Board of Governors of the Federal Reserve System

AMENDED
JUL 27 2016

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, Danny B. Butler
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.

Dan B Butler
Signature of Holding Company Director and Official

July 22, 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 1109290
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

Jefferson Bancshares, Inc.
Legal Title of Holding Company

1777 N.E. Loop 410, Suite 201
(Mailing Address of the Holding Company) Street / P.O. Box

San Antonio	TX	78217
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

William J. Goetz	Sr. Vice President & CFO
Name	Title

210-736-7815
Area Code / Phone Number / Extension

210-736-7806
Area Code / FAX Number

bgoetz@jeffersonbank.com
E-mail Address

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

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

- [ ] Yes Please identify the report items to which this request applies:
  - [ ] In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
  - [ ] The information for which confidential treatment is sought is being submitted separately labeled "Confidential."
- [x] No

Form FR Y-6

Jefferson Bancshares, Inc.
San Antonio, Texas
Fiscal Year Ending December 31, 2015

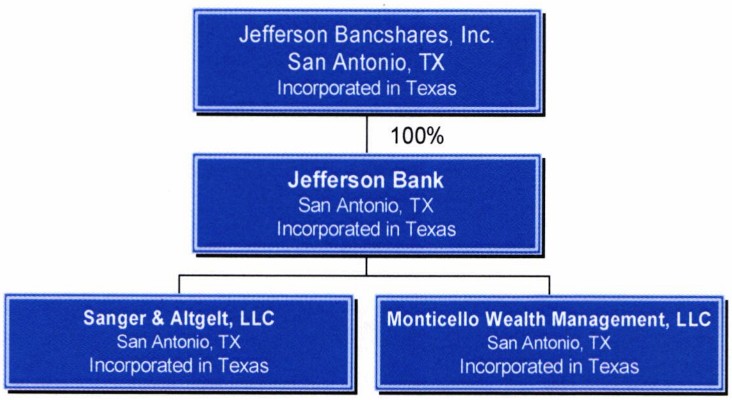
AMENDED
JUL 27 2016

Report Item

1: Annual Report to Shareholders

The Company prepares an annual report for its shareholders and is not registered with the SEC. Enclosed is one copy of the annual report, which includes the Independent Auditors' Report.

2a: Organizational Chart



Note: LEI is not available for any of the above entities.

(1) Jefferson Bank is the Managing Member of Sanger & Altgelt, LLC (S&A) and Monticello Wealth Management, LLC (MWM). The Managers of S&A are Joe N. Haynes and Christine A. Haynes, and the Managers of MWM are Paul E. McSween III, A. J. Lewis III, and Michael R. McClain.

2b: Domestic Branch Listing

Submitted via email on 02/16/2016.

3: Securities holders

See the attached lists for information regarding this report item.

4: Insiders

See the attached lists for information regarding this report item.

Results: A list of branches for your depository institution: JEFFERSON BANK (ID_RSSD: 45560).
This depository institution is held by JEFFERSON BANCSHARES, INC. (1109290) of SAN ANTONIO, TX.
The data are as of 12/31/2015. Data reflects information 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 date in the **Effective Date** column.

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	45560	JEFFERSON BANK	1777 NE LOOP 410, SUITE 201	SAN ANTONIO	TX	78217	BEXAR	UNITED STATES	10634	0	JEFFERSON BANK	45560	
OK		Full Service	3484704	BOERNE BANKING CENTER BRANCH	371 NORTH MAIN STREET	BOERNE	TX	78006-207	KENDALL	UNITED STATES	465757	11	JEFFERSON BANK	45560	
OK		Full Service	3367339	NEW BRAUNFELS BANKING CENTER BRANCH	1551 N WALNUT AVE, SUITE 44	NEW BRAUNFELS	TX	78130-604	COMAL	UNITED STATES	441131	10	JEFFERSON BANK	45560	
OK		Full Service	2142249	ALAMO HEIGHTS BANKING CENTER	6021 BROADWAY	SAN ANTONIO	TX	78209	BEXAR	UNITED STATES	238135	3	JEFFERSON BANK	45560	
OK		Full Service	3491449	BLANCO ROAD BANKING CENTER BRANCH	14614 BLANCO RD	SAN ANTONIO	TX	78216	BEXAR	UNITED STATES	419405	8	JEFFERSON BANK	45560	
OK		Full Service	3491430	DOWNTOWN BANKING CENTER BRANCH	711 NAVARRO SUITE 102	SAN ANTONIO	TX	78205	BEXAR	UNITED STATES	359646	7	JEFFERSON BANK	45560	
OK		Full Service	2340858	FREDERICKSBURG ROAD BANKING CENTER	2900 FREDERICKSBURG ROAD	SAN ANTONIO	TX	78201	BEXAR	UNITED STATES	238136	4	JEFFERSON BANK	45560	
OK		Full Service	4831499	GOLIAD ROAD BANKING CENTER	1111 GOLIAD ROAD	SAN ANTONIO	TX	78223	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Limited Service	4397968	INN AT LOS PATIOS BANKING CENTER BRANCH	8700 POST OAK LANE	SAN ANTONIO	TX	78217	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	217152	LEON VALLEY BANKING CENTER	7666 BANDERA ROAD	SAN ANTONIO	TX	78238	BEXAR	UNITED STATES	17461	1	JEFFERSON BANK	45560	
OK		Full Service	3271212	MORTGAGE BANKING CENTER BRANCH	6015 BROADWAY ST	SAN ANTONIO	TX	78209-456	BEXAR	UNITED STATES	428724	9	JEFFERSON BANK	45560	
OK		Full Service	2799166	STONE OAK BANKING CENTER BRANCH	19002 STONE OAK PARKWAY	SAN ANTONIO	TX	78258	BEXAR	UNITED STATES	238137	5	JEFFERSON BANK	45560	
OK		Full Service	2850058	SUNSET RIDGE BANKING CENTER BRANCH	6310 N NEW BRAUNFELS	SAN ANTONIO	TX	78209	BEXAR	UNITED STATES	238138	6	JEFFERSON BANK	45560	

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Jefferson Bancshares, Inc.

Fiscal Year Ending December 31, 2015

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

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2015.			Shareholders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/2015.		
(1)(a) Name & Address (City, State, Country)	**(1)(b) Country of Citizenship or Incorporation**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name & Address (City, State, Country)**	**(2)(b) Country of Citizenship or Incorporation**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
Paul E. McSween III San Antonio, TX USA	USA	40,196.58; 10.84% of Common Stock	**None**		
Laurie Lewis Saunders San Antonio, TX USA	USA	37,642.24; 10.15% of Common Stock			
Steve C. Lewis San Antonio, TX USA	USA	36,872.24; 9.95% of Common Stock			
A. J. Lewis, III San Antonio, TX USA	USA	23,035.20; 6.21% of Common Stock			

AMENDED
JUL 27 2016

Form FR Y-6
Jefferson Bancshares, Inc.
Fiscal Year Ending December 31, 2015

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Steve C. Lewis San Antonio, TX USA	N/A	Director and Chairman	Director and Chairman (Jefferson Bank)	Owner, Steve C. Lewis Ranch Real Estate	9.95%	None	Steve C. Lewis Ranch Real Estate (100%)
Danny B. Butler San Antonio, TX USA	N/A	Director & President	Director and CEO (Jefferson Bank)	N/A	0.00%	None	N/A
Paul E. McSween III San Antonio, TX USA	N/A	Director and Executive Vice President	Director and President (Jefferson Bank) Manager (Monticello Wealth Management, LLC)	N/A	10.84%	None	N/A
William J. Goetz San Antonio, TX USA	N/A	Senior Vice President & CFO, Treasurer and Assistant Secretary	Advisory Director, Executive Vice President & CFO (Jefferson Bank)	N/A	0.00%	None	N/A
A. J. Lewis, III San Antonio, TX USA	Restaurant Supply	Director	Director (Jefferson Bank) Manager (Monticello Wealth Management, LLC)	CEO, Southwest Texas Equipment Distributors, Inc.	6.21%	None	Southwest Texas Equipment Distributors, Inc. (100% w/Wife)
Thomas F. Murrah Missouri City, TX USA	Investments	Director	Director (Jefferson Bank)	Director, Wulfenite Materials, Inc. Director, Tejas Production Services	3.86%	None	Wulfenite Materials, Inc. (31.57%)

Form FR Y-6
Jefferson Bancshares, Inc.
Fiscal Year Ending December 31, 2015

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Linda M. Satel San Antonio, TX USA	N/A	Director	N/A	N/A	4.19%	None	N/A
Juliet McSween Zacher San Antonio, TX USA	N/A	Director	N/A	N/A	4.27%	None	N/A
Jennifer M. Canavan San Antonio, TX USA	N/A	Director	N/A	N/A	4.23%	None	N/A
Laurie L. Saunders San Antonio, TX USA	N/A	Director	N/A	N/A	10.15%	None	N/A
Vincent L. Bordano San Antonio, TX USA	N/A	Secretary and Assistant Treasurer	Senior Vice President & Controller (Jefferson Bank)	N/A	0.00%	None	N/A

AMENDED
JUL 27 2016

JEFFERSON BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jefferson Bancshares, Inc. and Subsidiary
San Antonio, Texas

We have audited the accompanying consolidated financial statements of Jefferson Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements. We also have audited management's assessment, included in the accompanying report, Management's Assessment of Internal Control over Financial Reporting, that Jefferson Bancshares, Inc. and Subsidiary maintained effective internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR-Y9C), as of December 31, 2015 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013).*

Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation and maintenance of controls relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on management's assessment regarding the effectiveness of Jefferson Bancshares, Inc. and Subsidiary's internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

One Riverway · Suite 1900 · Houston, Texas 77056-1973 · 713.622.2310 · 713.622.5613 fax
harperpearson.com

An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Jefferson Bancshares, Inc. and Subsidiary's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR-Y9C). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Jefferson Bancshares, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, management's assessment that Jefferson Bancshares, Inc. and Subsidiary maintained effective internal control over financial reporting as of December 31, 2015 is fairly stated, in all material respects, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013).*

Harper & Pearson Company, P.C.

Houston, Texas
March 14, 2016

JEFFERSON
BANCSHARES,
INC.

POST OFFICE BOX 5190
SAN ANTONIO, TEXAS
78201-0190
210/734-4311

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., the Consolidated Financial Statements for Bank Holding Companies on Form FR-Y9C. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies on Form FR-Y9C, as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based upon its assessment, management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies on Form FR-Y9C, is effective based on the criteria established in *Internal Control—Integrated Framework (2013)*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies on Form FR-Y9C, as of, December 31, 2015 has been audited by Harper & Pearson Company, P.C., an independent public accounting firm, as stated in their report dated March 14, 2016.

Jefferson Bancshares, Inc. and Subsidiary

Date: March 14, 2016	Date: March 14, 2016
Danny B. Butler President	William J. Goetz, CPA Senior Vice President & CFO

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

ASSETS	2015	2014
Cash and due from banks	$ 24,383,527	$ 26,917,698
Interest-bearing accounts	17,510,537	13,044,793
Total Cash and Cash Equivalents	41,894,064	39,962,491
Securities, available for sale	389,918,669	345,523,644
Securities, held to maturity	193,443,936	287,411,213
Equity securities	5,656,110	5,069,110
Loans	927,077,169	725,048,147
Less allowance for possible credit losses	(8,341,625)	(7,458,322)
Loans, net	918,735,544	717,589,825
Premises and equipment, net	14,251,824	13,725,190
Accrued interest receivable	4,639,871	3,983,631
Other real estate owned	816,392	217,719
Cash surrender value of life insurance	31,849,654	25,042,385
Goodwill and other intangibles	3,713,767	4,037,639
Pension asset	5,557,881	6,371,275
Prepaid expenses and other assets	2,944,368	3,003,707
Total Assets	$ 1,613,422,080	$ 1,451,937,829
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 402,341,775	$ 347,468,299
Interest-bearing	957,563,551	897,933,541
Total Deposits	1,359,905,326	1,245,401,840
Federal Home Loan Bank advances	110,250,646	70,938,981
Subordinated Notes	20,000,000	20,000,000
Accrued interest payable	333,995	237,166
Dividends payable	830,484	780,396
Other liabilities	10,389,805	10,365,275
Total Liabilities	1,501,710,256	1,347,723,658
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $5 par value, 1,000,000 shares authorized, 400,000 shares issued; and 370,752 and 371,617 shares outstanding at December 31, 2015 and 2014, respectively	2,000,000	2,000,000
Retained earnings	126,453,170	115,430,038
Treasury stock, at cost, 29,248 and 28,383 shares outstanding at December 31, 2015 and 2014, respectively	(6,417,477)	(6,040,825)
Accumulated other comprehensive loss	(10,323,869)	(7,175,042)
Total Shareholders' Equity	111,711,824	104,214,171
Total Liabilities and Shareholders' Equity	$ 1,613,422,080	$ 1,451,937,829

See accompanying notes to consolidated financial statements.

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

	2015	2014
INTEREST INCOME		
Interest and fees on loans	**$ 39,533,216**	$ 33,648,362
Securities, available for sale	**6,104,941**	4,893,557
Securities, held to maturity	**4,985,358**	4,567,308
Interest-bearing accounts and other investments	**97,756**	146,843
Total Interest Income	**50,721,271**	43,256,070
INTEREST EXPENSE		
Deposits	**1,650,514**	1,619,095
Short-term borrowings	**137,483**	54,657
Federal Home Loan Bank advances	**19,635**	43,923
Subordinated Notes	**1,150,000**	194,861
Total Interest Expense	**2,957,632**	1,912,536
NET INTEREST INCOME	**47,763,639**	41,343,534
PROVISION FOR POSSIBLE CREDIT LOSSES	**963,000**	390,000
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE CREDIT LOSSES	**46,800,639**	40,953,532
NONINTEREST INCOME		
Deposit account service charges	**1,565,768**	1,747,717
Trust and wealth management fees	**5,544,021**	4,603,841
Insurance commissions	**4,327,193**	4,157,205
Gain on sale of mortgage loans	**1,991,169**	1,392,812
Other fee income	**1,679,703**	1,603,809
Other noninterest income	**914,760**	713,282
Net gain on securities sold	**238,725**	116,084
Total Noninterest Income	**16,261,339**	14,334,750
NONINTEREST EXPENSE		
Salaries and wages	**19,144,513**	16,684,122
Employee benefits	**9,983,636**	8,754,087
Net occupancy expense	**3,275,528**	3,017,541
Furniture and equipment expense	**1,693,028**	1,518,576
Professional services	**1,503,026**	1,497,495
FDIC insurance assessments	**773,403**	697,260
Data processing expense	**1,376,183**	1,136,311
Communication and office expense	**1,224,639**	1,098,014
Promotional and business development expense	**1,676,042**	1,524,071
Other	**2,802,052**	2,404,463
Total Noninterest Expense	**43,452,050**	38,331,940
CONSOLIDATED NET INCOME	**$ 19,609,928**	$ 16,956,342
EARNINGS PER WEIGHTED AVERAGE SHARE OF COMMON STOCK	**$ 52.85**	$ 45.62

See accompanying notes to consolidated financial statements.

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

	2015	2014
Consolidated Net Income	**$ 19,609,928**	$ 16,956,342
Other Comprehensive (Loss) Income:		
Securities available for sale:		
Net unrealized (loss)/gain arising during the year	**(2,523,560)**	569,318
Amortization of unrealized loss on securities available for sale transferred to held to maturity during 2013	**219,865**	213,615
Reclassification adjustments on unrealized (gain)/loss at the beginning of year included in net income	**(336,964)**	2,393,755
	(2,640,659)	3,176,688
Pension Expense:		
Net unrealized loss arising during the year	**(508,168)**	(3,137,231)
Total Other Comprehensive (loss) income	**(3,148,827)**	39,457
Total Comprehensive Income	**$ 16,461,101**	$ 16,995,799

See accompanying notes to consolidated financial statements.

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	$ 2,000,000	$ 105,852,871	$ (5,791,043)	$ (7,214,499)	$ 94,847,329
Purchase of treasury stock (775 shares)	-	-	(249,782)	-	(249,782)
Dividends declared	-	(7,379,175)	-	-	(7,379,175)
Net Income	-	16,956,342	-	-	16,956,342
Net change in unrealized loss on securities available for sale	-	-	-	2,963,073	2,963,073
Amortization of unrealized loss on securities available for sale transferred to held to maturity duing 2013	-	-	-	213,615	213,615
Net change in unrealized loss on pension asset	-	-	-	(3,137,231)	(3,137,231)
Balance, December 31, 2014	2,000,000	115,430,038	(6,040,825)	(7,175,042)	104,214,171
Purchase of treasury stock (865 shares)	-	-	**(376,652)**	-	**(376,652)**
Dividends declared	-	**(8,586,796)**	-	-	**(8,586,796)**
Net Income	-	**19,609,928**	-	-	**19,609,928**
Net change in unrealized gain on securities available for sale	-	-	-	**(2,860,524)**	**(2,860,524)**
Net change in unrealized loss on pension expense	-	-	-	**(508,168)**	**(508,168)**
Amortization of unrealized loss on securities available for sale transferred to held to maturity duing 2013	-	-	-	**219,865**	**219,865**
Balance, December 31, 2015	**$ 2,000,000**	**$ 126,453,170**	**$ (6,417,477)**	**$ (10,323,869)**	**$ 111,711,824**

See accompanying notes to consolidated financial statements.

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	**$ 19,609,928**	$ 16,956,342
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**1,660,478**	1,470,269
Premium amortization on investment securities, net	**2,870,594**	1,871,233
Income on Bank owned life insurance	**(717,878)**	(642,179)
Provision for possible credit losses	**963,000**	390,000
Gain on sales of securities, net	**(238,725)**	(116,084)
Gains on sales of loans, net	**(1,991,166)**	(1,392,812)
Amortization of unrealized loss on securities available for sale transferred to held to maturity during 2013	**219,865**	213,615
Gain on sale of premises & equipment	**(29,295)**	(33,465)
Loss on sale of other real estate owned, net	**20,119**	10,915
Valuation allowance for other real estate owned	**-**	7,668
Change in operating assets and liabilities:		
Accrued interest receivable	**(656,240)**	(668,783)
Prepaid expenses and other assets	**59,346**	(792,929)
Accrued interest payable	**96,829**	170,745
Other liabilities	**24,530**	1,833,448
Pension, contributions, net	**305,226**	(1,449,657)
Net cash provided by operating activities	**22,196,611**	17,828,326
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales, maturities, and paydowns of securities available for sale	**110,829,249**	134,320,876
Purchases of securities available for sale	**(160,528,563)**	(247,364,682)
Purchases of held to maturity securities	**(138,244,264)**	(216,122,049)
Proceeds from sales, maturities, and paydowns of held to maturity securities	**232,023,437**	121,930,411
Purchases of Federal Home Loan Bank stock	**(3,548,600)**	(7,373,300)
Sale of TIB IBCF Stock	**500,000**	-
Sale of Federal Home Loan Bank stock	**2,461,600**	4,288,000
Increase in loans and leases, net	**(201,001,183)**	(46,827,488)
Proceeds from sale of other real estate owned	**264,830**	167,259
Purchases of premises and equipment, net	**(1,833,945)**	(1,318,343)
Purchase of life insurance	**(6,089,391)**	(380,389)
Net cash used in investing activities	**(165,166,830)**	(258,679,705)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	**54,873,476**	35,078,534
Net increase in interest-bearing deposits	**59,630,010**	133,270,185
Advances from Federal Home Loan Bank	**39,574,000**	65,115,999
Repayment of Federal Home Loan Bank advances	**(262,335)**	(1,507,010)
Issuance of Subordinated Notes	**-**	20,000,000
Purchase of treasury stock	**(376,652)**	(249,782)
Dividends paid	**(8,536,707)**	(7,343,562)
Net cash provided by financing activities	**144,901,792**	244,364,364
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,931,573**	3,512,985
CASH AND CASH EQUIVALENTS, BEGINNING	**39,962,491**	36,449,506
CASH AND CASH EQUIVALENTS, ENDING	**$ 41,894,064**	$ 39,962,491

See accompanying notes to consolidated financial statements.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation and Nature of Operations - The accompanying consolidated financial statements (financial statements) include the accounts of Jefferson Bancshares, Inc. (the Company), its wholly owned subsidiary Jefferson Bank (the Bank), Sanger & Altgelt, LLC, (Sanger & Altgelt) which was acquired by the Bank in July 2011, and Monticello Wealth Management, LLC, (MWM) which was formed by the Bank in October 2015. Sanger & Altgelt is a wholly owned insurance agency subsidiary of the Bank. MWM is a wholly owned investment and financial advisory services subsidiary of the Bank. All material intercompany accounts and transactions have been eliminated in consolidation.

The Company provides a variety of financial services to individuals and small businesses through its banking offices in San Antonio, Boerne and New Braunfels, Texas. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial, industrial, construction, and mortgage loans. Additionally, the Company provides trust and wealth management services and insurance products to customers.

The Bank is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation (FDIC) and the Company is subject to regulation by the Federal Reserve Board.

The Company has evaluated subsequent events for potential recognition and/or disclosure through March 14, 2016, the date these financial statements were available to be issued.

Summary of Significant Accounting and Reporting Policies - The accounting and reporting policies of the Company and the Bank conform, in all material respects, to accounting principles generally accepted in the United States of America (U.S. GAAP) and to prevailing practices within the financial services industry. A summary of significant accounting policies follow.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for possible credit losses, pension obligations and estimated fair values of financial instruments.

Cash and Due from Banks - The Bank, as a correspondent of the Federal Reserve Bank, is required to maintain reserves for the purpose of facilitating the implementation of monetary policy. The reserves may be maintained in the form of balances at the Federal Reserve Bank or by vault cash maintained at the Bank. The Bank's reserve requirements were **$7,740,000** and $6,963,000 on December 31, 2015 and 2014, respectively. Accordingly, "cash and due from banks" balances were restricted to that extent.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

The cash and cash equivalents of the Company are maintained with major financial institutions in the United States. The Company's deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Company periodically evaluates the stability of the financial institutions with which it has deposits. The Company has cash and time deposits in correspondent financial institutions in excess of the amount insured by the FDIC in the amount of **$2,869,475** and $1,789,484 at December 31, 2015 and 2014, respectively.

Cash Flow Reporting - Cash and cash equivalents include cash, interest-bearing and noninterest-bearing deposits with other financial institutions that have an initial maturity of 90 days or less, and federal funds sold. Cash flows are reported net for loans, deposits and short-term borrowings. Supplemental cash flow information follows:

	2015	2014
Cash paid during the year for interest	**$ 2,860,803**	$ 1,741,791

Securities - Securities are accounted for on a trade date basis. Premiums and discounts are amortized and accreted to operations using the level-yield method of accounting, adjusted for prepayments as applicable. Interest earned on these assets is included in interest income. The specific identification method of accounting is used to compute gains or losses on the sales of these assets.

Securities held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts. Management has the positive intent and the ability to hold these assets as long-term securities until their estimated maturities. During the year ending December 31, 2013 management transferred available for sale securities with a market value of $56,191,916 and a current face value of $56,305,367 into the held to maturity category. The market value at the date of transfer became the new cost basis for the securities with the unrealized loss of $1,391,125 as of the transfer date being amortized out of comprehensive income as a reduction to interest income on the securities. This reduction to interest income is partially offset by the accretion of the newly established discount to bring the securities to face value at the maturity date.

Securities available for sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported as a separate component of shareholders' equity until realized. Securities within the available for sale portfolio may be used as part of management's asset/liability strategy and may be sold in response to changes in liquidity, interest rate risk, prepayment risk or other similar economic factors.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Investment securities classified as available for sale or held to maturity are generally evaluated for other-than-temporary impairment (OTTI) under Accounting Standards Codification (ASC) Topic 320, *Investments – Debt and Equity Securities*. In determining OTTI, management considers many factors, including: (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and the ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or it is more likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date.

If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

<u>Equity Investments</u> - Banks that are members of the Federal Home Loan Bank (FHLB) are required to maintain a stock investment in the FHLB calculated as a percentage of aggregate outstanding mortgages, outstanding FHLB advances, and other financial instruments. FHLB stock is capital stock that is bought from and sold to the FHLB at $100 par value. At December 31, 2015 and 2014, the Company held **$5,452,600** and $4,365,600 in FHLB stock, respectively.

At December 31, 2015 and 2014, the Company also held **$203,510** and $703,510 in the stock of Independent Bankers Financial Corporation (TIB), respectively.

Investments in stock of the FHLB and TIB are considered to be restricted investments with limited marketability and are stated at cost as management believes the par value is ultimately recoverable. Dividends on these investments are recognized in interest income when received.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Loans - Loans are stated at unpaid principal balances, less the allowance for possible credit losses.

The Company holds a small portfolio of lease financing receivables. Leases are purchased through a broker and are stated at the unpaid principal balances less net unamortized premiums of approximately **$22,000** and $29,000 at December 31, 2015 and 2014, respectively. Leases purchased by the Company are tax exempt and secured by equipment in which the Company is the first lien holder. The outstanding balance of all lease financing receivables are approximately **$235,000** and $369,000 at December 31, 2015 and 2014, respectively, which balances reasonably reflect the future lease payments within the facilities. Residual values are not considered material to the Company's financial statements.

Nonrefundable Fees Associated With Lending Activities - Loan origination and commitment fees are recorded as income when received as an offset to direct loan origination costs. The effect of this method on operations is deemed by management to be not materially different from the deferral of direct origination fees and costs, and the amortization thereof as an adjustment of the yield on the related loan.

Nonperforming Loans - Included in the nonperforming loan category are loans which have been categorized by management as nonaccrual because collection of interest is doubtful.

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status, unless the loan is in the process of collection or renewal and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan and the probability that the Company will collect all principal and interest amounts outstanding.

When a loan is placed on nonaccrual status, interest accrued and uncollected during the current year prior to the judgment of uncollectability, is charged to operations unless the loan is well secured with collateral values sufficient to ensure collection of both principal and interest. Generally, any payments received on nonaccrual loans are applied first to outstanding principal, reducing the Company's recorded investment in the loan, and next to the recovery of charged-off loan amounts. Any excess is treated as recovery of lost interest. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is defined as impaired if, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

The allowance for possible credit losses related to impaired loans is determined based on the difference of carrying value of loans and the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Interest income received on impaired loans is either applied against principal or realized as interest income, according to management's judgment as to the collectability of principal.

Troubled Debt Restructurings - The Company will classify a loan as a troubled debt restructuring if both (i) the borrower is experiencing financial difficulties and (ii) the borrower has been granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Interest is generally accrued on such loans in accordance with the new terms.

Allowance for Possible Credit Losses - The allowance for possible credit losses is a reserve established through a provision for possible credit losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans including leases and other commitments to extend credit. All losses are charged to the allowance for possible credit losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery.

The allowance, in the judgment of management, is necessary to reserve for the estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, generally, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

Intangible Assets - ASC Topic 350, *Intangibles – Goodwill and Other Intangible Assets*, requires a regular assessment for impairment of goodwill, and a write down of the goodwill if impairment occurs. In accordance with FASB ASC Topic 350, goodwill will not be amortized but will be periodically tested for impairment based on the reporting unit.

ASC Topic 350 also requires that identifiable intangibles be amortized over their estimated useful life. The Company has identified intangibles in the form of insurance customer accounts and protective and restrictive covenants that are being amortized over a five to ten year period using the straight line method in keeping with the anticipated benefits derived from the acquisition of that customer base. Management does not believe any impairment of goodwill or other intangible assets exists at December 31, 2015 and 2014.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Mortgage Servicing - Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized mortgage servicing rights are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. At December 31, 2015 and 2014, management did not deem servicing assets to be impaired and therefore no valuation has been established.

Servicing fee income is recorded for fees earned from servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of the mortgage servicing rights is netted against loan servicing fee income and reflected in other fee income in the Company's consolidated statements of income.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced amounted to **$39,332,742** and $44,655,609 at December 31, 2015 and 2014, respectively.

The balance of capitalized mortgage servicing rights at December 31, 2015 and 2014 amounted to **$121,990** and $155,555, respectively, and are included in other assets in the Company's consolidated balance sheets.

Real Estate Acquired by Foreclosure - Real estate acquired by foreclosure is held for sale and is initially recorded at the fair value of the property less any selling costs, establishing a new cost basis. Outstanding loan balances are reduced to reflect this value through charges to the allowance for possible credit losses. Subsequent to foreclosure, real estate is carried at the lower of its new cost basis or fair value, less estimated costs to sell. Subsequent adjustments to reflect declines in value below the recorded amounts are recognized and are charged against operations in the period such determinations are assessed. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other noninterest expense.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Concentrations of Risk - The Company's investments are subject to various levels of risk associated with economic and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Company's investments. In determining fair value of these investments, management obtains information, which is considered reliable, from third parties in order to value its investments. Due to the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks could materially impact the amounts reflected herein.

The Company originates loans, commitments, and letters of credit primarily to customers located within Bexar, Comal, Kendall, and surrounding Texas counties. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. Concentrations of credit by type of loan are set forth in Note C. Management does not deem the Company to have any significant concentrations to any one industry or customer. It is the Company's policy to not extend credit to any single borrower or group of related borrowers in excess of the Company's legal lending limit as defined by state and federal banking regulations.

Interest Rate Risk - The Company is principally engaged in providing short-term commercial loans with interest rates that fluctuate with various market indices and intermediate-term, fixed rate real estate loans. These loans are primarily funded through short-term demand deposits and longer-term certificates of deposit with fixed rates. The Company may borrow against available lines of credit to fund additional loan growth, or other investment strategies, should the need arise. Deposits that are not utilized to fund loans are invested in securities that meet the Company's investment quality guidelines. Unrealized investment gains and losses on the Company's investments held as available for sale resulting from changing market interest rates are reflected in other comprehensive income.

A portion of the Company's investments that are available for sale have contractual maturity dates through the year 2045, bear fixed rates of interest and are collateralized by residential mortgages. Repayment of principal on these bonds is primarily dependent on the cash flows from payments made on the underlying collateral to the bond issuer. Reduced prepayments extend the Company's original anticipated holding period and thus increases interest rate risk over time, should market rates increase.

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Land is carried at cost. Leasehold improvements are amortized on a straight-line basis over the periods of the lease or the estimated useful life of the related asset, whichever is shorter. Gains and losses on dispositions are included in other income or other expense.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Insurance Commissions - Insurance commission revenue is recognized by the Company on the effective date of the corresponding insurance policy. The Company also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are recognized when determinable, which is generally when such commissions are received.

Pension Costs - Pension costs are charged to employee benefits expense and are funded as accrued. U.S. GAAP requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheets through comprehensive income or loss.

Trust Assets and Fees - Assets held by the trust department of the Company in a fiduciary or agency capacity are not assets of the Company and are therefore not included in the consolidated balance sheets. Trust fees are recorded on the accrual basis.

Income Taxes - During 2002, the Company elected S Corporation status in accordance with the Internal Revenue Code, and as a result, in lieu of corporate income taxes, the shareholders of the Company are taxed on their proportionate share of the Company's taxable income.

An entity is required to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Company believes that all significant tax positions utilized by the Company will more likely than not be sustained upon examination. The Company files income tax returns in the U.S. federal jurisdiction and is no longer subject to U.S. federal income tax examinations by tax authorities for years ending prior to December 31, 2012.

Comprehensive Income - Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of the Company's comprehensive income includes the effect of changes in the net unrealized gain/loss on securities available for sale, changes in the unrealized gain/loss on pension obligations and the unrealized loss on available for sale securities transferred to held to maturity.

Fair Value Measurements - ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the entity's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

At December 31, 2015 and 2014, the Company has not elected to account for any financial assets or liabilities as trading instruments under ASC Topic 825, *The Fair Value Option for Financial Assets and Liabilities,* for which changes in market value on these instruments would be recorded in the Company's consolidated statements of income.

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 (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

If a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset does not meet the conditions for sale treatment, or if a transfer of a portion of an entire financial interest does not meet the definition of a participating interest, the transferor and the transferee shall account for the transfer as a secured borrowing with pledge of collateral. The transferor shall continue to report the transferred financial assets in its financial statements with no change in their measurement.

At December 31, 2015 and 2014, all of the Company's loan participations sold subject to this guidance met the conditions to be treated as a sale.

Earnings Per Common Share - Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional 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. For the years ended December 31, 2015 and 2014, the Company had no dilutive potential common shares; therefore, diluted income per share does not differ from basic income per share. There were **371,055** and 371,715 weighted-average number of shares for the years ended December 31, 2015 and 2014, respectively.

Treasury Stock - The Company has repurchased shares of its authorized and issued common stock which is now held in treasury pending use for general corporate purposes or retirement. In 2015 and 2014, **865** and 775 shares of stock were purchased at an average price of approximately **$435.44** and $322.00 per share, respectively. At December 31, 2015 and 2014, the Company held **29,248** and 28,383 treasury shares, respectively, which are reflected as a component of shareholders' equity on the accompanying consolidated balance sheets.

Reclassifications - Certain reclassifications were made to the 2014 financial statement presentation in order to conform to the 2015 presentation with no effect on the Company's reported income or equity.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

New Accounting Standards and Disclosure Requirements - *Accounting Standards Update (ASU) 2015-03, Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for issuance costs is not affected by the amendments in ASU 2015-03. In addition, ASU 2015-15, which provides additional guidance related to the measurement and presentation of debt issuance costs related to line of credit arrangements, allows for the presentment of these costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. ASU 2015-03 and ASU 2015-15 will be effective for fiscal years beginning after December 15, 2015 and are not expected to have a significant impact on our financial statements.

NOTE B INVESTMENT SECURITES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2015				
Securities Available For Sale:				
State and municipal securities	**$ 36,193,249**	**$ 885,047**	**$ (1,102)**	**$ 37,077,194**
U.S. Government Agency:				
Bonds	**17,861,004**	**99,930**	**-**	**17,960,934**
Mortgage backed securities/ collateral mortgage obligations	**312,699,315**	**631,587**	**(1,843,131)**	**311,487,771**
Asset backed securities	**23,973,105**	**-**	**(580,335)**	**23,392,770**
	$ 390,726,673	**$ 1,616,564**	**$ (2,424,568)**	**$ 389,918,669**
Securities Held to Maturity:				
State and municipal securities	**$ 22,089,996**	**$ 1,083,981**	**$ (2,666)**	**$ 23,171,311**
U.S. Government Agency:				
Bonds	**81,456,191**	**90,625**	**(465,567)**	**81,081,249**
Mortgage backed securities/ collateral mortgage obligations	**89,897,749**	**387,374**	**(954,531)**	**89,330,592**
	$ 193,443,936	**$ 1,561,980**	**$ (1,422,764)**	**$ 193,583,152**
2014				
Securities Available For Sale:				
State and municipal securities	$ 16,297,477	$ 708,856	$ -	$ 17,006,333
U.S. Government Agency:				
Bonds	2,055,708	57,400	-	2,113,108
Mortgage backed securities/ collateral mortgage obligations	313,291,576	2,029,336	(693,170)	314,627,742
Asset backed securities	11,826,363	-	(49,902)	11,776,461
	$ 343,471,124	$ 2,795,592	$ (743,072)	$ 345,523,644
Securities Held to Maturity:				
State and municipal securities	$ 17,142,873	$ 1,281,518	$ -	$ 18,424,391
U.S. Government Agency:				
Bonds	165,001,186	486,209	(158,744)	165,328,651
Mortgage backed securities/ collateral mortgage obligations	105,267,154	954,279	(718,706)	105,502,727
	$ 287,411,213	$ 2,722,006	$ (877,450)	$ 289,255,769

NOTE B INVESTMENT SECURITIES (CONTINUED)

The amortized cost and estimated fair value of debt securities at December 31, 2015, by contractual maturities, 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	
Amounts Maturing In:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
3 months or less	**$ 723,758**	**$ 725,294**	**$ 420,036**	**$ 420,834**
1 year through 5 years	**18,456,348**	**18,653,057**	**8,105,055**	**8,306,663**
5 years through 10 years	**214,949,132**	**213,855,839**	**57,173,466**	**57,399,382**
After 10 years	**156,597,435**	**156,684,479**	**127,745,379**	**127,456,273**
	$ 390,726,673	**$ 389,918,669**	**$ 193,443,936**	**$ 193,583,152**

Securities available for sale with carrying amounts of **$16,872,122** and $20,688,719 at December 31, 2015 and 2014, respectively, and held to maturity securities with carrying amount of **$5,278,410** and $6,268,606 at December 31, 2015 and 2014 that were pledged to secure public deposits and for other purposes required or permitted by law.

The gross gains and losses realized on securities available for sale that were sold during the years ending December 31, 2015 and 2014 are as follows:

	2015	2014
Gross gains recorded	**$ 240,085**	$ 117,673
Gross losses recorded	**(1,360)**	(1,589)
	$ 238,725	$ 116,084

NOTE B INVESTMENT SECURITIES (CONTINUED)

The Company held **74** and 43 securities that were in an unrealized loss position at December 31, 2015 and 2104, respectively. The following table shows gross unrealized losses and fair value by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
2015				
Securities Available For Sale:				
State and municipal securities	**$ (1,102)**	**$ 1,162,500**	**$ -**	**$ -**
U.S. Government Agency:				
Mortgage backed securities/ collateral mortgage obligations	**(1,124,820)**	**197,459,817**	**(718,311)**	**34,220,973**
Asset backed securities	**(37,612)**	**13,238,595**	**(542,723)**	**10,154,175**
	$ (1,163,534)	**$ 211,860,912**	**$(1,261,034)**	**$ 44,375,148**
Securities Held to Maturity:				
State and municipal securities	**$ (2,666)**	**$ 920,650**	**$ -**	**$ -**
U.S. Government Agency:				
Bonds	**(465,567)**	**45,780,543**	**-**	**-**
Mortgage backed securities/ collateral mortgage obligations	**(37,997)**	**2,586,420**	**(916,534)**	**29,069,824**
	$ (506,230)	**$ 49,287,613**	**$ (916,534)**	**$ 29,069,824**
2014				
Securities Available For Sale:				
U.S. Government Agency:				
Mortgage backed securities/ collateral mortgage obligations	$ (169,967)	$ 80,637,112	$ (523,203)	$ 56,750,323
Asset backed securities	(49,902)	11,776,461	-	-
	$ (219,869)	$ 92,413,573	$ (523,203)	$ 56,750,323
Securities Held to Maturity:				
U.S. Government Agency:				
Bonds	$ (63,608)	$ 29,816,225	$ (95,136)	$ 13,948,076
Mortgage backed securities/ collateral mortgage obligations	(1,687)	3,237,834	(717,019)	33,555,373
	$ (65,295)	$ 33,054,059	$ (812,155)	$ 47,503,449

NOTE B INVESTMENT SECURITIES (CONTINUED)

Management has the ability and the intent to hold the securities classified as held to maturity in the table above until they mature. Management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any of these securities before a recovery of cost. The unrealized losses are attributable primarily to changes in market interest rates relative to those available when the securities were acquired. The fair value of these securities is expected to recover as the securities reach their maturity or re-pricing date, or if changes in market rates for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2015 and 2014, management believes the impairments detailed in the above table are temporary and no impairment loss has been realized in the Company's consolidated statements of income for the years then ended.

NOTE C LOANS

Loans, by portfolio segment, at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Commercial & industrial	**$ 117,163,842**	$ 106,989,016
Commercial real estate	**487,608,393**	347,150,765
Consumer	**308,908,199**	259,995,031
Other	**13,396,735**	10,913,335
	927,077,169	725,048,147
Less allowance for possible credit losses	**(8,341,625)**	(7,458,322)
	$ 918,735,544	$ 717,589,825

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. The Company's loans are segmented by type as noted in the preceding table. The Company sub-segments commercial real estate loans into the following classes: commercial real estate mortgage, construction and land development, multi-family residential mortgage and farmland. The consumer segment includes 1-4 family residential and other consumer loans. There are no other significant sub-segments within the other portfolio segments. Information and risk management practices specific to the Company's loan segments and classes follows.

NOTE C LOANS (CONTINUED)

Commercial and Industrial - The Company's commercial and industrial loans represent credit extended to small to medium sized businesses generally for the purpose of providing working capital and equipment purchase financing and includes asset based revolving lines, equipment purchase money loans, lease financing (see Note A), and unsecured loans. Commercial and industrial loans are underwritten on the basis of the borrower's ability to service the debt from income and often are dependent on the profitable operations of the borrower. These credits are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may also incorporate a personal guarantee. Some shorter term loans may be extended on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The cash flows of borrowers may not be as expected and the collateral securing these loans may fluctuate, increasing the risk associated with this loan segment. As a result of the additional complexities, variables, and risks, commercial loans typically require more thorough underwriting and servicing than other types of loans.

Commercial Real Estate - The Company makes commercial real estate mortgage loans which are primarily viewed as cash flow loans and secondarily as loans secured by real estate. The properties securing the Company's commercial real estate mortgage loans can be owner occupied or nonowner occupied. Concentrations within the various types of commercial properties are monitored by management in order to assess the risks in the portfolio. The repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. The Company seeks to minimize these risks in a variety of ways in connection with underwriting these loans including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and the physical condition of the property.

Construction and land development loans are generally nonowner occupied, may involve the development of residential or commercial properties, and are subject to certain risks attributable to the fact that loan funds are advanced over the construction phase and the project is of uncertain value prior to its completion. Construction loans are generally based upon estimates of costs and value associated with the completed project with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay the loan. The Company has underwriting and funding procedures designed to address what it believes to be the risks associated with such loans; however, no assurance can be given the procedures will prevent losses resulting from the risks described above.

The Company's commercial real estate lending activities include extending credit secured by multi-family properties. These loans are typically retained by the Company and may be originated as construction loans or as mortgage loans.

The Company extends credit to local farmers secured by farmland and improvements thereon. Farmland includes land known to be used for agricultural purposes, such as crop and livestock production.

NOTE C LOANS (CONTINUED)

Consumer - The Company's consumer lending activities include the origination of 1-4 family residential loans. The terms of these loans typically range from five to thirty years and are secured by the properties financed. The Company requires the borrowers to maintain mortgage title insurance and hazard insurance. While the Company maintains the majority of the 1-4 family residential loans for its own portfolio, a portion are originated for immediate sale to the Federal Home Loan Mortgage Corporation (FHLMC) and the FHLB into the secondary market for a fee and without recourse. The Company is able to realize a higher yield on its mortgage operations by maintaining a portion of originated loans; however, the Company also incurs interest rate risk by holding the selected mortgages for its own portfolio. **$4,313,489** and $2,794,114 of 1-4 family residential loans were held for sale as of December 31, 2015 and 2014, respectively.

The Company's consumer loans also include lines of credit, automobile loans, home improvement loans, home equity loans, personal loans (collateralized and uncollateralized), and deposit account collateralized loans. The terms of these loans typically range from one to ten years and vary based on the nature of collateral and size of the loan. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as deemed appropriate by management.

Other loans - Other loans consist primarily of smaller loans to business entities, municipalities, finance companies, and individuals for various personal and business purposes.

Loan Participations Purchased and Sold

Loan participations purchased and sold by loan class during 2015 and 2014 is summarized in the table below.

	Participations Purchased During the Year	Participations Sold During the Year
2015		
Commercial & industrial	**$ 10,331,213**	**$ -**
Commercial real estate	**16,945,370**	**42,144,189**
Construction & land development	**-**	**32,489,442**
	$ 27,276,583	**$ 74,633,631**
2014		
Commercial & industrial	$ 3,292,967	$ -
Commercial real estate	-	21,873,077
	$ 3,292,967	$ 21,873,077

NOTE D NONPERFORMING LOANS

Past Due and Nonaccrual Loans

The following is an aging analysis of the recorded investment of loans past due, segregated by loan class, as of December 31, 2015 and 2014:

2015	Current and accruing	30 - 89 days past due	90 days or more past due	Nonaccrual	Total loans
Commercial & industrial	**$ 116,294,507**	**$ 84,535**	**$ -**	**$ 784,800**	**$ 117,163,842**
Commercial real estate mortgage	**318,561,428**	**1,421**	**-**	**336,525**	**318,899,374**
Construction & land development	**133,798,652**	**71,355**	**-**	**-**	**133,870,007**
Multi-family residential	**3,941,312**	**-**	**-**	**-**	**3,941,312**
Farmland	**30,897,700**	**-**	**-**	**-**	**30,897,700**
1 - 4 family residential	**282,296,256**	**5,524,329**	**341,633**	**1,609,652**	**289,771,870**
Consumer - other	**19,124,449**	**11,880**		**-**	**19,136,329**
Other loans	**13,373,149**	**18,504**	**5,082**	**-**	**13,396,735**
Total	**$ 918,287,453**	**$ 5,712,024**	**$ 346,715**	**$ 2,730,977**	**$ 927,077,169**

2014	Current and accruing	30 - 89 days past due	90 days or more past due	Nonaccrual	Total loans
Commercial & industrial	$ 105,867,879	$ 294,448	$ -	$ 826,689	$ 106,989,016
Commercial real estate mortgage	238,018,299	245,434	-	-	238,263,733
Construction & land development	81,538,380	11,659	-	-	81,550,039
Multi-family residential	4,042,918	-	-	-	4,042,918
Farmland	23,294,075	-	-	-	23,294,075
1 - 4 family residential	235,198,605	2,926,977	124,267	2,460,477	240,710,326
Consumer - other	19,248,346	36,359	-	-	19,284,705
Other loans	10,901,254	12,081	-	-	10,913,335
Total	$ 718,109,756	$ 3,526,958	$ 124,267	$ 3,287,166	$ 725,048,147

Interest income on nonaccrual loans was reversed out of earnings when the loan was placed on nonaccrual during the years ended December 31, 2015 and 2014. Interest income that would have been earned under the original terms of the nonaccrual loans was **$171,086** and $146,246 for the years ended December 31, 2015 and 2014, respectively.

NOTE D NONPERFORMING LOANS (CONTINUED)

Troubled Debt Restructuring

The following table illustrates loans, segregated by loan class, which were restructured due to the borrower's financial difficulties during 2015 and 2014.

	2015		2014	
	Balance at restructure	**Balance at year-end**	Balance at restructure	Balance at year-end
Commercial & industrial	**$ 788,746**	**$ 784,800**	$ -	$ -
Commercial real estate mortgages	**344,396**	**336,525**	-	-
1 - 4 family residential	**147,500**	**142,726**	1,242,232	1,131,249
Consumer - other	**2,739**	**2,739**	-	-
	$ 1,283,381	**$ 1,266,790**	$ 1,242,232	$ 1,131,249

All of the loans identified as troubled debt restructurings by the Company were previously on nonaccrual status and reported as impaired loans prior to restructuring. The modifications primarily related to extending the amortization periods of the loans or converting the loans to interest only for a limited period of time. The Company did not grant interest rate concessions on any restructured loan. All loans restructured during 2015 and 2014 that remain outstanding are on nonaccrual status as of December 31, 2015. Because the loans were classified and on nonaccrual status, both before and after restructuring, the modifications did not impact the Company's determination of the allowance for possible credit losses.

The Company had no borrowers in default on troubled debt restructurings during the years ended December 31, 2015 and 2014.

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES

For purposes of determining the allowance for possible credit losses, the Company considers the loans in its portfolio by segment, class, and risk grade. Management uses judgment to determine the estimation method that fits the credit risk characteristics of each portfolio segment or class. To assist in the assessment of risk management reviews reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company utilizes an independent third party loan review service to review the credit risk assigned to loans on a periodic basis and the results are presented to management for review.

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Rollforward of the Allowance for Possible Credit Losses

The following table presents a detail of the activity in the allowance for possible credit losses segregated by portfolio segment for the years ending December 31, 2015 and 2014.

	Balance at the beginning of year	Provisions	Charge-offs	Recoveries	Balance at end of year
2015					
Commercial & industrial	**$ 1,032,591**	**$ 121,704**	**$ (224,159)**	**$ 137,058**	**$ 1,067,194**
Commercial real estate	**3,796,879**	**430,700**	**-**	**17,875**	**4,245,454**
Consumer	**2,503,281**	**396,680**	**(7,700)**	**12,004**	**2,904,265**
Other loans	**125,571**	**13,916**	**(16,974)**	**2,199**	**124,712**
Total	**$ 7,458,322**	**$ 963,000**	**$ (248,833)**	**$ 169,136**	**$ 8,341,625**
2014					
Commercial & industrial	$ 1,293,743	$ 57,549	$ (397,616)	$ 78,915	$ 1,032,591
Commercial real estate	3,615,255	186,731	(22,091)	16,984	3,796,879
Consumer	2,385,373	139,850	(34,509)	12,567	2,503,281
Other loans	118,593	5,870	(12,137)	13,245	125,571
Total	$ 7,412,964	$ 390,000	$ (466,353)	$ 121,711	$ 7,458,322

Risk Grading of Loans

As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for possible credit losses, management assigns and tracks loan risk grades to be used as credit quality indicators. The following is a general description of the loan grades used as of December 31, 2015 and 2014.

Grades 1-4 - Credits graded 1-4 are considered *"pass"* which indicates prudent underwriting and a normal amount of risk. The range of risk within these credits can vary from little to no risk with cash securing a credit, to a level of risk that requires a strong secondary source of repayment on the debt. Pass credits with a higher level of risk may be to borrowers that are highly leveraged, less well capitalized or in an industry or economic area that is known to carry a higher level of risk, volatility, or susceptibility to weaknesses in the economy. This higher risk grade may be assigned due to out of date credit information, as well as collateral information which may need to be updated for current market value in order to allow a credit quality analysis of the credit.

Grade 5 - Credits in this category contain more than the normal amount of risk and are referred to as *"other assets especially mentioned"*, or OAEM, in accordance with regulatory guidelines. These credits possess clearly identifiable temporary weaknesses or trends that, if not corrected or revised, will result in a condition that exposes the Company to a higher level of risk of loss.

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Grade 6 - Credits in this category are *"substandard"* in accordance with regulatory guidelines and of unsatisfactory credit quality with well-defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Credits in this category are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. These credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Often, the assets in this category will have a valuation allowance representative of management's estimated loss that is probable to be incurred.

Grade 7 - Credits in this category are considered *"doubtful"* in accordance with regulatory guidelines, are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Generally, these credits will have a valuation allowance based upon management's best estimate of the losses probable to occur in the liquidation of the debt.

Grade 8 - Credits in this category are considered *"loss"* in accordance with regulatory guidelines and are considered uncollectible and of such little value as to question their continued existence as assets on the Company's financial statements. Such credits are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. This category does not intend to imply that the debt or some portion of it will never be paid, nor does it in any way imply that the debt will be forgiven.

The following table presents risk grades and classified loans by loan class at December 31, 2015 and 2014. Pass loans include risk grades 1 through 4. Classified loans include risk grades 5, 6, 7, and 8. The Company had no loans graded 7 or 8 at December 31, 2015 and 2014.

2015	Pass	Grade 5	Grade 6	Total Loans
Commercial & industrial	$ 114,074,689	$ 446,927	$ 2,642,226	$ 117,163,842
Commercial real estate mortgage	315,449,113	2,076,084	1,374,177	318,899,374
Construction & land development	133,451,347	199,471	219,189	133,870,007
Multi-family residential	3,941,312	-	-	3,941,312
Farmland	30,897,700	-	-	30,897,700
1-4 family residential	286,124,127	258,389	3,389,354	289,771,870
Consumer - other	19,136,329	-	-	19,136,329
Other loans	13,396,735	-	-	13,396,735
Total	$ 916,471,352	$ 2,980,871	$ 7,624,946	$ 927,077,169

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

2014	Pass	Grade 5	Grade 6	Total Loans
Commercial & industrial	$ 104,357,088	$ 119,604	$ 2,512,324	$ 106,989,016
Commercial real estate mortgage	236,361,713	96,821	1,805,199	238,263,733
Construction & land development	81,094,775	39,234	416,030	81,550,039
Multi-family residential	4,042,918	-	-	4,042,918
Farmland	23,294,075	-	-	23,294,075
1-4 family residential	236,778,765	-	3,931,561	240,710,326
Consumer - other	19,284,705	-	-	19,284,705
Other loans	10,913,335	-	-	10,913,335
Total	$ 716,127,374	$ 255,659	$ 8,665,114	$ 725,048,147

Specific and General Allowances

The Company's loan balances and allowance for possible credit losses as of December 31, 2015 and 2014 by loan class and disaggregated on the basis of the Company's impairment methodology is as follows:

2015	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total loans	Allowance related to loans individually evaluated for impairment
Commercial & industrial	**$ 784,800**	**$ 116,379,042**	**$ 117,163,842**	**$ -**
Commercial real estate mortgage	**336,525**	**318,562,849**	**318,899,374**	**50,000**
Construction & land development	**-**	**133,870,007**	**133,870,007**	**-**
Multi-family residential	**-**	**3,941,312**	**3,941,312**	**-**
Farmland	**-**	**30,897,700**	**30,897,700**	**-**
1-4 family residential	**1,587,201**	**288,184,669**	**289,771,870**	**23,582**
Consumer - other	**-**	**19,136,329**	**19,136,329**	**-**
Other loans	**-**	**13,396,735**	**13,396,735**	**-**
Total	**$ 2,708,526**	**$ 924,368,643**	**$ 927,077,169**	**$ 73,582**

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

2014	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total loans	Allowance related to loans individually evaluated for impairment
Commercial & industrial	$ 919,171	$ 106,069,845	$ 106,989,016	$ 5,000
Commercial real estate mortgage	3,090,125	235,173,608	238,263,733	-
Construction & land development	-	81,550,039	81,550,039	-
Multi-family residential	-	4,042,918	4,042,918	-
Farmland	-	23,294,075	23,294,075	-
1-4 family residential	2,512,870	238,197,456	240,710,326	30,573
Consumer - other	-	19,284,705	19,284,705	-
Other loans	-	10,913,335	10,913,335	-
Total	$ 6,522,166	$ 718,525,981	$ 725,048,147	$ 35,573

Impaired Loans

The following table reflects the unpaid principal balances for impaired loans, segregated by loan class, with the associated allowance amount as of December 31, 2015 and 2014. The Company had no commitment to lend additional funds to borrowers whose loans have been classified as impaired.

2015	Impaired loans without allowance	Impaired loans with specific allowance	Related allowance
Commercial & industrial	**$ 784,800**	**$ -**	**$ -**
Commercial real estate mortgage	**-**	**336,525**	**50,000**
1-4 family residential	**1,449,995**	**137,206**	**23,582**
Total	**$ 2,234,795**	**$ 473,731**	**$ 73,582**
2014			
Commercial & industrial	$ 893,049	$ 26,122	$ 5,000
Commercial real estate mortgage	3,090,125	-	-
1-4 family residential	2,085,129	427,741	30,573
Total	$ 6,068,303	$ 453,863	$ 35,573

NOTE F ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following at December 31, 2015 and 2014:

	2015	2014
Loans and leases	**$ 2,393,696**	$ 1,895,573
Investments and other	**2,246,175**	2,088,058
	$ 4,639,871	$ 3,983,631

NOTE G PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2015 and 2014 are summarized below:

	2015	2014
Land	**$ 4,656,111**	$ 4,519,352
Buildings and leasehold improvements	**14,963,306**	14,558,356
Furniture, fixtures and equipment	**10,080,697**	9,381,777
Computer hardware and software	**4,006,887**	3,698,096
Vehicles	**328,444**	242,945
	34,035,445	32,400,526
Less accumulated depreciation and amortization	**(19,783,621)**	(18,675,336)
	$ 14,251,824	$ 13,725,190

Depreciation expense was **$1,336,606** and $1,146,399 for 2015 and 2014, respectively.

NOTE H OTHER REAL ESTATE OWNED

An analysis of activity in other real estate owned and acquired by foreclosure for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Balance, beginning of year	**$ 217,719**	$ 199,237
Noncash foreclosure and repossession of real estate in partial satisfaction of debt	**883,622**	203,701
Market value adjustments after foreclosure	**-**	(7,668)
Sales	**(284,949)**	(177,551)
Balance, end of year	**$ 816,392**	$ 217,719

Expenses recorded related to the maintenance and sale of other real estate owned were $231,525 for the year ending December 31, 2015. The amount recorded was related to one single property. Expenses recorded related to the maintenance and sale of other real estate owned was not significant for the year ending December 31, 2014.

NOTE I GOODWILL AND OTHER INTANGIBLES

The Company has recorded goodwill, which is subject to impairment testing, and identifiable insurance customer accounts and protective and restrictive covenant intangibles, which are being amortized on a straight-line basis over the estimated useful life, determined by management, to be between five to ten years. Management determined no impairment existed on goodwill at December 31, 2015 and 2014. Goodwill, insurance customer account and protective and restrictive covenant intangibles, net of accumulated amortization, are as follows at December 31, 2015 and 2014:

2015	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Customer accounts	**$ 3,001,731**	**$(1,350,779)**	**$ 1,650,952**
Goodwill	**2,011,470**	**-**	**2,011,470**
Protective and restrictive covenants	**157,986**	**(106,641)**	**51,345**
Total	**$ 5,171,187**	**$(1,457,420)**	**$ 3,713,767**
2014			
Customer accounts	$ 3,001,731	$ (1,050,606)	$ 1,951,125
Goodwill	2,011,470	-	2,011,470
Protective and restrictive covenants	157,986	(82,942)	75,044
Total	$ 5,171,187	$ (1,133,548)	$ 4,037,639

The remaining amortization expense related to the customer account intangible will be approximately $300,000 per year for the next five years ending December 31, 2020, and then approximately $150,000 during 2021, and the amortization expense related to protective and restrictive covenants will be approximately $16,000 for the year ending December 31, 2016, and then approximately $7,900 per year for the following four years ending December 31, 2020, respectively, and then approximately $4,000 in 2021.

NOTE J DEPOSITS

The aggregate amount of time deposits in the amount of $250,000 or more at December 31, 2015 was approximately **$51,898,000**.

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

2016	**$ 89,318,614**
2017	**13,153,741**
2018	**1,866,332**
2019	**2,080**
	$104,340,767

NOTE J DEPOSITS (CONTINUED)

While no single deposit relationship amounted to more than 10% of total deposits as of December 31, 2015, 24% of the Company's deposits were made up of 10 deposit relationships. These particular customers have long-standing relationships with the Company and management expects the relationships to continue in the foreseeable future. However, should these relationships change for any number of reasons, the Company has sufficient liquidity to cover the outflow of deposits. As of December 31, 2014, the Company had one deposit relationship that represented approximately 13% of total deposits.

NOTE K BORROWINGS AND BORROWING LINES

FHLB Advances

The Company had available borrowings through the Federal Home Loan Bank of Dallas (FHLB) of **$695,818,277** and $759,761,675 based upon available and qualifying collateral consisting of certain loans and securities at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, borrowings amounting to **$110,250,646** and $70,938,981 respectively, were outstanding on the FHLB credit facility.

At December 31, 2015, advances outstanding with the FHLB are at fixed interest rates that range from 0.31% to 5.78%.

The future maturities on outstanding advances for the year ending December 31, 2015 are as follows:

2016	**$ 110,170,000**
2019	**80,646**
	$ 110,250,646

Other Available Borrowings

The Company had approximately **$88,000,000** available in Federal funds lines of credit with major correspondent banks at December 31, 2015 and 2014. As of December 31, 2015 and 2014, the Company had not drawn on these lines.

The Company has a **$7,500,000** revolving line of credit that matures on January 12, 2016 with a correspondent bank which is secured by the common stock of the Bank. The Company will not renew this line of credit. As of December 31, 2015 and 2014, the Company had not drawn on this line.

NOTE L COMMITMENTS AND CONTINGENT LIABILITIES

Commitment to Extend Credit with Off-Balance-Sheet Risk

In the normal course of business, the Company enters into various transactions, which in accordance with U.S. GAAP, are not included in its consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These financial instruments include commitments to extend credit for loans in process, commercial lines of credit, revolving credit lines, overdraft protection lines, and standby letters of credit at both fixed and variable rates of interest. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

The following is a summary at December 31, 2015 and 2014 of the various financial instruments whose contract amounts represent credit risk:

	2015	2014
Commitments to extend credit (including guidance lines)	**$ 239,630,991**	$ 154,694,255
Standby letters of credit	**$ 8,437,685**	$ 12,194,395

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are extended at both fixed and variable rates of interest. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

NOTE L COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Community Development Obligations

The Company has committed to contribute capital to various community development limited partnerships. At December 31, 2015, the Company had **$7,011,940** in unfunded commitments outstanding and subject to call by the respective entities. Outstanding contributions made by the Company in these partnerships were **$988,060** and $881,006, and are included in other assets in the Company's consolidated balance sheets as of December 31, 2015 and 2014, respectively. The Company has received aggregate contribution returns of approximately $2,579,000 on these investments.

Legal Matters

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

Lease Obligations

The Company leases banking and office facilities under noncancelable lease agreements with terms expiring at various dates, some of which contain renewal options. It is expected that in the normal course of business leases that expire will be renewed or replaced by leases on approximately the same terms and conditions if available. Total rent expense for operating leases of premises and equipment was **$1,374,456** and $1,189,974 for the years ending December 31, 2015 and 2014, respectively. A summary of noncancelable future operating lease commitments at December 31, 2015 follows:

2016	**$ 1,171,985**
2017	**1,184,443**
2018	**1,025,648**
2019	**736,138**
2020	**188,899**
Thereafter	**197,088**
	$ 4,504,201

NOTE M SUBORDINATED NOTES

On October 31, 2014, the Company issued **$20,000,000** of 5.75% fixed rate subordinated notes (Notes) that mature on October 15, 2026. The Notes, which qualify for Tier 2 capital for the Company under the capital rules in effect at December 31, 2014, pay interest quarterly on each January 15, April 15, July 15, and October 15, commencing on January 15, 2015 until maturity. The Notes are subordinated in right of payment to all the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company. The Notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization. The Company may elect to redeem the Notes (subject to regulatory approval), in whole or in part and from time to time at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest on any interest payment date that occurs on or after the date that is five years after the original issue date. Accrued but unpaid interest amounted to **$287,500** and $194,861 at December 31, 2015 and 2014, respectively. Proceeds from the issuance of the Notes were used as additional capital for the Bank.

NOTE N RELATED PARTIES

Related parties are defined as executive officers, directors, and significant shareholders of the Company. A shareholder is considered significant if they and their affiliates own 5% or more of the Company. In the ordinary course of business, the Company has and expects to continue to conduct routine banking business with related parties. Such activities with related parties are identified as follows:

Loans - In the opinion of management, loans to related parties were entered into between the Company and such related parties in the ordinary course of business, and were made on the same terms and conditions as similar transactions with unaffiliated persons. Loans to such borrowers are summarized as follows:

	2015	2014
Balance, beginning of year	**$ 13,703,862**	$ 13,819,636
New loans and advances during the year	**9,854,140**	3,104,311
Repayments during the year	**(3,787,975)**	(2,583,407)
Loans sold	**(600,201)**	(636,678)
Balance, end of year	**$ 19,169,826**	$ 13,703,862

The Company has approximately **$1,694,000** and $1,361,000 of unfunded related party loan commitments as of December 31, 2015 and 2014, respectively.

Deposits - The Company held related party deposits of approximately **$5,448,000** and $5,151,000 at December 31, 2015 and 2014, respectively.

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS

Defined Benefit Plan

The Company has a qualified, defined benefit pension plan covering substantially all full-time employees. The benefits are based on years of service and the average of the highest three consecutive annual salaries paid. The Company's policy is to fund pension costs accrued based on an actuarial valuation for the plan. The Company's periodic pension costs are included in employee benefits in the consolidated statements of income.

The following tables set forth the funded status and prepaid pension costs of the plan at December 31, 2015 and 2014:

	2015	2014
Actuarial Assumptions:		
Discount rate used in determining obligation as of 12/31	**4.20%**	3.85%
Compensation increases as of 12/31	**3.50%**	3.50%
Long-term rate of return on assets	**7.50%**	7.50%
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	**$ 18,692,291**	$ 14,822,525
Service cost	**1,089,309**	831,054
Interest cost	**678,773**	602,550
Actuarial (gain) loss, including discount rate changes	**(1,196,015)**	2,903,783
Benefits paid	**(1,292,462)**	(467,621)
Benefit obligation at end of year	**$ 17,971,896**	$ 18,692,291
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**$ 25,063,566**	$ 22,881,374
Actual return on plan assets (net of expenses)	**(241,326)**	1,189,911
Employer contributions	**-**	1,459,902
Benefits paid	**(1,292,462)**	(467,621)
Fair value of plan assets at end of year	**$ 23,529,778**	$ 25,063,566
Reconciliation of Funded Status:		
Funded status	**$ 5,557,882**	$ 6,371,275
Unrecognized net actuarial loss	**8,613,281**	8,112,124
Unrecognized prior service cost	**(17,654)**	(24,665)
Prepaid pension cost at end of year	**$ 14,153,509**	$ 14,458,734

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

	2015	2014
Reconciliation of (Accrued)/Prepaid Pension Cost:		
Prepaid pension cost at beginning of year	**$ 14,458,734**	$ 13,009,077
Net periodic pension (cost)	**(305,225)**	(10,245)
Employer contributions	**-**	1,459,902
Prepaid pension cost at end of year	**$ 14,153,509**	$ 14,458,734
Components of Net Periodic Benefit Cost:		
Service cost	**$ 1,089,309**	$ 831,054
Interest cost	**678,773**	602,550
Expected return on plan assets	**(1,837,438)**	(1,658,898)
Amortization of prior service cost	**(7,011)**	(7,011)
Amortization of net loss	**381,592**	242,550
Net periodic pension cost	**$ 305,225**	$ 10,245

The Company, as the plan sponsor, considers several factors in determining the expected long-term rate of return on plan assets. Long-term historical relationships between equities and fixed income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

The Company employs a total return investment approach whereby a mix of investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

The assumptions and the Company's pension plan asset allocations by asset category and segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 *Fair Value Measurements and Disclosures* are as follows at December 31, 2015 and 2014:

	2015	2014
Assumptions as of January 1:		
Discount rate used in determining benefit obligation	**4.20%**	3.85%
Expected return on plan assets	**3.50%**	7.50%
Compensation increases	**7.50%**	3.50%
The plan's asset components and percentage allocations are as follows:		
Level 1:		
Cash & equivalents	**$ 106,840**	$ 312,751
Level 2:		
U.S. government securities	**3,242,083**	3,397,579
Corporate bonds	**6,143,847**	6,114,939
Equities	**13,948,809**	15,153,976
Other	**88,199**	84,321
Total fair value of plan assets	**$ 23,529,778**	$ 25,063,566
Cash & equivalents	**0.5%**	1.2%
U.S. government securities	**13.8%**	13.6%
Corporate bonds	**26.1%**	24.4%
Equities	**59.3%**	60.5%
Other	**0.3%**	0.3%
Total	**100.0%**	100.0%

The following table illustrates the estimated pension benefit payments that are projected to be paid over the next ten years as of December 31, 2015:

2016	**$ 1,006,052**
2017	**1,234,761**
2018	**872,404**
2019	**825,650**
2020	**1,177,421**
2021 - 2025	**8,110,957**
	$ 13,227,245

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan Amendments

Effective January 1, 2012 the Company's defined benefit plan was amended and restated to conform to the Pension Protection Act of 2006, the Pension Relief Act of 2010, and guidance issued with respect to such legislation. Effective January 1, 2010, all new participants are on a cash balance benefit formula and all existing participants were given the choice to elect cash balance or remain within the current benefit formula.

Nonqualified Salary Continuation

The Company has nonqualified salary continuation agreements with key executives that provide each executive with annual benefits ranging from $12,500 to $24,000, payable on a monthly basis, over 10 to 20 years, once they reach normal retirement age. The cost to provide this benefit during 2015 and 2014 was **$81,693** and $28,040, respectively. The unfunded liability related to these agreements as of December 31, 2015 and 2014 was **$948,139** and $933,488, respectively, and is included in other liabilities in the Company's consolidated balance sheets.

401(k) Retirement Plan

The Company has a 401(k) plan to supplement employees' retirement income. Effective April 1, 2010, the Plan was amended to include employer matching contributions for new employees and employees electing the cash balance plan. Employees are eligible for the match upon completion of one year of service and having attained the age of 21. The Company will contribute 100% of the first 1% of compensation a participant contributes to the Plan and 50% of the next 5% of participant contributions. For the years ended December 31, 2015 and 2014, the Company contributed **$283,944** and $218,092, respectively, to the Plan.

Incentive Compensation Agreements

The Company has incentive compensation agreements with several key executives that provide both deferred and current benefits based on percentage increases in the annual change in book value of the Company, excluding certain adjustments, and a percentage of the cash dividends declared and paid to shareholders of the Company. The accrued expense related to the deferred compensation benefit during 2015 and 2014 was **$825,051** and $720,532, respectively. The accrued liability related to these agreements as of December 31, 2015 and 2014 was **$4,331,673** and $3,760,140, respectively, and is reported as an other liability in the Company's consolidated balance sheets. The cost of the current benefit during 2015 and 2014 was **$102,818** and $96,574, respectively, of which **$41,109** and $38,630 remained unpaid as of December 31, 2015 and 2014 respectively.

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Bank Owned Life Insurance Plans

The Company also provides supplemental life insurance policies related to compensation plans for certain executive officers, senior officers, and directors. Additional premiums paid into certain of these policies amounted to **$6,089,391** and $421,891 for the years ending December 31, 2015 and 2014. Several of the policies on directors are administered under split-dollar agreements. The post retirement costs to carry the insurance are not accrued due to the expected continued service of the directors beyond retirement age.

NOTE P REGULATORY MATTERS

Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures and risk weighting of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors.

In April 2015, the federal bank regulators approved final rules which revised the risk-based capital requirements applicable to banks under the prompt corrective action framework. These rules became effective for the Company on January 1, 2015 (subject to a phase-in period for certain provisions). These rules introduce a new regulatory capital definition called Common Equity Tier 1 Capital. The table below includes the Common Equity Tier 1 Capital ratio as of December 31, 2015 and revised capital ratios effective with the new rules.

As of December 31, 2015, the most recent notification by the FDIC, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, common equity Tier 1 risk-based, and Tier I leverage and capital ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Company's or the Bank's capital adequacy ratios.

NOTE P REGULATORY MATTERS (CONTINUED)

The regulatory capital ratios for the Company and the Bank for the years ending December 31, 2015 and 2014 are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
Consolidated	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015						
Total Risk Based Capital (to Risk Weighted Assets)	**$ 147,685**	**13.60%**	**$ 86,858**	**8.00%**	**N/A**	
Tier I Capital (to Risk Weighted Assets)	**$ 119,343**	**10.99%**	**$ 65,143**	**6.00%**	**N/A**	
Common Equity Tier I Capital (to Risk Weighted Assets)	**$ 119,343**	**10.99%**	**$ 48,857**	**4.50%**	**N/A**	
Tier I Capital (to Adjusted Total Assets)	**$ 119,343**	**7.71%**	**$ 61,950**	**4.00%**	**N/A**	
2014						
Total Risk Based Capital (to Risk Weighted Assets)	$ 134,794	15.71%	$ 68,640	8.00%	N/A	
Tier I Capital (to Risk Weighted Assets)	$ 107,336	12.51%	$ 34,320	4.00%	N/A	
Tier I Capital (to Adjusted Total Assets)	$ 107,336	7.74%	$ 55,488	4.00%	N/A	
Bank Only						
2015						
Total Risk Based Capital (to Risk Weighted Assets)	**$ 142,690**	**13.21%**	**$ 86,437**	**8.00%**	**$ 108,047**	**10.00%**
Tier I Capital (to Risk Weighted Assets)	**$ 134,348**	**12.43%**	**$ 64,828**	**6.00%**	**$ 86,437**	**8.00%**
Common Equity Tier I Capital (to Risk Weighted Assets)	**$ 134,348**	**12.43%**	**$ 48,621**	**4.50%**	**$ 70,230**	**6.50%**
Tier I Capital (to Adjusted Total Assets)	**$ 134,348**	**8.70%**	**$ 61,740**	**4.00%**	**$ 77,175**	**5.00%**
2014						
Total Risk Based Capital (to Risk Weighted Assets)	$ 129,860	15.23%	$ 68,228	8.00%	$ 85,286	10.00%
Tier I Capital (to Risk Weighted Assets)	$ 122,402	14.35%	$ 34,114	4.00%	$ 51,171	6.00%
Tier I Capital (to Adjusted Total Assets)	$ 122,402	8.85%	$ 55,301	4.00%	$ 69,127	5.00%

NOTE P REGULATORY MATTERS (CONTINUED)

Dividend Restrictions

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

NOTE Q FAIR VALUE DISCLOSURES

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and or/the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

Fair Value Hierarchy

ASC Topic 820, *Fair Value Measurements and Disclosures*, specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are observable or unobservable. These inputs are summarized in the three broad levels listed below.

Level 1 - Level 1 inputs are based upon quoted prices in active markets for identical assets and liabilities.

Level 2 - Level 2 inputs are based upon other significant observable inputs (including quoted prices in active and inactive markets for similar assets and liabilities), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instrument.

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

During the years ending December 31, 2015 and 2014, there were no transfers of assets or liabilities within the levels of the fair value hierarchy.

NOTE Q FAIR VALUE DISCLOSURES (CONTINUED)

Financial Instruments Recorded at Fair Value

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

	Level 1	Level 2	Level 3	Total
2015				
Debt Securities Available for Sale	**$ 17,961**	**$ 371,958**	**$ -**	**$ 389,919**
2014				
Debt Securities Available for Sale	$ 2,113	$ 343,411	$ -	$ 345,524

Nonrecurring - Certain financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). At December 31, 2015 and 2014, the Company held no financial instruments measured at fair value on a nonrecurring basis with Level 1 or Level 3 valuation inputs. The fair value of impaired loans disclosed in Note E was measured on a nonrecurring basis using Level 2 inputs.

Nonfinancial Assets and Nonfinancial Liabilities

The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis. The Company has certain nonfinancial assets that are measured at fair value on a nonrecurring basis to include other real estate owned upon initial recognition or subsequent impairment. In addition, the Company assesses impairment of its intangible assets using Level 3 inputs.

The fair value of the Company's other real estate owned, upon initial recognition, is estimated using Level 2 inputs, based upon observable market input data. Other real estate owned measured at fair value upon initial recognition and subsequent re-measurement is described in Note H.

Fair Value Disclosure for all Financial Instruments

The Company is required to disclose the fair value of all financial instruments, including those financial assets and financial liabilities not recorded at fair value in its consolidated balance sheets, for which it is practicable to estimate fair value. Following is a table that summarizes the estimated fair market values of all financial instruments of the Company at December 31, 2015 and 2014, followed by methods and assumptions that were used by the Company in estimating the fair value.

NOTE Q FAIR VALUE DISCLOSURES (CONTINUED)

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	2015		2014	
	Carrying Amount	Estimated Fair Values	Carrying Amount	Estimated Fair Values
Financial Assets				
Cash and cash equivalents	**$ 41,895**	**$ 41,895**	$ 39,962	$ 39,962
Securities available for sale	**389,919**	**389,919**	345,524	345,524
Securities held to maturity	**193,444**	**193,583**	287,411	289,256
Equity securities	**5,656**	**5,656**	5,069	5,069
Loans and leases, net	**918,736**	**917,410**	717,590	717,703
Accrued interest receivable	**4,640**	**4,640**	3,984	3,984
Cash surrender value life insurance	**31,850**	**31,850**	25,042	25,042
Total Financial Assets	**$ 1,586,140**	**$ 1,584,953**	$ 1,424,582	$ 1,426,540
Financial Liabilities				
Noninterest-bearing deposits	**$ 402,342**	**$ 402,342**	$ 347,468	$ 347,468
Interest-bearing deposits	**957,564**	**957,338**	897,934	897,635
FHLB advances	**110,251**	**110,260**	70,939	70,936
Subordinated notes	**20,000**	**19,300**	20,000	19,950
Accrued interest payable	**334**	**334**	237	237
Total Financial Liabilities	**$ 1,490,491**	**$ 1,489,574**	$ 1,336,578	$ 1,336,226

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair values of all financial instruments have been determined as follows:

Cash and Cash Equivalents - For these short term instruments, the carrying amount is a reasonable estimate of fair value.

Equity securities - The carrying amount of these instruments is a reasonable estimate of fair value.

Bank Owned Life Insurance - The carrying amounts of these instruments approximate their fair values.

Debt Securities - For these instruments, fair values are based upon Level 1 and Level 2 inputs as previously described.

NOTE Q FAIR VALUE DISCLOSURES (CONTINUED)

Loans, Net - For these instruments, fair values are based on the discounted value of contractual cash flows using discount rates equal to the interest rates offered at each reporting date by the Company for instruments with similar characteristics. Impaired loans are valued using Level 2 inputs as previously described.

Deposits - For time deposits, fair values are based on the discounted value of contractual cash flows using discount rates equal to the interest rates offered at each reporting date by the Company for time deposits with similar maturities. The fair values of deposits that have no stated maturities are based on the carrying amounts reported in the consolidated balance sheets.

Federal Home Loan Bank Advances - For these instruments, fair values are based on the discounted value of contractual cash flows using discount rates equal to the interest rates at each reporting date for borrowings with similar maturities.

Subordinated Notes - For these instruments, fair value is determined using rates offered for instruments with similar characteristics at the balance sheet date.

Accrued interest receivable and payable - The carrying value of these short-term assets and liabilities are deemed to estimate their fair value.