Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

MAR 28 2016

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

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

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

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

I, Wanda S. Fewell
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.

Wanda S. Fewell
Signature of Holding Company Director and Official

3-24-2016
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 1109357
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
First Groesbeck Holding Company
Legal Title of Holding Company

411 S. Ellis/PO Box 711
(Mailing Address of the Holding Company) Street / P.O. Box

Groesbeck	TX	76642
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Wanda S. Fewell	President
Name	Title

254-729-3054
Area Code / Phone Number / Extension

254-729-3239
Area Code / FAX Number

wfewell@fnbgroesbeck.com
E-mail Address

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

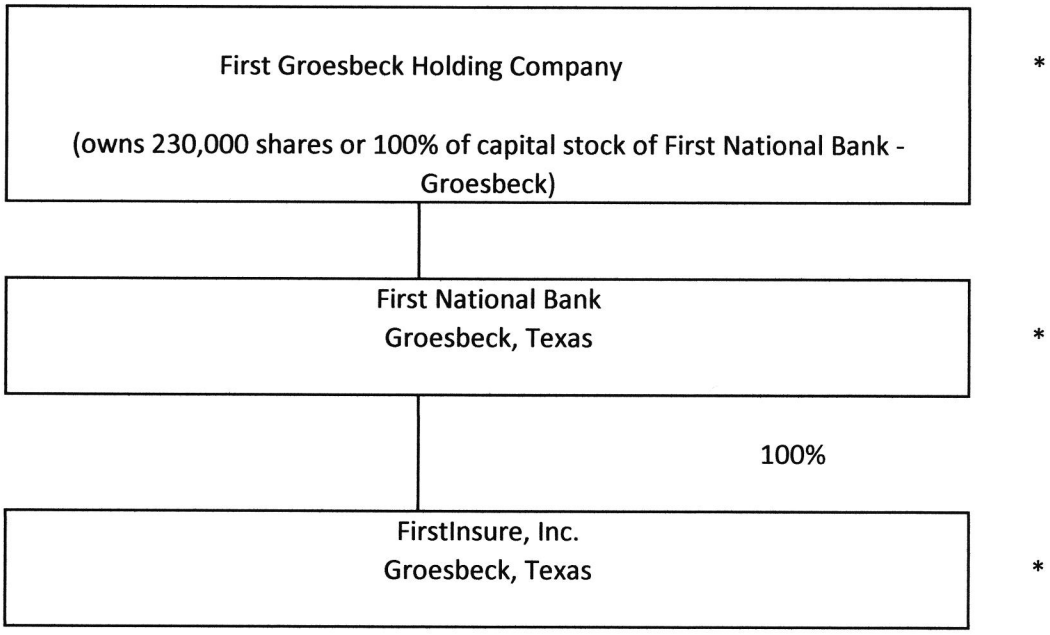
Does the reporter request confidential treatment for any portion of this submission?

- [ ] 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

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

First Groesbeck Holding Company
Groesbeck, Texas
Organization Chart

December 31, 2015



* - Incorporated in Texas

No LEI is available.

AMENDED
JUL 22 2016

Report Item 2(a)
(revised 07/20/16)

Results: A list of branches for your depository institution: FIRST NATIONAL BANK (ID_RSSD: 276355).
This depository institution is held by FIRST GROESBECK HOLDING COMPANY (1109357) of GROESBECK, 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)	276355	FIRST NATIONAL BANK	409 SOUTH ELLIS STREET	GROESBECK	TX	76642-189	LIMESTONE	UNITED STATES	16690	0	FIRST NATIONAL BANK	276355	

Form FR Y-6

First Groesbeck Holding Company
Groesbeck, Texas
Fiscal Year Ending December 31, 2015

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2015			Securities Holders 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
CBLS, Ltd. Carl B. Sadler, III Groesbeck, Texas, USA	USA	24503 11%	N/A		
Cottonwood, Ltd. Bobby L. Reed Groesbeck, Texas, USA	USA	52246 23%			
Alton Sims Family Trust Wanda S. Fewell, Trustee Groesbeck, Texas, USA	USA	23594 10%			
Wanda S. Fewell Groesbeck, Texas, USA	USA	1879 82%			
Woodcastle, Ltd. Benjie S. Reed Mexia, Texas, USA	USA	52973 23%			

(revised 07/20/16)

AMENDED
JUL 22 2016

Form FR Y-6

First Groesbeck Holding Company
Groesbeck, Texas
Fiscal Year Ending December 31, 2015

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

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	**Principal Occupation if other than with holding company**	**Title & Position with holding company**	**Title & Position with Subsidiaries (include names of subsidiaries)**	**Title & Position with Other Businesses (include names of other businesses)**	**Percentage of Voting Securities in holding company**	**Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)**	**List 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)**
Cottonwood, Ltd Bobby L. Reed Groesbeck, Texas, USA	Attorney	Director/Chairman	Director/Charman First National Bank Groesbeck, Texas	Attorney Reed & Reed	23%	0.087% First National Bank Groesbeck, Texas	Reed & Reed 50%
CBLS, Ltd. Carl B. Sadler, III Groesbeck, Texas, USA	Rancher	Director/Treasurer/Secretary	Director/Treasurer/Secretary First National Bank Groesbeck, Texas	Rancher Sadler & Baise	11%	0.087% First National Bank Groesbeck, Texas	Sadler & Baise 50%
Woodcastle, Ltd. Benjie Reed Mexia, Texas, USA	Attorney	Director/Vice Chairman	Director/Vice Charman First National Bank Groesbeck, Texas	Attorney Reed & Reed	23%	0.087% First National Bank Groesbeck, Texas	Reed & Reed 50%
Wanda S. Fewell Groesbeck, Texas, USA	N/A	Director/President	Director/President First National Bank Groesbeck, Texas	N/A	0.82%	0.087% First National Bank Groesbeck, Texas	N/A
Alton Sims Family Trust Wanda S. Fewell, Trustee Groesbeck, Texas, USA	N/A	Director/President	Director/President First National Bank Groesbeck, Texas	N/A	10%	N/A	N/A

First Groesbeck Holding Company

and Subsidiary

First National Bank

Groesbeck, Texas

2015

ANNUAL REPORT

First Groesbeck Holding Company

Officers and Directors

Officers:

Bobby L. Reed, Chairman

Wanda S. Fewell, President

Benjie S. Reed, Vice President

Carl B. Sadler, III, Secretary

Directors:

Bobby L. Reed

Carl B. Sadler, III

Benjie S. Reed

Wanda S. Fewell

First National Bank

Groesbeck, Texas

Directors:

Bobby L. Reed	Benjie S. Reed	Wanda S. Fewell
Carl B. Sadler, III	Steven A. Neal	James A. Black
Bill David Sadler	Stephen M. Reed	Justin E. Reed
Wesley S. Byrd		

Officers:

Wanda S. Fewell	James A. Black	Bill David Sadler
Sherrie F. McGilvray	Elizabeth Beard	Rhonda McCormick
Stephanie Eubanks		

BOLTON, SULLIVAN, TAYLOR & WEBER, L. L. P.
CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 826 • 1023 N. Mallard Street • Palestine, Texas 75802 • (903) 729-2229 • FAX (903) 729-3123

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
First Groesbeck Holding Company

We have audited the accompanying consolidated financial statements of First Groesbeck Holding Company (the Company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Groesbeck Holding Company and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bolton, Sullivan, Taylor & Weber, L.L.P.

Palestine, Texas
March 4, 2016

FIRST GROESBECK HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CASH AND DUE FROM BANKS	$ 1,611,671	$ 2,084,875
INTEREST BEARING DEPOSITS IN OTHER BANKS	8,874,325	368,093
Total cash and cash equivalents	10,485,996	2,452,968
INVESTMENT SECURITIES		
U.S. Government agencies	-	2,001,446
Mortgage-backed securities	13,924,229	17,465,915
Municipal Bonds	2,776,276	2,791,202
Federal Reserve Bank stock	69,000	69,000
The Independent Bankers' Bank stock	50,000	-
Total investment securities	16,819,505	22,327,563
LOANS		
Commercial	428,029	1,550,722
Consumer	1,709,420	2,220,164
Residential real estate	18,546,199	16,768,042
Other real estate	4,976,289	4,628,659
Agriculture	645,152	631,382
Other	8,589	27,149
	26,313,678	25,826,118
Less:		
Allowance for loan losses	515,366	517,462
Net loans	25,798,312	25,308,656
BANK PREMISES AND EQUIPMENT - NET	302,470	314,205
ACCRUED INTEREST RECEIVABLE	180,927	236,229
BANK OWNED LIFE INSURANCE	1,112,815	1,080,623
OTHER ASSETS	50,302	79,174
DEFERRED FEDERAL INCOME TAX	42,888	20,142
TOTAL ASSETS	$ 54,793,215	$ 51,819,560

This statement has not been reviewed, or confirmed for accuracy or relevance by the Office of the Comptroller of the Currency.

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

	2015	2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS		
Demand	$ 24,259,902	$ 20,654,916
Savings	4,901,981	4,331,466
Other time	19,898,474	21,195,343
Total Deposits	49,060,357	46,181,725
ACCRUED INTEREST AND OTHER LIABILITIES	106,751	105,123
FEDERAL INCOME TAX PAYABLE	39,104	-
TOTAL LIABILITIES	49,206,212	46,286,848
STOCKHOLDERS' EQUITY		
Common stock; par value $1, 1,000,000 shares authorized; 230,000 issued and outstanding	230,000	230,000
Additional paid-in capital	577,383	577,383
Retained earnings	4,779,620	4,725,329
TOTAL STOCKHOLDERS' EQUITY	5,587,003	5,532,712
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 54,793,215	$ 51,819,560

FIRST GROESBECK HOLDING COMPANY

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
INTEREST INCOME		
Interest and fees on loans	$ 1,490,829	$ 1,568,650
Interest on investment securities	332,665	347,671
Total interest income	1,823,494	1,916,321
INTEREST EXPENSE	202,694	227,349
NET INTEREST INCOME	1,620,800	1,688,972
Provision for loan losses	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,620,800	1,688,972
OTHER OPERATING INCOME		
Service charges on deposit accounts	91,673	96,937
Other operating income	301,845	331,140
Total other operating income	393,518	428,077
OTHER OPERATING EXPENSES		
Salaries	646,655	747,098
Employee benefits	182,175	185,611
Occupancy expense	65,032	67,360
Other operating expenses	844,206	912,844
Total other operating expenses	1,738,068	1,912,913
INCOME BEFORE FEDERAL INCOME TAX	276,250	204,136
FEDERAL INCOME TAX EXPENSE	51,759	25,149
NET INCOME	$ 224,491	$ 178,987

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

FIRST GROESBECK HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
BALANCE, DECEMBER 31, 2013	$ 230,000	$ 577,383	$4,546,342	$5,353,725
NET INCOME FOR 2014	-	-	178,987	178,987
2014 DIVIDENDS	-	-	-	-
BALANCE, DECEMBER 31, 2014	230,000	577,383	4,725,329	5,532,712
NET INCOME FOR 2015	-	-	224,491	224,491
2015 DIVIDENDS	-	-	(170,200)	(170,200)
BALANCE, DECEMBER 31, 2015	$ 230,000	$ 577,383	$4,779,620	$5,587,003

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

FIRST GROESBECK HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 224,491	$ 178,987
Adjustments to reconcile net income to net cash provided from operating activities:		
Provision for loan losses	-	-
Provision for depreciation and amortization	42,985	42,358
Amortization of investment security premium	275,196	202,106
Discount accretion	(538)	(538)
Deferred Federal income tax	(23,738)	(10,229)
Reinvested life insurance income	(32,193)	(30,354)
Gain on sale of repossessed assets	-	(4,685)
Gain on sale of assets	(66)	2,514
(Increase) decrease in:		
Other assets	18,581	(14,851)
Interest receivable	55,302	(8,255)
Increase (decrease) in:		
Federal income tax payable	40,096	(14,150)
Accrued interest payable and other liabilities	1,628	3,817
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	601,744	346,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities	2,000,000	-
Purchases of investment securities	(50,000)	(9,485,787)
Net (increase) decrease in loans	(479,366)	2,427,449
Purchases of equipment	(31,249)	(40,556)
Proceeds from sale of repossessions	12,500	18,000
Proceeds from sale of assets	-	-
Repossessed assets	(12,434)	(13,315)
Principal payoff on mortgage-backed securities	3,283,400	2,086,953
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	4,722,851	(5,007,256)

FIRST GROESBECK HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, NOW accounts, savings accounts and certificates of deposit	2,878,633	2,037,151
Cash dividends	(170,200)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	2,708,433	2,037,151
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,033,028	(2,623,385)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,452,968	5,076,353
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,485,996	$ 2,452,968
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 203,863	$ 228,672
Income taxes	35,401	47,741
Noncash financing and investing transactions:		
Financing of real estate sold	$ -	$ 60,800
Financing of repossessed assets sold	-	-

DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statements of cash flows, cash equivalents include amounts due from banks.

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

FIRST GROESBECK HOLDING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation. The consolidated financial statements of First Groesbeck Holding Company (the Company) include the accounts of the First National Bank - Groesbeck, Texas (the Bank), and FirstInsure, Inc. First National Bank - Groesbeck, Texas is a wholly-owned subsidiary of First Groesbeck Holding Company and FirstInsure, Inc. is a wholly-owned subsidiary of First National Bank - Groesbeck, Texas. All significant intercompany transactions and accounts have been eliminated in consolidation. FirstInsure, Inc. ceased operations during 2004, but will retain its corporate structure. We have reclassified certain amounts in the prior period's financial statement to conform to the 2015 presentation.

Nature of operations. The Bank provides a variety of banking services to individuals and businesses located primarily in the Limestone County area. Its primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business, agriculture, real estate mortgage, and consumer loans.

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

Investment securities. Securities classified as held-to-maturity are those debt securities the Company has both the intent and the ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Restricted stock is stock from the Federal Reserve Bank and The Independent Bankers' Bank, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans. Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest income on loans generally is recognized based on the principal amounts outstanding.

The Company accounts for loan impairments in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification. These accounting standards require that certain impaired loans (loans for which substantial doubt exists about the recovery of interest and principal pursuant to the original terms of the loans) be reported at the present value of expected future cash flows using the loans' effective interest rates, or, as a practical expedient, at the loans' observable market prices or the fair value of the collateral if the loans are collateral dependent. Interest income on impaired loans is generally recorded on a cash basis.

Loans are placed on nonaccruing status when management believes that interest on such loans may not be collected in the ordinary course of business. Interest income on nonaccruing loans is normally reported on a cash basis as it is collected.

Allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience, current economic conditions, volume, growth and composition of the loan portfolio, and other relevant factors. The allowance for loan losses is increased by provisions for loan losses and decreased by charge-offs (net of recoveries).

Other Real Estate Owned. Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Subsequent increases in fair value are recognized as income up to the amount of original cost basis at foreclosure.

Premises and equipment. Bank premises and equipment are carried at original cost less accumulated depreciation. Depreciation is computed using both the straight-line method and the declining balance method over the estimated useful life of the asset. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains and losses realized on the disposition of properties and equipment are reflected in the statements of income. Costs incurred for maintenance and repairs are expensed currently.

SIGNIFICANT ACCOUNTING POLICIES (concluded)

Income tax. Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Company's policy is to recognize interest and penalties on income taxes in other noninterest expenses. The Company remains subject to examination for income tax returns for the years ending after December 31, 2011.

Advertising expense. The Company expenses the cost of advertising as the expense is incurred. For the years ended December 31, 2015 and 2014, the cost totaled $8,332 and $11,242, respectively.

Subsequent events. The Company has evaluated subsequent events through March 4, 2016, the date the financial statements were available to be issued.

INVESTMENT SECURITIES

Restricted stock

The following table shows the amounts of restricted stock as of December 31, 2015 and 2014.

	2015	2014
Federal Reserve Bank	$ 69,000	$ 69,000
The Independent Bankers' Bank	50,000	-
	$119,000	$ 69,000

The amortized value and estimated market value of securities classified as held-to-maturity at December 31, 2015 and 2014 are as follows:

INVESTMENT SECURITIES (continued)

Held-to-maturity

	Amortized Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2015:				
U.S. Government agencies	$ -	$ -	$ -	$ -
Mortgage-backed securities	13,924,229	152,485	2,407	14,074,307
Municipal Bonds	2,776,276	78,336	4,028	2,850,584
	$ 16,700,505	$ 230,821	$ 6,435	$ 16,924,891
December 31, 2014:				
U.S. Government agencies	$ 2,001,446	$ 5,064	$ -	$ 2,006,510
Mortgage-backed securities	17,465,915	185,385	30,152	17,621,148
Municipal Bonds	2,791,202	50,708	28,020	2,813,890
	$ 22,258,563	$ 241,157	$ 58,172	$ 22,441,548

The estimated fair values and gross unrealized losses of securities that have been in a continuous loss position as of December 31, 2015 and 2014 are shown below:

	Number of Impaired Securities	Estimated Fair Value	Gross Unrealized Losses
December 31, 2015:			
Greater than 12 months			
Mortgage-backed securities	3	$ 3,618,462	$ (2,407)
Municipal Bonds	3	609,867	(4,028)
	6	$ 4,228,329	$ (6,435)
December 31, 2014:			
Less than 12 months			
Mortgage-backed securities	4	$ 6,019,023	$ (26,324)
Greater than 12 months			
Mortgage-backed securities	1	1,588,313	(3,828)
Municipal Bonds	5	1,246,733	(28,020)
	10	$ 8,854,069	$ (58,172)

INVESTMENT SECURITIES (concluded)

Management evaluates securities for other-than-temporary impairment on an annual basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The three mortgage-backed securities mature in 10 to 16 years and the decline from book value is .07%. The three municipal bonds are backed by municipal governments. The Bank has the ability to hold all of these securities until maturity, no declines are deemed to be other-than-temporary.

At December 31, 2015 and 2014, investment securities with a carrying value of $6,082,270 and $8,110,931, respectively, were pledged to secure public deposits.

The maturities of investment securities at December 31, 2015 were as follows:

	Amortized Value	Estimated Market Value
Due in one year or less	$ -	$ -
Due from one to five years	363,163	383,421
Due after five years to ten years	1,814,813	1,851,049
Due after ten years	598,300	616,113
Mortgage-backed securities	13,924,229	14,074,308
	$ 16,700,505	$16,924,891

CREDIT RISK CONCENTRATIONS

The Bank grants commercial, agriculture, real estate and consumer loans to customers throughout the Limestone County area. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the local economy.

The Bank has a concentration in real estate and mortgage lending. Such loans amounted to $23,522,488 and $21,396,701, or forty-three percent (43%) and forty-one percent (41%) of total assets at December 31, 2015 and 2014, respectively. The Bank requires collateral and records a first lien on all such collateral. In the making of these collateralized loans, as with all types of loans, the Bank adheres closely to its written loan policies, requiring current credit and financial information about the borrower and other evidence of the borrower's forecasted ability to repay the loan.

ALLOWANCE FOR LOAN LOSSES

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

ALLOWANCE FOR LOAN LOSSES (continued)

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

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

Loans are divided into segments and segments are divided into classes to aid in the loan evaluation process. The segments and classes are as follows:

Commercial loans are not divided into classes.

Consumer loans are divided into the following classes:
1. Auto
2. Other

Residential real estate loans are not divided into classes.

Other real estate loans are divided into the following classes:
1. Real estate farmland
2. NFNR (nonfarm nonresidential) 1st lien
3. Other real estate

Agriculture loans are not divided into classes.

Other loans are not divided into classes.

Loans by Segment

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $515,366 adequate to cover loan losses inherent in the loan portfolio at December 31, 2015. The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of December 31, 2015.

ALLOWANCE FOR LOAN LOSSES (continued)

2015 Activity

	Commercial	Agriculture	Consumer	Residential Real Estate	Other Real Estate	Other/ Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 9,627	$ 24,372	$ 122,181	$ 193,274	$ 153,533	$ 14,475	$ 517,462
Charge-offs	-	-	(7,740)	-	-	-	(7,740)
Recoveries	-	-	5,644	-	-	-	5,644
Provision	-	-	-	-	-	-	-
Ending balance	$ 9,627	$ 24,372	$ 120,085	$ 193,274	$ 153,533	$ 14,475	$ 515,366
Ending balance allocated to loans individually evaluated for impairment	$ 3,805	$ -	$ 146	$ 52,389	$ 21,769	$ -	$ 78,109
Ending balance allocated to loans collectively evaluated for impairment	$ 5,822	$ 24,372	$ 119,939	$ 140,885	$ 131,764	$ 14,475	$ 437,257
Loans							
Ending balance	$ 428,029	$ 645,152	$ 1,709,420	$ 18,546,199	$ 4,976,289	$ 8,589	$ 26,313,678
Ending balance of loans individually evaluated for impairment	$ 96,213	$ -	$ 20,132	$ 1,087,763	$ 865,693	$ -	$ 2,069,801
Ending balance of loans collectively evaluated for impairment	$ 331,816	$ 645,152	$ 1,689,288	$ 17,458,436	$ 4,110,596	$ 8,589	$ 24,243,877

ALLOWANCE FOR LOAN LOSSES (continued)

2014 Activity

	Commercial	Agriculture	Consumer	Residential Real Estate	Other Real Estate	Other/ Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 9,627	$ 8,771	$ 109,677	$ 186,036	$ 153,533	$ 14,475	$ 482,119
Charge-offs	-	-	(9,496)	-	-	-	(9,496)
Recoveries	-	15,601	22,000	7,238	-	-	44,839
Provision	-	-	-	-	-	-	-
Ending balance	$ 9,627	$ 24,372	$ 122,181	$ 193,274	$ 153,533	$ 14,475	$ 517,462
Ending balance allocated to loans individually evaluated for impairment	$ 1,394	$ -	$ 189	$ 11,910	$ 12,402	$ -	$ 25,895
Ending balance allocated to loans collectively evaluated for impairment	$ 8,233	$ 24,372	$ 121,992	$ 181,364	$ 141,131	$ 14,475	$ 491,567
Loans							
Ending balance	$ 1,550,722	$ 631,382	$ 2,220,164	$ 16,768,042	$ 4,628,659	$ 27,149	$ 25,826,118
Ending balance of loans individually evaluated for impairment	$ 85,760	$ -	$ 13,238	$ 816,574	$ 763,195	$ -	$ 1,678,767
Ending balance of loans collectively evaluated for impairment	$ 1,464,962	$ 631,382	$ 2,206,926	$ 15,951,468	$ 3,865,464	$ 27,149	$ 24,147,351

ALLOWANCE FOR LOAN LOSSES (continued)

Credit Quality Information

The use of credit worthiness categories to grade loans permits management to estimate a portion of the credit risk. The Bank's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed monthly by management.

The Bank's internal risk ratings are as follows:

Pass: Assets that are acceptable and do not exhibit the qualities of the assets that are categorized as special mention, substandard, doubtful or loss. Pass loans are not adversely classified.

Special Mention: Assets that have potential weaknesses that deserve management's close attention and that, if left uncorrected, may result in deterioration of the repayment prospects for the assets or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Assets that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Such assets have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard assets are adversely classified.

Doubtful: Assets that have all the weaknesses that are inherent to assets characterized as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Doubtful assets are adversely classified.

Loss: Assets that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. The loss characterization does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off the basically worthless asset even though partial recovery may be effected in the future. Loss assets that are adversely classified will be promptly charged off.

ALLOWANCE FOR LOAN LOSSES (continued)

The table below represents credit exposures by creditworthiness category for the year ended December 31, 2015.

	Grades					
	Pass	Special Mention	Substandard	Doubtful	Loss	Totals
Auto	$ 485,249	$ 11,035	$ -	$ -	$ -	$ 496,284
Consumer - Other	1,204,039	9,097	-	-	-	1,213,136
Residential real estate	17,458,436	197,807	889,956	-	-	18,546,199
Real estate farmland	2,053,785	-	20,437	-	-	2,074,222
NFNR	1,200,880	386,043	417,496	-	-	2,004,419
Other real estate	855,931	-	41,717	-	-	897,648
Agriculture	645,152	-	-	-	-	645,152
Commercial	331,816	-	96,213	-	-	428,029
Other	8,589	-	-	-	-	8,589
Totals	$ 24,243,877	$ 603,982	$ 1,465,819	$ -	$ -	$ 26,313,678

ALLOWANCE FOR LOAN LOSSES (continued)

The table below represents credit exposures by creditworthiness category for the year ended December 31, 2014.

	Grades					
	Pass	Special Mention	Substandard	Doubtful	Loss	Totals
Auto	$ 553,746	$ -	$ -	$ -	$ -	$ 553,746
Consumer - Other	1,653,180	3,235	10,003	-	-	1,666,418
Residential real estate	15,951,468	170,998	645,576	-	-	16,768,042
Real estate farmland	2,417,463	-	60,967	-	-	2,478,430
NFNR	792,978	-	547,834	-	-	1,340,812
Other real estate	655,023	-	154,394	-	-	809,417
Agriculture	631,382	-	-	-	-	631,382
Commercial	1,464,962	-	85,760	-	-	1,550,722
Other	27,149	-	-	-	-	27,149
Totals	$ 24,147,351	$ 174,233	$ 1,504,534	$ -	$ -	$ 25,826,118

ALLOWANCE FOR LOAN LOSSES (continued)

Age analysis of Past Due Loans by Class

Following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31, 2015. Also included are loans that are 90 days or more past due as to interest and principal and still accruing.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Auto	$ 11,035	$ -	$ -	$ 11,035	$ 485,249	$ 496,284	$ -
Consumer - Other	16,034	406	-	16,440	1,196,696	1,213,136	-
Residential real estate	259,783	212,248	120,762	592,793	17,953,406	18,546,199	-
Real estate farmland	-	-	-	-	2,074,222	2,074,222	-
NFNR - 1st lien	-	-	-	-	2,004,419	2,004,419	-
Other real estate	36,868	-	-	36,868	860,780	897,648	-
Agriculture	18,376	-	-	18,376	626,776	645,152	-
Commercial	-	-	-	-	428,029	428,029	-
Other	-	-	-	-	8,589	8,589	-
Totals	$ 342,096	$ 212,654	$ 120,762	$ 675,512	$ 25,638,166	$ 26,313,678	$ -

ALLOWANCE FOR LOAN LOSSES (continued)

Age analysis of Past Due Loans by Class

Following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31, 2014. Also included are loans that are 90 days or more past due as to interest and principal and still accruing.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Auto	$ 4,948	$ -	$ -	$ 4,948	$ 548,798	$ 553,746	$ -
Consumer - Other	15,509	2,144	-	17,653	1,648,765	1,666,418	-
Residential real estate	326,589	-	73,765	400,354	16,367,688	16,768,042	-
Real estate farmland	-	-	-	-	2,478,430	2,478,430	-
NFNR - 1st lien	140,536	-	-	140,536	1,200,276	1,340,812	-
Other real estate	-	-	44,643	44,643	764,774	809,417	-
Agriculture	-	-	-	-	631,382	631,382	-
Commercial	-	-	85,760	85,760	1,464,962	1,550,722	-
Other	-	-	-	-	27,149	27,149	-
Totals	$ 487,582	$ 2,144	$ 204,168	$ 693,894	$ 25,132,224	$ 25,826,118	$ -

ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans

The Bank considers a loan to be impaired when, based on current information and events, the Bank determines that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Bank identifies a loan as impaired, the Bank measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Bank uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Bank determines that the value of the impaired loan is less than the recorded investment in the loan, the Bank recognizes impairment through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans (continued)

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of December 31, 2015.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Auto	$ -	$ -	$ -	$ -	$ -
Consumer - Other	-	-	-	-	-
Residential real estate	-	-	-	-	-
Real estate farmland	-	-	-	-	-
NFNR - 1st lien	-	-	-	-	-
Other real estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	-	-	-	-	-
Other	-	-	-	-	-
With a related allowance:					
Auto	-	-	-	-	-
Consumer - Other	-	-	-	-	-
Residential real estate	51,002	49,672	17,722	50,219	-
Real estate farmland	-	-	-	-	-
NFNR - 1st lien	-	-	-	-	-
Other real estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Agriculture	-	-	-	-	-
Residential real estate	51,002	49,672	17,722	50,219	-
Other real estate	-	-	-	-	-
Other	-	-	-	-	-
Totals	$ 51,002	$ 49,672	$ 17,722	$ 50,219	$ -

ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans (continued)

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of December 31, 2014.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Auto	$ -	$ -	$ -	$ -	$ -
Consumer - Other	-	-	-	-	-
Residential real estate	-	-	-	-	-
Real estate farmland	-	-	-	-	-
NFNR - 1st lien	-	-	-	-	-
Other real estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	-	-	-	-	-
Other	-	-	-	-	-
With a related allowance:					
Auto	-	-	-	-	-
Consumer - Other	-	-	-	-	-
Residential real estate	-	-	-	-	-
Real estate farmland	-	-	-	-	-
NFNR - 1st lien	-	-	-	-	-
Other real estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Agriculture	-	-	-	-	-
Residential real estate	-	-	-	-	-
Other real estate	-	-	-	-	-
Other	-	-	-	-	-
Totals	$ -	$ -	$ -	$ -	$ -

ALLOWANCE FOR LOAN LOSSES (concluded)

Nonaccrual Loans

Nonaccrual loans by class:

	2015	2014
Commercial Loans	$ 96,213	$ 85,760
Real Estate:		
Residential	408,020	319,660
Farmland	-	-
NFNR - 1st lien	41,717	111,115
Other	-	44,643
	$545,950	$561,178

The Bank had no material troubled debt restructuring during the years ended December 31, 2015 and 2014. The Bank also had no material troubled debt restructuring that defaulted during the year ended December 31, 2015 and 2014.

The Bank did not purchase or sell any loans during the years ended December 31, 2015 and 2014.

BANK PREMISES AND EQUIPMENT - NET

Major classifications of these assets are summarized as follows:

	2015	2014
Bank building and land	$ 825,652	$ 805,834
Furniture and fixtures	370,363	515,705
	1,196,015	1,321,539
Less accumulated depreciation	893,545	1,007,334
	$ 302,470	$ 314,205

Depreciation expense for 2015 and 2014 totaled $42,985 and $42,358, respectively. The useful lives of the assets range from 3 to 39 years.

OTHER ASSETS

Analysis of other assets is shown below:

	2015	2014
Prepaid expenses	$ 33,757	$ 33,549
Repossessed assets	5,000	19,221
Other	11,545	26,404
	$ 50,302	$ 79,174

CERTIFICATES OF DEPOSIT

Certificates of deposit with balances of $100,000 or greater total $11,639,129 and $12,032,801 for years ended December 31, 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

2016	$ 13,883,825
2017	3,743,229
2018	790,462
2019	1,181,619
2020 and thereafter	299,339
	$ 19,898,474

INCOME TAX

The effective tax rate in 2015 differs from the statutory rate principally because of the effect of book to tax basis adjustments.

The provision for Federal income tax applicable to net income in the consolidated statements of income for the years ended December 31, 2015 and 2014 is comprised of the following:

	2015	2014
Federal income tax expense (benefit):		
Current	$ 74,505	$ 35,378
Other	(22,746)	(10,229)
	$ 51,759	$ 25,149

The principal sources of temporary differences are depreciation, provision for bad debts, and cash basis for tax accounting.

INCOME TAX (concluded)

A reconciliation between the amount of actual income tax expense and the amount computed by multiplying the applicable statutory rate by income before Federal income tax is as follows:

	2015	2014
Federal income tax expense computed at statutory rate	$ 90,988	$ 62,863
Increase (decrease) in tax resulting from:		
Book to tax basis adjustments	(39,229)	(37,714)
Federal income tax expense	$ 51,759	$ 25,149

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED ON A NONRECURRING BASIS

	Fair Value	(Level 1)	(Level 2)	(Level 3)	(Losses)
Impaired loans	$ 31,950	$ -	$ 31,950	$ -	$ -
Other real estate owned	$ 5,000	$ -	$ 5,000	$ -	$ -
Repossessed assets	$ -	$ -	$ -	$ -	$ -

The fair value of impaired loans is estimated using estimated future cash net inflows. Foreclosed real estate asset is valued based on the expected sale proceeds. Other repossessions are valued based on quoted market values of similar assets discounted to expected cash flow.

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of the Bank's business, there are outstanding various commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying consolidated financial statements. These commitments totaled $983,395 and $1,468,811 at December 31, 2015 and 2014, respectively. The Company does not anticipate any losses as a result of these transactions.

Financial instruments with off-balance-sheet risk. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statements of financial condition.

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

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

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

RESTRICTIONS ON CASH AND DIVIDENDS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2015 was $177,948. The reserve balance at December 31, 2015 was $661,185.

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. At December 31, 2015, retained earnings of approximately $491,668 was available for the payment of dividends without prior regulatory approval.

RELATED PARTY TRANSACTIONS

At December 31, 2015 and 2014, the related parties of the Company and the Bank had loans due the Bank in the amount of $2,003,113 and $2,815,061 and the Bank recognized interest income on related party loans of $129,129 and $120,644, respectively. In addition, the related parties had deposits, including demand, savings and time, at the Bank totaling $3,820,202 and $4,575,676 at December 31, 2015 and 2014 and the Bank incurred interest expense on related party deposits of $18,476 and $15,885, respectively.

REGULATORY CAPITAL MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as of January 1, 2015, of total capital, tier 1 capital, and common equity tier 1 capital to risk-weighted assets (as defined in the regulations), and leverage capital, which is tier 1 capital to adjusted average total assets (as defined). Prior to January 1, 2015, minimum amounts and ratios of total capital, tier 1 capital, and leverage capital, which is tier 1 capital to adjusted average total assets (as defined), were required. Management believes, as of December 31, 2015 and 2014, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2015 and 2014, the most recent notification from the OCC, 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 capital, common equity tier 1 capital, tier 1 capital, and leverage 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 Bank's prompt corrective action category.

REGULATORY CAPITAL MATTERS (concluded)

The following table outlines the regulatory components of the Bank's capital and capital ratios under the rules applicable at December 31, 2015 and 2014, respectively.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)	$ 5,847,000	25.3%	≥ $ 1,847,000	≥ 8.0%	≥ $ 2,309,000	≥ 10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 5,556,000	24.1%	≥ $ 1,385,000	≥ 6.0%	≥ $ 1,847,000	≥ 8.0%
Common Equity Tier 1 Capital	$ 5,556,000	24.1%	≥ $ 1,039,000	≥ 4.5%	≥ $ 1,501,000	≥ 6.5%
Leverage Capital (to Adjusted Average Total Assets)	$ 5,556,000	10.4%	≥ $ 2,138,000	≥ 4.0%	≥ $ 2,672,000	≥ 5.0%
As of December 31, 2014:						
Total Risk-Based Capital (to Risk-Weighted Assets)	$ 5,786,000	24.9%	≥ $ 1,860,000	≥ 8.0%	≥ $ 2,325,000	≥ 10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 5,493,000	23.6%	≥ $ 930,000	≥ 4.0%	≥ $ 1,395,000	≥ 6.0%
Tier 1 Capital (to Adjusted Total Assets)	$ 5,493,000	10.6%	≥ $ 2,073,000	≥ 4.0%	≥ $ 2,591,000	≥ 5.0%