Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); 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, James F. Kemp
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.

James F Kemp
Signature of Holding Company Director and Official

03/04/2016
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 1107308
C.I.

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

Security Holding Company
Legal Title of Holding Company

P. O. Box 471
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Fredericksburg	TX	78624

201 West Main / Fredericksburg, TX 78624
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Brenda Burrier	V/P Accounting

830-997-7575
Area Code / Phone Number / Extension

830-990-2914
Area Code / FAX Number

bburrier@ssbtexas.com
E-mail Address

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

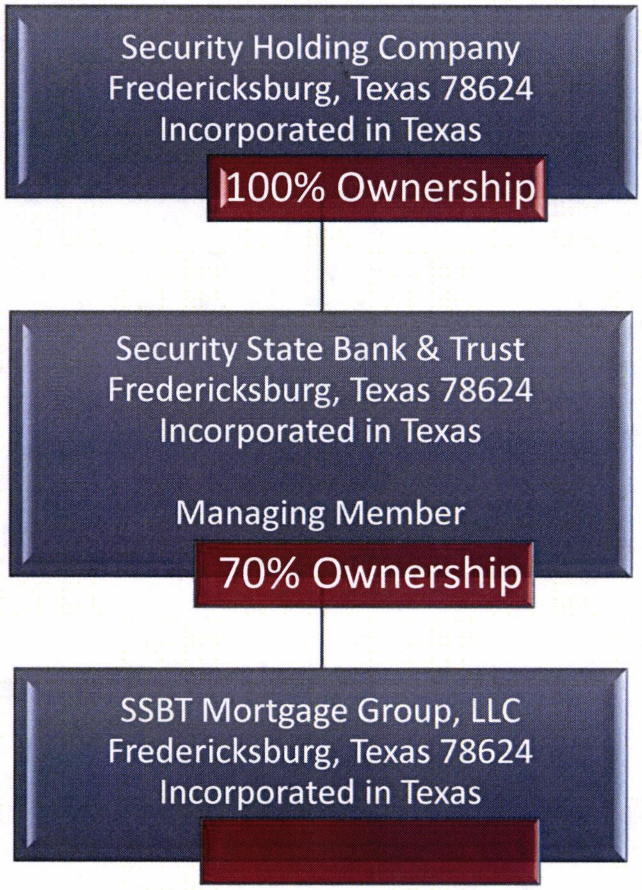
Does the reporter request confidential treatment for any portion of this submission?

- [ ] 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."
- [x] No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

SECURITY HOLDING COMPANY
FREDERICKSBURG, TEXAS
ORGANIZATION CHART

AMENDED
JUL 18 2016



The Registrant does not engage in any other activities other than the ownership of 100.00% of the stock of Security State Bank & Trust, Fredericksburg, Texas.

No LEI is avalable

Results: A list of branches for your depository Institution SECURITY STATE BANK & TRUST (ID_RSSD 2473551 This depository Institution Is held bySECURITY HOLDING COMPANY (11073081 of FREDERICKSBURG, TX

The data are as of 12/31/2015 Data reflectsInformation that was received and processed through 01/07/2016

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 datein the Effective Date column
Actions

OK: If the branchInformation Is correct, enter Oi In the Data Actioncolumn.

Ch mge If the branch Informationislncorrect orIncomplete,revise the data, enter 'Change' In the Data Action corumn and the date when thisnformation first became va'ld 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 Eff11ctive Date column

Delete If a branch listed was never owned by this depository nstitution enter 'Delete' In the Data Actioncolumn

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 dateIn the Effective Date olumn

If printingthis list. you may need to adjust your page setup In MS Excel. Try using landscape orientation,page scaling, and/orlegal sized paper.
Submlulon Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed Instructions on this site for moreinformation. If you are e-mailing this to your FRB contact, put your Institution name, city and state In the subject line of the e mall.
Note:
To satisfy the FR Y-10 reporting requirements, you must also submit FR V-10 Domestic Branch Schedules for each branch with a Data Action of Change,Close,Delete,or Add The FR Y-10 report may be submittedIn a hardcopy format or via the FR Y O Online application • https //ylOonlineJederalreserve.gov.
• FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only Verification of these valuesls not required.

Ditta Action	Effective Date	Branch Service Type	BranchID_RSsD•	Popular Name	Street Address	City	State	Zip Code	County	Country
OK		Full Service (Head Officel	247355	SECURITY STATE BANK &	201WEST MAINSTREET	FREDERICKSBURG	TX	78624	GILLESPIE	UNITED STATES
OK		Full Service	4672722	BEE CAVE BRANCH	11610 BEE CAVES ROAD	BEE CAVE	TX	78738	TRAVIS	UNITED STATES
OK		FullService	3541317	BLANCO BRANCH	1000 US HIGHWAY 281	BLANCO	TX	78606	BLANCO	UNITED STATES
OK		FullService	19872S6	BOERNE BRANCH	607 NORTH MAIN STREET	BOERNE	TX	78006	KENDALL	UNITED STATES
OK		FullService	2225638	BULVERDE BRANCH	3131 BULVERDE RD	BULVERDE	TX	78163	COMAL	UNITED STATES
OK		Full Service	3555136	CANYON LAKE BRANCH	18125 FM 306	CANYON LAKE	TX	78133 33	COMAL	UNITED STATES
OK		Full Service	2351809	COMFORT BRANCH	832 FRONT STREET	COMFORT	TX	78013	KENDALL	UNITED STATES
OK		Full Service	3541344	DRIPPING SPRINGS BRANCH	1500 WEST HIGHWAY 290	DRIPPING SPRINGS	TX	78620	HAYS	UNITED STATES
OK		Limited Service	431556	DRIVE IN BRANCH	115 NORTH CROCKETT STREET	FREDERICKSBURG	TX	78624	GILLESPIE	UNITED STATES
OK		Limited Service	3906943	MAINSTREET BRANCH	1111EAST MAINSTREET	FREDERICKSBURG	TX	78624	GILLESPIE	UNITED STATES
OK		FullService	1430181	HARPER BRANCH	23596 W US HIGHWAY 290	HARPER	TX	78631	GILLESPIE	UNITED STATES
OK		FullService	3344808	INGRAM BRANCH	3241JUNCTION HIGHWAY	INGRAM	TX	78025	KERR	UNITED STATES
OK		Full Service	1462632	KERRVILLE BRANCH	1130 JUNCTION HIGHWAY	KERRVILLE	TX	78028	KERR	UNITED STATES
OK		Limited Service	2067342	KERRVILLE DRIVE THRU	212 SIDNEY BAKER STREET SOUTH	KERRVILLE	TX	78028	KERR	UNITED STATES
OK		Full Service	1431900	KINGSLAND BRANCH	204 RANCH ROAD 2900	KINGSLAND	TX	78639	LLANO	UNITED STATES
OK		Full Service	3228515	LAGO VISTA BRANCH	7626 LOHMAN FORD RD	LAGO VISTA	TX	78645	TRAVIS	UNITED STATES
OK		Limited Service	3649286	MAIN STREET MOTOR BRANCH	707 MAIN STREET	MARBLE FALLS	TX	78654	BURNET	UNITED STATES
OK		Full Service	1830679	MARBLE FALI5 BRANCH	608 HWY 281NORTH	MARBLE FALLS	TX	78654	BURNET	UNITED STATES
OK		Full Service	3541371	SPICEWOOD BRANCH	3610 PACE BEND ROAD SOUTH	SPICEWOOD	TX	7B669	TRAVIS	UNITED STATES

FDICUNINUM•	Office Number•	Head Office	Head OfficeID_Rsso•	Comments
10053	0	SECURITY STATE BANK &	247355	
Not Required	Not Required	SECURITY STATE BANK &	247355	
3576n	15	SECURITY STATE BANK &	2473S5	
235537	B	SECURITY STATE BANK &	247355	
235539	10	SECURITY STATE BANK &	247355	
462259	22	SECURITY STATE BANK &	247355	
235540	11	SECURITY STATE BANK &	247355	
364939	16	SECURITY STATE BANK &	247355	
235533	2	SECURITY STATE BANK &	247355	
493160	23	SECURITY STATE BANK &	24735S	
8462	4	SECURITY STATE BANK &	247355	
4403n	19	SECURITY STATE BANK &	2473SS	
235536	7	SECURITY STATE BANK &	247355	
235538	9	SECURITY STATE BANK &	247355	
16938	3	SECURITY STATE BANK &	247355	
429661	17	SECURITY STATE BANK &	247355	
453123	21	SECURITY STATE BANK &	247355	
235535	6	SECURITY STATE BANK &	247355	
235541	12	SECURITY STATE BANK &	247355	

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

STOCKHOLDERS AND PERCENTAGE TO VOTE

" Keller Family & James & Roxana Hayne as part of Voting Group"

NAME	ADDRESS	COMMON STOCK	PERCENTAGE TO VOTE
Bonnen, Kimberly Durst United States of America	Friendswood, Texas	260	2.8830%
Durst, Kay Keller United States of America	Fredericksburg, Texas	283.4037375	3.1420%
Hayne, James L., Ranch Trust of 2001 James L. Hayne Jr. Trustee United States of America	San Antonio, Texas	248.846	2.7590%
Hayne, Roxana C. Ranch Trust of 2001 James L. Hayne Jr. Trustee United States of America	San Antonio, Texas	248.846	2.7590%
Igler, Stephanie United States of America	San Angelo, Texas	480.18	5.3240%
Keller, Kathleen United States of America	Hye, Texas	803.4037275	8.907%
Keller, Keith United States of America	Fredericksburg, Texas	624.4807255	6.9240%
Keller, Keith or Marjorie United States of America	Fredericksburg, Texas	6.8535000	0.0760%
Keller, Kory United States of America	Fredericksburg, Texas	480.18	5.3240%
Kemp, Brian United States of America	San Marcos, Texas	290.46	3.2200%
Kemp, Cynthia United States of America	Fredericksburg, Texas	290.46	3.2200%
Kemp, Dan United States of America	Fredericksburg, Texas	290.46	3.2200%
Kemp, James United States of America	Fredericksburg, Texas	412.051732	4.5680%
Kemp, Karen Keller United States of America	Fredericksburg, Texas	797.4037375	8.841%
LeJeune, Kristy K. United States of America	College Station, Texas	260	2.8830%
Loth, Stacy United States of America	Harper, Texas	480.18	5.3240%
	TOTAL	6257.20916	69.3740%

REPORT ITEM 3: SHAREHOLDERS-SECURITY HOLDING COMPANY

Report Item 3: (2) N/A

AMENDED
JUL 18 2016

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

STOCKHOLDERS AND PERCENTAGE TO VOTE

" Keller Family & James & Roxana Hayne as part of Voting Group"

NAME & ADDRESS (City, State, Country)	PRINCIPAL OCCUPATION if other than Holding Company	TITLE & POSITION WITH HOLDING CO.	TITLE & POSITION with Subsidiaries (include names of subsidiaies)	TITLE & POSITION with Other Businesses (include names of other businesses)	PERCENTAGE of Voting Securities in Holding Company	PERCENTAGE of Voting Securities in Subsidiaries (include names of Subsidiaries)	List of names of othe Companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Bonnen, Kimberly Durst Friendswood, Texas United States of America	Housewife	N/A	N/A	Stockholder/M Durst Company Stockholder/K-M Bar, Inc Stockholder/Keller Land & Cattle Co. Owner/Texas Brain & Spine Center Owner/Chios Investments, LP Owner/Semtinel Neurology	2.8830%	N/A	M Durst Company/ 50% K-M Bar, Inc/ 50% Keller Land & Cattle Co. 50% Texas Brain & Spine Center 100% Chios Investments, LP/33% Semtinel Neurology/25%
Durst, Kay Keller Fredericksburg, Texas United States of America	Housewife	N/A	N/A	Vice Pres /M Durst Company President/K-M Bar, Inc President/Keller Land & Cattle Co.	3.1420%	N/A	N/A
Hayne, James L., Ranch Trust of 2001 James L. Hayne Jr. Trustee San Antonio, Texas United States of America	Retired Insurance Broker	N/A	N/A	N/A	2.7590%	N/A	N/A
Hayne, Roxana C. Ranch Trust of 2001 James L. Hayne Jr. Trustee San Antonio, Texas United States of America	Housewife	N/A	N/A	N/A	2.7590%	N/A	N/A
Igler, Stephanie San Angelo, Texas United States of America	Substitue Teacher	N/A	N/A	N/A	5.3240%	N/A	N/A

AMENDED
JUL 18 2016

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

STOCKHOLDERS AND PERCENTAGE TO VOTE

" Keller Family & James & Roxana Hayne as part of Voting Group"

NAME & ADDRESS (City, State, Country)	PRINCIPAL OCCUPATION if other than Holding Company	TITLE & POSITION WITH HOLDING CO.	TITLE & POSITION with Subsidiaries (include names of subsidiaies)	TITLE & POSITION with Other Businesses (include names of other businesses)	PERCENTAGE of Voting Securities in Holding Company	of Voting Securities in Subsidiaries (include names of Subsidiaries)	List of names of other (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Keller, Kathleen Hye, Texas United States of America	Homemaker	N/A	N/A	President/KL Land Inc.	8.907%	N/A	KL Land, Inc 100%
Keller, Keith Fredericksburg, Texas United States of America	Retired Contractor	Director Vice President	Director Security State Bank & Trust	Keller Equipment Co. I LLC Owner	6.9240%	N/A	Keller Equipment Co. I LLC 49%
Keller, Keith or Marjorie Fredericksburg, Texas United States of America	Retired Contractor Marjorie Housewife	Director Vice President	Director Security State Bank & Trust	Keller Equipment Co. I LLC Owner	0.0760%	N/A	Keller Equipment Co. I LLC 49%
Keller, Kory Fredericksburg, Texas United States of America	Contractor	Director	Director Security State Bank & Trust	CEO/Manager Allen Keller Company I LLC Owner Keller Equipment Co. I, LLC Manager Spring Canyon Ranch Partner Hillside Beef LLC	5.3240%	N/A N/A N/A N/A	Allen Keller Company I LLC 100% Keller Equipment Co. I, LLC 50% Spring Canyon Ranch 100% Hillside Beef LLC/100% 100%
Kemp, Brian San Marcos, Texas United States of America	EMS Paramedic	N/A	N/A	N/A	3.2200%	N/A	N/A
Kemp, Cynthia Fredericksburg, Texas United States of America	Interior Decorator	N/A	N/A	Owner Space Scapes Interiors	3.2200%	N/A	Space Scapes Interiors 100%

AMENDED
JUL 18 2016

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

STOCKHOLDERS AND PERCENTAGE TO VOTE

" Keller Family & James & Roxana Hayne as part of Voting Group"

NAME & ADDRESS (City, State, Country)	PRINCIPAL OCCUPATION if other than Holding Company	TITLE & POSITION WITH HOLDING CO.	TITLE & POSITION with Subsidiaries (include names of subsidiaies)	TITLE & POSITION with Other Businesses (include names of other businesses)	PERCENTAGE of Voting Securities in Holding Company	PERCENTAGE of Voting Securities in Subsidiaries (include names of Subsidiaries)	List of names of othe Companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Kemp, Dan Fredericksburg, Texas United States of America	Banker	Director	Director/SR VP Security State Bank & Trust	President SSB&T Mortgage	3.2200%	N/A	N/A
Kemp, James Fredericksburg, Texas United States of America	Banker	Director President	Director/Chairman Security State Bank & Trust		4.5680%	N/A	N/A
Kemp, Karen Keller Fredericksburg, Texas United States of America	Housewife	N/A	N/A	N/A	8.841%	N/A	N/A
LeJeune, Kristy K. College Station, Texas United States of America	Substitute Teacher Contract Worker Marriage Prep Assistant	N/A	N/A	Stockholder/M Durst Company Stockholder/K-M Bar, Inc Stockholder/Keller Land & Cattle Co.	2.8830%	N/A	M Durst Company/ 50% K-M Bar, Inc/ 50% Keller Land & Cattle Co. 50%
Loth, Stacy Harper, Texas United States of America	Housewife	N/A	N/A	N/A	5.3240%	N/A	N/A
	TOTAL				69.3740%		

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

OFFICERS, DIRECTORS & STOCKHOLDERS

December 31, 2015

NAME & ADDRESS (City, State, Country)	PRINCIPAL OCCUPATION if other than Holding Company	TITLE & POSITION WITH HOLDING CO.	TITLE & POSITION with Subsidiaries (include names of subsidiaies)	TITLE & POSITION with Other Businesses (include names of other businesses)	PERCENTAGE of Voting Securities in Holding Company	PERCENTAGE of Voting Securities in Subsidiaries (include names of Subsidiaries)	List of names of othe Companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Patrick M. (Mike) Dooley Fredericksburg, Texas United States of America	Attorney	Director	Director Security State Bank & Trust	Patrick M. (Mike) Dooley Attorney at Law/Ownership	N/A	N/A	Patrick M. (Mike) Dooley Attorney at Law/Ownership 100%
William H. Cowden Jr. Fredericksburg, Texas United States of America	Banker	Director	Director/President Security State Bank & Trust	President Security State Bank & Trust	N/A	N/A	N/A
Ray Geistweidt Fredericksburg, Texas United States of America	Certified Public Accountant	Director	Director Security State Bank & Trust	Geistweidt & Company, CPA Ownership	N/A	N/A	Geistweidt & Company, CPA Ownership/100%
				Mason National Bank Director	N/A	N/A	N/A

AMENDED
JUL 18 2016

Security Holding Company and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

Security Holding Company and Subsidiary

December 31, 2015 and 2014

Contents

Consolidated Financial Statements

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Statements of Income 4
Statements of Comprehensive Income 6
Statements of Stockholders' Equity 7
Statements of Cash Flows 8
Notes to Financial Statements 10

Security Holding Company and Subsidiary

Consolidated Balance Sheets

December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 67,167,169	$ 96,558,229
Available-for-sale securities	181,634,603	162,926,301
Held-to-maturity securities	139,695,918	110,454,640
Loans held for sale	9,420,448	6,153,275
Loans, net of allowance for loan losses of $3,409,224 and $3,525,408 at December 31, 2015 and 2014	449,251,371	394,443,079
Premises and equipment, net of accumulated depreciation of $12,773,715 and $11,917,570 at December 31, 2015 and 2014	14,736,018	14,172,919
Federal Home Loan Bank stock	626,700	297,000
Foreclosed assets held for sale, net	5,402,886	6,250,161
Interest receivable	3,541,392	2,983,463
Goodwill	1,344,339	1,344,339
Deferred income taxes	1,562,688	1,367,108
Cash surrender value of life insurance	6,406,500	514,644
Other assets	382,478	427,628
Total assets	$ 881,172,510	$ 797,892,786
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 276,921,495	$ 233,020,010
Savings, NOW and money market	347,337,253	310,141,470
Time	103,286,702	116,542,424
Total deposits	727,545,450	659,703,904
Securities sold under agreements to repurchase	33,165,597	24,142,212
Accrued interest payable	73,803	104,971
Accrued expenses and other liabilities	1,865,495	1,290,604
Total liabilities	762,650,345	685,241,691
Stockholders' Equity		
Common stock, $1 par value; authorized - 30,000 shares; issued and outstanding 2015 - 9,849 shares ; 2014 - 9,849 shares	9,849	9,849
Additional paid-in capital	10,118,359	10,118,359
Retained earnings	114,708,311	108,740,650
Accumulated other comprehensive income (loss)	54,966	152,571
Treasury stock, at cost		
Common: 829 shares	(6,431,429)	(6,431,429)
Total Security Holding Company stockholders' equity	118,460,056	112,590,000
Noncontrolling interest	62,109	61,095
Total stockholders' equity	118,522,165	112,651,095
Total liabilities and stockholders' equity	$ 881,172,510	$ 797,892,786

Security Holding Company and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest Income		
Loans, including fees	$ 24,874,748	$ 23,092,482
Investment securities	5,591,291	5,172,219
Interest bearing deposits	126,635	147,274
Total interest income	30,592,674	28,411,975
Interest Expense		
Deposits	754,658	866,276
Securities sold under agreements to repurchase	82,968	69,712
Other	8,726	-
Total interest expense	846,353	935,988
Net Interest Income	29,746,321	27,475,987
Provision for Loan Losses	762,427	250,369
Net Interest Income After Provision for Loan Losses	28,983,894	27,225,618
Noninterest Income		
Service charges on deposit accounts	2,140,958	2,328,104
Fiduciary activities	846,079	800,061
Mortgage loan income	5,812,982	4,109,042
Other service charges and fees	2,262,068	2,062,065
Net realized losses on sales of available-for-sale securities	(19,506)	(8,973)
Net realized losses on foreclosed assets	(165,693)	(591,624)
Other	1,182,000	623,667
Total noninterest income	12,058,888	9,322,342

Security Holding Company and Subsidiary
Consolidated Statements of Income (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Noninterest Expense		
Salaries and employee benefits	$ 18,628,627	$ 16,300,938
Occupancy expense	2,150,424	1,951,495
Equipment expense	1,163,079	1,004,497
Data processing fees	923,085	790,264
Postage, printing and office supplies	569,485	603,506
Telecommunications	480,795	532,832
Expenses of foreclosed assets	311,553	458,598
Deposit insurance premiums	519,830	590,131
Other	4,319,585	3,485,113
Total noninterest expense	29,066,463	25,717,374
Income Before Income Tax	11,976,320	10,830,586
Provision for Income Taxes	2,807,900	3,034,400
Net Income	9,168,420	7,796,186
Less net income attributable to the noncontrolling interest	1,014	482,990
Net Income Attributable to Security Holding Company	$ 9,167,406	$ 7,313,196
Basic and Diluted Earnings Per Share	$ 1,016	$ 858
Average Shares Outstanding	9,020	8,524

Security Holding Company and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

	2015	2014
Net Income	$ 9,168,420	$ 7,796,186
Other Comprehensive (Loss)		
Unrealized apreciation on available-for-sale securities, net of taxes of $ (59,162) and $(1,225,881), for 2015 and 2014, respectively	(110,479)	2,379,598
Less reclasification adjustment for realized losses included in net income, net of taxes of $(6,632) and $(3,051) for 2015 and 2014, respectively	(12,874)	(5,922)
	(97,605)	2,385,520
Comprehensive Income	9,070,815	10,181,706
Less comprehensive income attributable to the noncontrolling interest	1,014	607,990
Comprehensive Income Attributable to Security Holding Company	$ 9,069,801	$ 9,573,716

Security Holding Company and Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
Balance, January 1, 2014	9,188	9,188	2,065,418	104,049,380	(2,054,906)	(6,431,429)	8,337,380	105,975,031
Net income	-	-	-	7,313,196	-	-	482,990	7,796,186
Other comprehensive income	-	-	-	-	2,260,520	-	125,000	2,385,520
Dividends on common stock, $302 per share	-	-	-	(2,621,926)	-	-	-	(2,621,926)
Dividends paid to noncontrolling interest	-	-	-	-	-	-	(115,462)	(115,462)
Capital contribution to SSBT Mortgage Group, LLC noncontrolling interest	-	-	-	-	-	-	61,095	61,095
Repurchase of noncontrolling interest by the Bank	-	-	(159,942)	-	(4,094)	-	(665,313)	(829,349)
Exchange of Security Holding Company stock for shares of the Bank held by noncontrolling interest	661	661	8,212,883	-	(48,949)	-	(8,164,595)	-
Balance, December 31, 2014	9,849	$ 9,849	$ 10,118,359	$ 108,740,650	$ 152,571	$ (6,431,429)	$ 61,095	$ 112,651,095
Net income	-	-	-	9,167,406	-	-	1,014	9,168,420
Other comprehensive loss	-	-	-	-	(97,605)	-		(97,605)
Dividends on common stock, $219 per share	-	-	-	(3,199,745)	-	-	-	(3,199,745)
Balance, December 31, 2015	9,849	$ 9,849	$ 10,118,359	$ 114,708,311	$ 54,966	$ (6,431,429)	$ 62,109	$ 118,522,165

Security Holding Company and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	$ 9,168,420	$ 7,796,186
Items not requiring (providing) cash		
Depreciation and amortization	856,746	596,806
Provision for loan losses	762,427	250,369
Amortization of premiums and discounts on securities	2,033,439	1,467,190
Deferred income taxes	(143,023)	334,616
Net realized losses on sales of available-for-sale securities	19,506	8,973
Net realized (gains) losses on sales of foreclosed assets	52,742	(288,414)
Provision for losses on foreclosed assets	112,951	880,038
Changes in		
Loans held for sale	(3,267,173)	1,298,296
Interest receivable	(557,929)	(100,745)
Other assets	153,294	(13,116)
Interest payable and other liabilities	543,723	(228,644)
Net cash provided by operating activities	9,735,123	12,001,555
Investing Activities		
Purchases of available-for-sale securities	(1,223,321,052)	(731,708,173)
Proceeds from maturities of available-for-sale securities	104,068,476	91,202,710
Proceeds from the sales of available-for-sale securities	1,099,983,643	639,985,474
Purchases of held-to-maturity securities	(51,199,581)	(34,974,998)
Proceeds from maturities of held-to-maturity securities	20,315,827	21,310,155
Net change in loans	(57,063,355)	(29,777,040)
Purchases of premises and equipment	(1,419,845)	(1,510,172)
Purchases of Federal Home Loan Bank stock	(329,700)	(20,300)
Purchase of bank owned life insurance	(6,000,000)	-
Proceeds from sales of foreclosed assets	2,174,218	3,143,547
Net cash used in investing activities	(112,791,369)	(42,348,797)

Security Holding Company and Subsidiary

Consolidated Statements of Cash Flows (continued)

Years Ended December 31, 2015 and 2014

	2015	2014
Financing Activities		
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	$ 81,097,268	$ 51,952,415
Net increase (decrease) in certificates of deposit	(13,255,722)	(3,949,958)
Net increase (decrease) in securities sold under agreements to repurchase	9,023,385	336,769
Dividends paid to stockholders	(3,199,745)	(2,621,926)
Dividends paid to noncontrolling interest	-	(115,462)
Repurchase of noncontrolling interest by the Bank	-	(829,349)
Capital contribution to SSBT Mortgage, LLC by noncontrolling interest	-	61,095
Net cash provided by financing activities	73,665,186	44,833,584
Increase (Decrease) in Cash and Cash Equivalents	(29,391,060)	14,486,342
Cash and Cash Equivalents, Beginning of Year	96,558,229	82,071,887
Cash and Cash Equivalents, End of Year	$ 67,167,169	$ 96,558,229
Supplemental Cash Flows Information		
Interest paid	$ 878,000	$ 955,010
Income taxes paid	$ 2,911,000	$ 2,765,000
Real estate acquired in settlement of loans	$ 1,493,000	$ 823,985

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Security Holding Company ("Company") is a bank holding company whose principal activity is the ownership and management of its majority-owned subsidiary, Security State Bank and Trust (the "Bank"). The Bank is primarily engaged in providing a variety of financial services to individual and corporate customers through its main office Fredericksburg, Texas, fifteen branch locations, an operations center, four remote branch locations in the surrounding area and a loan production office in Fort Worth, Texas. The Bank's primary deposit products are interest bearing checking accounts and certificates of deposits. Its primary lending products are real estate mortgage loans, commercial, financial, consumer and agricultural loans. The Bank also originates mortgage loans insured by the Federal Housing Authority (FHA). During 2014, the Bank formed a mortgage company, SSBT Mortgage Group, LLC (SSBT Mortgage), with another individual. The Bank contributed all of the preferred capital and 70% of the common capital. At December 31, 2014 SSBT Mortgage had no activity. SSBT Mortgage began originating loans in October of 2015. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and SSBT Mortgage. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist, which are outlined in the FASB Accounting Standards Codification (ASC) variable interest accounting guidance (ASC 810-10-15-04): (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. Along with the VIEs that are consolidated in accordance with these guidelines, the Company has significant variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary.

All facts and circumstances are taken into consideration when determining whether the Company has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company's financial statements. In many cases, it is qualitatively clear based on whether the Company has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Company is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Company monitors the consolidated and unconsolidated VIEs to determine if any reconsideration events have occurred that could cause any of them to no longer be a VIE. The Company reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and fair values of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2015, the Company's cash accounts exceeded federally insured limits by approximately $51,466,000. In addition, the Company has approximately $48,497,000 on deposit with the Federal Reserve Bank.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. Gains on sale of loans during the years ended December 31, 2015 and 2014 were $4,598,212 and $3,252,298, respectively.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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

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

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

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

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

Buildings and improvements	10-40 years
Leasehold improvements	5-30 years
Furniture and equipment	5-10 years

Long-lived Asset Impairment

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

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

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations are included in noninterest income and noninterest expense, respectively. Changes in the valuation allowance are included in realized gains and losses on foreclosed assets in the noninterest section of the income statement.

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

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 Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent, the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2011.

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

The Company files consolidated income tax returns with the Bank.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no dilutive shares outstanding at December 31, 2015 or 2014.

Treasury stock shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities. During the years ended December 31, 2015 and 2014, realized losses on available-for-sale securities of $19,506 and $8,973, respectively were reclassified out of accumulated other comprehensive income. Tax benefits of $6,632 and $3,051 were recognized on these losses and the net reclassifications related to these sales were $12,784 and $5,922. These losses have been included in the consolidated income statement as net realized losses on sales of available for securities.

Transfers between Fair Value Hierarchy Levels

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

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2015, was $204,000.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2015				
U.S. Treasury securities	$ 72,986,799	$ 9,027	$ 133,046	$ 72,862,780
U.S. Government-sponsored enterprises (GSEs)	66,510,258	123,463	569,540	66,064,182
U.S. agencies and GSEs residential mortgage-backed	8,245,239	260,260	8,671	8,496,828
State and political subdivisions	32,794,582	411,005	60,755	33,144,831
Corporate	-	-	-	-
Other	1,013,248	52,734	-	1,065,982
	$181,550,126	$ 856,489	$ 772,012	$181,634,603
December 31, 2014				
U.S. Treasury securities	$ 50,033,993	$ 32,349	$ 23,764	$ 50,042,578
U.S. Government-sponsored enterprises (GSEs)	72,586,430	232,506	820,357	71,998,579
U.S. agencies and GSEs residential mortgage-backed	9,126,943	358,548	327	9,485,164
State and political subdivisions	28,686,878	453,530	57,264	29,083,144
Corporate	1,236,199	1,258	344	1,237,113
Other	1,021,246	58,477	-	1,079,723
	$162,691,689	$ 1,136,668	$ 902,056	$162,926,301

Security Holding Company and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:				
December 31, 2015				
U.S. agencies and GSEs				
residential mortgage-backed	$ 20,306,582	$ 128,882	$ 64,639	$ 20,370,825
State and political subdivisions	119,389,336	1,914,802	92,161	121,211,977
	$139,695,918	$ 2,043,684	$ 156,800	$141,582,802
December 31, 2014				
U.S. agencies and GSEs				
residential mortgage-backed	$ 19,374,515	$ 320,765	$ 1,667	$ 19,693,613
State and political subdivisions	91,079,945	1,837,774	35,728	92,881,991
	$110,454,460	$ 2,158,539	$ 37,395	$112,575,604

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Within one year	$ 29,856,208	$ 29,853,007	$ 25,018,002	$ 25,031,825
One to five years	73,562,383	73,512,639	35,132,371	35,475,780
Five to ten years	49,581,814	49,643,531	27,535,794	28,431,656
After ten years	19,291,234	19,062,616	31,703,169	32,272,716
	172,291,639	172,071,793	119,389,336	121,211,977
Mortgage-backed securities	8,245,239	8,496,828	20,306,582	20,370,825
Other securities	1,013,248	1,065,982	-	-
Totals	$ 181,550,126	$ 181,634,603	$ 139,695,918	$ 141,582,802

The fair value of securities pledged as collateral, to secure public deposits, repurchase agreements and for other purposes, was $194,579,000 at December 31, 2015, and $143,143,000 at December 31, 2014.

Gross losses of $19,506 and $8,973 resulting from sales of available-for-sale securities were realized for 2015 and 2014, respectively.

Certain investments are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014, was $158,627,899 and $79,547,307, which is approximately 49% and 29%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from recent increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings.

Management believes the declines in fair value for these securities are temporary.

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

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury securities	$ 51,857,500	$ 133,046	$ -	$ -	$ 51,857,500	$ 133,046
U.S. Government-sponsored enterprises (GSEs)	38,177,141	182,750	17,022,065	386,790	55,199,206	569,540
U.S. agencies and GSEs residential mortgage-backed	1,242,610	8,665	9,283	6	1,251,893	8,671
State and political subdivisions	6,045,754	32,602	4,396,043	28,153	10,441,797	60,755
Total temporarily impaired securities	$ 97,323,005	$ 357,063	$ 21,427,391	$ 414,949	$ 118,750,396	$ 772,012

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury securities	$ 16,961,445	$ 23,764	$ -	$ -	$ 16,961,445	$ 23,764
U.S. Government-sponsored enterprises (GSEs)	8,230,093	15,771	31,349,769	804,586	39,579,862	820,357
U.S. agencies and GSEs residential mortgage-backed	47,060	90	26,019	237	73,079	327
State and political subdivisions	4,415,468	25,374	2,998,117	31,890	7,413,585	57,264
Corporate	485,539	344	-	-	485,539	344
Total temporarily impaired securities	$ 30,139,605	$ 65,343	$ 34,373,905	$ 836,713	$ 64,513,510	$ 902,056

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
U.S agencies and GSEs residential mortgage-backed	$ 7,815,324	$ 64,639	$ -	$ -	$ 7,815,324	$ 64,639
State and political subdivisions	27,265,129	88,134	4,797,049	4,027	32,062,178	92,161
	$ 35,080,453	$ 152,773	$ 4,797,049	$ 4,027	$ 39,877,502	$ 156,800

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
U.S agencies and GSEs residential mortgage-backed	$ 1,967,477	$ 1,667	$ -	$ -	$ 1,967,477	$ 1,667
State and political subdivisions	11,304,380	26,152	1,761,940	9,576	13,066,320	35,728
	$ 13,271,857	$ 27,819	$ 1,761,940	$ 9,576	$ 15,033,797	$ 37,395

U.S. Government-Sponsored Enterprises (GSEs)

The unrealized losses on the Company's investments in direct obligations of U.S. government-sponsored enterprises were caused by changes in the market interest rates from those at the time the securities were purchased. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by changes in the market interest rates from those at the time the securities were purchased. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2015	2014
Real estate		
Residential	$ 98,441,000	$ 84,186,000
Commercial	140,292,000	140,387,000
Construction and land development	99,827,000	84,608,000
Commercial	86,239,000	62,959,000
Consumer and other	27,861,595	25,828,487
Total loans	452,660,595	397,968,487
Less allowance for loan losses	3,409,224	3,525,408
Net loans	$ 449,251,371	$ 394,443,079

Security Holding Company and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

	December 31, 2015			
	Real Estate	Commercial	Consumer and Other	Total
Allowance for loan losses				
Balance, beginning of year	$ 1,733,328	$ 1,467,726	$ 324,354	$ 3,525,408
Provision charged to expense	44,372	775,157	(57,102)	762,427
Losses charged off	(340,000)	(546,000)	(112,000)	(998,000)
Recoveries	68,000	14,000	37,389	119,389
Balance, end of year	$ 1,505,700	$ 1,710,883	$ 192,641	$ 3,409,224
Ending balance, individually evaluated for impairment	$ 41,404	$ 445,047	$ 49,714	$ 536,165
Ending balance, collectively evaluated for impairment	1,464,296	1,265,836	142,927	2,873,059
Balance, end of year	$ 1,505,700	$ 1,710,883	$ 192,641	$ 3,409,224
Loans				
Ending balance, individually evaluated for impairment	$ 6,216,502	$ 1,356,423	$ 128,743	$ 7,701,668
Ending balance, collectively evaluated for impairment	332,343,498	84,882,577	27,732,852	444,958,927
Balance, end of year	$ 338,560,000	$ 86,239,000	$ 27,861,595	$ 452,660,595

	December 31, 2014			
	Real Estate	Commercial	Consumer and Other	Total
Allowance for loan losses				
Balance, beginning of year	$ 2,175,725	$ 1,159,029	$ 278,454	$ 3,613,208
Provision charged to expense	(444,397)	568,697	126,069	250,369
Losses charged off	(35,000)	(342,000)	(121,000)	(498,000)
Recoveries	37,000	82,000	40,831	159,831
Balance, end of year	$ 1,733,328	$ 1,467,726	$ 324,354	$ 3,525,408
Ending balance, individually evaluated for impairment	$ 284,583	$ 479,969	$ 79,231	$ 843,783
Ending balance, collectively evaluated for impairment	1,448,745	987,757	245,123	2,681,625
Balance, end of year	$ 1,733,328	$ 1,467,726	$ 324,354	$ 3,525,408
Loans				
Ending balance, individually evaluated for impairment	$ 14,072,883	$ 2,115,307	$ 166,963	$ 16,355,153
Ending balance, collectively evaluated for impairment	295,108,117	60,843,693	25,661,524	381,613,334
Ending balance	$ 309,181,000	$ 62,959,000	$ 25,828,487	$ 397,968,487

Internal Risk Categories

Loan grades are numbered 1 through 6. Grades 1 and 2 are considered satisfactory grades. The grade of 3, or OAEM/Watch, represents loans of lower quality and is considered criticized. The grades of 4, or Substandard, and 6, or Doubtful, refer to assets that are classified. The use and application of these grades by the Company are uniform and conform to the Company's policy.

Pass (1) – This grade includes borrowers with strong financial strength, above average liquidity, and collateral that is liquid and well margined. These borrowers have performed on past obligations, and the Company expects their performance to continue throughout the term of the loan.

Acceptance/Pass (2) – This grade includes borrowers with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt and net worth comprised mainly of fixed assets. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. These loans generally require more than average servicing or attention.

OAEM/Watch (3) – This grade includes loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (4) – This grade includes loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (5) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) – Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Residential Real Estate: The residential real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Construction and Land Development Real Estate: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors such as unemployment and general economic conditions in the Company's market area and the creditworthiness of a borrower.

The following table presents the credit risk profile of the Company's loan portfolio based on the internal rating category as of December 31, 2015 and 2014:

	December 31, 2015			
	Pass/Acceptance	OAEM/Watch	Substandard	Total
Real Estate				
Residential	$ 96,085,635	$ 302,296	$ 2,053,069	$ 98,441,000
Commercial	134,074,407	514,345	5,703,248	140,292,000
Construction and land development	94,432,206	-	5,394,794	99,827,000
Commercial	81,216,641	3,588,651	1,433,708	86,239,000
Consumer and other	27,607,191	45,314	209,090	27,861,595
Total	$ 433,416,079	$ 4,450,607	$ 14,793,909	$ 452,660,595

	December 31, 2014			
	Pass/Acceptance	OAEM/Watch	Substandard	Total
Real Estate				
Residential	$ 83,350,506	$ 315,973	$ 519,521	$ 84,186,000
Commercial	128,421,665	1,512,851	10,452,483	140,387,000
Construction and land development	79,478,585	-	5,129,415	84,608,000
Commercial	56,364,747	1,167,195	5,427,058	62,959,000
Consumer and other	25,588,527	49,324	190,637	25,828,487
Total	$ 373,204,031	$ 3,045,343	$ 21,719,113	$ 397,968,487

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

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

	December 31, 2015					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate						
Residential	$ 851,000	$ 171,000	$ 1,022,000	$ 97,419,000	$ 98,441,000	$ -
Commercial	7,226,000	-	7,226,000	133,066,000	140,292,000	-
Construction and land development	124,000	4,786,000	4,910,000	94,917,000	99,827,000	-
Commercial	1,082,000	10,000	1,092,000	85,147,000	86,239,000	-
Consumer and other	548,000	31,000	579,000	27,282,595	27,861,595	27,000
Total	$ 9,831,000	$ 4,998,000	$14,829,000	$ 437,831,595	$452,660,595	$ 27,000

	December 31, 2014					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate						
Residential	$ 3,309,000	$ 450,000	$ 3,759,000	$ 80,427,000	$ 84,186,000	$ -
Commercial	6,832,000	2,745,000	9,577,000	130,810,000	140,387,000	-
Construction and land development	3,108,000	6,004,000	9,112,000	75,496,000	84,608,000	-
Commercial	677,000	1,502,000	2,179,000	60,780,000	62,959,000	-
Consumer and other	585,000	94,000	679,000	25,149,487	25,828,487	36,000
Total	$ 14,511,000	$ 10,795,000	$25,306,000	$ 372,662,487	$397,968,487	$ 36,000

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

	December 31, 2015				
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance:					
Real estate					
Residential	$ 834,902	$ 834,902	$ -	$ 631,081	$ 51,464
Commerical	435,460	435,460	-	3,364,595	26,593
Construction and land development	4,844,736	4,844,736	-	5,419,211	248,304
Commercial	502,430	502,430	-	853,299	33,186
Consumer and other	36,160	36,160	-	25,607	2,662
	6,653,688	6,653,688	-	10,293,793	362,209
Loans with a specific allowance:					
Real estate					
Residential	$ -	$ -	$ -	$ -	$ -
Commerical	-	-	-	620,982	-
Construction and land development	101,404	101,404	41,404	108,825	6,653
Commercial	853,993	853,993	445,047	882,566	63,923
Consumer and other	92,583	92,583	49,714	122,246	9,678
	1,047,980	1,047,980	536,165	1,734,619	80,254
Total					
Real estate					
Residential	$ 834,902	$ 834,902	$ -	$ 631,081	$ 51,464
Commerical	435,460	435,460	-	3,985,577	26,593
Construction and land development	4,946,140	4,946,140	41,404	5,528,036	254,957
Commercial	1,356,423	1,356,423	445,047	1,735,865	97,109
Consumer and other	128,743	128,743	49,714	147,853	12,340
	$ 7,701,668	$ 7,701,668	$ 536,165	$ 12,028,412	$ 442,463

	December 31, 2014				
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance					
Real estate					
Residential	$ 427,259	$ 427,259	$ -	$ 491,971	$ 14,036
Commerical	6,293,730	6,293,730	-	5,432,805	286,416
Construction and land development	5,993,685	5,993,685	-	6,835,034	624,760
Commercial	1,204,168	1,204,168	-	1,867,536	39,913
Consumer and other	15,054	15,054	-	29,512	2,226
	13,933,896	13,933,896	-	14,656,858	967,351
Loans with a specific allowance					
Real estate					
Residential	$ -	$ -	$ -	$ 24,972	$ -
Commerical	1,241,964	1,241,964	260,185	620,982	1,416
Construction and land development	116,245	116,245	24,398	107,306	7,728
Commercial	1,011,139	911,139	479,969	702,732	48,642
Consumer and other	151,909	151,909	79,231	111,109	14,791
	2,521,257	2,421,257	843,783	1,567,101	72,577
Total					
Real estate					
Residential	$ 427,259	$ 427,259	$ -	$ 516,943	$ 14,036
Commerical	7,535,694	7,535,694	260,185	6,053,787	287,832
Construction and land development	6,109,930	6,109,930	24,398	6,942,340	632,488
Commercial	2,215,307	2,115,307	479,969	2,570,268	88,555
Consumer and other	166,963	166,963	79,231	140,621	17,017
Total	$ 16,455,153	$ 16,355,153	$ 843,783	$ 16,223,959	$ 1,039,928

The following tables present the Company's nonaccrual loans at December 31, 2015 and 2014.

	2015	2014
Real Estate		
Residential	$ 834,000	$ 450,000
Commercial	435,000	2,745,000
Construction and land development	4,845,000	6,004,000
Commercial	1,302,000	1,502,000
Consumer and other	26,000	58,000
Total	$ 7,442,000	$ 10,759,000

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

The following table presents information regarding troubled debt restructurings by class for the year ended December 31, 2015 and 2014.

Newly classified troubled debt restructurings:

	2015		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real Estate			
Residential	-	$ -	$ -
Commercial	-	-	-
Construction and land development	-	-	-
Commercial	2	49,636	38,660
Consumer and other	-	-	-
Total	2	$ 49,636	$ 38,660

	2014				
	Number of Loans		Pre-Modification Outstanding Recorded Balance		Post-Modification Outstanding Recorded Balance
Real Estate					
Residential	2	$	317,062	$	317,815
Commercial	3		5,853,810		5,853,810
Construction and land development					
Commercial	2		108,318		108,318
Consumer and other	2		4,721		4,627
Total	9	$	6,283,911	$	6,284,571

The troubled debt restructurings described above were already considered impaired prior to the restructuring; therefore, the restructuring did not have an impact on the determination of the Company's recorded allowance for loan losses during the years ended December 31, 2015 and 2014.

There was one loan modified in a troubled debt restructuring in the past 12 months that subsequently defaulted and resulted in charge offs of approximately $4,000 during the year ended December 31, 2015.

Note 5: Foreclosed Assets Held for Sale

Activity in the allowance for losses on foreclosed assets was as follows:

	2015	2014
Balance, beginning of year	$ 4,157,357	$ 4,988,120
Provision charged to expense	112,591	880,000
Sales of properties with allowances	(227,528)	(1,710,763)
Balance, end of year	$ 4,042,420	$ 4,157,357

Expenses applicable to foreclosed assets at December 31 include the following:

	2015	2014
Net (gains) losses on sales of real estate	$ 52,742	$ (288,414)
Provision for losses	112,951	880,038
Operating expenses, net of rental income	311,553	372,359
	$ 477,246	$ 963,983

Note 6: Premises and Equipment

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

	2015	2014
Land	$ 3,935,098	$ 4,027,215
Bank premises	14,183,246	13,178,519
Furniture and equipment	8,162,946	7,656,312
Leasehold improvements	1,173,603	1,173,603
Construction in progress	54,840	54,840
	27,509,733	26,090,489
Less accumulated depreciation	(12,773,715)	11,917,570
Net premises and equipment	$ 14,736,018	$ 14,172,919

Note 7: Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of more than $250,000 were approximately $18,695,000 and $18,509,000 on December 31, 2015 and 2014, respectively.

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

2016	$ 75,388,720
2017	13,432,689
2018	12,450,056
2019	1,006,646
2020	1,008,591
	$ 103,286,702

Note 8: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by U.S agency and GSE securities and such collateral is held by a third-party safekeeping agent. The maximum amount of outstanding agreements at any month end during 2015 totaled $37,711,680 and the monthly average of such agreements totaled $29,835,435 and $24,367,000 for 2015 and 2014, respectively. The agreements at December 31, 2015, mature over periods ranging from one day to one year.

Note 9: Lines of Credit

FHLB Line of Credit

At December 31, 2015 and 2014, the Company had a revolving line of credit with no expiration and a maximum available limit of $187,611,956 and $166,125,000, respectively. At December 31, 2015 and 2014, there were no funds borrowed against this line. The line is collateralized by all FHLB stock and a blanket lien on certain commercial and residential mortgage loans. The line of credit bears interest at a daily variable rate which is set by the FHLB.

Frost Bank Line of Credit

At December 31, 2015 and 2014, the Company had an unsecured line of credit available for overnight borrowing of $10,000,000 expiring in 2016. At December 31, 2015 and 2014, there were no funds borrowed against this line. The line of credit bears interest at a daily variable rate which is set by Frost Bank.

The Independent Bankers' Bank (TIB) Line of Credit

At December 31, 2015 and 2014, the Company had available a $2,000,000 revolving line of credit with an open-ended term, which can be terminated by either party at any time. At December 31, 2015 and 2014, there were no funds borrowed against this line. The line is collateralized by securities as applicable. The line of credit bears interest at a daily variable rate which is set by TIB.

Note 10: Income Taxes

The provision for income taxes includes these components:

	2015	2014
Taxes currently payable	$ 2,950,923	$ 2,699,784
Deferred income taxes	(143,023)	334,616
Income tax expense	$ 2,807,900	$ 3,034,400

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2015	2014
Computed at the statutory rate (34%)	$ 4,071,949	$ 3,682,399
Increase (decrease) resulting from		
Tax-exempt interest	(912,599)	(817,818)
Interest expense exclusion	10,125	7,431
Earnings on cash surrender value of life insurance	(72,960)	(9,566)
Nondeductible expenses	6,809	8,874
Other	(295,424)	163,080
Actual tax expense	$ 2,807,900	$ 3,034,400

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

Deferred tax assets		
Deferred compensation	$ 131,739	$ 48,998
Allowance for loan losses	778,640	818,143
Valuation of foreclosed assets	613,057	657,768
Nonaccrual loan interest	142,120	-
Prepaid loan fees	429,231	329,157
	2,094,787	1,854,066
Deferred tax liabilities		
Net unrealized gain on securities available for sale	(29,596)	(82,153)
Depreciation	(409,411)	(311,985)
FHLB stock dividends	(93,092)	(92,820)
	(532,099)	(486,958)
Net deferred tax asset	$ 1,562,688	$ 1,367,108

Note 11: Regulatory Matters

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Prior to January 1, 2015 the Company was also subject to these capital requirements. However, the Company is no longer subject to these ratios until it reaches $1 billion in consolidated assets. Management believes, as of December 31, 2015, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Texas Department of Banking categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

U.S. banking regulators adopted final rules related to standards on bank capital adequacy and liquidity (commonly referred to "Basel III") that were effective for the Bank beginning on January 1, 2015, subject to a phase-in period for certain provisions extending through January 1, 2019. The rules include a new common equity Tier 1 capital ratio, an increase to the minimum Tier 1 capital ratio, an increase to risk weightings of certain assets, implementation of a new capital conservation buffer in excess of the required minimum (which is set to be phased in beginning in 2016), and changes to how regulatory capital is defined. The Bank met the minimum capital ratios and a fully phased-in capital conservation buffer under the new rules at year-end 2015.

The Company and Bank's actual capital amounts and ratios are also presented in the following table.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total capital						
(to risk-weighted assets)						
Security State Bank & Trust	$120,395,000	35.1%	$27,462,000	8.0%	$ 34,328,000	10.0%
Tier I capital						
(to risk-weighted assets)						
Security State Bank & Trust	$116,982,000	34.1%	$20,597,000	6.0%	$ 27,462,000	8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)						
Security State Bank & Trust	$116,982,000	34.1%	$15,448,000	4.5%	$ 22,313,000	6.5%
Tier I capital						
(to average assets)						
Security State Bank & Trust	$116,982,000	13.5%	$34,756,000	4.0%	$ 43,446,000	5.0%

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total capital						
(to risk-weighted assets)						
Security State Bank & Trust	$114,548,000	25.2%	$36,390,000	8.0%	$ 45,487,000	10.0%
Security Holding Company	$114,638,000	25.2%	$36,414,000	8.0%	N/A	N/A
Tier I capital						
(to risk-weighted assets)						
Security State Bank & Trust	$110,998,000	24.4%	$18,195,000	4.0%	$ 27,292,000	6.0%
Security Holding Company	$119,088,000	24.4%	$18,207,000	4.0%	N/A	N/A
Tier I capital						
(to average assets)						
Security State Bank & Trust	$110,998,000	14.2%	$31,355,000	4.0%	$ 39,194,000	5.0%
Security Holding Company	$119,088,000	14.2%	$31,301,000	4.0%	N/A	N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Dividends are generally limited to the current year net income plus net income from the previous two years less any dividends previously declared during that timeframe.

Note 12: Related Party Transactions

At December 31, 2015 and 2014, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $5,156,281 and $5,782,487, respectively.

Annual activity consisted of the following:

	2015	2014
Beginning balance	$ 5,782,487	$ 5,845,227
New loans	1,871,315	3,992,534
Repayments	(2,497,521)	(4,055,274)
Ending balance	$ 5,156,281	$ 5,782,487

In addition to the outstanding balances on the loans above, there were unused amounts on lines of credit available to these related parties of $668,000 and $270,000 at December 31, 2015 and 2014, respectively.

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

Deposits from related parties held by the Company at December 31, 2015 and 2014, totaled $4,624,401 and $3,616,050, respectively.

Note 13: Employee Benefits

The Company has a defined contribution retirement plan covering substantially all employees. Employees may contribute up to 50 percent of their compensation up to the maximum amount established by the Internal Revenue Service. The plan is safe-harbor plan, which requires the Company to contribute 3 percent of eligible employees' base pay to the plan. Additional matching contributions under the plan are made at the discretion of the Board of Directors. Employer contributions charged to expense for 2015 and 2014 were approximately $599,800 and $292,000, respectively.

The Company has a deferred cash incentive plan for the benefit of certain employees. The maximum amounts to be deferred for each employee are determined annually by the Board of

Directors and such amounts cliff vest over a four year period at which point they are paid in cash to the employee. The amount of expense related to the plan during 2015 was $243,356 and the amount of liability related to the plan that is recorded in the consolidated balance sheet at December 31, 2015 is $243,356.

Note 14: Operating Leases

The Company has several noncancellable operating leases, primarily for branch facilities and land that expire over the next 25 years. These leases generally contain renewal options for periods ranging from five to ten years and require the Company to pay all executory costs such as taxes, maintenance and insurance. Rental expense for these leases was $347,700 and $311,000 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under operating leases are:

2016	460,264
2017	467,486
2018	476,737
2019	331,441
2020	284,931
Thereafter	323,989
Total minimum lease payments	$ 2,344,848

Note 15: Disclosures About Fair Value of Assets and Liabilities

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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

Recurring Measurements

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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
U.S. Treasury securities	$ 72,862,780	$ 72,862,780		$ -
U.S. Government-sponsored enterprises (GSEs)	66,064,182	-	$ - 66,064,182	-
U.S agencies and GSEs residential mortgage-backed	8,496,828	-	8,496,828	-
State and political subdivisions	33,144,831	-	33,144,831	-
Corporate	-	-	-	-
Other	1,065,982	-	1,065,982	-

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
U.S. Treasury Securities	$ 50,042,578	$ 50,042,578	$ -	$ -
U.S. Government-sponsored enterprises (GSEs)	71,998,579	-	71,998,579	-
U.S agencies and GSEs residential mortgage-backed	9,485,164	-	9,485,164	-
State and political subdivisions	29,083,144	-	29,083,144	-
Corporate	1,237,113	-	1,237,113	-
Other	1,079,723	-	1,079,723	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2015.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements

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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
Impaired loans	$ 511,815	$ -	$ -	$ 511,815
Foreclosed assets held for sale	$ 1,462,800	$ -	$ -	$ 1,462,800
December 31, 2014				
Impaired loans	$ 1,577,474	$ -	$ -	$ 1,577,474
Foreclosed assets held for sale	$ 3,994,040	$ -	$ -	$ 3,994,040

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale or other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and, subsequently, as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management.

Collateral-dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and, subsequently, as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2015 and 2014.

	Fair Value at 12/31/2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 511,815	Market comparable properties	Marketability discount	10% - 15%
Foreclosed assets held for sale	$ 1,462,800	Market comparable properties	Comparability adjustments (%)	10% - 15%

	Fair Value at 12/31/2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 1,577,474	Market comparable properties	Marketability discount	10% - 15%
Foreclosed assets held for sale	$ 3,994,040	Market comparable properties	Comparability adjustments (%)	10% - 15%

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2015 and 2014.

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	$ 67,167,169	$ 67,167,169	$ 96,558,229	$ 96,558,229
Available-for-sale securities	$ 181,634,603	$181,634,603	$162,926,301	$ 162,926,301
Held-to-maturity securities	$ 139,695,918	$141,582,802	$110,454,640	$ 112,575,604
Loans held for sale	$ 9,420,448	$ 9,420,448	$ 6,153,275	$ 6,153,275
Loans, net of allowance for losses	$ 449,251,371	$449,703,407	$394,443,079	$ 395,624,461
Federal Home Loan Bank stock	$ 626,700	$ 626,700	$ 297,000	$ 297,000
Accrued interest receivable	$ 3,541,392	$ 3,541,392	$ 2,983,463	$ 2,983,463
Financial Liabilities				
Deposits	$ 727,545,450	$729,300,245	$659,703,904	$ 659,741,604
Securities sold under agreements to repurchase	$ 33,165,597	$ 33,165,597	$ 24,142,212	$ 24,142,212
Accrued interest payable	$ 73,803	$ 73,803	$ 104,971	$ 104,971

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Loans Held For Sale

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

Loans

Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Federal Home Loan Bank Stock

Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Accrued Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Bank.

The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Securities Sold Under Agreements to Repurchase

Fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities.

Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of commitments to sell securities is estimated based on current market prices for securities of similar terms and credit quality.

The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The fair values of these instruments were insignificant at December 31, 2015 and 2014.

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

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

Note 17: Commitments and Credit Risk

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2015 and 2014, the Company had outstanding commitments to originate loans aggregating approximately $127,717,000 and $112,393,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements.

Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $422,200 and $429,000, at December 31, 2015 and 2014, respectively, with terms ranging from 30 days to one year.

Note 18: Subsequent Events

Subsequent to December 31, 2015, the Company converted to “S” Corporation status under the provisions of the Internal Revenue Code.

Subsequent events have been evaluated through the date of the Independent Auditor’s Report on consolidated financials, which is the date the financial statements were available to be issued.