

Board of Governors of the Federal Reserve System



**Annual Report of Holding Companies—FR Y-6**

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

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

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

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

1. Paul Henry  
Name of the Holding Company Director and Official  
President  
Title of the Holding Company Director and Official

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

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

[Signature]  
Signature of Holding Company Director and Official  
7/12/16  
Date of Signature

For holding companies not registered with the SEC—  
Indicate status of Annual Report to Shareholders:  
 is included with the FR Y-6 report Already sent  
 will be sent under separate cover 3/24/16  
 is not prepared

**For Federal Reserve Bank Use Only**  
RSSD ID 1233627  
C.I. \_\_\_\_\_

**Date of Report** (top-tier holding company's fiscal year-end):  
12/31/15  
Month / Day / Year  
N/A  
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address  
First Liberty National Bancshares Inc.  
Legal Title of Holding Company  
1900 Sam Houston / P.O. Box 10109  
(Mailing Address of the Holding Company) Street / P.O. Box  
Liberty Tx 77575  
City State Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:  
Jerry Ursprung Treasurer  
Name Title  
936 336 6471  
Area Code / Phone Number / Extension  
936 336 3390  
Area Code / FAX Number  
jursprung@flnb.com  
E-mail Address  
flnb.com  
Address (URL) for the Holding Company's web page

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

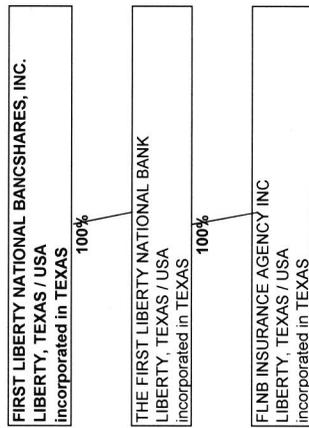
FORM FR Y-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
as of  
12/31/2015

Report Item

- 1: a. The BHC is not required to prepare from 10K with the SEC
- 1: b. The BHC does prepare an annual report for its shareholders.  
Enclosed are two copies of the annual report.

2 a: Organizational Chart



This organization has no entity that has a LEI ( legal Entity Identifier).

**A** **MENDED**  
JUL 18 2016 **D**

**Results:** A list of branches for your depository institution: **FIRST LIBERTY NATIONAL BANK, THE (ID\_RSSD: 629353)**. This depository institution is held by **FIRST LIBERTY NATIONAL BANKSHARES, INC. (1233627)** of **LIBERTY, 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)	629353	FIRST LIBERTY NATIONAL BANK, THE	1900 SAM HOUSTON AVENUE	LIBERTY	TX	77575	LIBERTY	UNITED STATES	2137		0	629353	
OK		Full Service	3020335	DAYTON BRANCH	109 E HIGHWAY 90	DAYTON	TX	77535	LIBERTY	UNITED STATES	196347		1	629353	

**AMENDED**  
JUL 18 2016

FORM FRY-6  
FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS / USA

as of 12/31/2015

REPORT ITEM 3 (1) : SHAREHOLDERS

CURRENT SHAREHOLDERS WITH OWNERSHIP, CONTROL OF HOLDING OF 5% OR MORE WITH POWER TO VOTE AS OF FISCAL YEAR ENDING 12/31/2015

(1)(A) Name & Address City, State, Country	(1)(B) Country of Citizenship or Incorporation	(1)(C) Number & Percentage of Each Class of Voting Stock
1. MARY C. HAYWOOD BAYTOWN, TX USA	USA	654,410 14.45% COMMON STOCK
LISA FLEETWOOD BAYTOWN, TX USA	USA	654,410 14.45% COMMON STOCK
DAVID HAYWOOD BAYTOWN, TX USA	USA	10,000 0.22% COMMON STOCK
TOTAL		1,318,82 29.12%
2. CHARLES R WIGGINS LIBERTY, TX USA	USA	343,985 7.60% COMMON STOCK
JOANN WIGGINS ( wife) LIBERTY, TX USA	USA	215,804 4.77% COMMON STOCK
CHARLES K WIGGINS ALBUQUERQUE, NM USA	USA	134,412 2.97% COMMON STOCK
KARL WIGGINS HUMBLE, TX USA	USA	134,412 2.97% COMMON STOCK
TAMI WIGGINS BELEN, NM USA	USA	134,412 2.97% COMMON STOCK
TOTAL		963,025 21.27%
3. D. MAYES MIDDLETON, II HOUSTON, TX USA	USA	240,25 5.31% COMMON STOCK
JOHN MIDDLETON TRUST (QSST) HOUSTON, TX USA	USA	158,64 3.50% COMMON STOCK
TOTAL		398,89 8.81%
4. CHARLES L MCGUIRE LIBERTY, TX USA	USA	312,510 6.90% COMMON STOCK

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS / USA

as of 12/31/2015

REPORT ITEM 3 (2): SHAREHOLDERS

SHAREHOLDERS WITH OWNERSHIP, CONTROL OF HOLDING OF 5% OR MORE  
DURING THE FISCAL YEAR, NOT LISTED IN SECTION 3(1) 12/31/2015

(1)(A) Name & Address City, State, Country	(1)(B) Country of Citizenship or Incorporation	(1)(C) Number & Percentage of Each Class of Voting Stock
--	--	--

NONE

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS / USA  
as of 12/31/2015

**REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)**  
# 1., 2., 3 a, b, c, & 4 a, b, c

1) Name & Address City, State, Country	2) Principal Occupation if other than with Bank Holding Company	3a) Title & Position with Bank Holding Company	3b) Title & Position with Subsidiaries	3c) Title & Position with Other Businesses	4a) Percentage of Voting Shares in Bank Holding Company	4b) Percentage of Voting Shares in Subsidiaries	4c) List names of other Companies if 25% or more of Voting Stock is Held
DAVID CASTLE LIBERTY, TX USA	BANKER	SECRETARY	SECRETARY (THE FIRST LIBERTY NATIONAL BANK)	DIRECTOR & SECRETARY FAIRLAWN MEM PARK CEMETERY LIBERTY, TX USA	0.00%	NONE	NONE
			SR. VICE PRESIDENT (THE FIRST LIBERTY NATIONAL BANK)	TREASURER ATASCOCITA HISTORICAL SOCIETY LIBERTY, TX USA		NONE	NONE
LISA FLEETWOOD BAYTOWN, TX USA	INVESTMENTS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	NONE	14.45%	NONE	NONE
				LIMITED PARTNER HAYWOOD VII UNITS, LTD BAYTOWN, TX USA		NONE	N/A
				SHAREHOLDER LDFMCH, LLC BAYTOWN, TX USA		NONE	LDFMCH, LLC 50%
				SHAREHOLDER & SECRETARY LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	LIBERTY INVESTMENT CO. 25.928%
				OWNER KLMB PROPERTIES, LLC BAYTOWN, TX USA		NONE	KLMB PROPERTIES, LLC 100%
				OWNER KLMB MINERALS, LLC BAYTOWN, TX USA		NONE	KLMB MINERALS, LLC 100%

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
as of  
12/31/2015

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)

# 1., 2., 3 a, b, c, & 4 a, b, c

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MATTHEW HARRIS LIBERTY, TX USA	CONTRACTOR	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT PELCO CONSTRUCTION LIBERTY, TX USA	0.22%	NONE	PELCO CONSTRUCTION 100%
				MANAGER PELCO PROPERTIES LIBERTY, TX USA		NONE	N/A
				GENERAL PARTNER HHB PARTNERSHIP LIBERTY, TX USA		NONE	HHB PARTNERSHIP 50%
				MANAGER JAYAR INC DAYTON, TX USA		NONE	N/A
				PRESIDENT PELCO BUILDERS LIBERTY, TX USA		NONE	PELCO BUILDERS 100%
				MANAGER JOE & FRANCES HARRIS FAMILY PARTNERSHIP LIBERTY, TX USA		NONE	N/A
GUY L. HARRIS DAYTON, TX USA	BUILDING MATERIALS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	GENERAL PARTNER TOWN PROP. LLP DAYTON, TX USA	0.44%	NONE	N/A
				PRESIDENT PEOPLES BUILDING CENTER DAYTON, TX USA		NONE	PEOPLES BUILDING CENTER 60.20%
				GENERAL PARTNER PEOPLES LUMBER & SUPPLY LLP DAYTON, TX USA		NONE	N/A
				TRUSTEE ROBERT D HARRIS MOORES BLUFF TRUST DAYTON, TX USA		NONE	N/A
				TRUSTEE ROBERT D & BARBARA HARRIS IRREVOCABLE INSURANCE TRUST DAYTON, TX USA		NONE	N/A

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
as of  
12/31/2015

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
# 1., 2., 3 a, b, c, & 4 a, b, c

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MARY C. HAYWOOD BAYTOWN, TX USA	INVESTMENTS	NONE	NONE	NONE	14.45%	NONE	NONE
				LIMITED PARTNER HAYWOOD WI UNITS, LTD BAYTOWN, TX USA		NONE	N/A
				SHAREHOLDER LDFMCH, LLC BAYTOWN, TX USA		NONE	LDFMCH LLC 50%
				SHAREHOLDER & VICE PRESIDENT LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	LIBERTY INVESTMENT CO. 25.928%
DAVID HAYWOOD BAYTOWN, TX USA	INVESTMENTS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT BAYVEST INC BAYTOWN, TX USA	0.22%	NONE	BAYVEST INC. 100%
				SHAREHOLDER & PRESIDENT LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	N/A
PAUL HENRY LIBERTY, TX USA	BANKER	PRESIDENT & DIRECTOR	PRESIDENT & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK & FLNB INSURANCE AGENCY)	BOARD TRUSTEE, DIRECTOR, V.P LIBERTY COUNTY HOSPITAL DISTR # 1 LIBERTY, TX USA	1.37%	NONE	NONE

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
 LIBERTY, TEXAS  
 as of  
 12/31/2015

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
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JOAN JEFFREY LIBERTY, TX USA	FARMING & INVESTMENTS	DIRECTOR	(THE FIRST LIBERTY NATIONAL BANK)	OWNER JGJ FARMS LIBERTY, TX USA	0.24%	NONE	JGJ FARMS 100%
CHARLES L. MCGUIRE LIBERTY, TX USA	C.P.A. & ATTORNEY	CO-CHAIRMAN & DIRECTOR	(THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT LIBERTY COUNTY TAX SERVICE LIBERTY, TX USA	6.90%	NONE	LIBERTY COUNTY TAX SERVICE 100%
				PRESIDENT TARVER ABSTRACT CO. LIBERTY, TX USA		NONE	TARVER ABSTRACT CO. 100%
				PRESIDENT P & V OIL COMPANY LIBERTY, TX USA		NONE	P & V OIL COMPANY 25%
				OWNER CHARLES MCGUIRE C.P.A. & ATTORNEY AT LAW LIBERTY, TX USA		NONE	CHARLES MCGUIRE C.P.A. 100%
				JOINT OWNER TEXAS MOBILE MILL LIBERTY, TX USA		NONE	TEXAS MOBILE MILL 50%
D. MAYES MIDDLETON, II HOUSTON, TX USA	ATTORNEY	DIRECTOR	(THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT MIDDLETON OIL COMPANY HOUSTON, TX USA	5.31%	NONE	MIDDLETON OIL CO. 100%
				OWNER DMM ENERGY LLC HOUSTON, TX USA		NONE	DMM ENERGY LLC 100%
				TRUSTEE JOHN MIDDLETON QSST TRUST HOUSTON, TX USA	3.50%	NONE	JOHN MIDDLETON QSST TRUST 100%

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
as of 12/31/2015

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
# 1., 2., 3 a, b, c, & 4 a, b, c

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E.R. NORWOOD LIBERTY, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT SR PRODUCTION CORP LIBERTY, TX USA	1.86%	NONE	SR PRODUCTION 100%
EDWARD PICKETT LIBERTY, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PICKETT & PICKETT P.C. LIBERTY, TX USA	2.52%	NONE	PICKETT & PICKETT P.C. 50%
JERRY URSPRUNG LIBERTY, TX USA	BANKER	TREASURER	SR, V.P. & CASHIER (THE FIRST LIBERTY NATIONAL BANK) (SECRETARY/ TREASURER FLNB INSURANCE AGENCY)	GENERAL PARTNER PICKETT JOINT PROPERTIES LIBERTY, TX USA	0.03%	NONE	N/A
CHARLES R. WIGGINS LIBERTY, TX USA	NONE	CHAIRMAN & DIRECTOR	CHRM EMERITUS & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	NONE	7.60%	NONE	NONE
JOANN WIGGINS LIBERTY, TX USA	NONE (WIFE OF CHARLES WIGGINS)	NONE	NONE	NONE	4.77%	NONE	NONE

**AMENDED**  
JUL 18 2016

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
as of  
12/31/2015

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
# 1., 3 a, b, c, & 4 a, b, c

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CHARLES KEVIN WIGGINS LIBERTY, TX USA	N/A	N/A	N/A	N/A	2.97% **	NONE	N/A
KARL WIGGINS LIBERTY, TX USA	N/A	N/A	N/A	N/A	2.97% **	NONE	N/A
TAMI WIGGINS LIBERTY, TX USA	N/A	N/A	N/A	N/A	2.97% **	NONE	N/A

\*\* NOTE: ALTHOUGH CHARLES KEVIN WIGGINS, KARL WIGGINS, AND TAMI WIGGINS ARE NOT DIRECTORS OR OFFICERS OF THE HOLDING COMPANY, INFORMATION MUST BE PROVIDED BECAUSE THEY ARE CONSIDERED A "PRINCIPAL SECURITIES HOLDER" OF THE HOLDING COMPANY. THIS DEFINITION CAN BE FOUND IN THE FR Y-6 INSTRUCTIONS.

**AMENDED**  
JUL 18 2016

**FIRST LIBERTY NATIONAL BANCSHARES, INC.  
AND SUBSIDIARIES**

**FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT**



**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

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DAVID E. WHITE, CPA  
TERRY S. WHIDDON, CPA  
WM. KEITH KELLEY, CPA  
RYAN C. HARKEY, CPA  
—  
SHERRY J. MEADOR, CPA  
PATTI R. MITCHELL, CPA  
KIM PENNY, CPA  
REBECCA L. ROGERS, CPA  
CHRISTOPHER R. LANIER, CPA  
—  
H. B. FUNCHESS III, CPA  
(1932-1995)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
First Liberty National Bancshares, Inc.

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of First Liberty National Bancshares, Inc. 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

*FMW, P.C.*

Beaumont, Texas  
January 19, 2016

(1)

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2015 and 2014

<i>Assets</i>	<u>Assets</u>	<u>2015</u>	<u>2014</u>
Cash and due from banks	\$	7,444,572	\$ 7,992,353
Interest-bearing deposits in banks		24,017,556	34,052,819
Federal funds sold		1,000,000	1,000,000
Securities available for sale (Note 4)		116,159,876	128,697,105
Securities held to maturity (Note 4)		1,229,942	5,734,631
Loans (Note 5)		149,016,971	140,647,239
Accrued interest receivable		1,326,450	1,241,333
Premises and equipment (Note 6)		4,194,913	3,961,263
Other assets		2,075,740	1,460,237
		<u>306,466,020</u>	<u>324,786,980</u>
Total Assets		<u>\$ 306,466,020</u>	<u>\$ 324,786,980</u>
<b><u>Liabilities and Stockholders' Equity</u></b>			
<i>Liabilities</i>			
Noninterest-bearing deposits	\$	15,903,499	\$ 25,286,936
Interest-bearing deposits		241,844,960	258,937,481
Total Deposits (Note 7)		<u>257,748,459</u>	<u>284,224,417</u>
Borrowings (Note 8)		12,570,600	5,000,000
Accrued expenses and other liabilities		807,318	791,461
		<u>271,126,377</u>	<u>290,015,878</u>
Total Liabilities		<u>271,126,377</u>	<u>290,015,878</u>
<b><i>Commitments and Contingencies</i></b> (Notes 6, 10, and 11)			
<i>Stockholders' Equity</i>			
Common stock, Class A - \$100 par value; 14,950 shares authorized; 6,077.64 shares issued; 4,528.445 shares outstanding in 2015 and in 2014		607,764	607,764
Additional paid-in capital		7,963,988	7,963,988
Retained earnings		36,485,052	35,478,168
Accumulated other comprehensive income		24,319	462,662
Treasury stock, at cost; 1,549.195 shares in 2015 and in 2014		<u>(9,741,480)</u>	<u>(9,741,480)</u>
Total Stockholders' Equity		<u>35,339,643</u>	<u>34,771,102</u>
Total Liabilities and Stockholders' Equity		<u>\$ 306,466,020</u>	<u>\$ 324,786,980</u>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

For the Years Ended December 31, 2015 and 2014

	<i>2015</i>	<i>2014</i>
<b><i>Interest and Dividend Income</i></b>		
Loans	\$ 6,962,586	\$ 6,698,932
Debt securities	2,276,418	2,762,365
Federal funds sold	2,144	2,605
Dividends	8,681	8,448
Other	74,284	79,634
Total Interest and Dividend Income	9,324,113	9,551,984
<b><i>Interest Expense</i></b>		
Deposits	984,991	1,072,335
Borrowings	84,645	39,203
Total Interest Expense	1,069,636	1,111,538
Net Interest Income	8,254,477	8,440,446
<b><i>Provision for Loan Losses</i></b> (Note 5)	395,000	310,000
Net Interest Income after Provision for Loan Losses	7,859,477	8,130,446
<b><i>Noninterest Income</i></b>		
Income from fiduciary activities	152,897	135,039
Service charges on deposit accounts	1,174,723	1,279,041
Other service charges and fees	1,099,807	1,107,406
Net gain (loss) on call or sale of securities	1,426	1,198
Insurance commissions	249,539	234,619
Other income	279,155	264,883
Total Noninterest Income	2,957,547	3,022,186
<b><i>Noninterest Expenses</i></b>		
Salaries and employee benefits (Note 13)	4,210,081	4,170,586
Occupancy and equipment	995,165	1,165,000
Data processing	1,070,014	922,491
Director fees	150,900	150,350
FDIC assessments	152,869	158,631
Legal and professional	149,492	183,695
Other general and administrative	1,032,830	1,027,353
Total Noninterest Expenses	7,761,351	7,778,106
Income before Income Tax	3,055,673	3,374,526
<b><i>Income Tax Expense</i></b> (Note 9)	-	-
<b><i>Net Income</i></b>	\$ 3,055,673	\$ 3,374,526
<b><i>Earnings Per Share</i></b>	\$ 674.77	\$ 745.18

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
For the Years Ended December 31, 2015 and 2014

	<i>Shares of Common Stock</i>	<i>Common Stock</i>	<i>Additional Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Treasury Stock</i>	<i>Total Stockholders' Equity</i>
<b>Balance at December 31, 2013</b>	6,077.64	\$ 607,764	\$ 7,963,988	\$ 34,317,538	\$ (1,635,349)	\$ (9,741,480)	<u>\$ 31,512,461</u>
Comprehensive Income -							
Net income for 2014	-	-	-	3,374,526	-	-	3,374,526
Change in net unrealized gain (loss) on securities available for sale	-	-	-	-	2,098,011	-	<u>2,098,011</u>
Total Comprehensive Income	-	-	-	-	-	-	<u>5,472,537</u>
Cash dividends paid	-	-	-	(2,203,224)	-	-	(2,203,224)
Tax credit distributed to stockholders	-	-	-	(10,672)	-	-	<u>(10,672)</u>
<b>Balance at December 31, 2014</b>	6,077.64	607,764	7,963,988	35,478,168	462,662	(9,741,480)	<u>34,771,102</u>
Comprehensive Income -							
Net income for 2015	-	-	-	3,055,673	-	-	3,055,673
Change in net unrealized gain (loss) on securities available for sale	-	-	-	-	(438,343)	-	<u>(438,343)</u>
Total Comprehensive Income	-	-	-	-	-	-	<u>2,617,330</u>
Cash dividends paid	-	-	-	(2,043,416)	-	-	(2,043,416)
Tax credit distributed to stockholders	-	-	-	(5,373)	-	-	<u>(5,373)</u>
<b>Balance at December 31, 2015</b>	<u>6,077.64</u>	<u>\$ 607,764</u>	<u>\$ 7,963,988</u>	<u>\$ 36,485,052</u>	<u>\$ 24,319</u>	<u>\$ (9,741,480)</u>	<u>\$ 35,339,643</u>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOW**

For the Years Ended December 31, 2015 and 2014

	<i>2015</i>	<i>2014</i>
<b><i>Cash Flows from Operating Activities</i></b>		
Net income	\$ 3,055,673	\$ 3,374,526
Adjustments to reconcile net income to net cash provided (used) by operating activities -		
Depreciation and amortization	271,456	278,041
Provision for loan losses	395,000	310,000
Net amortization of security premiums and discounts	974,918	1,010,060
Net (gain) loss on call or sale of securities	(1,426)	(1,198)
Net loss on sale of other assets	3,360	11,429
(Increase) decrease in accrued interest receivable	(85,117)	11,044
Increase in accrued expenses and other liabilities	15,856	34,445
(Increase) decrease in other assets	(312,055)	187,095
Total Adjustments	1,261,992	1,840,916
Net Cash Provided by Operating Activities	4,317,665	5,215,442
<b><i>Cash Flows from Investing Activities</i></b>		
Net (increase) decrease in federal funds sold	-	-
Net decrease in interest-bearing deposits	10,035,263	(1,685,112)
Activity in available-for-sale securities -		
Sales	-	-
Maturities, calls and principal paydowns	45,468,227	17,110,255
Purchases	(34,138,147)	(5,422,327)
Activity in held-to-maturity securities -		
Maturities	4,300,000	3,830,000
Purchase of Federal Home Loan Bank stock	(437,700)	(2,000)
Proceeds from sale of other assets	122,640	7,071
Loan originations and principal collections, net	(8,764,732)	(21,323,980)
Additions to premises and equipment	(505,105)	(81,372)
Other, net	8,255	21,416
Net Cash Provided (Used) by Investing Activities	16,088,701	(7,546,049)
<b><i>Cash Flows from Financing Activities</i></b>		
Net increase (decrease) in customer noninterest-bearing deposits	(9,383,437)	8,629,689
Net decrease in customer interest-bearing deposits	(17,092,521)	(824,918)
Proceeds from borrowings	12,570,600	-
Repayment of borrowings	(5,000,000)	-
Cash distributions paid	(2,043,416)	(2,203,224)
Other, net	(5,373)	(10,672)
Net Cash Provided (Used) by Financing Activities	(20,954,147)	5,590,875
Net Change in Cash and Due from Banks	(547,781)	3,260,268
<b><i>Cash and Due from Banks at Beginning of Year</i></b>	7,992,353	4,732,085
<b><i>Cash and Due from Banks at End of Year</i></b>	\$ 7,444,572	\$ 7,992,353

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

FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

- Continued -

	<u>2015</u>	<u>2014</u>
<i>Supplemental Cash Flow Information</i>		
Interest paid on deposits and borrowings	<u>\$ 1,077,210</u>	<u>\$ 1,115,670</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>
<i>Noncash Investing Activities</i>		
Proceeds from sales of foreclosed real estate financed through loans	<u>\$ -</u>	<u>\$ 36,000</u>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

***(a) Principles of Consolidation -***

The consolidated financial statements include the accounts of First Liberty National Bancshares, Inc. ("Company"), its wholly-owned subsidiary, The First Liberty National Bank ("Bank") and the Bank's wholly-owned subsidiary FLNB Insurance Agency, Inc. ("FLNB Insurance"). All significant intercompany balances and transactions have been eliminated in consolidation.

***(b) Nature of Operations -***

The Company is a Texas corporation and a registered bank holding company under the Bank Holding Company Act of 1956. The Bank provides a variety of financial services to individuals and small businesses through its main office in Liberty, Texas and a full service branch in Dayton, Texas. Its primary deposit products are demand, savings and term certificate accounts and its primary lending products are commercial, real estate and consumer loans. The Bank's operations also include trust and discount brokerage services. The Bank's wholly-owned subsidiary, FLNB Insurance Agency, Inc., also located in Liberty, with a branch in Dayton, is an independent full service insurance agency.

***(c) Use of Estimates -***

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

***(d) Significant Group Concentrations of Credit Risk -***

Most of the Bank's activities are with customers located in its market area. The types of securities that the Bank invests in are included in Note 4. The types of lending that the Bank engages in are included in Note 5. Note 3 discusses other significant concentrations. The Bank does not have any significant concentrations to any one industry or customer.

***(e) Cash and Cash Equivalents -***

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks.

***(f) Interest-bearing Deposits in Banks -***

Interest-bearing deposits in banks mature within five years and are carried at cost.

***(g) Securities -***

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(h) Federal Home Loan Bank Stock -**

Based on redemption provisions of the Federal Home Loan Bank of Dallas, the stock has no quoted market value and is carried at cost.

**(i) Loans -**

The Bank grants commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout southeast Texas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the related loan yield. Certain direct origination costs are not material and are expensed as incurred.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

**(j) 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.

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

FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Allowance for Loan Losses (Continued) -**

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those 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 charge-off experience and expected loss given default derived from the Bank's internal risk rating process.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments or principal or interest when due according to the contractual terms of the loan agreement.

**(k) Foreclosed Assets -**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

**(l) Premises and Equipment -**

Land is carried at cost. Buildings and improvements and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

**(m) Income Taxes -**

The Bank's parent company, First Liberty National Bancshares, Inc. elected S corporation status for itself and its subsidiaries effective January 1, 2007. Earnings and losses after that date will be included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Bank will not incur additional income tax obligations, and future financial statements will not include a provision for income taxes.

**(n) Advertising Costs -**

The Company expenses the costs of advertising as it is incurred, except for certain advertising which is included in prepaid expenses and amortized over its expected period of future benefits. Advertising expense was \$91,621 in 2015 and \$90,480 in 2014.

**(o) Earnings Per Share -**

Earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***

***(p) Comprehensive Income -***

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on debt securities which are also recognized as separate components of equity.

***(q) Fair Value of Financial Instruments -***

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15.

***(r) Reclassifications -***

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format. Total stockholder's equity and net income are unchanged due to these reclassifications.

***(s) Date of Management's Review of Subsequent Events -***

Management has evaluated subsequent events through January 19, 2016, the date which the financial statements were available to be issued based on FASB ASC 855, subsequent events, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statement or require additional disclosure.

***NOTE 2 - RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS***

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2015 and 2014, these reserve balances amounted to \$0 and \$0, respectively.

***NOTE 3 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK***

Most of the Bank and FLNB Insurance's business activity is with customers located within its market area. Investments in state and municipal securities include some governmental entities within the Bank's market area.

Commitments to extend credit and letters of credit are granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of \$5,486,000, the Bank's lending limit, to any single borrower or group of related borrowers.

The Bank maintains cash balances at several banks. At December 31, 2015, uninsured amounts held at these banks totaled \$3,877,090. At December 31, 2015, the Bank had sold federal funds to one bank in the amount of \$1,000,000.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 4 - SECURITIES**

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows -

<i>December 31, 2015</i>				
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<i>Available-for-Sale -</i>				
U.S. Treasury	\$ 500,008	\$ -	\$ -	\$ 500,008
U.S. Government agency	23,015,078	110,975	149,543	22,976,510
State and municipal	13,742,975	357,744	9,488	14,091,231
SBA pools	20,995,195	87,890	326,027	20,757,058
Mortgage-backed	57,882,301	445,553	492,785	57,835,069
	\$ 116,135,557	1,002,162	977,843	116,159,876
<i>Held-to-Maturity -</i>				
State and municipal	\$ 1,229,942	\$ 8,092	\$ -	\$ 1,238,034
<i>December 31, 2014</i>				
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<i>Available-for-Sale -</i>				
U.S. Government agency	\$ 29,554,978	\$ 146,638	\$ 306,101	\$ 29,395,515
State and municipal	12,014,624	361,614	18,839	12,357,399
SBA pools	25,235,049	141,809	329,556	25,047,302
Mortgage-backed	61,429,793	720,590	253,494	61,896,889
	\$ 128,234,444	\$ 1,370,651	\$ 907,990	\$ 128,697,105
<i>Held-to-Maturity -</i>				
State and municipal	\$ 5,734,631	\$ 49,804	\$ -	\$ 5,784,435

At December 31, 2015 and 2014, securities with a carrying value of approximately \$62,400,000 and \$90,800,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 4 - SECURITIES (Continued)**

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2015 follows -

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
<b>Amounts Maturing -</b>				
Within 1 year	\$ 6,206,210	\$ 6,201,826	\$ -	\$ -
Over 1 year through 5 years	16,321,691	16,610,467	1,229,942	1,238,034
After 5 years through 10 years	12,366,220	12,384,390	-	-
Over 10 years	2,363,940	2,371,066	-	-
	<u>37,258,061</u>	<u>37,567,749</u>	<u>1,229,942</u>	<u>1,238,034</u>
SBA pools	20,995,195	20,757,058	-	-
Mortgage-backed	<u>57,882,301</u>	<u>57,835,069</u>	<u>-</u>	<u>-</u>
	<u>\$ 116,135,557</u>	<u>\$ 116,159,876</u>	<u>\$ 1,229,942</u>	<u>\$ 1,238,034</u>

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.

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

	<i>Less than 12 Months</i>		<i>12 Months or More</i>	
	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<b>Available-for-Sale -</b>				
U.S. Government	\$ -	\$ -	\$ 149,543	\$ 10,845,357
State and municipal	1,305	483,705	8,183	111,262
SBA pools	2,331	441,174	323,696	14,169,162
Mortgage-backed	164,579	20,062,273	328,206	20,097,928
	<u>\$ 168,215</u>	<u>\$ 20,987,152</u>	<u>\$ 809,628</u>	<u>\$ 45,223,709</u>
<b>Held-to-Maturity -</b>				
State and municipal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 4 - SECURITIES (Continued)**

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

At December 31, 2015, 49 debt securities have unrealized losses with aggregate depreciation of 1.46% from the Bank's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

**NOTE 5 - LOANS**

A summary of the balances of loans follows -

	<i>2015</i>	<i>2014</i>
Commercial	\$ 37,813,223	\$ 36,708,378
Real estate	54,611,994	53,245,850
Consumer	57,809,443	51,720,821
Other	68,384	126,179
	150,303,044	141,801,228
Less: Allowance for loan losses	(1,286,073)	(1,153,989)
Loans, net	\$ 149,016,971	\$ 140,647,239

An analysis of the allowance for loan losses follows -

	<i>2015</i>	<i>2014</i>
Balance at beginning of year	\$ 1,153,989	\$ 1,058,137
Provision for loan losses	395,000	310,000
Loans charged-off	(318,561)	(291,057)
Recoveries of loans previously charged-off	55,645	76,909
Balance at end of year	\$ 1,286,073	\$ 1,153,989

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - LOANS (Continued)**

Two levels of disaggregation are defined for disclosures about the credit quality of loans and the allowance for loan losses - portfolio segment and class. Portfolio segment is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for loan losses. Classes generally represent a further disaggregation of a portfolio segment based on certain risk characteristics.

The Bank disaggregates its loans into portfolio segments for purposes of determining the Allowance for Loan Losses. The portfolio segments include commercial, real estate and consumer.

The following table provides a summary of the allowance for loan losses and related loans classified by portfolio segment as of December 31, 2015 and 2014 -

	<i>December 31, 2015</i>				
	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
<i>Allowance for Loan Losses -</i>					
Beginning balance	\$ 82,225	\$ 231,082	\$ 840,682	\$ -	\$ 1,153,989
Charge-offs	(17,929)	-	(300,632)	-	(318,561)
Recoveries	-	-	55,645	-	55,645
Provision	(30,493)	(5,212)	430,705	-	395,000
Ending balance	<u>\$ 33,803</u>	<u>\$ 225,870</u>	<u>\$ 1,026,400</u>	<u>\$ -</u>	<u>\$ 1,286,073</u>
Ending balance individually evaluated for impairment	<u>\$ 17,980</u>	<u>\$ 123,877</u>	<u>\$ 226,180</u>	<u>\$ -</u>	<u>\$ 368,037</u>
Ending balance collectively evaluated for impairment	<u>\$ 15,823</u>	<u>\$ 101,993</u>	<u>\$ 800,220</u>	<u>\$ -</u>	<u>\$ 918,036</u>
<i>Loans -</i>					
Ending balance	<u>\$ 37,813,223</u>	<u>\$ 54,611,994</u>	<u>\$ 57,809,443</u>	<u>\$ 68,384</u>	<u>\$ 150,303,044</u>
Ending balance individually evaluated for impairment	<u>\$ 214,968</u>	<u>\$ 6,024,746</u>	<u>\$ 900,354</u>	<u>\$ -</u>	<u>\$ 7,140,068</u>
Ending balance collectively evaluated for impairment	<u>\$ 37,598,255</u>	<u>\$ 48,587,248</u>	<u>\$ 56,909,089</u>	<u>\$ 68,384</u>	<u>\$ 143,162,976</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - LOANS (Continued)**

	<i>December 31, 2014</i>				
	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
<b>Allowance for Loan Losses -</b>					
Beginning balance	\$ 73,823	\$ 224,205	\$ 760,109	\$ -	\$ 1,058,137
Charge-offs	-	(5,349)	(285,708)	-	(291,057)
Recoveries	-	10,886	66,023	-	76,909
Provision	8,402	1,340	300,258	-	310,000
Ending balance	<u>\$ 82,225</u>	<u>\$ 231,082</u>	<u>\$ 840,682</u>	<u>\$ -</u>	<u>\$ 1,153,989</u>
Ending balance individually evaluated for impairment	<u>\$ 54,274</u>	<u>\$ 136,714</u>	<u>\$ 203,046</u>	<u>\$ -</u>	<u>\$ 394,034</u>
Ending balance collectively evaluated for impairment	<u>\$ 27,951</u>	<u>\$ 94,368</u>	<u>\$ 637,636</u>	<u>\$ -</u>	<u>\$ 759,955</u>
<b>Loans -</b>					
Ending balance	<u>\$ 36,708,378</u>	<u>\$ 53,245,850</u>	<u>\$ 51,720,821</u>	<u>\$ 126,179</u>	<u>\$ 141,801,228</u>
Ending balance individually evaluated for impairment	<u>\$ 424,094</u>	<u>\$ 1,367,137</u>	<u>\$ 928,064</u>	<u>\$ -</u>	<u>\$ 2,719,295</u>
Ending balance collectively evaluated for impairment	<u>\$ 36,284,284</u>	<u>\$ 51,878,713</u>	<u>\$ 50,792,757</u>	<u>\$ 126,179</u>	<u>\$ 139,081,933</u>

**Credit Risk Profile -**

To facilitate the monitoring of credit quality within the commercial portfolio segment, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the commercial portfolio segment, the Bank utilizes the following categories of credit grades: pass, special mention, substandard, doubtful and loss. The categories, which are derived from standard regulatory rating definitions, are assigned based on periodic loan evaluations.

The Bank assigns a special mention rating to loans and leases that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or lease or the Bank's credit position.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - LOANS (Continued)**

***Credit Risk Profile (Continued) -***

The Bank assigns a substandard rating to loans and leases that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans and leases have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans and leases in this grade also are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies noted are not addressed and corrected.

The Bank assigns a doubtful rating to loans and leases that have all the attributes of a substandard rating 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. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

Loans and leases classified as loss are considered uncollectible and are charged off in the period in which they are determined uncollectible. Because loans and leases in this category are fully charged down, they are not included in the following tables.

The following table summarizes the credit risk profile of the Bank's portfolio by segment, as of December 31, 2015 and 2014 -

***Credit Risk Profile by Internally Assigned Rating -***

<i>Credit Grade</i>	<i>December 31, 2015</i>				
	<i>Commercial</i>	<i>Real Estate</i>	<i>Consumer</i>	<i>Other</i>	<i>Total</i>
Pass	\$ 37,598,255	\$ 48,587,248	\$ 56,909,089	\$ 68,384	\$ 143,162,976
Special mention	136,158	4,496,757	-	-	4,632,915
Substandard	78,810	1,527,989	833,289	-	2,440,088
Doubtful	-	-	67,065	-	67,065
	<u>\$ 37,813,223</u>	<u>\$ 54,611,994</u>	<u>\$ 57,809,443</u>	<u>\$ 68,384</u>	<u>\$ 150,303,044</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - LOANS (Continued)**

**Credit Risk Profile by Internally Assigned Rating - (Continued)**

<u>Credit Grade</u>	<u>December 31, 2014</u>				
	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
Pass	\$ 36,284,284	\$ 51,878,713	\$ 50,792,757	\$ 126,179	\$ 139,081,933
Special mention	206,998	-	-	-	206,998
Substandard	217,096	1,367,137	871,065	-	2,455,298
Doubtful	-	-	56,999	-	56,999
	<u>\$ 36,708,378</u>	<u>\$ 53,245,850</u>	<u>\$ 51,720,821</u>	<u>\$ 126,179</u>	<u>\$ 141,801,228</u>

**Age Analysis of Past Due Loans -**

The following table summarizes the Bank's loans by age and segment as of December 31, 2015 and 2014 -

	<u>December 31, 2015</u>				
	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
30 - 59 days past due	\$ 217,362	\$ 685,280	\$ 840,372	\$ 68,384	\$ 1,811,398
60 - 89 days past due	23,397	57,796	153,411	-	234,604
Greater than 90 days past due	-	120,221	57,716	-	177,937
Total past due	<u>240,759</u>	<u>863,297</u>	<u>1,051,499</u>	<u>68,384</u>	<u>2,223,939</u>
Current loans	<u>37,572,464</u>	<u>53,748,697</u>	<u>56,757,944</u>	<u>-</u>	<u>148,079,105</u>
Total loans	<u>\$ 37,813,223</u>	<u>\$ 54,611,994</u>	<u>\$ 57,809,443</u>	<u>\$ 68,384</u>	<u>\$ 150,303,044</u>
90 days past due and still accruing	<u>\$ -</u>	<u>\$ 120,221</u>	<u>\$ 45,227</u>	<u>\$ -</u>	<u>\$ 165,448</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - LOANS (Continued)**

**Age Analysis of Past Due Loans - (Continued)**

	<i>December 31, 2014</i>				
	<i>Commercial</i>	<i>Real Estate</i>	<i>Consumer</i>	<i>Other</i>	<i>Total</i>
30 - 59 days past due	\$ 49,639	\$ 549,988	\$ 739,577	\$ 126,179	\$ 1,465,383
60 - 89 days past due	-	223,974	180,889	-	404,863
Greater than 90 days past due	-	275,609	34,212	-	309,821
Total past due	49,639	1,049,571	954,678	126,179	2,180,067
Current loans	36,658,739	52,196,279	50,766,143	-	139,621,161
Total loans	\$ 36,708,378	\$ 53,245,850	\$ 51,720,821	\$ 126,179	\$ 141,801,228
90 days past due and still accruing	\$ -	\$ 275,609	\$ 13,836	\$ -	\$ 289,445

**Impaired Loans -**

Loans included that exhibit probable or observed credit weaknesses are subject to individual review. The Bank considers the current value of collateral, credit quality of any guarantees, the loan structure, and other factors when evaluating whether an individual loan is impaired. Other factors may include the geography and industry of the borrower, size and financial condition of the borrower, cash flow and leverage of the borrower, and the Bank's evaluation of the borrower's management.

The following table summarizes the Bank's recorded investment in impaired loans and related allowance as of December 31, 2015 and 2014 -

	<i>December 31, 2015</i>		
	<i>Recorded Investment</i>	<i>Unpaid Principal Balance</i>	<i>Allowance</i>
With a Related Allowance Recorded -			
Commercial	\$ 72,576	\$ 71,920	\$ 17,980
Real Estate	1,250,885	1,238,772	123,877
Consumer	894,211	877,653	226,180
Total	\$ 2,217,672	\$ 2,188,345	\$ 368,037
With No Related Allowance Recorded -			
Commercial	\$ 144,322	\$ 143,049	\$ -
Real Estate	4,805,517	4,785,973	-
Consumer	22,984	22,700	-
Total	\$ 4,972,823	\$ 4,951,722	\$ -

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - LOANS (Continued)**

**Impaired Loans - (Continued)**

	<i>December 31, 2014</i>		
	<i>Recorded Investment</i>	<i>Unpaid Principal Balance</i>	<i>Allowance</i>
With a Related Allowance Recorded -			
Commercial	\$ 222,845	\$ 217,096	\$ 54,274
Real Estate	1,380,939	1,367,137	136,714
Consumer	776,721	767,605	203,046
Total	\$ 2,380,505	\$ 2,351,838	\$ 394,034
With No Related Allowance Recorded -			
Commercial	\$ 208,773	\$ 206,996	\$ -
Real Estate	-	-	-
Consumer	163,519	160,461	-
Total	\$ 372,292	\$ 367,457	\$ -

Recorded investment includes the unpaid principal balance plus accrued interest and less any direct write-down. The Bank's average recorded investment in impaired loans was \$4,971,646 in 2015 and \$2,687,685 in 2014.

Interest income on the cash basis on impaired loans during 2015 and 2014 was \$445,490 and \$211,502, respectively.

**Loans on Nonaccrual Status -**

The following table summarizes the Bank's unpaid principal balances on loans on nonaccrual status as of December 31, 2015 and 2014 -

	<i>2015</i>	<i>2014</i>
Commercial	\$ -	\$ -
Real Estate	-	-
Consumer	12,489	20,376
Total	\$ 12,489	\$ 20,376

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 6 - PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation of premises and equipment follows -

	<i>2015</i>	<i>2014</i>
Premises -		
Land	\$ 1,342,193	\$ 1,342,193
Buildings and improvements	5,107,015	4,891,557
Furniture and equipment	2,822,834	3,595,399
Total cost	9,272,042	9,829,149
Accumulated depreciation	(5,077,129)	(5,867,886)
	\$ 4,194,913	\$ 3,961,263

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to \$271,456 and \$278,041 respectively.

There were no noncancelable lease agreements in effect at December 31, 2015, pertaining to banking premises and equipment or future minimum rent commitments under various operating leases.

**NOTE 7 - DEPOSITS**

The aggregate amount of time deposits, in denominations of \$250,000 or more, at December 31, 2015 and 2014, was approximately \$19,492,000 and \$20,432,000, respectively.

Deposit account balances at December 31, 2015 and 2014, are summarized as follows -

	<i>2015</i>	<i>2014</i>
Noninterest bearing -		
Demand deposits	\$ 15,903,499	\$ 25,286,936
Interest bearing -		
Savings, NOW, and money market	181,977,849	196,078,226
Certificates of deposit	59,867,111	62,859,255
	241,844,960	258,937,481
	\$ 257,748,459	\$ 284,224,417

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 7 - DEPOSITS (Continued)**

Certain demand deposit accounts have been reclassified to interest bearing accounts for Federal Reserve requirements as allowed by The Monetary Control Act of 1980 and Federal Reserve Regulation D.

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

<u>Year Ended</u>	<u>Amount</u>
2016	\$ 40,408,092
2017	11,646,951
2018	2,491,904
2019	2,180,706
2020	3,139,458
	<u>\$ 59,867,111</u>

Deposits of state, local and other public entities totaled approximately \$26,924,000 at December 31, 2015, and \$40,410,000 at December 31, 2014. Such deposits represented 10.4% and 14.2%, respectively, of total deposits.

The Bank held related party deposits of approximately \$29,713,000 and \$43,527,000 at December 31, 2015 and 2014, respectively.

**NOTE 8 - BORROWINGS**

The Bank has a line of credit with another bank to purchase up to \$7,500,000 of federal funds. The seller may, at its discretion, require security prior to selling funds to the Bank.

In addition, the Bank has a line of credit with the Federal Home Loan Bank of Dallas of approximately \$36,631,000. At December 31, 2015, \$12,570,600 was borrowed as a short option advance. That amount is due as shown in the table below with interest due monthly at the rates shown. The agreement provides for earlier call dates. Borrowings under the line are limited to 20% of the Bank's total assets. All borrowings are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property; 60% of the carrying value of small business loans and 40% of small farm loans. The borrowings also require the purchase of Federal Home Loan Bank capital stock.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 8 - BORROWINGS (Continued)**

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
February 10, 2016	0.390%	\$ 1,000,000
August 10, 2016	0.590%	2,500,000
August 10, 2017	0.982%	2,500,000
December 11, 2017	1.129%	2,000,000
August 10, 2018	1.361%	2,400,000
August 12, 2019	1.709%	750,000
August 10, 2020	1.960%	750,000
August 10, 2021	2.196%	670,600
		<u>\$ 12,570,600</u>

**NOTE 9 - INCOME TAX**

The Company files a consolidated federal income tax return with its wholly-owned subsidiary The First Liberty National Bank. The consolidated return also includes the Bank's wholly-owned subsidiary FLNB Insurance Agency, Inc.

As discussed in Note 1, the Company and its subsidiaries elected S corporation status for income tax purposes effective January 1, 2007. S Corporations do not pay federal taxes at the corporate level, so the Company does not have a federal income tax expense or liability. The Company is no longer subject to U.S. Federal income tax examination by tax authorities for the years before 2012.

In accordance with FASB Accounting Standards Codification 740, the Bank believes that it has no uncertain tax provisions that qualify for either recognition or disclosure in the financial statements.

**NOTE 10 - OFF-BALANCE SHEET ACTIVITIES**

**Credit-Related Financial Instruments.** The Bank is a party to credit related 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, overdraft protection, and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 10 - OFF-BALANCE SHEET ACTIVITIES (Continued)**

***Credit-Related Financial Instruments - (Continued)***

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk -

	<b>Contract Amount</b>	
	<b>2015</b>	<b>2014</b>
Unfunded commitments under lines of credit	\$ 6,327,861	\$ 5,837,806
Overdraft protection	2,638,701	2,712,146
Letters of credit	200,000	-
Unused ACH commitments	3,015,000	-
Loans sold to Federal Home Loan Bank with recourse	32,964	44,796

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under lines-of-credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are generally uncollateralized and ultimately may not be drawn upon to the total extent to which the Bank is committed.

Letters-of-credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary.

***Collateral Requirements.*** To reduce credit risk related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate.

**NOTE 11 - LEGAL CONTINGENCIES**

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 12 - MINIMUM REGULATORY CAPITAL REQUIREMENTS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2015 and 2014 are also presented in the table.

	<i>Actual</i>		<i>Minimum For Capital Requirement</i>		<i>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
<i>As of December 31, 2015:</i>						
Total Capital to Risk Weighted Assets	\$ 36,573,000	25.7%	≥\$ 11,385,000	8.0%	≥\$ 14,231,000	10.0%
Tier 1 Capital to Risk Weighted Assets	\$ 35,287,000	24.8%	≥\$ 5,691,000	4.0%	≥\$ 8,537,000	6.0%
Tier 1 Capital to Average Assets	\$ 35,287,000	11.4%	≥\$ 12,381,000	4.0%	≥\$ 15,477,000	5.0%

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Continued -

**NOTE 12 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)**

	<i>Actual</i>		<i>Minimum For Capital Requirement</i>		<i>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
<i>As of December 31, 2014:</i>						
Total Capital to Risk Weighted Assets	\$ 35,441,000	26.0%	≥\$ 10,905,000	8.0%	≥\$ 13,631,000	10.0%
Tier 1 Capital to Risk Weighted Assets	\$ 34,288,000	25.2%	≥\$ 5,443,000	4.0%	≥\$ 8,164,000	6.0%
Tier 1 Capital to Average Assets	\$ 34,288,000	11.0%	≥\$ 12,468,000	4.0%	≥\$ 15,585,000	5.0%

**NOTE 13 - EMPLOYEE BENEFIT PLAN**

The Bank and FLNB Insurance have a 401(k) profit sharing plan whereby employees who meet certain eligibility requirements may participate in the Plan. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank and FLNB Insurance make matching contributions equal to 50% of the first 5% of an employee's compensation contributed to the Plan. In addition, discretionary contributions can be made as determined annually by the Board of Directors. Salaries and employee benefits expense includes \$114,073 and \$113,777 for contributions made to the plan in 2015 and 2014.

**NOTE 14 - RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Bank has granted loans to its directors, significant stockholders of First Liberty National Bancshares, Inc., and their affiliates amounting to \$4,101,959 at December 31, 2015 and \$1,184,361 at December 31, 2014. During the year ended December 31, 2015, total principal additions were \$4,378,893 and total principal payments and reductions were \$1,461,295. Principal additions include the balance of loans at the time a new director is added. Reductions include the principal balance at the time a director ceases to serve.

**NOTE 15 - FAIR VALUE MEASUREMENTS**

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. The Bank groups its financial assets in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

THE FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Continued -

**NOTE 15 - FAIR VALUE MEASUREMENTS - (Continued)**

**Level 1.** Valuation is based on quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 1 assets generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

**Level 2.** Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. The valuation may be based on quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.

**Level 3.** Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include financial instruments whose value is determined using pricing models; discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments measured on a recurring basis:

**Securities.** Where quoted prices are available in an active market, the securities are classified within Level 1. Level 1 securities include highly liquid government bonds.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2015 and 2014 are as follows -

	<i>Fair Value Measurements at Reporting Date Using</i>			
	<i>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	
	<i>Fair Value</i>			
<b>December 31, 2015:</b>				
Available-for-sale securities	\$ 116,159,876	\$ 116,159,876	\$ -	\$ -
<b>December 31, 2014:</b>				
Available-for-sale securities	\$ 128,697,105	\$ 128,697,105	\$ -	\$ -

***ADDITIONAL INFORMATION***



LARRY L. MILLS, CPA  
DAVID E. WHITE, CPA  
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H. B. FUNCHESS III, CPA  
(1932-1995)

**INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

To the Board of Directors and Stockholders  
First Liberty National Bancshares, Inc.

We have audited the consolidated financial statements of First Liberty National Bancshares, Inc. and Subsidiaries as of and for the year ended December 31, 2015 and 2014, and have issued our report thereon dated January 19, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*FMW, P.C.*

Beaumont, Texas  
January 19, 2016

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATING INFORMATION**

**BALANCE SHEET**

December 31, 2015

<u>Assets</u>	<i>The First Liberty National Bank and Subsidiary</i>	<i>First Liberty National Bancshares, Inc.</i>	<u>Eliminations</u>	<u>Consolidated</u>
<i>Assets</i>				
Cash and due from banks	\$ 7,444,572	\$ 27,982	\$ (27,982)	\$ 7,444,572
Interest-bearing deposits in banks	24,017,556	-	-	24,017,556
Federal funds sold	1,000,000	-	-	1,000,000
Securities available for sale	116,159,876	-	-	116,159,876
Securities held to maturity	1,229,942	-	-	1,229,942
Loans	149,016,971	-	-	149,016,971
Accrued interest receivable	1,326,450	-	-	1,326,450
Premises and equipment	4,194,913	-	-	4,194,913
Investment in subsidiary	-	35,311,661	(35,311,661)	-
Other assets	2,075,740	-	-	2,075,740
	<u>\$ 306,466,020</u>	<u>\$ 35,339,643</u>	<u>\$ (35,339,643)</u>	<u>\$ 306,466,020</u>
Total Assets	<u>\$ 306,466,020</u>	<u>\$ 35,339,643</u>	<u>\$ (35,339,643)</u>	<u>\$ 306,466,020</u>
 <i>Liabilities and Stockholders' Equity</i>				
<i>Liabilities</i>				
Noninterest-bearing deposits	\$ 15,931,481	\$ -	\$ (27,982)	\$ 15,903,499
Interest-bearing deposits	241,844,960	-	-	241,844,960
Total Deposits	257,776,441	-	(27,982)	257,748,459
Borrowings	12,570,600	-	-	12,570,600
Accrued expenses and other liabilities	807,318	-	-	807,318
	<u>271,154,359</u>	<u>-</u>	<u>(27,982)</u>	<u>271,126,377</u>
Total Liabilities	<u>271,154,359</u>	<u>-</u>	<u>(27,982)</u>	<u>271,126,377</u>
<i>Stockholders' Equity</i>				
Common stock - Class A	2,000,000	607,764	(2,000,000)	607,764
Additional paid-in capital	2,000,000	7,963,988	(2,000,000)	7,963,988
Retained earnings	31,287,342	36,485,052	(31,287,342)	36,485,052
Accumulated other comprehensive income	24,319	24,319	(24,319)	24,319
Treasury stock	-	(9,741,480)	-	(9,741,480)
	<u>35,311,661</u>	<u>35,339,643</u>	<u>(35,311,661)</u>	<u>35,339,643</u>
Total Stockholders' Equity	<u>35,311,661</u>	<u>35,339,643</u>	<u>(35,311,661)</u>	<u>35,339,643</u>
Total Liabilities and Stockholders' Equity	<u>\$ 306,466,020</u>	<u>\$ 35,339,643</u>	<u>\$ (35,339,643)</u>	<u>\$ 306,466,020</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATING INFORMATION  
STATEMENT OF INCOME**

For the Year Ended December 31, 2015

	<i>The First Liberty National Bank and Subsidiary</i>	<i>First Liberty National Bancshares, Inc.</i>	<i>Eliminations</i>	<i>Consolidated</i>
<b><i>Interest and Dividend Income</i></b>				
Loans	\$ 6,962,586	\$ -	\$ -	\$ 6,962,586
Debt securities	2,276,418	-	-	2,276,418
Federal funds sold	2,144	-	-	2,144
Dividends	8,681	-	-	8,681
Other	74,284	-	-	74,284
Total Interest Income	<u>9,324,113</u>	<u>-</u>	<u>-</u>	<u>9,324,113</u>
<b><i>Interest Expense</i></b>				
Deposits	984,991	-	-	984,991
Borrowings	84,645	-	-	84,645
Total Interest Expense	<u>1,069,636</u>	<u>-</u>	<u>-</u>	<u>1,069,636</u>
Net Interest Income	8,254,477	-	-	8,254,477
<b><i>Provision for Loan Losses</i></b>	<u>395,000</u>	<u>-</u>	<u>-</u>	<u>395,000</u>
Net Interest Income After Provision for Loan Losses	<u>7,859,477</u>	<u>-</u>	<u>-</u>	<u>7,859,477</u>
<b><i>Noninterest Income</i></b>				
Income from fiduciary activities	152,897	-	-	152,897
Service charges on deposits	1,174,723	-	-	1,174,723
Other service charges & fees	1,099,807	-	-	1,099,807
Net gain (loss) on call or sale of securities	1,426	-	-	1,426
Insurance commissions	249,539	-	-	249,539
Other income	279,155	-	-	279,155
Total Noninterest Income	<u>2,957,547</u>	<u>-</u>	<u>-</u>	<u>2,957,547</u>
<b><i>Noninterest Expenses</i></b>				
Salaries and employee benefits	4,210,081	-	-	4,210,081
Occupancy and equipment	995,165	-	-	995,165
Data processing	1,070,014	-	-	1,070,014
Director fees	148,500	2,400	-	150,900
FDIC assessments	152,869	-	-	152,869
Legal and professional	145,194	4,298	-	149,492
Other general and administrative	1,016,590	16,240	-	1,032,830
Total Noninterest Expenses	<u>7,738,413</u>	<u>22,938</u>	<u>-</u>	<u>7,761,351</u>
Income Before Income Tax	3,078,611	(22,938)	-	3,055,673
<b><i>Income Tax Expense</i></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income Before Equity in Earnings of Subsidiary	3,078,611	(22,938)	-	3,055,673
<b><i>Equity in Earnings of Subsidiary</i></b>	<u>-</u>	<u>3,078,611</u>	<u>(3,078,611)</u>	<u>-</u>
<b><i>Net Income</i></b>	<u>\$ 3,078,611</u>	<u>\$ 3,055,673</u>	<u>\$ (3,078,611)</u>	<u>\$ 3,055,673</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATING INFORMATION**

**BALANCE SHEET**

December 31, 2014

<u>Assets</u>	<i>The First Liberty National Bank and Subsidiary</i>	<i>First Liberty National Bancshares, Inc.</i>	<u>Eliminations</u>	<u>Consolidated</u>
<i>Assets</i>				
Cash and due from banks	\$ 7,992,353	\$ 20,936	\$ (20,936)	\$ 7,992,353
Interest-bearing deposits in banks	34,052,819	-	-	34,052,819
Federal funds sold	1,000,000	-	-	1,000,000
Securities available for sale	128,697,105	-	-	128,697,105
Securities held to maturity	5,734,631	-	-	5,734,631
Loans	140,647,239	-	-	140,647,239
Accrued interest receivable	1,241,333	-	-	1,241,333
Premises and equipment	3,961,263	-	-	3,961,263
Investments in subsidiary	-	34,750,166	(34,750,166)	-
Other assets	1,460,237	-	-	1,460,237
	<u>\$ 324,786,980</u>	<u>\$ 34,771,102</u>	<u>\$ (34,771,102)</u>	<u>\$ 324,786,980</u>
 <i>Liabilities and Stockholders' Equity</i>				
<i>Liabilities</i>				
Noninterest-bearing deposits	\$ 25,307,872	\$ -	\$ (20,936)	\$ 25,286,936
Interest-bearing deposits	258,937,481	-	-	258,937,481
Total Deposits	284,245,353	-	(20,936)	284,224,417
Borrowings	5,000,000	-	-	5,000,000
Accrued expenses and other liabilities	791,461	-	-	791,461
	<u>290,036,814</u>	<u>-</u>	<u>(20,936)</u>	<u>290,015,878</u>
 <i>Stockholders' Equity</i>				
Common stock - Class A	2,000,000	607,764	(2,000,000)	607,764
Additional paid-in capital	2,000,000	7,963,988	(2,000,000)	7,963,988
Retained earnings	30,287,504	35,478,168	(30,287,504)	35,478,168
Accumulated other comprehensive income	462,662	462,662	(462,662)	462,662
Treasury stock	-	(9,741,480)	-	(9,741,480)
	<u>34,750,166</u>	<u>34,771,102</u>	<u>(34,750,166)</u>	<u>34,771,102</u>
Total Stockholders' Equity	<u>34,750,166</u>	<u>34,771,102</u>	<u>(34,750,166)</u>	<u>34,771,102</u>
Total Liabilities and Stockholders' Equity	<u>\$ 324,786,980</u>	<u>\$ 34,771,102</u>	<u>\$ (34,771,102)</u>	<u>\$ 324,786,980</u>

**FIRST LIBERTY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATING INFORMATION  
STATEMENT OF INCOME**

For the Year Ended December 31, 2014

	<i>The First Liberty National Bank and Subsidiary</i>	<i>First Liberty National Bancshares, Inc.</i>	<i>Eliminations</i>	<i>Consolidated</i>
<b><i>Interest and Dividend Income</i></b>				
Loans	\$ 6,698,932	\$ -	\$ -	\$ 6,698,932
Debt securities	2,762,365	-	-	2,762,365
Federal funds sold	2,605	-	-	2,605
Dividends	8,448	-	-	8,448
Other	79,634	-	-	79,634
Total Interest Income	<u>9,551,984</u>	<u>-</u>	<u>-</u>	<u>9,551,984</u>
<b><i>Interest Expense</i></b>				
Deposits	1,072,335	-	-	1,072,335
Borrowings	39,203	-	-	39,203
Total Interest Expense	<u>1,111,538</u>	<u>-</u>	<u>-</u>	<u>1,111,538</u>
Net Interest Income	8,440,446	-	-	8,440,446
<b><i>Provision for Loan Losses</i></b>	<u>310,000</u>	<u>-</u>	<u>-</u>	<u>310,000</u>
Net Interest Income After Provision for Loan Losses	<u>8,130,446</u>	<u>-</u>	<u>-</u>	<u>8,130,446</u>
<b><i>Noninterest Income</i></b>				
Income from fiduciary activities	135,039	-	-	135,039
Service charges on deposits	1,279,041	-	-	1,279,041
Other service charges & fees	1,107,406	-	-	1,107,406
Net gain (loss) on call or sale of securities	1,198	-	-	1,198
Insurance commissions	234,619	-	-	234,619
Other income	264,883	-	-	264,883
Total Noninterest Income	<u>3,022,186</u>	<u>-</u>	<u>-</u>	<u>3,022,186</u>
<b><i>Noninterest Expenses</i></b>				
Salaries and employee benefits	4,170,586	-	-	4,170,586
Occupancy and equipment	1,165,000	-	-	1,165,000
Data processing	922,491	-	-	922,491
Director fees	147,750	2,600	-	150,350
FDIC assessments	158,631	-	-	158,631
Legal and professional	174,085	9,610	-	183,695
Other general and administrative	1,019,163	8,190	-	1,027,353
Total Noninterest Expenses	<u>7,757,706</u>	<u>20,400</u>	<u>-</u>	<u>7,778,106</u>
Income (Loss) Before Income Tax	3,394,926	(20,400)	-	3,374,526
<b><i>Income Tax Expense</i></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Equity in Earnings of Subsidiary	3,394,926	(20,400)	-	3,374,526
<b><i>Equity in Earnings of Subsidiary</i></b>	<u>-</u>	<u>3,394,926</u>	<u>(3,394,926)</u>	<u>-</u>
<b><i>Net Income</i></b>	<u>\$ 3,394,926</u>	<u>\$ 3,374,526</u>	<u>\$ (3,394,926)</u>	<u>\$ 3,374,526</u>