AMENDED
JUL 29 2016

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, J. Roland Velvin
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.

Roland Velvin
Signature of Holding Company Director and Official

03/22/2016
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 1995998
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
Lockhart Bankshares, Inc.
Legal Title of Holding Company

P.O. Box 600
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Lockhart	TX	78644

111 S. Main Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Randall Till	Treasurer

512-620-9140
Area Code / Phone Number / Extension

512-398-7357
Area Code / FAX Number

rtill@firstlockhart.com
E-mail Address

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

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

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

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Exhibit A

Lockhart Bankshares, Inc.

Organization Chart

December 31, 2015

Lockhart Bankshares, Inc.
Lockhart, Texas, USA
Incorporated in Texas
100% Ownership of

First-Lockhart National Bank
Lockhart, Texas, USA
Incorporated in Texas

There are no Bank Holding Company investments from debts previously contracted, fiduciary relationships, or in non-voting equity shares.

No entity has a LEI

Results: A list of branches for your depository institution: FIRST-LOCKHART NATIONAL BANK (ID_RSSD: 631150).
This depository institution is held by LOCKHART BANKSHARES, INC. (1995998) of LOCKHART, 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)	631150	FIRST-LOCKHART NATIONAL BANK	111 SOUTH MAIN STREET	LOCKHART	TX	78644	CALDWELL	UNITED STATES	8504	0	FIRST-LOCKHART NATIONAL BANK	631150	
OK		Full Service	4642716	AUSTIN BANKING CENTER	319 W SLAUGHTER LANE	AUSTIN	TX	78748	TRAVIS	UNITED STATES	Not Required	Not Required	FIRST-LOCKHART NATIONAL BANK	631150	
OK		Full Service	4462950	KYLE BRANCH	800 WEST FM 150	KYLE	TX	78640	HAYS	UNITED STATES	538373	1	FIRST-LOCKHART NATIONAL BANK	631150	
OK		Limited Service	4395469	120 WEST SAN ANTONIO STREET DRIVE THRU	120 WEST SAN ANTONIO STREET	LOCKHART	TX	78644	CALDWELL	UNITED STATES	Not Required	Not Required	FIRST-LOCKHART NATIONAL BANK	631150	
OK		Limited Service	4395450	207 WEST SAN ANTONIO STREET DRIVE THRU	207 WEST SAN ANTONIO STREET	LOCKHART	TX	78644	CALDWELL	UNITED STATES	Not Required	Not Required	FIRST-LOCKHART NATIONAL BANK	631150	

Lockhart Bankshares, Inc

Form FR Y-6

December 31, 2015

Responses to Report Items

Item No. 1a	Not registered with Securities Exchanged Commision, Consolidated financial statements, which have been audited by the Holding Company's CPA firm, are attached.
Item No. 2	An organization chart is presented in Exhibit A.
Item No. 2b.	Submitted via e-mail on 03/22/2015
Item No. 3 Part (1)	

Fred A. Moore
Voting percentage: 16.477%
Shares owned: 22,243
Laura Moore
Voting percentage: 2.705%
Shares owned: 3,652
Lockhart, Texas-US 78644
Citizenship: USA

Warren P. Kirksey & Patricia J Kirksey
Lockhart, Texas-US 78644
Citizenship: USA
Shares owned : 8,000
Voting percentage: 5.926%
Owned Jointly

Lockhart Bankshares, Inc

Form FR Y-6

December 31, 2015

Continued)

Item No. 3 Part (1)

Glen C. Moore, Trustee of the Glen C. Moore Revocable Trust
Lockhart, Texas-US 78644
Citizenship: USA
Shares owned: 10,240
Voting percentage: 7.585%

Conrad C. Ohlendorf & Geraldine Ohlendorf
Shares Owned: 9,961
Voting percentage: 7.379%
Geraldine Ohlendorf
Shares Owned: 906
Voting percentage: .671%
Lockhart, Texas-US 78644
Citizenship: USA

Item No. 3 Part (2)

None

Item No. 4

Principal shareholders, directors, and executive officers of Lockhart Bankshares, Inc. are presented in Exhibit B.

Exhibit B

Lockhart Bankshares,Inc.

Principal Shareholders, Directors, and Executive Officers

December 31, 2015

(1)Name and Address	(2) Occupation	(3)Title & Position w/Holding Co.	(3)(b) Title & Position with Subs (include name of sub)	(3)(c) Title & Postion w/Other Businesses (include names of businesses)	(4)(a)Voting Percentage in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subs (include names of Subs)	(4)(c) List names of other companies (including partnerships) if 25% or more of voting securites are held (List names of companies & percentage of voting Securites)	%
J. Roland Velvin Lockhart, Texas-US	Banker	Director and President	Director & President/CEO First-Lockhart National Bank	N/A	0.008%	None	N/A	N/A
Alan C. Fielder Lockhart, Texas-US	Attorney	Vice Chairman	Director & Vice Chairman First-Lockhart National Bank	N/A	1.102%	None	Alan C. Fielder-Attorney at Law Flowers-McDowell Abstract Co. ALBI Land Investment Co.	100% 100% 50%
Jeffry Y. Michelson Lockhart, Texas-US	Automobile Dealer	Director	Director First-Lockhart National Bank	General Manager Michelson Investments LLC	0.870%	None	Michelson Investments, LLC	60.00%
Laura Moore Lockhart, Texas-US	Retired Teacher	Director	Director First-Lockhart National Bank	N/A	2.705%	None	None	
Fred Moore Lockhart, Texas-US	Retired Judge	Principal Shareholder	None	N/A	16.477%	None	None	N/A
Carl R. Ohlendorf Lockhart, Texas-US	Insurance Agent	Director	Director First-Lockhart National Bank	Owner Carl Ohlendorf Ins dba Rucker-Ohlendorf Ins.	0.625%	None	Lockhart Oil Co. Carl Ohlendorf Ins. dba Rucker-Ohlendorf Ins.	25% 100%

AMENDED
JUL 29 2016

Exhibit B

Lockhart Bankshares,Inc.

Principal Shareholders, Directors, and Executive Officers

December 31, 2015

(1)Name and Address	(2) Occupation	(3)Title & Position w/Holding Co.	(3)(b) Title & Position with Subs (include name of sub)	(3)(c) Title & Postion w/Other Businesses (include names of businesses)	(4)(a)Voting Percentage in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subs (include names of Subs)	(4)(c) List names of other companies (including partnerships) if 25% or more of voting securites are held (List names of companies & percentage of voting Securites)	%
Amelia P. Smith Lockhart, Texas -US	Realtor	Director	Director First-Lockhart National Bank	N/A	2.067%	None	Countywide Realty, L.P. Countywide, L.P. Smith Pearce Investments, LP Smith Inventory, LLC Jim Smith Rental. LLC Jack Pearce, LLC 300 Colorado, LLC 300 Commerce, LLC Five Oaks, LLC	49.50% 49.50% 49.50% 49.50% 49.50% 49.50% 49.50% 49.50% 49.50%
Margo K. Dailey College Station, Texas-US	Education Consultant	Chairman	Director First-Lockhart National Bank	Secretary Dailey Electric	4.222%	None	Dailey Service, Inc Tradition Prop, LLC 8330 Jones Rd. West Mersea, LLC	100% 50% 50% 100%
Randall Till Lockhart, Texas-US	Banker	Treasurer	Sr. Vice President/Controller First-Lockhart National Bank	N/A	0.00%	None	N/A	
Natalie Cain Sequin, Texas-US	Banker	Secretary	Human Resource Officer First-Lockhart National Bank	N/A	0.00%	None	N/A	

AMENDED
JUL 29 2016

LOCKHART BANKSHARES, INC.
AND SUBSIDIARY

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

FISHER, HERBST & KEMBLE

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

FHK | Experience. That counts!
CERTIFIED PUBLIC ACCOUNTANTS

9501 Console Drive, Suite 200
San Antonio, TX 78229
www.fhkcpa.com
210.614.2284
210.614.2285 fax

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Lockhart Bankshares, Inc. and Subsidiary
Lockhart, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lockhart Bankshares, Inc. and Subsidiary (the "Company"), which is comprised of the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 Lockhart Bankshares, Inc. and Subsidiary 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 U.S. generally accepted accounting principles.

Report of Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for 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, 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Fisher, Herbst & Kemble, P.C.

Fisher, Herbst & Kemble, P.C.
San Antonio, Texas
February 23, 2016

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31,	2015	2014
ASSETS		
Cash and due from banks - non-interest bearing	$ 6,700,447	$ 8,277,658
Interest bearing deposits in other banks	3,520,196	247,412
Total cash and cash equivalents	10,220,643	8,525,070
Time deposits	1,736,000	1,488,000
Securities available-for-sale, at estimated market value	38,799,021	40,840,133
Loans, net	159,343,216	141,387,070
Loans held-for-sale, at fair value	118,702	807,124
Premises and equipment, net	7,315,759	7,457,991
Accrued interest receivable	625,060	616,069
Cash value on bank-owned life insurance, net	4,881,041	4,738,445
Prepaid expenses	109,666	101,497
Other real estate owned	371,544	371,544
Other assets	741,102	820,867
Total assets	$ 224,261,754	$ 207,153,810
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 46,978,917	$ 44,523,060
Interest bearing	155,249,297	141,766,406
Total deposits	202,228,214	186,289,466
Accrued interest payable	69,266	68,390
Notes payable	900,000	1,000,000
Deferred compensation and employee benefits	2,496,951	2,288,427
Other liabilities	273,068	255,423
Total liabilities	205,967,499	189,901,706
Stockholders' Equity		
Capital stock, par value $1.00 per share: 300,000 shares authorized, **137,504** shares issued and outstanding in 2015 and 2014	137,504	137,504
Treasury stock, 2,508 shares outstanding at $100-$125 per share	(290,800)	(290,800)
Additional paid-in capital	48,244	48,244
Retained earnings	18,220,472	17,010,513
Accumulated other comprehensive income	178,835	346,643
Total stockholders' equity	18,294,255	17,252,104
Total liabilities and stockholders' equity	$ 224,261,754	$ 207,153,810

See notes to the consolidated financial statements.

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	2015	2014
INTEREST INCOME		
Loans, including fees	$ 7,849,888	$ 7,394,743
Investment securities	748,072	668,043
Federal funds sold and interest bearing deposits	41,925	26,160
Total interest income	8,639,885	8,088,946
INTEREST EXPENSE		
Deposits	1,003,726	909,988
Federal Home Loan Bank advances	709	20,821
Other interest expense	46,174	51,452
Total interest expense	1,050,609	982,261
NET INTEREST INCOME	7,589,276	7,106,685
PROVISION FOR LOAN LOSSES	90,000	325,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,499,276	6,781,685
NON-INTEREST INCOME		
Mortgage origination fees	825,335	780,571
Service charges on deposit accounts	1,154,042	1,069,469
Gain on sale of securities	37,425	126,261
Gain on sale of premises and equipment	5,980	-
Gain on sale of loans	36,188	133,811
Gain on sale of other real estate	-	28,524
Other	416,084	358,757
Total non-interest income	2,475,054	2,497,393
NON-INTEREST EXPENSE		
Salaries, wages and benefits	4,077,733	4,025,455
Occupancy and equipment	996,190	1,060,746
Other	2,401,486	2,562,053
Total non-interest expense	7,475,409	7,648,254
INCOME BEFORE INCOME TAXES	2,498,921	1,630,824
INCOME TAX EXPENSE - STATE	20,000	9,000
NET INCOME	$ 2,478,921	$ 1,621,824
BASIC EARNINGS PER SHARE	$ 18.36	$ 11.93

See notes to the consolidated financial statements.

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31,	2015	2014
NET INCOME	**$ 2,478,921**	$ 1,621,824
OTHER ITEMS OF COMPREHENSIVE INCOME		
Adjustment for gain on sale of available-for-sale securities	**(37,425)**	(126,261)
Unrealized holding gain (loss) arising during period	**(130,383)**	333,048
Total other items of comprehensive income	**(167,808)**	206,787
Comprehensive income	**$ 2,311,113**	$ 1,828,611

See notes to the consolidated financial statements.

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2015 and 2014

	Capital Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2013	$ 137,504	$ (140,800)	$ 48,244	$ 16,211,781	$ 139,856	$ 16,396,585
Cash dividends paid	-	-	-	(823,092)	-	(823,092)
Treasury stock, 1,200 shares purchased in 2014	-	(150,000)	-	-	-	(150,000)
Net income	-	-	-	1,621,824	-	1,621,824
Change in other comprehensive income	-	-	-	-	206,787	206,787
Balance at December 31, 2014	137,504	(290,800)	$ 48,244	17,010,513	346,643	17,252,104
Cash dividends paid	-	-	-	**(1,268,962)**	-	**(1,268,962)**
Net income	-	-	-	**2,478,921**	-	**2,478,921**
Change in other comprehensive income	-	-	-	-	**(167,808)**	**(167,808)**
Balance at December 31, 2015	**$ 137,504**	**$ (290,800)**	**$ 48,244**	**$ 18,220,472**	**$ 178,835**	**$ 18,294,255**

See notes to the consolidated financial statements.

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2015	2014
OPERATING ACTIVITIES		
Net income	$ 2,478,921	$ 1,621,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	545,392	510,012
Provision for loan losses	90,000	325,000
Amortization on securities, net	183,617	194,903
Gain on securities available-for-sale	(37,425)	(126,261)
Loss on disposal of assets, net	(5,980)	-
Gain on loans sold	(36,188)	(133,811)
Originations of loans held-for-sale	(486,253)	(1,777,395)
Proceeds from loans held-for-sale	522,441	1,911,206
Gain on sale of other real estate	-	(28,524)
Net change in:		
Accrued interest receivable	(8,991)	7,927
Prepaid expenses	(8,169)	1,828
Accrued interest payable	876	4,216
Deferred compensation and employee benefits	208,524	74,855
Other assets and other liabilities	97,410	269,982
Net cash provided by operating activities	3,544,175	2,855,762
INVESTING ACTIVITIES		
Purchase of certificates of deposit	(248,000)	(1,488,000)
Proceeds from securities available-for-sale:		
Sales	7,640,668	6,203,148
Maturities and calls	26,000,000	33,000,000
Principal paydowns	2,330,880	1,942,882
Purchases of securities available-for-sale	(34,244,436)	(53,649,979)
Net change in loans	(17,357,724)	(8,930,355)
Purchase of bank premises and equipment	(412,471)	(797,467)
Proceeds from sale of fixed assets	15,291	-
Proceeds from sale of other real estate	-	1,121,448
Purchase of bank owned life insurance	(142,596)	(535,325)
Net cash used by investing activities	(16,418,388)	(23,133,648)
FINANCING ACTIVITIES		
Net change in deposits accounts	15,938,748	16,683,364
Payments on Federal Home Loan Bank advances, net	-	(1,907,401)
Proceeds (payments) on notes payable	(100,000)	1,000,000
Proceeds used to purchase treasury stock	-	(150,000)
Cash dividends paid	(1,268,962)	(823,092)
Net cash provided by financing activities	14,569,786	14,802,871
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,695,573	(5,475,015)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,525,070	14,000,085
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,220,643	$ 8,525,070
OTHER CASH FLOW INFORMATION		
Increase in other real estate due to foreclosures of real estate loans	$ -	$ 881,266

See notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accounting and reporting policies of Lockhart Bankshares, Inc. and its wholly-owned subsidiary, First Lockhart National Bank, conform to U.S. generally accepted accounting principles ("GAAP") and to general practices within the banking industry.

Principles of Consolidation – The consolidated financial statements include the accounts of Lockhart Bankshares, Inc. (the "Holding Company"), and the accounts of its wholly-owned subsidiary, First Lockhart National Bank (the "Bank"), referred to collectively as the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. generally accepted accounting principles. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company has no controlling financial interests that are considered a VIE.

Reclassification – In the Consolidated Statements of Income for the years ended December 31, 2015 and 2014 mortgage origination fees of **$825,335** and $780,571, respectively, were reclassed from interest income to non-interest income.

Business – The Company provides a variety of financial services to individuals and small businesses through its offices in Lockhart, Austin and Kyle, Texas. The primary deposit products are demand, NOW, and term certificate accounts, while the primary lending products are real estate, commercial and consumer loans.

Use of Estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the estimate of deferred compensation.

The following is a summary of the Company's more significant accounting and reporting policies:

Significant Group Concentrations of Credit Risk – Most of the Company's activities are with customers located within Caldwell and Travis Counties and the surrounding areas. In Note 2 the types of securities in which the Company invests is discussed. In Note 3 the types of lending in which the Company engages is discussed. The Company does have a significant concentration in real estate loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reserves – Reserves of **$2,574,000** and $2,183,000 were maintained in the form of vault cash and deposits with the Federal Reserve Bank of Dallas at December 31, 2015 and 2014 respectively, to satisfy regulatory requirements.

Cash and Cash Equivalents – For the purpose of presentation in the consolidated financial statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "cash and due from banks", "interest bearing deposits in other banks", and "federal funds sold." Generally, federal funds are purchased and sold in one-day periods. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The FDIC insurance coverage is $250,000.

The majority of cash and cash equivalents of the Company are maintained with major financial institutions in the United States. As such, interest bearing, non-transaction account deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. As of December 31, 2015 the maximum credit risk exposure is **$5,836,462**. In monitoring this credit risk, the Company periodically evaluates the stability of the financial institutions with which it has deposits.

Securities – Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and are recorded at amortized cost.

Securities held principally for resale in the near term are classified as trading securities and recorded at their fair values. Unrealized gains and losses on trading securities are included in income.

Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized as interest income using methods approximating the level-yield 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, if any, are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by the issuers of the securities. Market interest rate fluctuations can affect the prepayment speed of principal and the yield on the security.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Investments – The Company has restricted investments, whose carrying value is determined by the ultimate recoverability of par value, rather than by recognizing temporary declines in value. The Restricted investments are carried in other assets on the consolidated balance sheet. Restricted investments consisted of the following at December 31, 2015 and 2014:

	2015	2014
Federal Reserve Bank Stock	$ **71,700**	$ 46,200
FHLB Stock	$ **85,200**	$ 240,300
Independent Bankers Financial Corp Stock	$ **63,057**	$ 61,320

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses.

Interest on loans is credited to operations on a daily basis based upon the principal amount outstanding. Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Troubled Debt Restructured Loans – A troubled debt restructured loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

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

Loans Held-for-Sale – Loans held-for-sale, which are primarily mortgage loans, are reported at the lower of cost or market value on an aggregate loan portfolio basis. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold including any deferred origination fees and costs. Gains and losses on sales of mortgage loans are included in mortgage loan income and consist of origination fees. The Company recorded gains as a result of the sale of SBA loans totaling **$36,188** and $133,811 for the years ended December 31, 2015 and 2014, respectively.

Other Real Estate – Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell and depreciation is not recorded. 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. Such property to be held and used is to be depreciated based on the remaining useful life. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank Premises and Equipment – Bank premises and equipment are stated at cost less accumulated depreciation based on the estimated useful lives of the assets, as follows:

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 10 years

Depreciation is computed using the straight-line method for financial reporting, and the declining-balance method for federal income tax purposes. When an asset is sold, retired, or otherwise disposed of, cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in current operations. Repairs and maintenance are charged to expense as incurred and expenditures for renewals and betterments are capitalized.

Cash Surrender Value of Bank-Owned Life Insurance – The Company has purchased life insurance policies on certain executives. Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in the contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as income or expense on the consolidated statement of income.

Advertising – Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2015 and 2014 amounted to **$131,878** and $154,863, respectively.

Profit Sharing Plan – The Company has a contributory profit sharing plan covering substantially all employees. The Company's contribution to the plan is determined annually by the Board of Directors.

Income Taxes – The Company elected to be taxed as a Sub-Chapter S Corporation under the Internal Revenue Code, effective December 31, 2005. Under those provisions, the Company's income, deductions, losses, and credits flow directly to the stockholders. The Company does pay franchise taxes, which are considered income taxes on the consolidated statements of income.

U.S. generally accepted accounting principles requires management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Company's management has analyzed the tax positions taken by the Company, and has concluded that as of December 31, 2015 and 2014 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company's management believes it is no longer subject to income tax examinations for years prior to 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Common Share – Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2015 and 2014 the Company had no dilutive potential common shares; therefore, diluted earnings per share does not differ from basic earnings per share. The weighted-average number of common shares outstanding was **134,996** and 135,995 for December 31, 2015 and 2014, respectively.

Off-Balance Sheet Financial Instruments – In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

2. INVESTMENT SECURITIES

Investment securities **available-for-sale** consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2015				
U.S. Agency obligations	**$ 17,286,330**	**$ 103,553**	**$ 18,099**	**$ 17,371,784**
State and political subdivisions	**8,122,079**	**232,756**	**7,218**	**8,347,617**
Mortgage-backed securities	**13,211,777**	**33,056**	**165,213**	**13,079,620**
Total	**$ 38,620,186**	**$ 369,365**	**$ 190,530**	**$ 38,799,021**
December 31, 2014				
U.S. Agency obligations	$ 21,483,722	$ 94,331	$ 13,225	$ 21,564,828
State and political subdivisions	4,674,410	260,385	-	4,934,795
Mortgage-backed securities	14,335,358	87,358	82,206	14,340,510
Total	$ 40,493,490	$ 442,074	$ 95,431	$ 40,840,133

Investment securities carried at **$24,278,201** and $21,629,337 at December 31, 2015 and 2014, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

2. INVESTMENT SECURITIES (continued)

The scheduled maturities of securities available-for-sale at December 31, 2015 were as follows:

	Cost	Estimated Market Value
Due in one to five years	$ 14,453,729	$ 14,616,160
Due in five to ten years	8,654,619	8,798,362
Due in over ten years	2,300,061	2,304,879
Total	25,408,409	25,719,401
Mortgage-backed securities	13,211,777	13,079,620
Total	$ 38,620,186	$ 38,799,021

The following table shows proceeds received and gains as a result of the sale of investment securities for the years ended December 31, 2015 and 2014:

	2015	2014
Sale proceeds from sale of available-for-sale securities	$ 7,640,668	$ 6,203,148
Gross gains on sale of available-for-sale securities	$ 39,044	$ 126,261
Gross loss on sale of available-for-sale securities	(1,619)	-
	$ 37,425	$ 126,261

The following table shows the Company's investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency obligations (2)	$ 1,982,243	$ 18,099	$ -	$ -	$ 1,982,243	$ 18,099
State and political subdivision (7)	2,342,348	7,218	-	-	2,342,348	7,218
Mortgage-backed securities (10)	7,575,761	80,798	3,669,015	84,415	11,244,776	165,213
Total debt securities	$ 11,900,352	$ 106,115	$ 3,669,015	$ 84,415	$ 15,569,367	$ 190,530

2. INVESTMENT SECURITIES (continued)

U.S. Agency Obligations – The unrealized losses on the Company's investments in U.S. Agency obligations were caused by interest rate increases. The Company purchased some of these investments at a premium relative to their face amount at December 31, 2015 the outstanding premium related to the U.S. Agency obligations in a loss position is **$342**. Accordingly, it is expected that the securities with premiums could be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

State and Political Subdivisions – The unrealized losses on the Company's investment in municipal bonds were caused by interest rate increases. At December 31, 2015 there was **$249,566** in outstanding premium related to the state and political subdivisions in a loss position. Accordingly, it is expected that the securities could be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

Mortgage-backed Securities – The unrealized losses on the Company's investments in mortgage-backed securities were caused by interest rate increases. The Company purchased some of these investments at a premium relative to their face amount, and the contractual cash flows of these investments have an implied guarantee by the U.S. Government. At December 31, 2015 the outstanding premium related to the mortgage-backed securities in a loss position is **$344,002**. Accordingly, it is expected that the securities with premiums could be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

Other-than-temporary Impairment – Management evaluates securities for other-than-temporary impairment at least quarterly, 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) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2015 no investment securities were other-than-temporarily impaired.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following at December 31, 2015 and 2014:

	2015	2014
Real estate	**$ 149,039,888**	$ 129,294,199
Commercial	**6,987,201**	8,356,593
Agriculture	**1,596,859**	1,498,368
Consumer and other	**4,369,553**	4,738,333
Total loans	**161,993,501**	143,887,493
Less: Allowance for loan losses	**(2,650,285)**	(2,500,423)
Total net	**$ 159,343,216**	$ 141,387,070

Loan Origination/Risk Management – The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. The intent of management is to make loans to borrowers of good character and integrity. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Real estate (commercial real estate or consumer real estate) loans are underwritten after evaluating and understanding the borrower's ability to repay the loan through operating profitably and effectively growing their business. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. As a general rule, the Company avoids financing special use projects unless strong secondary support is present to help mitigate risk.

With respect to loans to builders, the Company generally requires the borrower to have a proven record of success and an expertise in the building industry. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Commercial loans are subject to underwriting standards and processes similar to real estate loans. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit and reduce the risk on a transaction to an acceptable level; however, some short-term loans may be made on an unsecured basis to the most credit worthy borrowers. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Due to the nature of accounts receivable and inventory secured loans, the Company closely monitors credit availability and collateral through the use of various tools, including, but not limited to borrowing-base formulas, review of accounts receivable aging schedules, periodic inventory audits, and/or collateral inspections.

Agricultural loans are made to sound and prudent farmers and ranchers within our market area even though agriculture may be an unstable industry. In order to minimize risk, sound lending policies are extremely important, taking into consideration not only the value of collateral offered but also the performance history and anticipated cash flow from a given farming or ranching operation. All agricultural loan applications require cash flow projection for the coming farming season, and the projection must show a margin between income and expense that is sufficient to repay the loan from normal farm operations. All agriculture loans will be supported by a perfected first security interest position in the products being produced.

The Company minimally originates non-real estate consumer loans based on the borrower's proven earning capacity over the term of the loan. The Company monitors payment performance periodically for consumer loans to identify any deterioration in the borrower's financial strength. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by management and staff. This activity, coupled with a relatively small volume of consumer loans, minimizes risk.

The Company engages an external consulting firm to complete an independent loan review that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk ratings and credit quality assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Concentrations of Credit – Most of the Company's lending occurs throughout Lockhart, Texas and the surrounding communities. The Company has full-service branches in Austin and Kyle, Texas, in addition to the lending activity previously noted. The majority of the Company's loan portfolio consists of commercial and real estate.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Related Party Loans – In the ordinary course of business, the Company makes loans to executive officers and directors of the Company (collectively referred to as "related parties'). These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

Loans to these related parties, including companies in which they are principal owners were as follows:

	2015	2014
Principal outstanding, beginning of year	$ 967,538	$ 847,476
New loans and advances made in current year	157,769	3,582,131
Repayments	(123,172)	(3,462,069)
Principal outstanding, end of year	$ 1,002,135	$ 967,538

An age analysis of past due loans, segregated by class of loans, as of December 31, 2015 and 2014 were as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
December 31, 2015							
Real estate	$ 411,445	$ -	$ -	$ 411,445	$ 148,628,443	$ 149,039,888	$ -
Commercial	18,869	-	-	18,869	6,968,332	6,987,201	-
Agriculture	-	-	-	-	1,596,859	1,596,859	-
Consumer and other	33,413	-	-	33,413	4,336,140	4,369,553	-
Total	$ 463,727	$ -	$ -	$ 463,727	$ 161,529,774	$ 161,993,501	$ -
December 31, 2014							
Real estate	$ 27,873	$ 1,643,888	$ -	$ 1,671,761	$ 127,622,438	$ 129,294,199	$ -
Commercial	30,870	290,463	-	321,333	8,035,260	8,356,593	-
Agriculture	-	-	-	-	1,498,368	1,498,368	-
Consumer and other	8,329	108	1,831	10,268	4,728,065	4,738,333	-
Total	$ 67,072	$ 1,934,459	$ 1,831	$ 2,003,362	$ 141,884,131	$ 143,887,493	$ -

Impaired loans, segregated by class of loans, as of December 31, 2015 and 2014 are set forth in the following table. The balance of impaired loans at December 31, 2015 and 2014 represented all non-accrual loans. No interest income was recognized on impaired loans subsequent to their classification as impaired.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized Prior to Impairment
December 31, 2015					
With no related allowance:					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Agriculture	-	-	-	-	-
Consumer and other	-	-	-	-	-
With a related allowance:					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	145,232	-
Agriculture	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total:					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	145,232	-
Agriculture	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ -	$ -	$ -	$ 145,232	$ -

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized Prior to Impairment
December 31, 2014					
With no related allowance:					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Agriculture	-	-	-	-	-
Consumer and other	-	-	-	-	-
With a related allowance:					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	290,463	305,053	-	145,232	-
Agriculture	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total:					
Real estate	$ -	$ -	$ -	$ 508,905	$ -
Commercial	290,463	305,053	-	145,232	-
Agriculture	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ 290,463	$ 305,053	$ -	$ 654,137	$ -

At December 31, 2015 there were no commitments to lend additional funds to borrowers whose loans are classified as impaired.

Credit Quality Indicators – As part of the on-going monitoring of the credit quality of the Company's loan portfolio, the Company utilizes a risk grading system to assign a risk grade to each of its loans. Accurate and timely credit grading is a primary component of an effective loan review system. Loans are graded on a scale of 1 to 9.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

A description of the general characteristics of the 9 risk grades is as follows:

Pass (Grades 1-4)

Grade 1 – These loans are to borrowers that have significant capital strength, superior liquidity, stable earnings and growth, well-defined source of repayment. These loans will primarily be secured with marketable securities, cash or cash equivalents, U.S. Treasury or U.S. Agency securities, Listed Stock with a value ratio of 50% or less, Time Deposits from another financial institution with an acknowledgement of the lien and a loan to value ratio of 90% or less.

Grade 2 – These loans are to seasoned borrowers of high credit quality, high leverage, stable earnings and growth, and a predetermined and formal repayment plan which are well secured by collateral with a verifiable value which are in full compliance with the Company's Loan Policy, Listed Stock with a loan to value ratio in excess of 50%, other cash secured loans not meeting Grade 1 standards.

Grade 3 – These loans are to borrowers of solid credit quality with identified balance sheet weaknesses, moderate leverage, stable earnings and growth, a predetermined and formal repayment plan and secondary sources of repayment and collateral. Loans can be secured or unsecured in full compliance with the Company's Loan Policy, secure seasoned loans with minor documentation exceptions.

Grade 4 – These loans are to borrowers of acceptable credit quality and risk, decreasing cash flows, recent past due activity, inadequate collateral margin and/or the Company has placed reliance on the secondary source of repayment and/or guarantor. Secured or unsecured loans approved with loan policy exceptions, secured or unsecured loans with uncured documentation exceptions that are paying as agreed, secured or unsecured loans underwritten with identified credit weaknesses (possibly mitigated by other factors) which are paying as agreed, secured or unsecured loans with an original grade of "3" which have had minimal, explainable interruptions to repayment history, and leases that do not meet the guidelines.

Pass Watch (Grade 5)

Grade 5 – Loans with minor credit quality issues identified since the loan was originated. Any loan with a perceived potential for or with recently occurring payment deterioration, or a borrower who demonstrates an unwillingness to pay as agreed. A loan for which identifiable conditions exist that could lead to Watch status. A loan in the process of collection provided a clearly documented and perfected security interest in marketable collateral exists sufficient to recover all principal, interest, fees and collection costs contractually owed to the Company, and leases with three payments delinquent 10 days within the past six months.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Special Mention (Grade 6)

Grade 6 – This grade is for "Other Assets Special Mentioned" in accordance with regulatory guidelines. Loans with uncured documentation exceptions which also have an unstable pay history. Loans with payment deterioration for which the verifiable value of collateral is greater than the principal balance of the loan, including any liquidation costs. Loans that are currently over 45 days past due or the primary source of repayment has deteriorated beyond a reasonable ability to repay, even if the loan is current.

Substandard (Grade 7)

Grade 7 – This grade includes "Substandard" loans, in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. Loans where a serious deterioration of financial condition, collateral value, or pay history places the Company's ability to recover its principal and interest at an unacceptable level of risk and loans identified and being "impaired" as defined by ASC Topic 450 guidelines.

One-to-four-family residential real estate loans delinquent 60 days or more with a loan to value greater than 80%. All loans fully secured that are delinquent more than 90 days or any loan or lease which has been 90 days past due at any time during the past six months. Fully secured loans in bankruptcy (or the remaining balance of that loan after any charge down) without a subsequent minimum six month payment performance or for which proceeds from liquidation are pending where full recovery of principal and interest is deemed likely.

Doubtful (Grade 8)

Grades 8 – This grade includes "Doubtful" loans in accordance with regulatory guidelines. Such loans are Substandard and placed on non-accrual status. Loans where full payment of principal or interest is not expected. Loans that are 90 days or more past due and not both fully secured and in the process of collection. Leases that are delinquent 90 days or more, and any loan or lease where the Company is deemed not to be well secured for the full recovery of principal and interest.

Loss (Grade 9)

Grade 9 – This grade includes "Loss" loans in accordance with regulatory guidelines. Loans with an expected and identified loss to the Company, but are pending due to legal or accounting issues. Fraudulent loans pending legal discovery and loans that are in the process of collection.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table shows the credit risk profile by internally assigned grades at December 31, 2015 and 2014:

	Real Estate	Commercial	Agriculture	Consumer and other	Total
December 31, 2015					
Credit Risk Profile by Internally Assigned Grade					
Grade:					
Pass	$ 140,461,968	$ 6,683,007	$ 1,596,859	$ 4,252,591	$ 152,994,425
Pass watch	6,466,579	8,788	-	21,865	6,497,232
Special mention	1,441,008	165,138	-	84,788	1,690,934
Substandard	670,333	130,268	-	10,309	810,910
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 149,039,888	$ 6,987,201	$ 1,596,859	$ 4,369,553	$ 161,993,501
Credit Risk Profile Based on Payment Activity					
Performing	$ 149,039,888	$ 6,987,201	$ 1,596,859	$ 4,369,553	$ 161,993,501
Nonperforming	-	-	-	-	-
Total	$ 149,039,888	$ 6,987,201	$ 1,596,859	$ 4,369,553	$ 161,993,501

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

	Real Estate	Commercial	Agriculture	Consumer and other	Total
December 31, 2014					
Credit Risk Profile by Internally Assigned Grade					
Grade:					
Pass	$ 120,160,185	$ 7,795,166	$ 1,498,368	$ 4,705,393	$ 134,159,112
Pass watch	6,212,230	90,022	-	32,940	6,335,192
Special mention	530,137	149,464	-	-	679,601
Substandard	2,391,647	321,941	-	-	2,713,588
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 129,294,199	$ 8,356,593	$ 1,498,368	$ 4,738,333	$ 143,887,493
Credit Risk Profile Based on Payment Activity					
Performing	$ 129,294,199	$ 8,066,130	$ 1,498,368	$ 4,736,502	$ 143,595,199
Nonperforming	-	290,463	-	1,831	292,294
Total	$ 129,294,199	$ 8,356,593	$ 1,498,368	$ 4,738,333	$ 143,887,493

Allowance for Loan Losses – The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, changes in the composition and volume of the portfolio, and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs.

The provision for loan losses reflects management's periodic evaluation of individual loans and changes to the required allowance for specific loans, economic factors, past loan loss experience, loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the borrower's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. The initial analysis is performed by the relationship manager and credit rating is reviewed and approved by the Officer's Loan Committee.

Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. The Company calculates historical loss ratios for classifications of similar loans based on the proportion of actual charge-offs experienced to the total population of loans in the category. The historical loss ratios are periodically updated based on actual charge-off experience.

The Company's categories of similar loans include similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and consumer and other loans. General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company.

In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Company's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in nature and loan portfolio volume; (v) the composition and concentrations of credit; (vi) the effectiveness of the loan review function; (vii) the impact of national and local economic business conditions; and (viii) the impact of external factors, such as competition or legal and regulatory requirements.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance. Loans identified as losses by management, external loan review and/or bank examiners are charged-off.

Furthermore, consumer loan accounts are charged-off automatically based on regulatory requirements. The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2015 and 2014. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Transactions for the years ended December 31, 2015 and 2014 in the allowance for loan losses were as follows:

Allowance for Loan Losses

	Real Estate	Commercial	Agriculture	Consumer and other	Unallocated	Total
December 31, 2015						
Beginning balance	$ **2,079,961**	$ **136,358**	$ **5,244**	$ **85,919**	$ **192,941**	$ **2,500,423**
Charge-offs	-	-	-	**(15,278)**	-	**(15,278)**
Recoveries	**12,000**	**24,384**	-	**38,756**	-	**75,140**
Provision	**42,021**	**4,524**	**345**	**7,444**	**35,666**	**90,000**
Ending balance	$ **2,133,982**	$ **165,266**	$ **5,589**	$ **116,841**	$ **228,607**	$ **2,650,285**
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance allocated to loans collectively evaluated for impairment	**2,133,982**	**165,266**	**5,589**	**116,841**	**228,607**	**2,650,285**
Total allowance for loan losses	$ **2,133,982**	$ **165,266**	$ **5,589**	$ **116,841**	$ **228,607**	$ **2,650,285**
December 31, 2014						
Beginning balance	$ 1,962,741	$ 78,534	$ 3,509	$ 143,123	$ 220,622	$ 2,408,529
Charge-offs	(99,516)	(131,038)	-	(40,146)	-	(270,700)
Recoveries	1,000	4,690	-	31,904	-	37,594
Provision	215,736	184,172	1,735	(48,962)	(27,681)	325,000
Ending balance	$ 2,079,961	$ 136,358	$ 5,244	$ 85,919	$ 192,941	$ 2,500,423
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance allocated to loans collectively evaluated for impairment	2,079,961	136,358	5,244	85,919	192,941	2,500,423
Total allowance for loan losses	$ 2,079,961	$ 136,358	$ 5,244	$ 85,919	$ 192,941	$ 2,500,423

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The Company's recorded investment in loans as of December 31, 2015 and 2014 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology were as follows:

Loans Receivable

	Real Estate	Commercial	Agriculture	Consumer and other	Total
December 31, 2015					
Ending balance of loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance of loans collectively evaluated for impairment	**149,039,888**	**6,987,201**	**1,596,859**	**4,369,553**	**161,993,501**
Ending balance	**$ 149,039,888**	**$ 6,987,201**	**$ 1,596,859**	**$ 4,369,553**	**$ 161,993,501**
December 31, 2014					
Ending balance of loans individually evaluated for impairment	$ -	$ -	$ -	$ 290,463	$ 290,463
Ending balance of loans collectively evaluated for impairment	129,294,199	8,356,593	1,498,368	4,447,870	143,597,030
Ending balance	$ 129,294,199	$ 8,356,593	$ 1,498,368	$ 4,738,333	$ 143,887,493

4. OTHER REAL ESTATE

A summary of transactions in other real estate for the years ended December 31, were as follows:

	2015	2014
Balance at beginning of year	**$ 371,544**	$ 583,202
Property acquired through foreclosure	-	881,266
Property transferred from fixed assets	-	-
Basis of other real estate sold	-	(1,092,924)
Balance at end of year	**$ 371,544**	$ 371,544

5. PREMISES AND EQUIPMENT

Components of premises and equipment included in the consolidated balance sheets were as follows:

	2015	2014
Land	$ **2,331,643**	$ 2,331,643
Building and improvements	**6,304,921**	6,245,014
Furniture and equipment	**2,866,882**	2,708,125
Software	**172,296**	166,196
Vehicles	**193,686**	116,771
	11,869,428	11,567,749
Less: accumulated depreciation	**(4,553,669)**	(4,109,758)
Total	$ **7,315,759**	$ 7,457,991

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to **$545,392** and $510,512, respectively. Premises and equipment totaling **$110,794** and $123,181 were retired during 2015 and 2014, respectively. The Company did not have any gain or loss from the disposal of premises and equipment in 2015 and 2014. The Company sold depreciated fixed assets for a gain of **$5,980** in 2015. No sales of fixed assets were noted in 2014.

6. DEPOSITS

Deposits consisted of the following at December 31, 2015 and 2014:

	2015	2014
Non-interest bearing:		
Demand accounts	$ **46,978,917**	$ 44,523,060
Interest bearing:		
Money market	**34,295,799**	23,890,277
NOW accounts	**57,833,445**	52,112,740
Savings accounts	**13,993,839**	12,667,304
Certificates of deposit	**49,126,214**	53,096,085
	155,249,297	141,766,406
Total	$ **202,228,214**	$ 186,289,466

6. DEPOSITS (continued)

At December 31, 2015 the scheduled maturities of certificates of deposits were as follows:

2016	$ 42,690,898
2017	4,981,668
2018	1,347,439
2019	106,209
Total	$ 49,126,214

The Company paid interest on deposits of **$1,002,850** and $905,773 in 2015 and 2014, respectively.

Certificates of deposit greater than $250,000 totaled **$9,908,719** and $11,627,977 at December 31, 2015 and 2014, respectively.

Included in total deposits are **$5,345,631** and $3,716,564, of deposits from certain related parties (executive officers and directors of the Company) including their families and affiliates, and companies of which they are principal owners at December 31, 2015 and 2014, respectively.

7. ADVANCES FROM FEDERAL HOME LOAN BANK AND OTHER BORROWINGS

In 2013, the Company had advances from the Federal Home Loan Bank. The Company paid all outstanding advances from the Federal Home Loan Bank as of December 31, 2014 borrowed and repaid advances during the current year and had no outstanding advances as of December 31, 2015. Outstanding advances were secured by specific mortgage loans of the Company. The Company paid interest on advances from the Federal Home Loan Bank of **$709** and $20,821 for the years ended December 31, 2015 and 2014, respectively.

The Company has a federal fund line of credit from The Independent Bankers Bank in the amount of $7,500,000. The Company did not have any amounts outstanding on this line of credit as of December 31, 2015 and 2014.

The Company has a line of credit in the amount of $3,000,000 with The Independent Bankers Bank as of December 31, 2015. The line of credit matures as of September 1, 2016, at which all outstanding principal plus all accrued unpaid interest at a variable rate based on the Wall Street prime index with a floor of 4.5% will be due. The Company is in compliance with the required covenants. The Company had advances outstanding of **$900,000** and $1,000,000 on this line of credit as of December 31, 2015 and 2014, respectively.

8. OPERATING LEASES

Minimum future rental expense related to leased office space and equipment by the Company on non-cancelable operating lease agreements were as follows:

Year ended December 31,		
2016	$	4,120

Lease expenses of **$58,248** and $15,015 for the years ended December 31, 2015 and 2014, respectively have been included in occupancy expenses on the consolidated statements of income.

9. EMPLOYEE BENEFITS

The Company has adopted a profit sharing plan with a 401(k) retirement plan feature for the benefit of substantially all its employees. An employee may contribute a percentage of his/her covered compensation to the 401(k) Plan according to IRS limits. The Company's profit sharing contribution is discretionary and determined annually by the Board of Director's. The matching contribution made to the 401(k) retirement plan for the years ended December 31, 2015 and 2014 totaled **$125,734** and $130,370, respectively.

The Company has an employee bonus plan which includes a cash payment and the deferral of the remaining payment in a deferred compensation plan based upon the performance of the Company. As of December 31, 2015 and 2014, the Company has accrued **$195,621** and $207,849, respectively for cash bonus payments to be paid in January 2016 and accrued deferred compensation payable totaling **$1,265,831** and $1,068,042, respectively.

The Company has several former employees which receive payments for compensation previously deferred. As of December 31, 2015 and 2014 the Company has **$490,167** and $530,804, respectively to be paid to the former employees.

The Company has phantom stock plan agreements purchased through the deferral of compensation. As of December 31, 2015 and 2014 the Company has **$491,332** and $481,732, respectively accrued for the phantom stock option plans.

As of December 31, 2015 the Company accrued **$54,000** for personal and vacation hours accumulated by employees.

10. OFF-BALANCE SHEET ITEMS

The Company 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, standby letters of credit, and commercial 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.

10. OFF-BALANCE SHEET ITEMS (continued)

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments. The following financial instruments were outstanding whose contract amounts represent credit risk:

	2015	2014
Unfunded loan commitments	**$ 16,357,000**	$ 20,169,000
Standby letters of credit	**$ 460,000**	$ 483,000

Commitments to extend credit are agreements to lend 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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees 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 Company generally holds collateral supporting those commitments if deemed necessary.

11. LEGAL CONTINGENCIES

The Company is party to litigation arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

12. RESTRICTIONS ON DIVIDENDS

The Company, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's net income plus the retained net income (as defined in the regulations) from the prior two years. The additional dividends as of December 31, 2015 that the Bank could declare, without the approval of the Comptroller of the Currency, were approximately **$2,896,000**. Actual dividends available to be distributed are also subject to the Bank maintaining required regulatory capital ratios.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

The Basel III Capital Rules became effective for First Lockhart National Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

The Bank's Common Equity Tier 1 capital consists of common stock and related paid-in capital, net of treasury stock (if any), and retained earnings. In connection with the adoption of the Basel III Capital Rules, the election was made to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for the Bank is reduced by goodwill (if any) net of associated deferred tax liabilities and subject to transition provisions.

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital as allowed by regulation. The Bank did not have any additional Tier 1 capital beyond Common Equity Tier 1 as of December 31, 2015.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for the Bank includes a permissible portion of the allowance for loan losses.

Prior to January 1, 2015, the Bank's Tier 1 capital consisted of total stockholders' equity excluding accumulated other comprehensive income and goodwill (if any). The Bank's Total capital was comprised of Tier 1 capital plus a permissible portion of the allowance for loan losses.

The Common Equity Tier 1 (beginning in 2015), Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill (if any) and other intangible assets (if any), allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill (if any) and other intangible assets (if any), among other things.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS (continued)

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2015 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Basel III Phase-In		Minimum Capital Basel III Fully Phase-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2015:								
Common Equity Tier I Capital Ratio (to Risk-Weighted Assets)	**18,993,720**	**11.9%**	**7,182,499**	**4.5%**	**11,172,776**	**7.0%**	**10,374,721**	**6.5%**
Tier I Capital Ratio (to Risk-Weighted Assets)	**18,993,720**	**11.9%**	**9,576,666**	**6.0%**	**13,566,943**	**8.5%**	**12,768,887**	**8.0%**
Total Capital Ratio (to Risk-Weighted Assets)	**20,995,695**	**13.1%**	**12,821,798**	**8.0%**	**16,828,610**	**10.5%**	**16,027,248**	**10.0%**
Tier 1 Leverage Ratio (to Average Assets)	**18,993,720**	**8.6%**	**8,834,288**	**4.0%**	**8,834,288**	**4.0%**	**11,042,860**	**5.0%**

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS (continued)

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
As of December 31, 2014:						
Tier I Capital Ratio (to Risk-Weighted Assets)	$ 17,858,343	12.5%	$ 5,714,670	4.0%	$ 8,572,005	6.0%
Total Capital Ratio (to Risk-Weighted Assets)	$ 19,647,056	13.8%	$ 11,389,597	8.0%	$ 14,236,997	10.0%
Tier I Leverage Ratio (to Average Assets)	$ 17,858,343	8.6%	$ 8,306,206	4.0%	$ 10,382,758	5.0%

As of December 31, 2015, capital levels at the Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as of December 31, 2015 at the Bank exceed the minimum levels necessary to be considered "well capitalized."

The Bank is subject to the regulatory capital requirements administered by the Federal Reserve, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation ("FDIC"). Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct material effect on the financial statements. Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

14. FAIR VALUE DISCLOSURES

The authoritative guidance on fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

14. FAIR VALUE DISCLOSURES (continued)

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

In that regard, the guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

14. FAIR VALUE DISCLOSURES (continued)

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

Financial Assets and Financial Liabilities

Financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis include the following:

Securities Available-for-Sale – Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans – A loan may be considered impaired when it is determined that it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Once a loan is identified as individually impaired, management measures for impairment using the practical expedients permitted by applicable authoritative accounting guidance, at the fair value of the loans collateral, if the loan is collateral dependent. If a loan is determined to be collateral dependent, the fair value of the collateral is determined by independent appraisals or valuations adjusted for costs related to the liquidation of the collateral and are classified as Level 3.

Loans Held-for-Sale – Loans held-for-sale are reported at fair value. The fair value of loans held-for-sale are estimated using Level 2 inputs based on what secondary markets are currently offering for loans with similar characteristics.

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2015				
U.S. Agency obligations	$ -	**$ 17,371,784**	$ -	**$ 17,371,784**
State and political subdivisions	-	**8,347,617**	-	**8,347,617**
Mortgage-backed securities	-	**13,079,620**	-	**13,079,620**
Loans held-for-sale	-	**118,702**	-	**118,702**
December 31, 2014				
U.S. Agency obligations	$ -	$ 21,564,828	$ -	$ 21,564,828
State and political subdivisions	-	4,934,795	-	4,934,795
Mortgage-backed securities	-	14,340,510	-	14,340,510
Loans held-for-sale	-	807,124	-	807,124

14. FAIR VALUE DISCLOSURES (continued)

Certain financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2015				
Impaired loans	$ -	$ -	$ -	$ -
December 31, 2014				
Impaired loans	$ -	$ -	$ 290,463	$ 290,463

During the years ended December 31, 2015 and 2014 certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral based on collateral valuations utilizing Level 3 valuation inputs.

	2015	2014
Carrying value of impaired loans	$ -	$ 290,463
Specific valuation allowance allocations	-	-
Fair value of impaired loans	$ -	$ 290,463

Non-Financial Assets and Non-Financial Liabilities

Other Real Estate Owned – Certain foreclosed properties, upon initial recognition and subsequent remeasurement were valued and reported at fair value less cost to sell through charge-offs to the allowance for loan losses and writedowns included in current period earnings. The fair value of such other real estate owned, upon initial recognition and subsequent remeasurement, is estimated utilizing Level 3 inputs. Fair values were based primarily on third party appraisals; however, based on the current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity. See Note 4, for the activity that occurred in Other Real Estate for the years ended December 31, 2015 and 2014.

14. FAIR VALUE DISCLOSURES (continued)

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2015				
Other real estate	$ -	$ -	$ **371,544**	$ **371,544**
December 31, 2014				
Other real estate	$ -	$ -	$ 371,544	$ 371,544

Fair Value of Financial Instruments

The Company is required under current authoritative guidance to disclose the estimated fair value of its financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Financial instruments with stated maturities and/or fixed rates have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Financial instruments assets with variable rates and financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value.

The carrying amounts of financial instruments with a relatively short period of time between their origination and their expected realization approximate fair value.

14. FAIR VALUE DISCLOSURES (continued)

The carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance at December 31, 2015 and 2014 were as follows:

	2015 Carrying Value	2015 Fair Amount	2014 Carrying Value	2014 Fair Amount
Financial Assets				
Level 2 Inputs:				
Cash and cash equivalents	$ 6,700,447	$ 6,700,447	$ 8,277,658	$ 8,277,658
Interest bearing deposits in other banks	3,520,196	3,520,196	247,412	247,412
Time deposits	1,736,000	1,736,000	1,488,000	1,488,000
Investment securities available-for-sale	38,799,021	38,799,021	40,840,133	40,840,133
Accrued interest receivable	625,060	625,060	616,069	616,069
Cash value on bank-owned life insurance, net	4,881,041	4,881,041	4,738,445	4,738,445
Loans held-for-sale	118,702	118,702	807,124	807,124
Level 3 Inputs:				
Loans, net	$ 159,343,216	$ 160,273,189	$ 141,387,070	$ 143,421,669
Financial Liabilities				
Level 2 Inputs:				
Deposits	$ 202,228,214	$ 202,324,433	$ 186,289,466	$ 186,416,577
Accrued interest payable	69,266	69,266	68,390	68,390
FHLB advances/Notes payable	900,000	900,000	1,000,000	1,000,000
Level 3 Inputs:				
Deferred compensation	$ 2,496,951	$ 2,496,951	$ 2,288,427	$ 2,288,427

Under ASC Topic 825, entities may choose to measure eligible financial instruments at fair value at specified election dates. The fair value measurement option (i) may be applied instrument by instrument, with certain exceptions, (ii) is generally irrevocable and (iii) is applied only to entire instruments and not to portions of instruments. Unrealized gains and losses on items for which the fair value measurement option has been elected must be reported in earnings at each subsequent reporting date. During the reported periods, the Company had no financial instruments measured at fair value under the fair value measurement option.

15. OTHER COMMITMENTS

The Company has committed to invest in the Independent Bankers Capital Fund, L.P., which makes capital calls as required and pays an annual dividend which is reinvested. The investment is included in other assets and is accounted for on the equity method. Management believes the investment is not impaired. As of December 31, 2015 and 2014 the Company had a recorded investment of **$96,689** and $103,890, respectively in the fund.

The Bank's board of directors approved the investment of $500,000 in Valesco Commerce Street Capital, L.P. Investments ("Valesco") during the December 2010 board meeting. The investment is included in other assets and is accounted for on the equity method. Management believes the investment is not impaired. As of December 31, 2015 and 2014 the Company had a recorded investment of **$235,102** and $130,327, respectively.

16. SUBSEQUENT EVENTS

The Company has performed a review of subsequent events through the date of the opinion, which is the date the financial statements were available for issuance, and concludes there were no events or transactions occurring during this period that required recognition or disclosure in the financial statements. Any events occurring after this date have not been factored into the financial statements being presented.

17. RECENTLY ISSUED AUTHORITATIVE GUIDANCE

In 2016, the FASB amended its authoritative guidance related to equity investments which requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. Early adoption is permitted. The amendment will be effective for annual reporting periods beginning after December 15, 2018 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2015, the FASB amended its authoritative guidance related to the presentation of deferred taxes. The amendment eliminates the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, the entity will be required to classify all deferred tax assets and liabilities as noncurrent. Early adoption is permitted for financial statements that have not been issued. The amendment will be effective for annual reporting periods beginning after December 15, 2018 and is not expected to have a significant impact on the Company's consolidated financial statements.

17. RECENTLY ISSUED AUTHORITATIVE GUIDANCE (continued)

In 2015, the FASB amended its authoritative guidance related to business combinations. The amendments require adjustments to provisional amounts that are identified during the measurement period, including the cumulative effect of changes in depreciation, amortization, or other income effects to be recognized in the current-period financial statements. Prior periods should no longer be adjusted. Lastly, the amendment requires the entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendment will be effective for annual reporting periods beginning after December 15, 2016 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2015, the FASB issued authoritative guidance regarding debt issuance costs which requires entities to present debt issuance costs related to a recognized debt liability be presented within the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendment. The new authoritative guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2015, the FASB amended its authoritative guidance regarding inventory. The amendment requires an entity to measure inventory at the lower of cost and net realizable value. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendment will be effective for annual reporting periods beginning after December 15, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2015, the FASB amended its authoritative guidance for disclosures for investments in certain entities that calculate net asset value ("NAV") per share. The amendment eliminates the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV practical expedient. Additionally, the amendment removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendment will be effective for annual and interim reporting periods beginning after December 15, 2016, and is not expected to have a significant impact on the Company's consolidated financial statements.

17. RECENTLY ISSUED AUTHORITATIVE GUIDANCE (continued)

In 2015, the FASB amended its authoritative guidance regarding accounting for a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the entity should account for the software license element of the arrangement consistent with the acquisition of other software licenses that are capitalized. Otherwise, an entity should account for the arrangement as a service contract, which would usually be expensed. The amendment will be effective for annual periods beginning after December 15, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2015, the FASB amended its authoritative guidance for consolidations for legal entities such as limited partnerships and their equivalents, as well as structured vehicles such as issuers of collateralized debt obligations. The amendment modifies the evaluation of whether limited partnerships and their equivalents are variable interest entities (VIEs) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, and modifies the consolidation analysis of reporting entities that are involved with VIEs, particularly those with fee arrangements and related party relationships. The amendment will be effective for annual reporting periods beginning after December 15, 2016 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2015, the FASB amended its authoritative guidance to eliminate the concept of extraordinary items from U.S. GAAP. Items that are either unusual in nature or infrequently occurring will continue to be reported as a separate component of income from continuing operations. Alternatively, these amounts may still be disclosed in the notes to the financial statements. The amendment will be effective for annual and interim reporting periods beginning after December 15, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2014, the FASB amended its authoritative guidance regarding business combinations and accounting for identifiable intangible assets. The amendment allows a private company to elect to not recognize separately from goodwill certain assets arising from customer relationships and non-competition agreements upon recognition. Alternatively, these assets would be subsumed into goodwill and goodwill would then be amortized. The election is intended to reduce cost and complexity for private companies. Early adoption is permitted for annual financial statements that have not been made available for issuance. The effective date of the adoption depends on the timing of the first transaction. The amendment can be adopted upon the occurrence of the first transaction for annual reporting periods beginning after December 15, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

17. RECENTLY ISSUED AUTHORITATIVE GUIDANCE (continued)

In 2014, the FASB amended its authoritative guidance to provide a definition as to when and how companies are required to disclose going concern uncertainties. The guidance is intended to guide management to determine whether substantial doubt exists regarding the going concern presumption. If a substantial doubt exists and cannot be mitigated, disclosure indicating a going concern exists will be included in the financial statements, as well as the principal conditions/events that raise substantial doubt, management's evaluation of the significance of the events in relation to the company's ability to meet its obligations and management's plan to mitigate the conditions/events. Early adoption is permitted for financial statements which have not been previously issued. The amendment will be effective for annual and interim reporting periods beginning after December 15, 2016 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2014, the FASB amended its authoritative guidance regarding stock based compensation. The amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Therefore, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. Early adoption is permitted. The amendment will be effective for annual reporting periods beginning after December 15, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

In 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The new authoritative guidance will be effective for annual and interim reporting periods ending after December 15, 2019, and is not expected to have a significant impact to the Company's consolidated financial statements.

SUPPLEMENTARY INFORMATION

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

December 31, 2015

	First Lockhart National Bank	Lockhart Bankshares, Inc.	Eliminations	Consolidated
ASSETS				
Cash and due from banks - non-interest bearing	$ 6,700,447	$ 24,911	$ (24,911)	**$ 6,700,447**
Interest bearing deposits in other banks	3,520,196	-	-	**3,520,196**
Total cash and cash equivalents	10,220,643	24,911	(24,911)	**10,220,643**
Time deposits	1,736,000	-	-	**1,736,000**
Securities available-for-sale, at estimated market value	38,799,021	-	-	**38,799,021**
Loans, net	159,343,216	-	-	**159,343,216**
Loans held-for-sale, at fair value	118,702	-	-	**118,702**
Investments in subsidiaries	-	19,172,555	(19,172,555)	-
Premises and equipment, net	7,315,759	-	-	**7,315,759**
Accrued interest receivable	625,060	-	-	**625,060**
Cash value on bank-owned life insurance, net	4,881,041	-	-	**4,881,041**
Prepaid expenses	109,666	-	-	**109,666**
Other real estate owned	371,544	-	-	**371,544**
Other assets	741,102	-	-	**741,102**
Total assets	$ 224,261,754	$ 19,197,466	$ (19,197,466)	**$ 224,261,754**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Non-interest bearing	$ 47,003,828	$ -	$ (24,911)	**$ 46,978,917**
Interest bearing	155,249,297	-	-	**155,249,297**
Total deposits	202,253,125	-	(24,911)	**202,228,214**
Accrued interest payable	66,055	3,211	-	**69,266**
Notes payable	-	900,000	-	**900,000**
Deferred compensation and employee benefits	2,496,951	-	-	**2,496,951**
Other liabilities	273,068	-	-	**273,068**
Total liabilities	205,089,199	903,211	(24,911)	**205,967,499**
Stockholders' Equity				
Capital stock	240,000	137,504	(240,000)	**137,504**
Treasury stock	-	(290,800)	-	**(290,800)**
Additional paid-in capital	2,150,000	48,244	(2,150,000)	**48,244**
Retained earnings	16,603,720	18,220,472	(16,603,720)	**18,220,472**
Accumulated other comprehensive income	178,835	178,835	(178,835)	**178,835**
Total stockholders' equity	19,172,555	18,294,255	(19,172,555)	**18,294,255**
Total liabilities and stockholders' equity	$ 224,261,754	$ 19,197,466	$ (19,197,466)	**$ 224,261,754**

See notes to the consolidated financial statements.

LOCKHART BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME

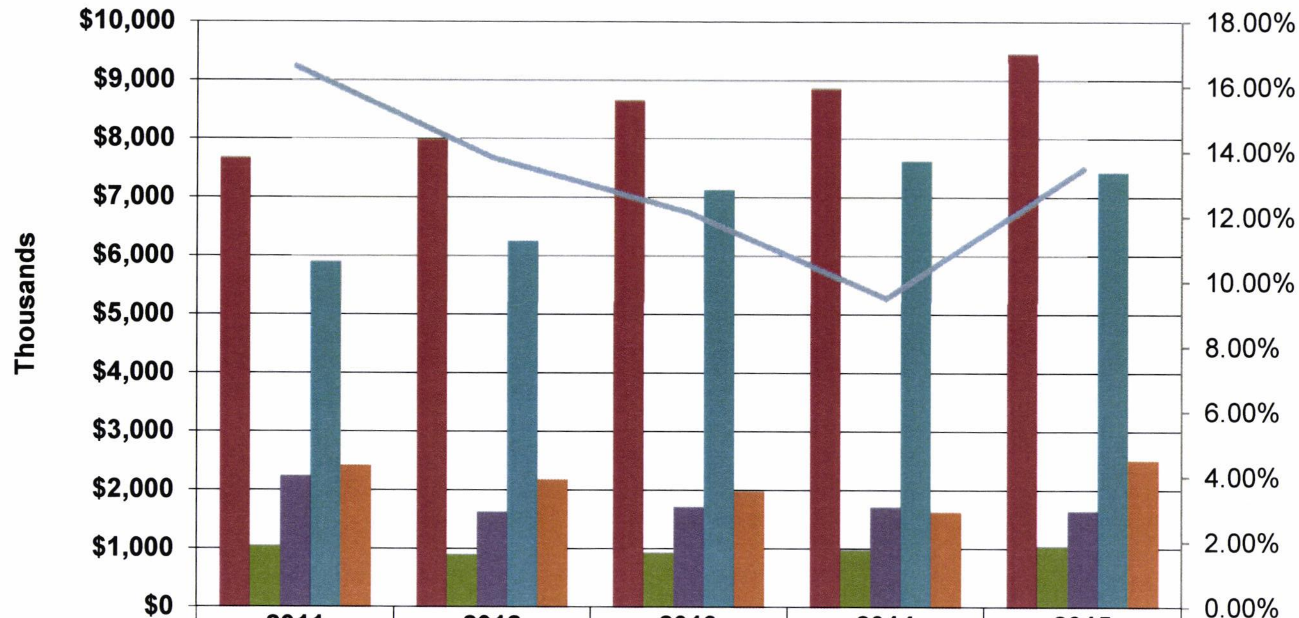
December 31, 2015

	First Lockhart National Bank	Lockhart Bankshares, Inc.	Eliminations	Consolidated
INTEREST INCOME				
Loans, including fees	$ 7,849,888	$ -	$ -	**$ 7,849,888**
Investment securities	748,072	-	-	**748,072**
Federal funds sold and interest bearing deposits	41,925	-	-	**41,925**
Total interest income	8,639,885	-	-	**8,639,885**
INTEREST EXPENSE				
Deposits	1,003,726	-	-	**1,003,726**
Federal Home Loan Bank advances	709	-	-	**709**
Other interest expense	46,174	-	-	**46,174**
Total interest expense	1,050,609	-	-	**1,050,609**
NET INTEREST INCOME	7,589,276	-	-	**7,589,276**
PROVISION FOR LOAN LOSSES	90,000	-	-	**90,000**
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,499,276	-	-	**7,499,276**
NON-INTEREST INCOME				
Dividends	-	1,388,962	(1,388,962)	-
Equity in undistributed earnings of subsidiaries	-	1,135,426	(1,135,426)	-
Mortgage origination fees	825,335	-	-	**825,335**
Service charges on deposit accounts	1,154,042	-	-	**1,154,042**
Gain on sale of securities	37,425	-	-	**37,425**
Gain on sale of premises and equipment	5,980	-	-	**5,980**
Gain on sale of loans	36,188	-	-	**36,188**
Other	416,084	-	-	**416,084**
Total non-interest income	2,475,054	2,524,388	(2,524,388)	**2,475,054**
NON-INTEREST EXPENSE				
Salaries, wages and benefits	4,077,733	-	-	**4,077,733**
Occupancy and equipment	996,190	-	-	**996,190**
Other	2,356,019	45,467	-	**2,401,486**
Total non-interest expense	7,429,942	45,467	-	**7,475,409**
INCOME BEFORE INCOME TAXES	2,544,388	2,478,921	(2,524,388)	**2,498,921**
INCOME TAX EXPENSE - STATE	20,000	-	-	**20,000**
NET INCOME	$ 2,524,388	$ 2,478,921	$ (2,524,388)	**$ 2,478,921**

See notes to the consolidated financial statements.

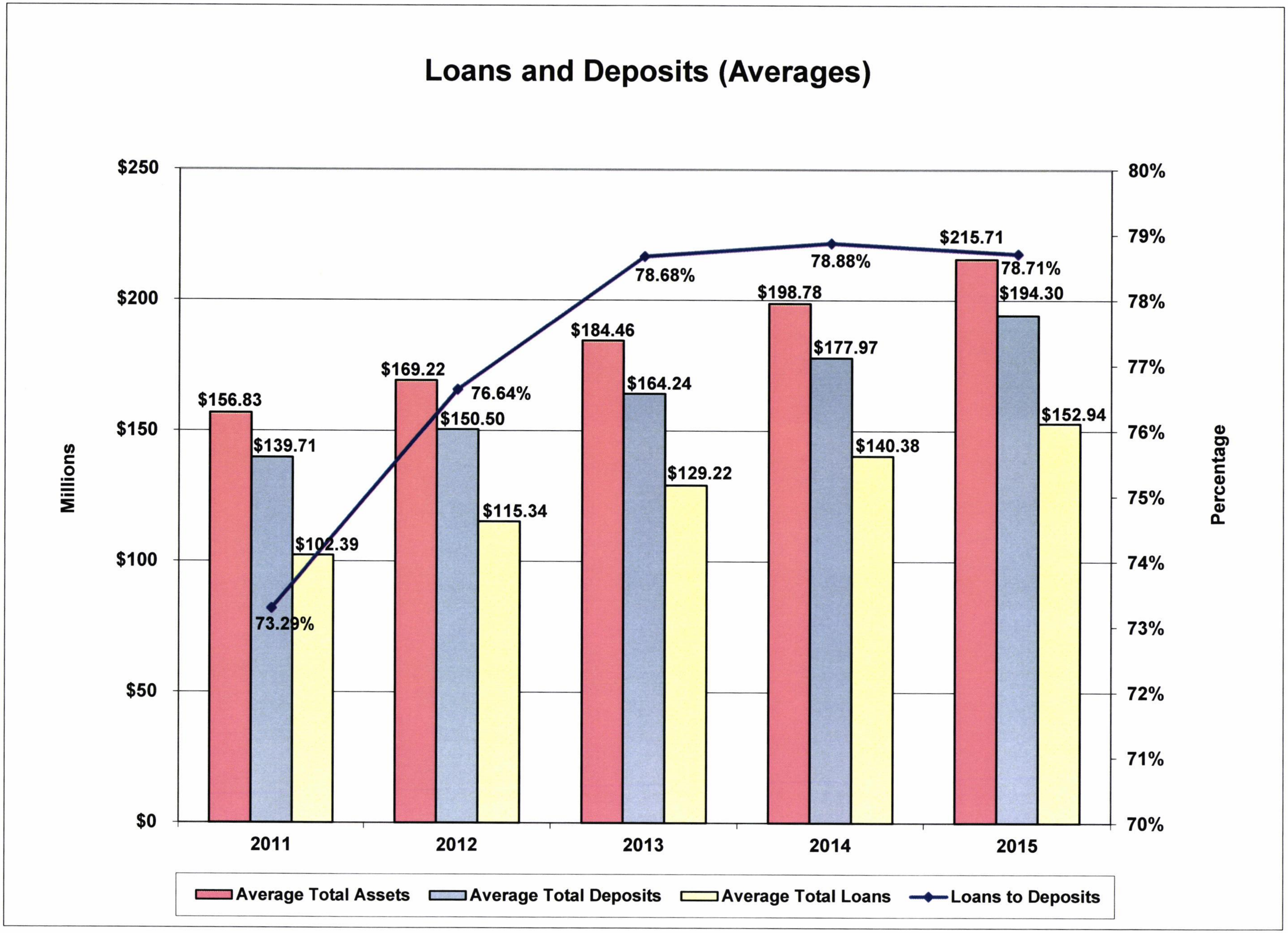
First Lockhart National Bank

Financial Highlights

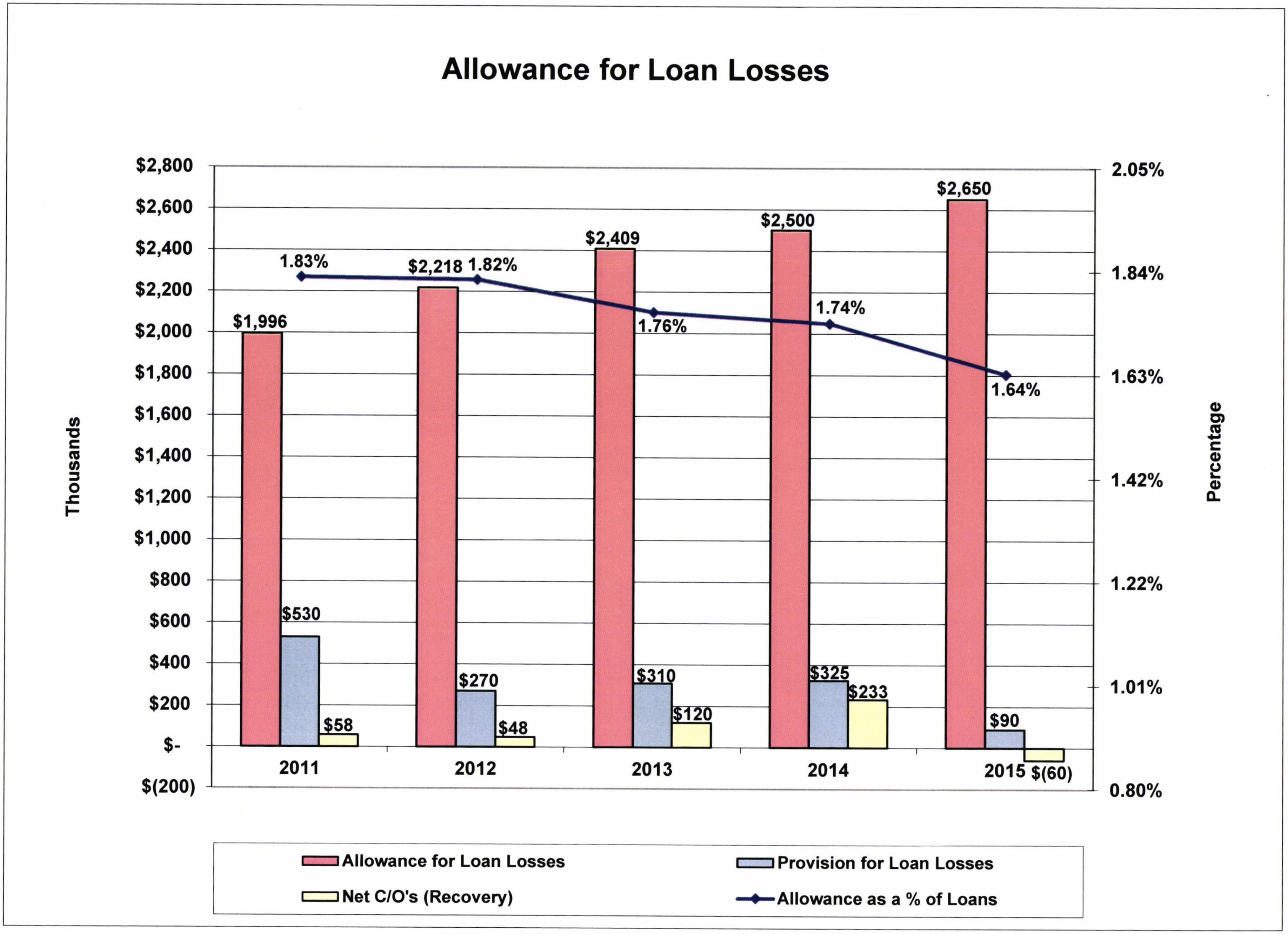


	2011	2012	2013	2014	2015
Interest Income	$7,683	$7,999	$8,667	$8,870	$9,465
Interest Expense	$1,054	$898	$935	$982	$1,051
Non-Interest Income	$2,247	$1,634	$1,720	$1,717	$1,650
Non-Interest Expense	$5,902	$6,256	$7,135	$7,625	$7,430
Net Income	$2,433	$2,194	$1,990	$1,645	$2,524
Return on Average Equity	16.65%	13.83%	12.16%	9.52%	13.51%

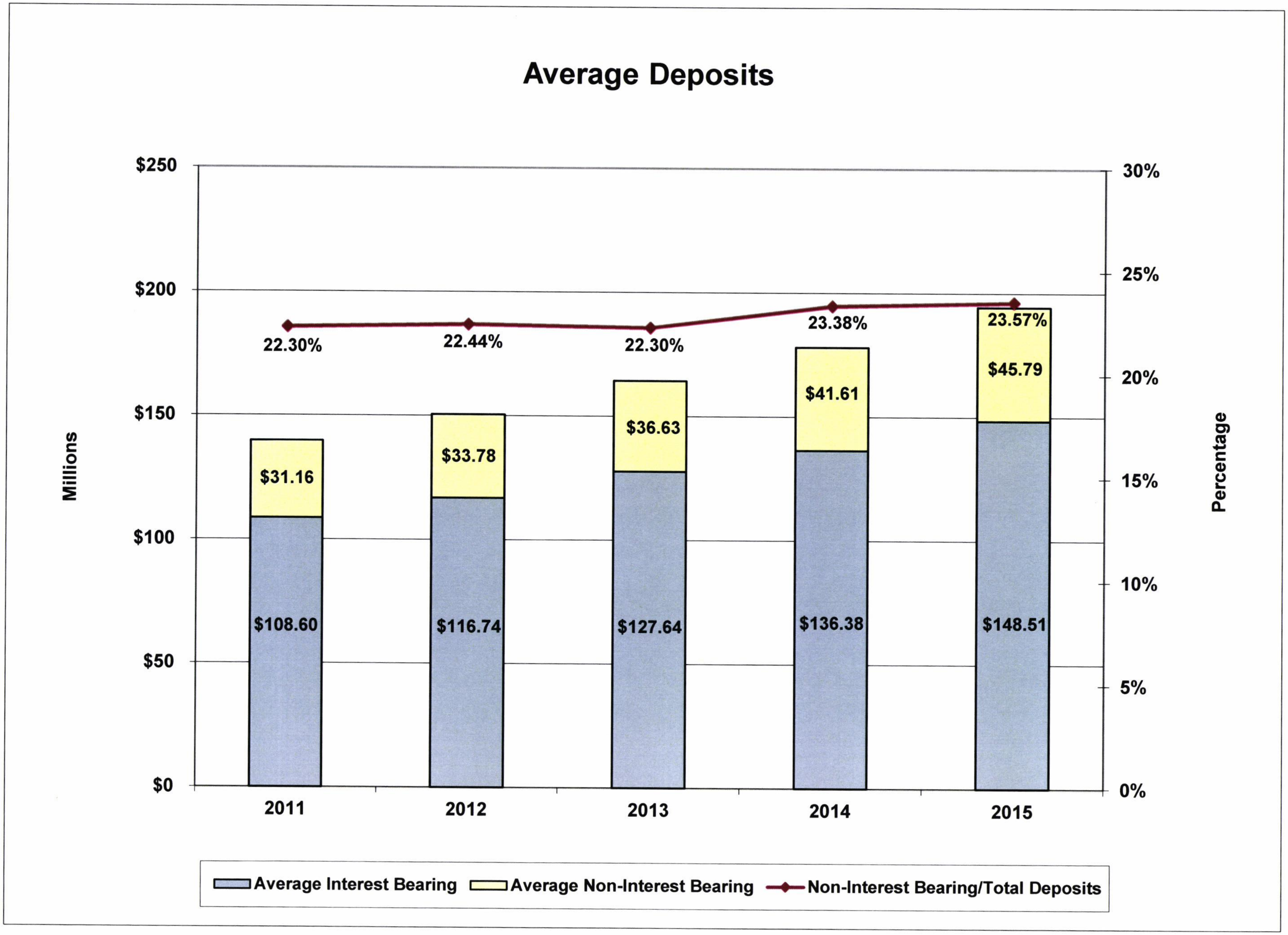
First Lockhart National Bank



First Lockhart National Bank



First Lockhart National Bank



First Lockhart National Bank