issued and outstanding - 75,000 shares	1,500,000	1,500,000
Capital surplus	13,784,526	13,784,526
Retained earnings	14,444,177	13,254,380
Accumulated other comprehensive income	1,196,503	1,355,367
Total Shareholder's Equity	30,925,206	29,894,273
Total Liabilities and Shareholder's Equity	\$ 291,597,010	\$ 282,262,582

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

MILLS COUNTY STATE BANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Interest income		
Interest and fees on loans	\$ 6,828,836	\$ 7,011,446
Interest on investment securities:		
Taxable	1,558,557	1,420,103
Exempt from federal income taxes	<u>1,048,325</u>	<u>1,125,165</u>
	2,606,882	2,545,268
Interest on federal funds sold and interest-bearing deposits with financial institutions	<u>43,879</u>	<u>35,912</u>
Total interest income	<u>9,479,597</u>	<u>9,592,626</u>
Interest expense		
On deposits	637,951	676,895
On borrowed funds	<u>15,932</u>	<u>-</u>
Total interest expense	<u>653,883</u>	<u>676,895</u>
Net interest income	8,825,714	8,915,731
Provision for loan losses - Note 4	<u>58,076</u>	<u>-</u>
Net interest income after provision for loan losses	<u>8,767,638</u>	<u>8,915,731</u>
Non-interest income		
Service charges on deposit accounts	1,105,604	1,195,340
Net gain on sales of other real estate	-	36,093
Loss on sales of premises and equipment	(8,366)	-
Earnings on corporate-owned life insurance	82,713	29,885
Other	<u>610,149</u>	<u>530,485</u>
Total non-interest income	<u>1,790,100</u>	<u>1,791,803</u>
Non-interest expense		
Salaries and employee benefits	4,248,039	4,093,184
Occupancy and furniture and equipment expense	759,352	835,974
Other	<u>2,630,299</u>	<u>2,411,752</u>
Total non-interest expense	<u>7,637,690</u>	<u>7,340,910</u>
Net Income	<u>\$ 2,920,048</u>	<u>\$ 3,366,624</u>

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

**MILLS COUNTY STATE BANK
 STATEMENTS OF COMPREHENSIVE INCOME
 (BANK ONLY)
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Net Income	\$ 2,920,048	\$ 3,366,624
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Change in net unrealized gain during the year	(158,864)	1,016,012
Other comprehensive income (loss)	(158,864)	1,016,012
Comprehensive Income	\$ 2,761,184	\$ 4,382,636

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

**MILLS COUNTY STATE BANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance at January 1, 2014	\$ 1,500,000	\$ 13,784,526	\$ 12,099,120	\$ 339,355	\$ 27,723,001
Comprehensive income for the year ended December 31, 2014			3,366,624	1,016,012	4,382,636
Cash dividends - \$29.48 a share			<u>(2,211,364)</u>		<u>(2,211,364)</u>
Balance at December 31, 2014	1,500,000	13,784,526	13,254,380	1,355,367	29,894,273
Comprehensive income (loss) for the year ended December 31, 2015			2,920,048	(158,864)	2,761,184
Cash dividends - \$23.07 a share			<u>(1,730,251)</u>		<u>(1,730,251)</u>
Balance at December 31, 2015	<u>\$ 1,500,000</u>	<u>\$ 13,784,526</u>	<u>\$ 14,444,177</u>	<u>\$ 1,196,503</u>	<u>\$ 30,925,206</u>

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

**MILLS COUNTY STATE BANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,920,048	\$ 3,366,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	241,318	263,335
Provision for loan losses	58,076	-
Net premium amortization on investment securities	777,204	857,254
Stock dividends	(400)	(300)
Net gain on sales of other real estate	-	(36,093)
Writedowns on other real estate	22,120	-
Loss on sales of premises and equipment	8,366	-
Amortization of core deposit intangibles	105,150	105,151
Earnings on corporate-owned life insurance	(82,713)	(29,885)
(Increase) decrease in accrued income and other assets	(90,504)	136,070
Increase in accrued expenses and other liabilities	50,644	19,112
Total adjustments	1,089,261	1,314,644
Net Cash Provided by Operating Activities	4,009,309	4,681,268
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(99,146,564)	(80,454,415)
Maturities and calls of investment securities:		
Available-for-sale	82,975,000	69,450,000
Principal payments on investment securities:		
Available-for-sale	6,099,417	5,548,804
Purchases of FHLB stock	(200)	(19,700)
Net (increase) decrease in loans	2,271,622	(7,045,043)
Proceeds from sales of other real estate	-	248,635
Proceeds from sales of premises and equipment	15,100	613
Purchases of premises and equipment	(300,483)	(236,306)
Purchases of corporate-owned life insurance	(4,551,604)	-
Net Cash Used by Investing Activities	\$ (12,637,712)	\$ (12,507,412)

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

MILLS COUNTY STATE BANK
STATEMENTS OF CASH FLOWS, Continued
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	\$ 4,767,447	\$ 2,999,645
Net increase (decrease) in certificates of deposit	3,785,445	(4,425,196)
Principal payments on note payable	(11,409)	-
Dividends paid	(2,018,884)	(2,011,814)
Net Cash Provided (Used) by Financing Activities	6,522,599	(3,437,365)
Net decrease in cash and cash equivalents	(2,105,804)	(11,263,509)
Cash and cash equivalents at beginning of year	23,153,491	34,417,000
Cash and cash equivalents at end of year	\$ 21,047,687	\$ 23,153,491
 Supplemental Schedule of Operating and Investing Activities:		
Interest paid	\$ 643,330	\$ 694,856
Other real estate acquired through loan foreclosure	77,047	-
Note payable issued for purchase of premises	-	270,000

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 **Summary of Significant Accounting Policies**

The accounting and reporting policies of Goldthwaite Bancshares, Inc. and Subsidiary are in accordance with accounting principles generally accepted in the United States of America. A summary of the more significant policies follows:

Nature of Operations

Goldthwaite Bancshares, Inc. (Bancshares) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Mills County State Bank (Bank). The Bank generates commercial (including agricultural), mortgage and consumer loans and receives deposits from customers located primarily in Mills County, Texas and the surrounding areas. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the Texas State Banking Department and the Federal Deposit Insurance Corporation.

Principles of Consolidation and Recording of Investment in Subsidiary

The consolidated financial statements of Goldthwaite Bancshares, Inc. and Subsidiary include its accounts and those of its wholly-owned subsidiary, Mills County State Bank.

Goldthwaite Bancshares, Inc. accounts for its continuing investment in its subsidiary under the "equity method" of accounting in Company Only statements. In the consolidated statements, all significant intercompany accounts and transactions have been eliminated.

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.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Corporation has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 Summary of Significant Accounting Policies, continued

Estimates, continued

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions, interest-bearing deposits maturing in three months or less and federal funds sold.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other than temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank Stock

At December 31, 2015 and 2014, the Corporation had \$113,300 and \$112,700, respectively, included in other investments in the balance sheets that represents stock in the Federal Home Loan Bank (FHLB). A minimum investment in FHLB stock is required to be a member of the FHLB. This stock is classified as a restricted investment security, carried at cost and evaluated annually for impairment. During 2015 and 2014, no impairment loss was recorded.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 Summary of Significant Accounting Policies, continued

Loans

Loans are stated at the principal amount outstanding less purchase discounts, net deferred loan fees and costs, and the allowance for loan losses. Purchase discounts are recognized as income over the terms of the loan. Interest income on loans is recognized based upon the principal amounts outstanding. Loan origination fees and other direct costs are deferred and amortized as a yield adjustment over the lives of the related loans using a method that approximates the interest method. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously earned, but uncollected on such loans, is reversed from income. All payments collected on such loans are applied to reduce the principal balance. Interest is not recorded as income until the principal is paid in full or until such time as the loan is returned to an accrual status. Past due status is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of 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 specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 Summary of Significant Accounting Policies, continued

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line and accelerated methods based upon the estimated useful lives of the assets.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts.

Other Real Estate

Other real estate is foreclosed property held pending disposition and is valued at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate are accounted for according to authoritative guidance issued by the FASB.

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 to be surrendered when: (1) the assets have been isolated from the Corporation, (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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted authoritative guidance issued by the FASB which eliminates amortization of goodwill associated with business combinations completed after September 30, 2001. Goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. See Note 6 – Goodwill and Other Intangible Assets for additional information.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 Summary of Significant Accounting Policies, continued

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Corporation's intangible assets relate to core deposits. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. See Note 6 – Goodwill and Other Intangible Assets for additional information.

Federal Income Taxes

The Corporation has elected to be taxed as a Subchapter "S" Corporation under Internal Revenue Service Code Section 1362. In lieu of corporate income taxes, the shareholders of a Subchapter S Corporation are taxed on their proportionate share of the Corporation's taxable income.

The Corporation joins with its subsidiary, Mills County State Bank, in filing federal income tax returns.

The Companies maintain their records for financial reporting purposes on the accrual basis of accounting. The Companies maintain their records for tax purposes on the cash basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the financial statements. No uncertain tax positions were identified. The December 31, 2012 through December 31, 2015 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties or interest assessed by taxing authorities during 2015 or 2014.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of \$105,061 and \$111,945 were expensed during 2015 and 2014, respectively.

Fair Values of Financial Instruments

The FASB has issued authoritative guidance which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The FASB authoritative guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 **Summary of Significant Accounting Policies, continued**

Fair Values of Financial Instruments, continued

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

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Investments: The carrying amounts reported in the balance sheet for other investments approximate those assets' fair values.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.

Corporate-Owned Life Insurance: The carrying amount of corporate-owned life insurance approximates its fair value.

Deposits: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates its fair value.

Notes Payable: The fair values for long-term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates for similar types of borrowing arrangements.

Comprehensive Income

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income and its components. The Corporation reports comprehensive income in the statement of comprehensive income.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 Summary of Significant Accounting Policies, continued

Reclassifications

Certain accounts have been reclassified in the financial statements of 2014 to conform to the 2015 presentation.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2015 through February 17, 2016, the date the financial statements were available to be issued. The Corporation did not note any subsequent events requiring disclosure or adjustment to these financial statements.

New Accounting Standards

In January 2014, the FASB issued Accounting Standards Update (ASU) 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill*. The amendments in this update allow an accounting alternative for the subsequent measurement of goodwill. An entity within the scope of the amendments that elects the accounting alternative in this update should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. When a triggering event occurs, an entity has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must perform the quantitative test to compare the entity's fair value with its carrying amount, including goodwill (or the fair value of the reporting unit with the carrying amount, including goodwill, of the reporting unit). The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance. After evaluation, management has decided not to adopt this alternative for goodwill.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)*, which amended its authoritative guidance related to residential real estate to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 1 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment became effective in 2015 and did not have a significant impact on the Corporation's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a corporation will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the corporation expects to be entitled in exchange for those goods or services. In doing so, corporations will need to use more judgement and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective for annual reporting periods beginning after December 31, 2018. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. This guidance amended previous guidance related to foreclosed home loans with government-backed guarantees. The amendment requires lenders to measure the unpaid principal and interest they expect to recover through the loan guarantee. The loan should be removed from the lender's asset total and added to the balance sheet as a new receivable. This amendment became effective during 2015 and did not have a significant impact on the Corporation's consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, which amended its authoritative guidance related to debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. However, the recognition and measurement guidance related to debt issuance costs is not affected by this amendment. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is to be applied on a retrospective basis. Early adoption is permitted. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 2 Restrictions on Cash and Due From Banks

The Corporation is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. At December 31, 2015, there were no required reserves. The required reserve at December 31, 2014 was approximately \$84,000.

Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2015 and 2014 are as follows:

	December 31, 2015			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
U.S. Treasury	\$ 10,006,997	\$ 29,583	\$ -	\$ 10,036,580
U.S. Government agencies and corporations	20,007,876	9,638	(29,850)	19,987,664
Obligations of states and political subdivisions	64,734,777	1,148,115	(191,259)	65,691,633
U.S. Government agency mortgage-backed securities	34,779,208	452,886	(222,610)	35,009,484
Other	264,487	-	-	264,487
Total available-for-sale	<u>\$ 129,793,345</u>	<u>\$ 1,640,222</u>	<u>\$ (443,719)</u>	<u>\$ 130,989,848</u>

The balance sheet as of December 31, 2015 reflects the fair value of available-for-sale securities in the amount of \$130,989,848. A net unrealized gain of \$1,196,503 is included in the available-for-sale investment securities balance. The net unrealized gain is included in shareholders' equity.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 3 Investment Securities, continued

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury	\$ 9,013,150	\$ 14,440	\$ (1,560)	\$ 9,026,030
U.S. Government agencies and corporations	18,521,045	-	(62,865)	18,458,180
Obligations of states and political subdivisions	60,283,393	1,262,793	(352,934)	61,193,252
U.S. Government agency mortgage-backed securities	32,367,619	646,320	(150,827)	32,863,112
Other	313,195	-	-	313,195
Total available-for-sale	<u>\$ 120,498,402</u>	<u>\$ 1,923,553</u>	<u>\$ (568,186)</u>	<u>\$ 121,853,769</u>

The balance sheet as of December 31, 2014 reflects the fair value of available-for-sale securities in the amount of \$121,853,769. A net unrealized gain of \$1,355,367 is included in the available-for-sale investment securities balance. The net unrealized gain is included in shareholders' equity.

The amortized cost and fair values of investments securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and other securities are shown separately, since they are not due at a single maturity date.

	Available-For-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	\$ 7,981,265	\$ 8,003,895
After one year through five years	56,031,981	56,439,731
After five years through ten years	26,891,507	27,350,842
After ten years	3,844,897	3,921,409
	<u>94,749,650</u>	<u>95,715,877</u>
U.S. Government agency mortgage-backed securities	34,779,208	35,009,484
Other	264,487	264,487
Totals	<u>\$129,793,345</u>	<u>\$130,989,848</u>

Securities with carrying amounts of approximately \$59,527,000 and \$40,515,000 at December 31, 2015 and 2014, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 3 Investment Securities, continued

During 2015 and 2014, there were no sales of investment securities.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2015:						
Federal agencies	\$ 19,321,012	\$ (125,298)	\$ 5,149,992	\$ (127,162)	\$ 24,471,004	\$ (252,460)
State and municipal governments	16,594,820	(108,251)	4,111,379	(83,008)	20,706,199	(191,259)
Totals	\$ 35,915,832	\$ (233,549)	\$ 9,261,371	\$ (210,170)	\$ 45,177,203	\$ (443,719)
December 31, 2014:						
Federal agencies	\$ 19,129,027	\$ (67,148)	\$ 8,451,664	\$ (148,104)	\$ 27,580,691	\$ (215,252)
State and municipal governments	5,800,631	(43,832)	13,700,870	(309,102)	19,501,501	(352,934)
Totals	\$ 24,929,658	\$ (110,980)	\$ 22,152,534	\$ (457,206)	\$ 47,082,192	\$ (568,186)

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

At December 31, 2015, the 55 debt securities with unrealized losses have depreciated less than 1% from the Corporation's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2015 and 2014 is as follows:

	2015	2014
Commercial, agricultural and industrial loans	\$ 28,804,774	\$ 28,071,297
Real estate (RE) loans:		
Construction, land and land development	26,864,191	30,843,761
Residential 1-4 family	39,785,738	40,435,521
Commercial RE	16,235,454	14,196,922
Consumer and other loans	15,758,961	16,491,191
Overdrafts	175,206	251,143
	127,624,324	130,289,835
Less: Net deferred loan (fees) costs	10,063	(95,671)
Allowance for loan losses	(1,040,901)	(1,299,670)
Loans, Net	\$ 126,593,486	\$ 128,894,494

As of December 31, 2015 and 2014, the totals for the loan categories presented above are net of purchase discounts totaling \$9,324 and \$35,281, respectively.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2015 are summarized as follows:

	<u>Commercial, Agricultural and Industrial</u>	<u>Construction, Land and Land Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial RE</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2015 Total</u>
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 333,225	\$ 185,989	\$ 313,574	\$ 145,983	\$ 184,191	\$ 136,708	\$ 1,299,670
Provisions, charged (credited) to income	<u>132,447</u>	<u>(37,861)</u>	<u>(18,100)</u>	<u>(13,822)</u>	<u>131,553</u>	<u>(136,141)</u>	<u>58,076</u>
	<u>465,672</u>	<u>148,128</u>	<u>295,474</u>	<u>132,161</u>	<u>315,744</u>	<u>567</u>	<u>1,357,746</u>
Loans charged-off	(200,266)	-	(3,627)	-	(192,551)	-	(396,444)
Recoveries of loans previously charged-off	<u>31,537</u>	<u>-</u>	<u>3,825</u>	<u>-</u>	<u>44,237</u>	<u>-</u>	<u>79,599</u>
Net (charge-offs) recoveries	<u>(168,729)</u>	<u>-</u>	<u>198</u>	<u>-</u>	<u>(148,314)</u>	<u>-</u>	<u>(316,845)</u>
Balance, end of year	<u>\$ 296,943</u>	<u>\$ 148,128</u>	<u>\$ 295,672</u>	<u>\$ 132,161</u>	<u>\$ 167,430</u>	<u>\$ 567</u>	<u>\$ 1,040,901</u>
Ending balance: Individually evaluated for impairment	\$ 19,075	\$ 141	\$ 751	\$ 381	\$ 39,241	\$ -	\$ 59,589
Ending balance: Collectively evaluated for impairment	<u>277,868</u>	<u>147,987</u>	<u>294,921</u>	<u>131,780</u>	<u>128,189</u>	<u>567</u>	<u>981,312</u>
Balance, end of year	<u>\$ 296,943</u>	<u>\$ 148,128</u>	<u>\$ 295,672</u>	<u>\$ 132,161</u>	<u>\$ 167,430</u>	<u>\$ 567</u>	<u>\$ 1,040,901</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 268,036	\$ 15,625	\$ 27,929	\$ 42,402	\$ 139,113		\$ 493,105
Ending balance: Collectively evaluated for impairment	<u>28,536,738</u>	<u>26,848,566</u>	<u>39,757,809</u>	<u>16,193,052</u>	<u>15,795,054</u>		<u>127,131,219</u>
Ending balance total loans	<u>\$ 28,804,774</u>	<u>\$ 26,864,191</u>	<u>\$ 39,785,738</u>	<u>\$ 16,235,454</u>	<u>\$ 15,934,167</u>		<u>\$ 127,624,324</u>

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2014 are summarized as follows:

	<u>Commercial, Agricultural and Industrial</u>	<u>Construction, Land and Land Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial RE</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2014 Total</u>
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 296,535	\$ 170,903	\$ 283,421	\$ 109,890	\$ 200,126	\$ 223,611	\$ 1,284,486
Provisions, charged (credited) to income	1,169	15,086	43,463	36,093	(8,908)	(86,903)	-
	<u>297,704</u>	<u>185,989</u>	<u>326,884</u>	<u>145,983</u>	<u>191,218</u>	<u>136,708</u>	<u>1,284,486</u>
Loans charged-off	-	-	(17,016)	-	(39,880)	-	(56,896)
Recoveries of loans previously charged-off	35,521	-	3,706	-	32,853	-	72,080
Net (charge-offs) recoveries	35,521	-	(13,310)	-	(7,027)	-	15,184
Balance, end of year	<u>\$ 333,225</u>	<u>\$ 185,989</u>	<u>\$ 313,574</u>	<u>\$ 145,983</u>	<u>\$ 184,191</u>	<u>\$ 136,708</u>	<u>\$ 1,299,670</u>
Ending balance: Individually evaluated for impairment	\$ 44,979	\$ 953	\$ 3,405	\$ 8,710	\$ 19,718	\$ -	\$ 77,765
Ending balance: Collectively evaluated for impairment	288,246	185,036	310,169	137,273	164,473	136,708	1,221,905
Balance, end of year	<u>\$ 333,225</u>	<u>\$ 185,989</u>	<u>\$ 313,574</u>	<u>\$ 145,983</u>	<u>\$ 184,191</u>	<u>\$ 136,708</u>	<u>\$ 1,299,670</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 242,539	\$ 19,068	\$ 73,195	\$ 92,044	\$ 120,732		\$ 547,578
Ending balance: Collectively evaluated for impairment	27,828,758	30,824,693	40,362,326	14,104,878	16,621,602		129,742,257
Ending balance total loans	<u>\$ 28,071,297</u>	<u>\$ 30,843,761</u>	<u>\$ 40,435,521</u>	<u>\$ 14,196,922</u>	<u>\$ 16,742,334</u>		<u>\$ 130,289,835</u>

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses, continued

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Assets Especially Mentioned" ("OAEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as OAEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2015 and 2014 are as follows:

	<u>Pass</u>	<u>Other Assets Especially Mentioned</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2015:					
Commercial, agricultural and industrial loans	\$ 28,270,346	\$ -	\$ 494,911	\$ 39,517	\$ 28,804,774
Real estate (RE) loans:					
Construction, land and land development	26,784,931	67,609	11,651	-	26,864,191
Residential 1-4 family	39,030,000	245,868	509,870	-	39,785,738
Commercial RE	15,380,351	-	855,103	-	16,235,454
Consumer and other loans	<u>15,802,534</u>	<u>-</u>	<u>118,013</u>	<u>13,620</u>	<u>15,934,167</u>
Subtotal	<u>\$ 125,268,162</u>	<u>\$ 313,477</u>	<u>\$ 1,989,548</u>	<u>\$ 53,137</u>	127,624,324
Less: Net deferred loan (fees) costs					10,063
Total loans					<u>\$ 127,634,387</u>
	<u>Pass</u>	<u>Other Assets Especially Mentioned</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2014:					
Commercial, agricultural and industrial loans	\$ 27,108,679	\$ 275,268	\$ 640,967	\$ 46,383	\$ 28,071,297
Real estate (RE) loans:					
Construction, land and land development	29,481,775	807,914	554,072	-	30,843,761
Residential 1-4 family	39,252,337	131,573	975,208	76,403	40,435,521
Commercial RE	10,739,079	460,089	2,997,754	-	14,196,922
Consumer and other loans	<u>16,399,185</u>	<u>27,829</u>	<u>292,337</u>	<u>22,983</u>	<u>16,742,334</u>
Subtotal	<u>\$ 122,981,055</u>	<u>\$ 1,702,673</u>	<u>\$ 5,460,338</u>	<u>\$ 145,769</u>	130,289,835
Less: Net deferred loan (fees) costs					(95,671)
Total loans					<u>\$ 130,194,164</u>

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses, continued

An analysis of nonaccrual loans by category at December 31, 2015 and 2014 is as follows:

	2015	2014
Commercial, agricultural and industrial loans	\$ 123,507	\$ 130,020
Real estate (RE) loans:		
Construction, land and land development	15,625	19,068
Residential 1-4 family	27,929	73,195
Commercial RE	42,402	92,044
Consumer and other loans	67,671	18,536
Total nonaccrual loans	\$ 277,134	\$ 332,863

At December 31, 2015 and 2014, a summary of information pertaining to impaired loans is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015							
Commercial, agricultural and industrial loans	\$ 376,986	\$ -	\$ 268,036	\$ 268,036	\$ 19,075	\$ 255,287	\$ 9,818
Real estate (RE) loans:							
Construction, land and land development	15,926	-	15,625	15,625	141	17,347	-
Residential 1-4 family	28,846	-	27,929	27,929	751	50,561	-
Commercial RE	43,133	-	42,402	42,402	381	67,223	-
Consumer and other loans	139,119	-	139,113	139,113	39,241	129,923	7,259
Total	\$ 604,010	\$ -	\$ 493,105	\$ 493,105	\$ 59,589	\$ 520,341	\$ 17,077
December 31, 2014:							
Commercial, agricultural and industrial loans	\$ 242,539	\$ -	\$ 242,539	\$ 242,539	\$ 44,979	\$ 174,458	\$ 6,092
Real estate (RE) loans:							
Construction, land and land development	19,068	-	19,068	19,068	953	20,768	-
Residential 1-4 family	73,435	-	73,195	73,195	3,405	59,649	-
Commercial RE	92,044	-	92,044	92,044	8,710	96,009	-
Consumer and other loans	120,732	-	120,732	120,732	19,718	110,760	9,780
Total	\$ 547,818	\$ -	\$ 547,578	\$ 547,578	\$ 77,765	\$ 461,644	\$ 15,872

The Corporation has no commitments to loan additional funds to borrowers whose loans are impaired.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses, continued

Troubled Debt Restructurings

The restructuring of a loan is considered a “troubled debt restructuring” if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Troubled debt restructurings during 2015 are set forth as follows:

	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2015
Commercial, agricultural and industrial loans	2	\$ 69,334	\$ 63,210
Consumer and other loans	8	51,576	44,462
Total troubled debt restructurings	10	\$ 120,910	\$ 107,672

Concessions granted on these loans include reduction of interest rates, payments of interest only and restructuring payments to match borrower’s cash flow. At December 31, 2015, two consumer loans restructured during 2015 totaling \$10,316 were past due 30-89 days. All other loans restructured during 2015 were paying in accordance with the restructured terms at December 31, 2015. At December 31, 2015, there was one consumer loan totaling \$6,161 which was restructured prior to 2015 and was past due 30-89 days. At December 31, 2015, there were two commercial loans and one consumer loan totaling \$32,857 and \$6,743, respectively, which were restructured prior to 2015 and were past due 90 days or more.

Troubled debt restructurings during 2014 are set forth as follows:

	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2014
Commercial, agricultural and industrial loans	1	\$ 11,358	\$ 11,358
Consumer and other loans	11	71,201	59,425
Total troubled debt restructurings	12	\$ 82,559	\$ 70,783

Concessions granted on these loans include reduction of interest rates, payments of interest only and restructuring payments to match borrower’s cash flow. At December 31, 2014, two consumer loans restructured during 2014 totaling \$14,797 were past due 30-89 days. At December 31, 2014, one consumer loan restructured during 2014 totaling \$1,728 was past due 90 days or more. At December 31, 2014, there were one commercial loan and two consumer loans totaling \$29,547 and \$17,677, respectively, which were restructured prior to 2014 and were past due 30-89 days. At December 31, 2014, there were two commercial loans and one consumer loan totaling \$12,964 and \$2,809, respectively, which were restructured prior to 2014 and were past due 90 days or more.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 4 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2015:

	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment 90 Days or More and Still Accruing</u>
Commercial agricultural and industrial loans	\$ 132,921	\$ 64,857	\$ 197,778	\$ 28,606,996	\$ 28,804,774	\$ 64,857
Real estate (RE) loans:						
Construction, land and land development	248,415	108,756	357,171	26,507,020	26,864,191	108,756
Residential 1-4 family	978,402	694,031	1,672,433	38,113,305	39,785,738	680,751
Commercial RE	43,534	185,205	228,739	16,006,715	16,235,454	185,205
Consumer and other loans	500,222	100,705	600,927	15,333,240	15,934,167	100,705
Less: Net deferred loan (fees) costs	-	-	-	-	10,063	-
Total	<u>\$ 1,903,494</u>	<u>\$ 1,153,554</u>	<u>\$ 3,057,048</u>	<u>\$ 124,567,276</u>	<u>\$ 127,634,387</u>	<u>\$ 1,140,274</u>

The following table illustrates an age analysis of past due loans as of December 31, 2014:

	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment 90 Days or More and Still Accruing</u>
Commercial agricultural and industrial loans	\$ 305,716	\$ 237,571	\$ 543,287	\$ 27,528,010	\$ 28,071,297	\$ 107,551
Real estate (RE) loans:						
Construction, land and land development	350,675	22,013	372,688	30,471,073	30,843,761	22,013
Residential 1-4 family	988,550	370,962	1,359,512	39,076,009	40,435,521	303,729
Commercial RE	419,342	82,162	501,504	13,695,418	14,196,922	-
Consumer and other loans	582,684	239,698	822,382	15,919,952	16,742,334	221,161
Less: Net deferred loan (fees) costs	-	-	-	-	(95,671)	-
Total	<u>\$ 2,646,967</u>	<u>\$ 952,406</u>	<u>\$ 3,599,373</u>	<u>\$ 126,690,462</u>	<u>\$ 130,194,164</u>	<u>\$ 654,454</u>

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 5 Premises and Equipment

The investment in premises and equipment stated at cost at December 31, 2015 and 2014 is as follows:

	2015	2014
Land	\$ 393,965	\$ 393,965
Buildings and improvements	3,680,379	3,700,589
Furniture and equipment	2,261,939	2,295,355
Remodeling in process	215,901	-
	6,552,184	6,389,909
Less accumulated depreciation and amortization	(3,647,957)	(3,521,381)
Premises and equipment, net	\$ 2,904,227	\$ 2,868,528

Depreciation on premises and equipment charged to expense totaled \$241,318 and \$263,335 for the years ended December 31, 2015 and 2014, respectively.

Note 6 Goodwill and Other Intangible Assets

On September 20, 2012, Mills County State Bank purchased selected assets and liabilities from a branch of another financial institution. A premium of \$213,003 was paid by the Bank which was identified as core deposit intangibles. The core deposit intangibles are being amortized using a straight line method over their estimated useful life of 5 years. Accumulated amortization at December 31, 2015 and 2014 was \$138,452 and \$95,851, respectively. Amortization expense on the core deposit intangibles was \$42,601 and \$42,600 during 2015 and 2014, respectively.

On September 13, 2013, the Corporation acquired First National Bancshares of Hico. A premium of \$2,594,852 was paid by the Corporation, of which \$437,872 was identified as core deposit intangibles. The remaining \$2,156,980 was recorded as goodwill. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and is evaluated for impairment annually. No impairment loss was recorded in 2015 or 2014. The core deposit intangibles are being amortized using a straight line method over their estimated useful life of 7 years. Accumulated amortization at December 31, 2015 and 2014 was \$145,951 and \$83,402, respectively. Amortization expense on the core deposit intangibles was \$62,549 and \$62,551 in 2015 and 2014, respectively.

As of December 31, 2015, amortization expense for the core deposit intangibles for the next five years is as follows:

2016	\$ 105,154
2017	94,504
2018	62,553
2019	62,553
2020	41,708
Total	\$ 366,472

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 7 Corporate-Owned Life Insurance

During 2015, the Corporation purchased several new life insurance policies for a total cost of \$4,551,604. The Corporation is the beneficiary of these policies which insure the lives of selected key officers and directors. The carrying amount of corporate-owned life insurance totaled \$6,217,748 and \$1,585,800 at December 31, 2015 and 2014, respectively. Earnings on corporate-owned life insurance totaling \$88,108 and \$36,035 were recorded through non-interest income during 2015 and 2014, respectively.

Note 8 Other Real Estate

At December 31, 2015, the Corporation held other real estate which totaled \$54,927 which consists of two 1-4 family residential properties. There was no other real estate held as of December 31, 2014.

Note 9 Deposits

The carrying amount of deposits at December 31, 2015 and 2014 are as follows:

	2015	2014
Demand	\$ 74,326,236	\$ 67,056,289
Interest-bearing transaction accounts	67,811,801	73,043,119
Savings	30,730,447	27,956,851
Certificates of deposit less than \$100,000	34,708,669	37,382,822
Certificates of deposit \$100,000 and over	51,974,738	45,515,140
Total deposits	\$ 259,551,891	\$ 250,954,221

Maturities of certificates of deposit for each of the next five years are:

2016	\$ 75,110,828
2017	5,319,183
2018	3,244,256
2019	2,347,098
2020	662,042
Total	\$ 86,683,407

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 10 Notes Payable

In December 2014, the Corporation purchased the property that houses its Hamilton branch location which had previously been leased. As part of the purchase negotiations, the seller financed \$270,000 of the purchase price. This note has a term of 15 years and an interest rate of 6.00%. Monthly principal and interest payments totaling \$2,278 are due beginning January 31, 2015. The balance on this note was \$258,591 and \$270,000 at December 31, 2015 and 2014, respectively.

As part of the acquisition of First National Bancshares of Hico ("Hico"), the principal shareholder of Hico financed part of the sale via a promissory note between herself and the Corporation. The loan agreement is dated September 13, 2013 with an original amount of \$2,897,853. The maturity date of this loan is September 30, 2020. The loan agreement provides for 27 consecutive quarterly principal payments of \$103,495 plus accrued interest beginning December 31, 2013. The initial interest rate is 4.00% through September 30, 2014 and thereafter the rate is determined quarterly based on the Wall Street Journal Prime rate plus .75 with a floor rate of 4.00%. The rate at December 31, 2015 and 2014 was 4.25% and 4.00%, respectively. The balance on this note was \$1,966,397 and \$2,380,378 at December 31, 2015 and 2014, respectively.

Principal payments due on these notes for the next five years and in the aggregate thereafter are:

2016	\$ 426,075
2017	426,821
2018	427,614
2019	428,454
2020	325,845
Thereafter	<u>190,179</u>
Total	<u>\$ 2,224,988</u>

Note 11 Lines of Credit

The Corporation has established a \$10,000,000 unsecured line of credit for overnight purchase of federal funds. The line may be cancelled without any prior notification. There were no outstanding balances on this line at December 31, 2015 and 2014.

In addition to this line of credit, the Corporation has a line of credit with the Federal Home Loan Bank. At December 31, 2015, the Corporation had approximately \$46,813,300 available for additional borrowings under this line of credit. This line of credit is collateralized by a blanket pledge of certain loans with a carrying amount of approximately \$110,458,000 at December 31, 2015. At December 31, 2015 and 2014, the Corporation had no advances outstanding on this line of credit.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 12 Related Party Transactions

During 2015 and 2014, the Corporation had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these approximate transactions for 2015 and 2014 follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Amounts Collected</u>	<u>Balance End of Year</u>
For year ended:				
December 31, 2015	\$ 574,000	\$ 136,000	\$ (180,000)	\$ 530,000
December 31, 2014	\$ 765,000	\$ 341,000	\$ (532,000)	\$ 574,000

The Corporation held deposits of approximately \$5,195,000 and \$4,737,000 for related parties at December 31, 2015 and 2014, respectively.

Note 13 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Corporation has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Financial instruments whose contract amount represents credit risk were approximately as follows:

	<u>2015</u>	<u>2014</u>
Commitments to extend credit	\$ 13,976,000	\$ 10,126,000
Standby letters of credit	322,000	257,000

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 13 Financial Instruments with Off-Balance-Sheet Risk, continued

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

The Corporation has not been required to perform on any financial guarantees during the past two years. The Corporation has not incurred any losses on its commitments in either 2015 or 2014.

Note 14 Commitments and Contingent Liabilities

The Corporation is subject to claims and lawsuits which 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 of the Corporation.

Note 15 Employee Benefit Plans

The Corporation has a non-contributory profit-sharing retirement plan which covers substantially all employees. Contributions to this plan are determined annually by the Corporation's Board of Directors. Contributions were \$115,020 for the years ended December 31, 2015 and 2014.

Effective January 1, 1999, the Corporation adopted a defined contribution 401(k) plan that covers substantially all employees. Contributions under this plan are discretionary and determined annually by the Board of Directors. For 2015 and 2014, the Corporation matched employee contributions up to 1.5% of compensation. The charge to operations under this plan was \$44,180 and \$43,662 for the years ended December 31, 2015 and 2014, respectively.

Note 16 Compensated Absences

Employees of the Corporation are entitled to paid vacation, paid sick days and other personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 17 Lease Commitments

The Corporation entered into an operating lease agreement on August 1, 2005 for its Hamilton branch facilities. The original lease term expired on July 31, 2010 at which time the Corporation exercised the first 5-year renewal option which extended the lease through July 31, 2015. As discussed in Note 8, the Corporation purchased this property in December 2014. The lease agreement terminated at the time of purchase.

There were no lease payments expensed by the Corporation for the year ended December 31, 2015. Total lease payments expensed by the Corporation for the year ended December 31, 2014 were \$15,125.

Note 18 Concentrations of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At December 31, 2015 and 2014, the Corporation had deposits in other financial institutions totaling approximately \$6,168,900 and \$6,150,300, respectively, which exceeded the FDIC insurance limits. Furthermore, federal funds sold are essentially 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.

The Corporation grants agribusiness, commercial and real estate loans to customers within Mills County, Texas and the surrounding area. A substantial portion of its debtors' ability to honor their contracts is dependent upon the agribusiness and real estate economic sectors in that geographic area. Concentrations of credit by loan type are set forth in Note 4.

Note 19 Restrictions on Dividends

In the ordinary course of business, the Corporation is dependent upon dividends from Mills County State Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Mills County State Bank to fall below specified minimum levels.

Note 20 Regulatory Matters

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

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 20 **Regulatory Matters, continued**

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

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale, goodwill and other intangible assets.

Mills County State Bank has been notified by its regulators that, as of its most recent regulatory examination, it is regarded as well capitalized under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank's Common Equity Tier 1, Tier 1, total capital and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank's categorization as well capitalized under the ratios listed on the next page.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multiyear transition period from January 1, 2015 through December 31, 2019.

Management believes that, as of December 31, 2015, the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 20 Regulatory Matters, continued

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

	<u>Actual</u>		<u>Minimum Required for Capital Adequacy Purposes</u>		<u>Required to be Well Capitalized under the Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2015:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 28,467	19.21%	\$ 11,854	8.00%	\$ 14,817	10.00%
Tier 1 Capital (to Risk-weighted Assets)	\$ 27,426	18.51%	\$ 5,927	4.00%	\$ 8,890	6.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 27,426	18.51%	\$ 6,668	4.50%	\$ 9,631	6.50%
Leverage Capital (to Adjusted Total Assets)	\$ 27,426	9.54%	\$ 11,496	4.00%	\$ 14,370	5.00%
As of December 31, 2014:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 27,210	19.46%	\$ 11,185	8.00%	\$ 13,982	10.00%
Tier 1 Capital (to Risk-weighted Assets)	\$ 25,910	18.53%	\$ 5,593	4.00%	\$ 8,389	6.00%
Leverage Capital (to Adjusted Total Assets)	\$ 25,910	9.33%	\$ 11,109	4.00%	\$ 13,887	5.00%

Note 21 Fair Value Measurements

The Corporation has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

The authoritative guidance issued by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 21 Fair Value Measurements, continued

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- **Level 1 Inputs** : Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2 Inputs**: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- **Level 3 Inputs**: Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the 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 be indicative of 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, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 21 Fair Value Measurements, continued

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other 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 yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate: Other real estate represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2015:				
Available-For-Sale				
U.S. Treasury	\$ 10,036,580	\$ -	\$ -	\$ 10,036,580
U.S. Government agencies and corporations	-	19,987,664		19,987,664
Obligations of states and political subdivisions	-	65,691,633	-	65,691,633
U.S. Government agency mortgage-backed securities	-	35,009,484	-	35,009,484
Other	-	264,487	-	264,487
Totals	<u>\$ 10,036,580</u>	<u>\$ 120,953,268</u>	<u>\$ -</u>	<u>\$ 130,989,848</u>
December 31, 2014:				
Available-For-Sale				
U.S. Treasury	\$ 9,026,030	\$ -	\$ -	\$ 9,026,030
U.S. Government agencies and corporations	-	18,458,180		18,458,180
Obligations of states and political subdivisions	-	61,193,252	-	61,193,252
U.S. Government agency mortgage-backed securities	-	32,863,112	-	32,863,112
Other	-	313,195	-	313,195
Totals	<u>\$ 9,026,030</u>	<u>\$ 112,827,739</u>	<u>\$ -</u>	<u>\$ 121,853,769</u>

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 21 Fair Value Measurements, continued

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2015:				
Impaired loans	\$ -	\$ 493,105	\$ -	\$ 493,105
Less specific valuation allowance for possible loan losses	-	(59,589)	-	(59,589)
Impaired loans, net	<u>\$ -</u>	<u>\$ 433,516</u>	<u>\$ -</u>	<u>\$ 433,516</u>
December 31, 2014:				
Impaired loans	\$ -	\$ 547,578	\$ -	\$ 547,578
Less specific valuation allowance for possible loan losses	-	(77,765)	-	(77,765)
Impaired loans, net	<u>\$ -</u>	<u>\$ 469,813</u>	<u>\$ -</u>	<u>\$ 469,813</u>

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2015, the Corporation had other real estate totaling \$54,927. At December 31, 2014, the Corporation did not hold any other real estate. Fair values were determined using Level 2 measurements.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2015 AND 2014

Note 21 Fair Value Measurements, continued

The following table presents foreclosed assets that were remeasured and reported at fair value:

	<u>2015</u>	<u>2014</u>
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	\$ 80,674	\$ -
Charge-offs recognized in the allowance for loan losses	(3,627)	-
Fair Value	<u>\$ 77,047</u>	<u>\$ -</u>
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	\$ 77,047	\$ -
Writedowns included in other non-interest expense	(22,120)	-
Fair Value	<u>\$ 54,927</u>	<u>\$ -</u>

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to re-evaluate the fair value of other real estate owned on at least an annual basis.

Note 22 Fair Values of Financial Instruments

The estimated fair values of financial instruments that are reported in the Corporation's consolidated balance sheets at December 31, 2015 and 2014 are as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 21,047,687	\$ 21,047,687	\$ 23,153,491	\$ 23,153,491
Investment securities	130,989,848	130,989,848	121,853,769	121,853,769
Other investments	183,300	183,300	182,700	182,700
Loans, net	126,593,486	124,702,000	128,894,494	126,067,000
Corporate-owned life insurance	6,217,748	6,217,748	1,585,800	1,585,800
Accrued interest receivable	1,649,162	1,649,162	1,608,386	1,608,386
Financial liabilities:				
Deposits	259,551,891	259,740,000	250,954,221	251,207,000
Notes payable	2,224,988	2,224,988	2,650,378	2,650,378
Accrued interest payable	89,971	89,971	79,418	79,418

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions.

OTHER FINANCIAL INFORMATION

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

	GOLDTHWAITE BANCSHARES INC.	MILLS COUNTY STATE BANK	ELIMINATIONS	CONSOLIDATED
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	\$ 153,024	\$ 10,387,200	\$ (153,024)	\$ 10,387,200
Interest-bearing deposits in other financial institutions maturing in less than three months	-	10,660,487	-	10,660,487
Total cash and cash equivalents	153,024	21,047,687	(153,024)	21,047,687
Investment securities	-	130,989,848	-	130,989,848
Other investments, at cost	-	183,300	-	183,300
Investment in subsidiary, at equity in net assets	30,925,206	-	(30,925,206)	-
Loans, net of purchase discounts, net deferred loan fees and costs, and allowance for loans losses	-	126,593,486	-	126,593,486
Premises and equipment, net of accumulated depreciation	-	2,904,227	-	2,904,227
Other real estate	-	54,927	-	54,927
Accrued interest receivable	-	1,649,162	-	1,649,162
Dividends receivable	359,406	-	(359,406)	-
Goodwill	-	2,156,980	-	2,156,980
Other intangible assets, net	-	366,472	-	366,472
Corporate-owned life insurance	749,293	5,468,455	-	6,217,748
Other assets	-	182,466	-	182,466
Total Assets	\$ 32,186,929	\$ 291,597,010	\$ (31,437,636)	\$ 292,346,303
LIABILITIES				
Deposits	\$ -	\$ 259,704,915	\$ (153,024)	\$ 259,551,891
Other liabilities:				
Dividends payable	359,406	359,406	(359,406)	359,406
Notes payable	1,966,397	258,591	-	2,224,988
Accrued interest payable	-	89,971	-	89,971
Accrued expenses and other liabilities	-	258,921	-	258,921
Total other liabilities	2,325,803	966,889	(359,406)	2,933,286
Total Liabilities	2,325,803	260,671,804	(512,430)	262,485,177
SHAREHOLDERS' EQUITY				
Common stock - non-voting, par value - \$25 a share:				
Authorized and issued - 17,312 shares	432,800	-	-	432,800
Common stock, par value \$.05 a share:				
Authorized - 1,000,000 shares				
Issued - 173,120 shares	8,656	1,500,000	(1,500,000)	8,656
Capital surplus	831,710	13,784,526	(13,784,526)	831,710
Retained earnings	27,511,165	14,444,177	(14,444,177)	27,511,165
Accumulated other comprehensive income	1,196,503	1,196,503	(1,196,503)	1,196,503
Total Shareholders' Equity	29,980,834	30,925,206	(30,925,206)	29,980,834
Less common stock - voting held in treasury, 81 shares, at cost	(12,622)	-	-	(12,622)
Less common stock - non-voting held in treasury, 1,379 shares, at cost	(107,086)	-	-	(107,086)
Total Liabilities and Shareholders' Equity	\$ 32,186,929	\$ 291,597,010	\$ (31,437,636)	\$ 292,346,303

See Independent Auditor's Report.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>GOLDTHWAITE BANCSHARES INC.</u>	<u>MILLS COUNTY STATE BANK</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Interest income				
Interest and fees on loans	\$ -	\$ 6,828,836	\$ -	\$ 6,828,836
Interest on investment securities:				
Taxable	-	1,558,557	-	1,558,557
Exempt from federal income taxes	-	1,048,325	-	1,048,325
	-	2,606,882	-	2,606,882
Interest on federal funds sold and interest-bearing deposits with financial institutions	-	43,879	-	43,879
Total interest income	-	9,479,597	-	9,479,597
Interest expense				
On deposits	-	637,951	-	637,951
On borrowed funds	91,524	15,932.00	-	107,456
Total interest expense	91,524	653,883	-	745,407
Net interest income (expense)	(91,524)	8,825,714	-	8,734,190
Provision for loan losses	-	58,076	-	58,076
Net interest income (expense) after provision for loan losses	(91,524)	8,767,638	-	8,676,114
Non-interest income				
Service charges on deposit accounts	-	1,105,604	-	1,105,604
Loss on sales of premises and equipment	-	(8,366)	-	(8,366)
Earnings on corporate-owned life insurance	5,395	82,713	-	88,108
Dividend income from subsidiary	1,730,251	-	(1,730,251)	-
Equity in undistributed income of subsidiary	1,189,797	-	(1,189,797)	-
Other	107	610,149	-	610,256
Total non-interest income	2,925,550	1,790,100	(2,920,048)	1,795,602
Non-interest expense				
Salaries and employee benefits	-	4,248,039	-	4,248,039
Occupancy and furniture and equipment expense	-	759,352	-	759,352
Other	3,492	2,630,299	-	2,633,791
Total non-interest expense	3,492	7,637,690	-	7,641,182
Net Income	<u>\$ 2,830,534</u>	<u>\$ 2,920,048</u>	<u>\$ (2,920,048)</u>	<u>\$ 2,830,534</u>

See Independent Auditor's Report.

**MILLS COUNTY STATE BANK
NON-INTEREST EXPENSE
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Salaries and employee benefits:		
Salaries	\$ 3,423,370	\$ 3,300,612
Payroll taxes	263,905	255,083
Insurance	401,564	378,807
Contributions to employee benefit plans	159,200	158,682
	<u>4,248,039</u>	<u>4,093,184</u>
Totals		
Occupancy and furniture and equipment expense:		
Utilities	79,115	82,423
Janitorial service and supplies	28,559	29,705
Taxes - ad valorem	81,008	76,276
Repairs, maintenance and rental	294,318	352,391
Insurance	35,034	31,844
Depreciation	241,318	263,335
	<u>759,352</u>	<u>835,974</u>
Totals		
Other:		
Directors' fees	271,094	233,540
Advertising and public relations	192,240	199,531
Stationery and supplies	155,105	154,925
Postage	91,330	94,953
Telephone	52,100	49,384
Taxes - franchise	5,717	8,173
Contributions	4,145	4,425
FDIC assessment	145,356	151,796
Travel and conventions	71,145	57,229
Legal and professional expense	243,375	250,511
Dues, memberships and subscriptions	53,030	41,328
Miscellaneous	192,695	135,547
Bank club expenses	77,300	90,182
Other real estate expenses	26,156	5,357
Examination fees	41,895	42,918
Insurance	27,043	26,828
Employee education	18,976	16,896
Data processing fees	567,412	460,793
Bank card expense	121,219	113,528
Loan and repossession expense	32,949	47,798
Service charge - banks	48,135	43,243
Internet banking expense	66,489	56,419
Amortization of core deposit intangibles	105,150	105,151
ATM card expense	20,243	21,297
	<u>2,630,299</u>	<u>2,411,752</u>
Totals		
Total Non-Interest Expense	<u><u>\$ 7,637,690</u></u>	<u><u>\$ 7,340,910</u></u>

See Independent Auditor's Report.