FR Y-6
OMB Number 7100-0297
Approval expires September 30, 2018
Page 1 of 2

Board of Governors of the Federal Reserve System

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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, Samuel S. Spencer, Jr.
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.

Samuel S. Spencer Jr.
Signature of Holding Company Director and Official

3/3/16
Date of Signature

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

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2148586
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

Lea County Bancshares, Inc.
Legal Title of Holding Company

P O Box 400
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Hobbs	NM	88241-0400

1017 N Turner Hobbs NM 88240
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Roy Moshier	Treasurer

575-397-6649
Area Code / Phone Number / Extension

575-397-6618
Area Code / FAX Number

roy.moshier@lcsb.com
E-mail Address

https:\\www.onlinelcsb.com
Address (URL) for the Holding Company's web page

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

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

AMENDED
AUG 11 2016

Annual Report of Bank Holding Companies
as of December 31, 2015
for Lea County Bancshares, Inc.
(FR Y-6)

Report Item 1: Lea County Bancshares, Inc. is not registered with the Securities and Exchange Commission.

Report Item 2a: Lea County Bancshares, Inc., Hobbs, New Mexico, State of Incorporation: New Mexico, owns 100% of the stock of:

a) Lea County State Bank
Hobbs, New Mexico
State of Incorporation: New Mexico
b) Bank Direct Mortgage Corporation
Hobbs, New Mexico
State of Incorporation: New Mexico
c) LCBI Capital Trust
Hobbs, New Mexico
State of Incorporation: Delaware
d) LCBI Properties, LLC. (Lea County Bancshares, Inc., Managing member)
Hobbs, New Mexico
State of Incorporation: New Mexico

No entity has a Legal Entity Identifier (LEI)

Report Item 2b: Domestic Branch Listing. Branch verification report completed and emailed to structure.verification@dal.frb.org

Report Item 3(1): Shareholders with ownership, control or holding of 5% or more as of fiscal year end December 31, 2015. All Shareholders of Lea County Bancshares, Inc. are residents of the States of New Mexico or Texas. The country of Citizenship or Incorporation for all shareholders and entities is the United States.

SHAREHOLDERS LEA COUNTY BANCSHARES, INC.	COMMON STOCK SHARES	% OF OWNERSHIP OF LCBI
Dunn Family Trust Robert C. Dunn, Jr., Trustee Rio Rancho, New Mexico	4,015	7.61888%

AMENDED
AUG 11 2016

Report Item 3. Continued

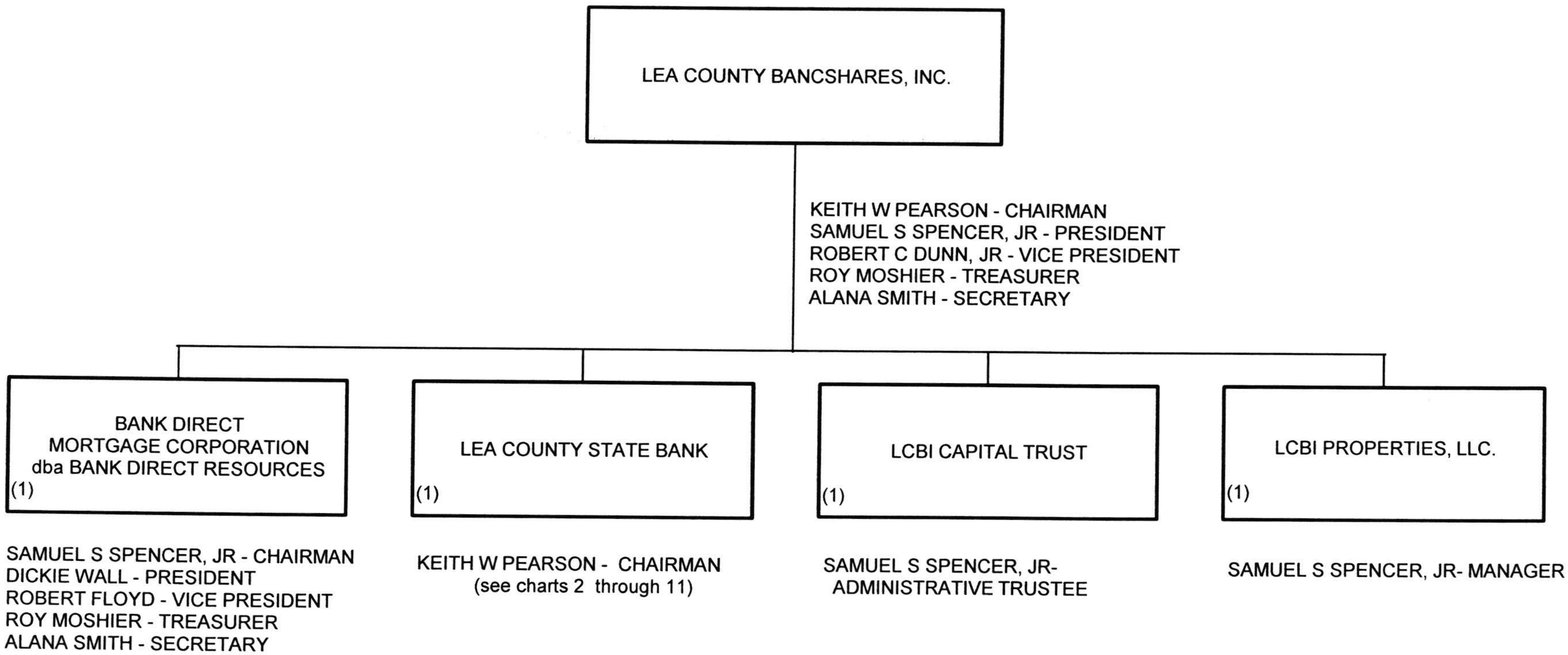
Keith W. Pearson Seminole, Texas	9,136	17.33652%
Samuel S. Spencer, Jr. Hobbs, New Mexico	10,595	20.10513%
W. Trent Stradley Seminole, Texas	7,136	13.54131%
Walker Stradley Seminole, Texas	3,367	6.38924%
Michael K. Pearson Hobbs, New Mexico	5,367	10.18445%
Sambaiah Kankanala Hobbs, New Mexico	3,366	6.38734%
Cynthia Pearce Hobbs, New Mexico	3,366	6.38734%

Report Item 3(2): None

Report Item 2.a

LEA COUNTY BANCSHARES, INC.

CHART 1



(1) 100% OF THE COMMON STOCK OWNED BY LEA COUNTY BANCSHARES, INC.

Results: A list of branches for your depository institution: LEA COUNTY STATE BANK (ID_RSSD: 1015252).
This depository institution is held by LEA COUNTY BANCSHARES, INC. (2148586) of HOBBS, NM.
The data are as of 12/31/2015. Data reflects information that was received and processed through 04/05/2016.

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)	1015252	LEA COUNTY STATE BANK	1017 NORTH TURNER	HOBBS	NM	88240	LEA	UNITED STATES	7794	0	LEA COUNTY STATE BANK	1015252	
Ok		Limited Service	646855	NORTH GRIMES OFFICE	3927 NORTH GRIMES STREET	HOBBS	NM	88240	LEA	UNITED STATES	226780	8	LEA COUNTY STATE BANK	1015252	
OK		Full Service	779856	LOVINGTON BRANCH	320 S MAIN AVENUE	LOVINGTON	NM	88260	LEA	UNITED STATES	226777	5	LEA COUNTY STATE BANK	1015252	

AMENDED
AUG 11 2016

From FR Y-6
Lea County Bancshares, Inc.
Fiscal Year Ending December 31, 2015

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

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title and Position with Holding Company	(3)(b) Title and Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title and Position with Other Businesses (include names of other businesses) in which the person is a director, trustee, partner, or executive officer.	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnership) if 25% or more of voting securities are held (List names of companies & percentage of voting securities held)
Kendall Cowan Wolfforth TX USA	Real estate/Oil field servicing investor	Director	N/A	CEO The Cowan Group LLC Chairman/CEO Cowan Holdings Inc VP/Director 6S Corp Partner 6S Group LP Chairman/President K Cowan Inc CEO/Manager Cowan Real Estate LLC Manager KenLo LLC General Partner The JSKC Group Inc Limited Partner ShaCo Partners Ltd General Partner Cowan Partners IV Ltd Limited Partner Mobile Home Communities Ltd Trustee Shankle Family 1996 Trust Director Opnext Inc Director ICO North America	3.79521%	N/A	100% The Cowan Group LLC 51% Cowan Holdings Inc 99% K Cowan Inc 50% Cowan Real Estate LLC 50% The JSKC Group Inc 50% ShaCo Partners Ltd 50% Mobile Home Communities Ltd
Robert C. Dunn, Jr. Rio Rancho NM USA	Retired Investor	Director/VP	Director, Bank Direct Mortgage Corporation	Manager, Veinte Cinco LLC Trustee, Dunn Family Trust Trustee, Robert C Dunn Sr	7.61888%* *The Dunn Family Trust, whose trustee is Robert C. Dunn, Jr., owns these shares.	N/A	100% Veinte Cinco LLC 50% Dunn Family Trust
Keith W Pearson Seminole TX USA	Wholesale fuel distributor	Director	N/A	President Pearson Oil Co Inc President K W Fuels Inc Partner MPOC LLC Partner MPOC LLC II	17.33652%	N/A	50% Pearson Oil Co Inc 50% K W Fuels Inc 30% MPOC LLC 30% MPOC LLC II
Samuel S. Spencer, Jr. Hobbs NM USA	Banker	Director/ President	President/CEO, Lea County State Bank Chairman, Bank Direct Mortgage Corporation Administrative Trustee, LCB I Capital Trust	Member/Manager Argus Holdings LLC Member Argus Holdings II LLC Member/Manager SSS Enterprises LLC Trustee Samuel S & Frances Jayne Spencer Irrevocable Trust Co-Trustee The Spencer Revocable Trust Trustee Abby Spencer Tate Trust Member/Manager Gryphon Investments LLC	20.10513%	N/A	25% Argus Holdings LLC 25% Argus Holdings II LLC 100% SSS Enterprises LLC

AMENDED
AUG 11 2016

From FR Y-6
Lea County Bancshares, Inc.
Fiscal Year Ending December 31, 2015

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

W Trent Stradley Seminole TX USA	Rancher	Director	N/A	Director/Exec Officer S W Cattle Company Director/Exec Officer M B & T Corporation Manager, Stradley Ltd	13.54131%	N/A	45% S W Cattle Company 100% M B & T Corporation 89% Stradley Ltd
Walker Stradley Seminole TX USA	Farmer	Director	N/A	Limited Partner, Stradley Ltd Director/Exec Officer, S W Cattle Company Director, Century Club	6.38924%	N/A	N/A
Michael K Pearson Hobbs NM USA	Wholesale fuel distributor	Director	N/A	Vice President, Pearson Oil Inc Vice President, K W Fuels Inc Manager, MPOC LLC Manager, MPOC LLC II	10.18445%	N/A	50% Pearson Oil Inc 50% K W Fuels Inc 70% MPOC LLC 70% MPOC LLC II
Sambiah Kankanala Frisco TX USA	Physician	Director	N/A	Partner, Hobbs Eagles Capital II LLC Partner, Hobbs Eagles Capital III LLC Partner, Hobbs Eagles Capital V LLC Partner, Hobbs Eagles Capital IV LLC Partner, Hobbs Eagles Capital VI LLC Partner, Hobbs Eagles Capital VII Partner, Hobbs Capital Villages LLC Partner, Llano Delnorte LLC Partner, Hotel Ventures & Investments LLC Partner, Rio Bravo Resources LLC Partner, Hobbs Capital Elan LLC	6.38734%	N/A	33.33% Hotel Ventures & Investment LLC
Cynthia Pearce Hobbs NM USA	Manager	Director	N/A	Executive Officer, Trinity Industries Inc Manager, LFT LLC Manager, Festivities LP Manager, Gree LLC Director, Stevan & Cynthia Pearce Charitable Foundation Manager, Exedra LLC	6.38734%	N/A	51% Trinity Industries Inc 50% LFT LLC 50% Gree LLC 50% Exedra LLC
Robert Wallach Hobbs NM USA	Rancher/Oil & Gas	Director	N/A	Managing Partner, Richard's Energy Compression LLC Manager, Walco Ranch LLC Manager, Dos Amigos Air LLC	3.89009%	N/A	36% Richard's Energy Compression LLC 30% Walco Ranch LLC 50% Dos Amigos Air LLC
Roy Moshier Hobbs NM USA	Banker	Treasurer	SVP/CFO, Lea County State Bank Treasurer, Bank Director Mortgage Corp	N/A	.94880%	N/A	N/A

Lea County Bancshares, Inc.
& Subsidiaries
Hobbs, New Mexico

Consolidated Financial Statements

Years Ended:

December 31, 2015 & 2014

LAM & COMPANY
Audit Focused CPAs

Lea County Bancshares, Inc. & Subsidiaries
Consolidated Financial Statements

Table of Contents

LAM & COMPANY
Audit Focused CPAs

Independent Auditors' Report

Directors & Senior Managers
Lea County Bancshares, Inc. & Subsidiaries
Hobbs, New Mexico

Lam & Company PC ("**LCPC**") has audited the *accompanying Consolidated Financial Statements* ("**CFS**") of *Lea County Bancshares, Inc. & Subsidiaries* (the "**Company**"), which comprise the consolidated balance sheets as of December 31, 2015 & 2014, the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended and the related notes to the CFS.

Management's Responsibility for the CFS

It is management's responsibility to prepare and fairly present the accompanying CFS in accordance with *accounting principles generally accepted in the United States of America* ("**GAAP**"); which includes responsibility to design, implement, and maintain internal control relevant to prepare and fairly present CFS that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

LCPC's responsibility is to express an opinion on the CFS based on our audits. LCPC conducted our audits in accordance with *auditing standards generally accepted in the United States of America* ("**GAAS**"). GAAS requires LCPC to plan and perform audits to obtain reasonable assurance about whether the CFS are free from material misstatement.

A GAAS audit involves procedures to obtain audit evidence about the amounts and disclosures in the CFS. The procedures performed depend on auditor judgments, which include assessment of risks of material misstatement of the CFS, whether due to fraud or error. The auditor considers the Company's internal control, relevant to prepare and fairly present the CFS, to assess the risks of material misstatement of the CFS and then to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control. Accordingly, LCPC is not expressing an opinion on the effectiveness of the Company's internal control. In a GAAS audit, the auditor also evaluates whether the Company's accounting policies were appropriate, whether management's significant accounting estimates were reasonable, and the overall presentation of the CFS.

LCPC believes that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In LCPC's opinion, the CFS fairly present, in all material respects, the Company's financial position as of December 31, 2015 & 2014, and the results of operations and cash flows for the years then ended in accordance with GAAP.

Other Matter – Supplemental Schedules

LCPC's audit was conducted to form an opinion on the CFS as a whole. The accompanying Supplemental Schedules ("**SuppSchs**") identified in the preceding *Table of Contents* are presented for purposes of additional analysis and are not a required part of the CFS. The SuppSchs are management's responsibility and were derived from, and relate directly to, the underlying accounting and other records used to prepare the CFS. The SuppSchs have been subjected to the audit procedures applied in LCPC's audit of the CFS and certain additional procedures, which include comparing and reconciling the SuppSchs directly to the underlying accounting and other records used to prepare the CFS or to the CFS, and other additional procedures, in accordance with GAAS. In LCPC's opinion, the SuppSchs are fairly stated, in all material respects, in relation to the CFS as a whole.

Lam & Company PC

April 21, 2016

LAM & COMPANY PC 7602 UNIVERSITY AVENUE, SUITE 201
LUBBOCK, TEXAS 79423 WWW.CPAAUDITORS.COM
OFFICE: 806.412.4007 FAX: 806.412.4007

Lea County Bancshares, Inc. & Subsidiaries
Consolidated Balance Sheets
December 31, 2015 & 2014

	2015	2014
Cash & due from banks	$ 8,159,492	$ 10,232,847
Cash & equivalents	8,159,492	10,232,847
Interest-bearing deposits in banks	375,279	394,046
AFS securities, at fair value	226,982,079	230,857,120
Federal Home Loan Bank stock, at cost	407,200	113,300
Federal Reserve Bank stock subscription, at amount deposited	165,000	-
Loans held-for-sale	642,378	371,689
Loans, net	57,144,554	49,175,810
Accrued interest receivable	2,122,090	1,834,661
Foreclosed & repossessed assets, net	129,107	-
Premises & equipment, net	2,365,029	2,519,054
Cash surrender value of life insurance	3,628,848	3,641,645
Other assets	1,220,228	1,136,839
Assets	$ 303,341,284	$ 300,277,011
Non interest-bearing	$ 102,610,737	$ 104,857,735
Interest-bearing	162,606,239	162,356,002
Deposits	265,216,976	267,213,737
Federal funds purchased & securities sold under agreements to repurchase	4,714,180	2,376,653
Accrued interest payable	16,175	19,495
Note payable	-	1,015,000
Accrued expenses & other liabilities	1,645,260	1,453,779
Trust preferred securities	6,000,000	6,000,000
Liabilities	277,592,591	278,078,664
Class A common stock, $0.01 par, 250,000 shares authorized, 52,698 shares issued, 52,698 & 50,698 shares outstanding, respectively	527	527
Class B common stock, $0.01 par, 250,000 shares authorized, no shares issued	-	-
Additional paid-in capital	2,351,829	2,351,829
Retained earnings	20,032,825	17,361,503
Accumulated other comprehensive income	3,363,512	3,547,597
Treasury stock, at cost, 0 & 2,000 shares, respectively	-	(1,063,109)
Stockholders' Equity	25,748,693	22,198,347
Liabilities & Stockholders' Equity	$ 303,341,284	$ 300,277,011

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Lea County Bancshares, Inc. & Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 & 2014

	2015	2014
Loans, including fees	$ 3,706,789	$ 2,532,837
Securities	4,674,216	4,885,746
Federal funds sold	1,316	4,231
Interest-bearing deposits	14,046	16,012
Interest & dividend income	8,396,367	7,438,826
Deposits	343,242	381,631
Federal funds purchased & securities sold under agreements to repurchase	9,883	4,257
Federal Home Loan Bank advances	5,460	-
Other debt	453,518	473,825
Interest expense	812,103	859,713
Interest Margin	7,584,264	6,579,113
Loan & lease loss provision	-	168,000
Interest Margin, Net of Loan & Lease Loss Provision	7,584,264	6,411,113
Service charges on deposit accounts	454,685	464,780
Net realized gain on AFS securities	769,177	702,954
Net gain on loan sales	579,021	458,233
Loan servicing fees	193,175	182,773
Foreclosed & repossessed assets, net	(22,123)	-
Other	1,125,014	1,217,553
Non interest income	3,098,949	3,026,293
Salaries & employee benefits	3,730,741	3,370,853
Occupancy & equipment	644,199	634,501
Data processing	1,074,744	1,021,831
Other general & administrative	2,156,680	2,096,833
Non interest expense	7,606,364	7,124,018
Net Income	3,076,849	2,313,388
Change in net unrealized gain on AFS securities	585,092	3,155,710
Net unrealized gain realized & reclassed to earnings	(769,177)	(702,954)
Other Comprehensive Income (Loss)	(184,085)	2,452,756
Comprehensive Income	$ 2,892,764	$ 4,766,144

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2015 & 2014

	Class A Common Stock, at Par		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock, at Cost		
	Shares	Dollars	Capital	Earnings	Income	Shares	Dollars	Totals
December 31, 2013	52,698	$ 527	$ 2,351,829	$ 15,341,915	$ 1,094,841	(100)	$ (45,108)	$ 18,744,004
Net income	-	-	-	2,313,388	-	-	-	2,313,388
Other comprehensive income	-	-	-	-	2,452,756	-	-	2,452,756
Dividends declared ($5.58 per share)	-	-	-	(293,800)	-	-	-	(293,800)
Treasury stock purchase	-	-	-	-	-	(4,000)	(2,143,160)	(2,143,160)
Treasury stock reissued	-	-	-	-	-	2,100	1,125,159	1,125,159
December 31, 2014	52,698	527	2,351,829	17,361,503	3,547,597	(2,000)	(1,063,109)	22,198,347
Net income	-	-	-	3,076,849	-	-	-	3,076,849
Other comprehensive loss	-	-	-	-	(184,085)	-	-	(184,085)
Dividends declared ($7.86 per share)	-	-	-	(414,000)	-	-	-	(414,000)
Treasury stock reissued	-	-	-	8,473	-	2,000	1,063,109	1,071,582
December 31, 2015	52,698	$ 527	$ 2,351,829	$ 20,032,825	$ 3,363,512	-	$ -	$ 25,748,693

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 & 2014

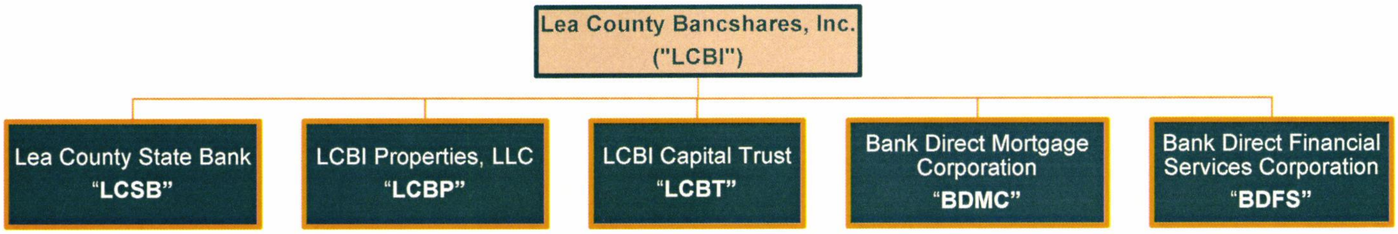
	2015	2014
Net income	$ 3,076,849	$ 2,313,388
Adjustments to reconcile net income to cash from operating activities:		
Securities amortization, net	4,066,013	3,894,508
Realized gain on AFS securities	(769,177)	(702,954)
Gain on loan sales	(579,021)	(458,233)
Loan & lease loss provision	-	168,000
Amortization of deferred loan fees	30,918	18,862
Amortization of mortgage servicing rights	91,370	82,943
Depreciation	252,414	214,056
Amortization of software	26,081	28,041
(Gain) loss on asset disposals	3,845	(2,678)
Net change in loans held-for-sale	308,332	1,560,612
Net change in other assets & liabilities	(261,230)	663,169
Cash from Operating Activities	6,246,394	7,779,714
Net change in interest-bearing deposits in banks	18,767	(256,768)
Net change in federal funds purchased & securities sold under agreements to repurchase	2,337,527	(1,852,204)
AFS security sales proceeds	59,024,976	36,473,607
AFS security maturities, prepayments & calls	28,217,921	25,475,153
AFS security purchases	(86,848,777)	(74,476,376)
Federal Home Loan Bank stock purchases	(293,900)	(400)
Federal Reserve Bank stock purchases	(165,000)	-
Net loan originations, collections & write-offs	(8,128,769)	(12,164,356)
Premises & equipment purchases	(129,165)	(395,266)
Premises & equipment sale proceeds	850	2,350
Cash (used by) Investing Activities	(5,965,570)	(27,194,260)
Net change in deposits	(1,996,761)	22,517,012
Debt proceeds	-	1,015,000
Debt principal payments	(1,015,000)	-
Stock issue proceeds	1,071,582	1,125,159
Stock repurchase	-	(2,143,160)
Dividends paid	(414,000)	(293,800)
Cash from (used by) Financing Activities	(2,354,179)	22,220,211
Change in Cash & Equivalents	(2,073,355)	2,805,665
Cash & equivalents:		
Beginning of year	10,232,847	7,427,182
End of year	$ 8,159,492	$ 10,232,847
Supplemental Disclosure of Cash Flow Information:		
Interest paid on deposits & borrowed funds	$ 815,423	$ 859,098
Supplemental Schedule of Noncash Investing & Financing Activities:		
Net increase (decrease) in fair value of AFS securities	$ (184,085)	$ 2,452,756
Loans foreclosed	129,107	-

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Note 1: Nature of Organization

Lea County Bancshares, Inc. ("**LCBI**"), a New Mexico bank holding company, conducts its principal activities through its banking and non banking subsidiaries from offices located in Hobbs and Lovington, New Mexico. Principal activities include commercial and retail banking.

LCBI owns 100% of the outstanding stock of Lea County State Bank ("**LCSB**"), *LCBI Properties, LLC* ("**LCBP**"), *Bank Direct Mortgage Corporation* ("**BDMC**"), and *Bank Direct Financial Services Corporation* ("**BDFS**"). LCBI also owns 100% of the outstanding common interests in *LCBI Capital Trust* ("**LCBT**"), a Delaware statutory business trust. LCBP, LCBT, BDMC, and BDFS are non bank subsidiaries. LCBI and these subsidiaries (collectively referred to herein as the "**Company**") are included in the accompanying consolidated financial statements. An organization chart follows:



LCSB operates under a New Mexico state bank charter and is a Federal Reserve member bank. LCBP owns the land where LCSB's Lovington branch is located and leases the land to LCSB. LCBT is a special purpose subsidiary whose exclusive purposes and functions are to issue and sell its securities and use the proceeds from such sales to acquire LCBI junior subordinated deferrable interest debentures and to engage in those activities necessary, advisable, or incidental thereto. The sole assets of LCBT are LCBI junior subordinated deferrable interest debentures. BDMC holds a New Mexico small loan license. BDFS operations were discontinued November 30, 2007; management does not intend to dissolve the entity in the foreseeable future.

Note 2: Summary of Significant Accounting Policies

Accounting Standards Codification. Since 1973, the *Financial Accounting Standards Board* ("**FASB**") has been the private sector organization designated to establish standards for financial accounting and presentation of financial statements known as *accounting principles generally accepted in the United States of America* ("**GAAP**"). GAAP are officially recognized as authoritative by the *Securities and Exchange Commission* ("**SEC**"), the *American Institute of Certified Public Accountants* ("**AICPA**"), and the banking regulators. The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934; although, throughout its history, the SEC's policy has been to rely on the FASB and its predecessors for this function.

The FASB's *Accounting Standards Codification*™ ("**ASC**") constitutes GAAP in its entirety. All other accounting literature (not included in ASC) are nonauthoritative. FASB issues *Accounting Standards Updates* ("**ASU**") which serve to update ASC and provide background information about the guidance and the basis for conclusions.

Basis of Presentation. Management strives to prepare and present *these notes and the accompanying consolidated financial statements* (collectively referred to herein as "**CFS**") in accordance with GAAP, in all material respects. The Company consolidates (*a*) subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control, when benefits outweigh costs and/or material, and (*b*) *variable interest entities* ("**VIE**") in which the Company is the primary beneficiary. All significant intercompany balances and transactions are eliminated in consolidation.

Realization & Recognition. FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, defines the concepts of **realization** and **recognition**, which are not synonymous. *Realization* means the conversion of noncash resources and rights into cash or claims to cash; *realized* and *unrealized* identify revenues, gains or losses on assets sold and unsold, respectively. *Recognition* means formally recording or incorporating an item in financial statements; an asset, liability, revenue, expense, gain, or loss may be *recognized* (recorded) or *unrecognized* (unrecorded). This terminology applies to GAAP accounting in general and is particularly relevant to investment security accounting and reporting herein.

Note 2: Summary of Significant Accounting Policies (continued)

Comprehensive Income. GAAP defines *comprehensive income* ("**CI**") as the change in stockholders' equity of a business enterprise during a period from transactions and other events and circumstances, other than from stockholder sources. Therefore, CI includes all changes in stockholders' equity for a specified period (e.g., a year) except those resulting from investments by stockholders and distributions to stockholders; CI is comprised of *net income or loss* ("**Earnings**") and *other comprehensive income or loss* ("**OCI**"). GAAP generally requires that recognized revenue, expenses, gains, and losses be included in the determination of Earnings. However, certain changes in assets and liabilities are classified as OCI and presented as a separate component of CI; *accumulated OCI* ("**AOCI**") is reported as a separate component of stockholders' equity. AOCI, OCI, and components of OCI are presented net of income taxes. Relevant examples of OCI items follow:

- unrealized holding gains and losses on investment securities available for sale,
- unrealized holding gains and losses that result from a debt security being transferred into the *available for sale* ("**AFS**") category from the *held to maturity* ("**HTM**") category, or
- other than credit loss component of other-than-temporary-impairment on AFS and HTM securities.

Reclassification adjustments for components of OCI are recognized to avoid double counting items in CI that are presented as part of Earnings for a year that also had been presented as part of OCI in that year or earlier years.

Use of Estimates. The preparation of CFS 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 CFS. 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: (*a*) impairments of: (*i*) loans and the *allowance for loan and lease losses* ("**ALLL**"), (*ii*) investment securities, and (*iii*) foreclosed and repossessed assets; and (*b*) fair values. The Company uses fair values to measure certain assets, determine Earnings and OCI, value underlying collateral to estimate impairments of loans and foreclosed and repossessed assets, and for financial instrument disclosures. Fair value estimates involve uncertainties and other matters requiring management to exercise significant judgments; changes in assumptions, market conditions, or myriad other factors could significantly affect fair value estimates.

Fair Value. *Fair value*, as defined by GAAP and used herein, is the price that would be received to sell an asset or paid to transfer a liability in an *orderly transaction* between *market participants* 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 objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an *exit price* as opposed to a *transaction* or *entry price*). A fair value measurement for assets assumes the *highest and best use* of the asset by market participants. A fair value measurement for liabilities assumes transfer of the liability to a market participant at the measurement date (the liability to the counterparty continues; it is not settled) and that the *nonperformance risk* for that liability is the same before and after its transfer.

- 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 (e.g. it is not a forced liquidation or distress sale).
- The *principal market* is the market in which the Company would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. The *most advantageous market* is the market in which the Company would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s).
- *Market participants* are buyers and sellers in the *principal market* that are (*a*) independent, (*b*) knowledgeable, (*c*) able to transact, and (*d*) willing to transact.
- *Highest and best use* refers to the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used and considers the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date.
- *Nonperformance risk* refers to the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred.

Note 2: Summary of Significant Accounting Policies (continued)

Fair Value (continued). Valuation techniques that are consistent with the *market approach*, the *income approach,* and/or the *cost approach* and are consistently applied are required.

- 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.

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 Company'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 fair value hierarchy for valuation inputs 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 follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company 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 might 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 (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs: Unobservable inputs for determining the fair values of assets or liabilities that reflect the Company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Fair Value Option. The Company has the option to choose to measure many financial instruments (including financial assets and liabilities) and certain other items, that are not required to be measured at fair value, at fair value (the "**FVO**") to improve financial reporting by reduced volatility in reported Earnings caused by measuring related assets and liabilities differently. The FVO:

- May be applied instrument by instrument at specified *election dates* without electing the FVO for other identical items, with a few exceptions;
- Is irrevocable, unless a new election date occurs; and
- Is applied only to entire instruments and not to portions of instruments.

Unrealized gain and loss from changes in fair value of items where the FVO has been elected are recognized in Earnings. Upfront costs and fees related to items for which the FVO is elected are recognized in Earnings as incurred. When the FVO is elected, the Company will report those items in a manner that separates those fair values from reported amounts for similar assets and liabilities measured with another measurement attribute.

The Company has not elected the FVO for any eligible items to date and has no plans to do so for the foreseeable future.

Cash & Equivalents. The Company presents all cash on hand, balances due from other banks, and federal funds sold which have original maturities less than three months, as cash and equivalents. Federal regulations require banks to set aside specified amounts of cash as reserves against transaction and time deposits, which fluctuate daily. These reserves may be held as vault cash, in an account with a district Federal Reserve Bank, or as deposits with correspondents. Management believes that the Company complies with these requirements.

Note 2: Summary of Significant Accounting Policies (continued)

Interest-Bearing Deposits in Banks. From time-to-time, LCSB invests in interest-bearing deposits and term certificates of other banks with original maturities greater than three months. These deposits are not considered cash equivalents and are carried at cost with interest income thereon recognized on the accrual basis.

Investment Securities. Under GAAP, investment securities may be classified into trading, HTM, or AFS portfolios. Securities that are held principally for resale in the near term, if any, are classified as trading and recorded at fair value with changes in fair value included in Earnings. Debt securities that management has the ability and positive intent to hold to maturity, if any, are classified as HTM and are recorded at amortized cost. Securities not classified as trading or HTM, if any, are AFS and are reported at fair value with unrealized gains and losses excluded from Earnings, but included in the determination of OCI. AFS securities facilitate asset/liability management strategy; they may be sold in response to changes in liquidity needs, interest rates, resultant prepayment risk changes, and other factors.

Interest and dividend income from securities are included in Earnings when earned or declared, respectively. Purchase premiums and discounts on debt securities, if any, are recognized as an adjustment to interest income over the term of the related securities under the straight-line method which approximates the effective interest method. Gains and losses on security sales are recorded on the trade date and are determined under the specific identification method.

Other-Than-Temporary-Impairments ("OTTI") of Debt Securities. Individual AFS and HTM securities are *impaired* when fair value is less than the amortized cost basis; impairment can be <u>temporary</u> or <u>other-than-temporary</u> and is comprised of "credit loss" and "other loss" (e.g., losses due to increased market interest rates; highly volatile, disorderly, or inactive markets; increased prepayment speeds; or other factors).

The impairment is considered temporary unless there is a *credit loss* component to the impairment. *Credit loss* is identified as the difference between (*a*) the amortized cost basis and (*b*) the present value of the principal cash flows currently expected over the remaining term of the security discounted at the effective interest rate implicit in the security at acquisition.

If there is a *credit loss* component to the impairment, the impairment is *other-than-temporary* and OTTI is the difference between the amortized cost basis and the fair value. The credit loss component of OTTI is realized in Earnings and the other loss component of OTTI is recognized in OCI. However, if the Company intends to sell, or it is more-likely-than-not that the Company will have to sell, prior to recovery of the other loss component, the other loss component is charged to Earnings.

Federal Home Loan Bank Stock. LCSB owns an equity interest in the FHLB. FHLB stock does not have a readily determinable fair value because ownership is restricted and it lacks a market; it can only be sold back to the FHLB at its par value ($100 per share). Therefore, LCSB carries its investment in FHLB stock at cost; management does not believe the value is impaired. FHLB stock is generally pledged as collateral for FHLB advances when any are outstanding.

Federal Reserve Bank Stock Subscription. As a state member bank in the Federal Reserve System, the Bank is required to subscribe to the capital stock of the Federal Reserve Bank of Dallas ("**FRB**") in an amount equal to six percent (6%) of its paid-up capital and surplus and must pay in half of that amount (3%) to the FRB; the other half is subject to call by the Board of Governors of the Federal Reserve System. Regulations also specify procedures that a member bank must follow to purchase or redeem FRB capital stock; the subscription to the FRB stock is restricted and can only be liquidated upon withdrawal from membership. Therefore, the Bank carries its FRB stock subscription at the amount deposited with the FRB (which equals one-half (1/2) of the required subscription). An equal amount, which is unrecorded, is subject to call by the Board of Governors of the Federal Reserve System.

Loans Held-for-Sale. Loans held for sale include residential mortgage loans which are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance and charged against Earnings.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off. The majority of loans are made to customers to finance asset acquisitions, to provide working capital to finance business operations and other purposes in exchange for interest on outstanding principal balances from origination to maturity or pay-off. Additionally, origination fees are generally charged when warranted by related costs. Decisions about whether to extend credit to customers are based on anticipated sources of repayment, credit history, availability of collateral, and other considerations. At origination, *loans that management has the ability and intent to hold for the foreseeable future or until maturity or pay-off* ("**Retained Loans**") are recorded at the amount of cash advanced.

The fair value of Retained Loans is subject to changes in market interest rates and credit quality. The carrying value of a Retained Loan is not adjusted for changes in market interest rates unless its credit quality is also impaired, but management seeks to manage risks associated with changes in market interest rates on selected loans through adjustable, minimum, and/or maximum rates specified in their loan agreements.

Loans Held to Maturity or Pay-Off (continued). The *allowance for loan & lease losses* ("**ALLL**") is a recognized credit risk valuation account that, at periodic reporting dates, reduces outstanding loan balances to the estimated amount expected to be collected. Earnings are reduced for estimated credit losses through *provisions for loan & lease losses* ("**PLLL**") that are added to the ALLL. When *losses due to credit risks are confirmed, the losses are recognized as reductions of the outstanding principal balance and the ALLL* (a "**Charge-Off**"), which has no effect on Earnings, assets, or capital. *Subsequent recoveries of amounts previously charged-off against the ALLL* ("**Recoveries**"), if any, are added back to the ALLL and do not directly affect Earnings.

Prior to charge-off, a loan is considered **impaired** when, based on current information and events, it is **probable** (interpreted as "likely to occur" which is a higher likelihood than "more likely than not" but does not require virtual certainty) that scheduled payments of principal or interest will not be collected when due according to the contractual terms of the loan agreement. The amount of **impairment** on a specifically identified *impaired* loan is the estimated amount of *probable* loss of the *recorded investment* based on current information and events at the corresponding reporting date. The **recorded investment** in a loan includes the outstanding principal, adjusted as applicable for capitalized accrued interest, direct partial charge-offs, and deferred fees or costs on originated loans.

Loans are routinely restructured to accommodate changes in borrower needs and circumstances and market terms. However, when a restructure involves a *concession* to the borrower for economic or legal reasons related to the borrower's financial difficulties that would not otherwise be considered, a *troubled debt restructuring* ("**TDR**") has occurred. A **concession** results when, as a result of the restructure, the Bank does not expect to collect all amounts due, including interest accrued at the original contract rate. A restructuring that results in an insignificant delay in payment is not a TDR. A TDR is indicated by interest rates below market for similar credits, extensions, or other reductions in debt service requirements outside of market terms (e.g., conversion to interest only or no payments for a period of time or an extended amortization period that exceeds market norms) or forgiveness of principal or accrued interest. The Bank enters TDR's to minimize its losses or to otherwise increase the likelihood of eventual recovery.

A TDR is an *impaired* loan and is evaluated for impairment if it has not already been done. However, in years after the restructuring, the restructured loan will not be classified as an impaired loan if:

- The restructuring agreement specifies an interest rate equal to or greater than a market rate at the time of the restructuring; and
- The restructured loan is not impaired at that time based on the restructured terms.

Otherwise, the restructured loan will continue to be reported as an *impaired* Retained Loan.

The ALLL represents management's best estimate of *impairment* in the existing loan portfolio as a whole at periodic reporting dates based on current information and events (consideration of expectations for or projections of economic and environmental factors is precluded by GAAP). Management considers the diversification of the loan portfolio and related experience of the Bank and its personnel, extent of geographic and dollar concentrations, prevailing economic and environmental conditions and experience from comparable historical periods and the effects of adverse circumstances on borrower and guarantor ability to pay and estimated value of underlying collateral, along with any other factors identified as relevant to the current circumstances.

Note 2: Summary of Significant Accounting Policies (continued)

Management develops its estimate of an appropriate ALLL at periodic reporting dates based upon aggregation of loan impairment for *i*) specifically identified loans and *ii*) groups of remaining loans with similar risk characteristics. While management attributes portions of the allowance to specific portfolio segments and individual *impaired* loans, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

Loans Held to Maturity or Pay-Off (continued). Management routinely identifies **significant credits** (individual loans or relationships that are not part of groups of smaller balance homogenous type loans with similar credit risks) to evaluate collectibility based on consideration of the following:

- Dollar amounts of individual loans and total loans by borrower, guarantor, or other indicators of relationships;
- Payment status and overdrafts of related borrower deposit accounts;
- Borrower requests for concessions to alleviate cash constraints;
- Other evidence or risks of declining credit quality identified by loan officers, independent internal and external reviews (including outsourced reviews, financial statement audits, and regulatory examinations), members of management, and the board or information from other sources;
- Historical, environmental, and economic conditions that indicate increased risks of declining credit quality in certain industries, geographic areas, or types of loans; and
- Any other available information deemed relevant to the current circumstances.

When a *significant credit* has been identified for evaluation, management considers factors specific to that *significant credit* that include scheduled timing and amounts of principal and interest payments in relation to actual payment status (past due status is based on contractual terms) and demonstrated and projected sources of repayment to determine whether that specific loan or relationship is *impaired*. Loans that experience insignificant payment delays or shortfalls are not necessarily considered *impaired*, but loans that have not yet experienced payment delays or shortfalls may be considered *impaired* if identifiable and expected sources of repayment appear inadequate or otherwise unlikely to comply with the schedule specified by the contractual terms of the loan agreement. The significance of payment delays and shortfalls are considered on a case-by-case basis. All of the circumstances surrounding the loan and the borrower are considered, 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. *Probable* foreclosure on collateral generally indicates *impaired* status since it is not repayment in accordance with the schedule in the loan agreement and requires actions and costs that are not incurred in routine receipt of borrower payments.

Significant credits that have been identified as *impaired* are then individually evaluated to measure the amount of *impairment*, if any. *Impairment* for *significant credits* is measured by either *i*) the present value of expected future cash flows discounted at the loan's effective interest rate, *ii*) the loan's obtainable market price, or *iii*) the fair value of the collateral, if foreclosure is *probable* or the loan is otherwise considered *collateral dependent*. A loan is **collateral dependent** when repayment of the loan is expected to be provided solely by the underlying collateral. Regulatory guidance requires use of the collateral method for loans that are *collateral dependent* and the collateral method is the predominant method used by management. In general, any portion of the *recorded investment* in a *collateral dependent* loan in excess of the fair value of the collateral is recognized as *impairment*. If repayment of a *collateral dependent* loan depends on the sale of the collateral, the fair value of the collateral is reduced by estimated selling costs to measure *impairment*.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). To facilitate timely identification of *i*) declining credit quality in *significant credits* to manage credit risk in the loan portfolio and ii) *impaired* loans to be evaluated for *impairment* in the periodic estimation of the ALLL, management periodically reviews and classifies *significant credits* into the credit quality categories that follow:

Acceptable Classifications

Pass/Watch ("**P/W**"). Loans with financial factors or nature of collateral that are considered reasonable credit risks in the normal course of lending. This includes top rated businesses and individuals with large financial reserves in the Bank's lending area. These borrowers generally present a financial statement that would support a significant amount of unsecured borrowing availability with collateral taken as an abundance of caution.

Other Assets Especially Mentioned ("**OAEM**"). Loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the credit position at some future date. Examples of these potential weaknesses, although not all-inclusive, include:

- Poor lending practices that result in significant defects in the loan agreement, security agreement, guarantee agreement or other documentation and the deteriorating condition of or lack of control over collateral. In other words, these are conditions that may jeopardize the Bank's ability to enforce loan terms or that reduce the protection afforded by secondary repayment sources.
- Lack of information about the borrower or guarantors, including stale financial information or lack of current collateral valuations.
- Economic or market conditions that in the future may affect the borrower's ability to meet scheduled repayments. These may be evidenced by adverse profitability, liquidity, or leverage trends in the borrower's financial statements.

Adverse Classifications – Criticized or Classified

*Substandard ("**SubStd**").* Loan is inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize collection and are characterized by the **distinct possibility** that some loss will be sustained if the deficiencies are not corrected.

Impaired

*Substandard Impaired ("**SubImp**").* Same as SubStd, except that these loans are impaired because it has become probable that all principal and interest will not be collected as scheduled in the contract terms of the loan agreement; i.e., the likelihood of loss has become **probable**.

Doubtful. Loans with all the weaknesses inherent in the SubStd classification with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values highly questionable and improbable.

Loss. Considered uncollectible and of such little value that its continuance on the books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off an essentially worthless asset (or portion thereof), even though partial recovery may occur in the future. Loans classified as "loss" should be *charged-off.*

* The preceding definitions for SubStd, Doubtful, and Loss correspond with the FDIC's classification system. The definitions of P/W and OAEM are provided by the AICPA in its Accounting and Audit Guide titled *Depository & Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies.* Although Federal regulators do not require banks to adopt identical classification definitions, they are instructed to classify their loans using a system that can easily be reconciled with the regulators' classification system.

As significant credits progress down the above classification scheme, the frequency of review increases and, when adversely classified, they are reviewed at least at each quarterly reporting date. Significant credits evaluated and classified as SubStd or better (i.e., not impaired) are not specifically evaluated for *impairment.* Significant credits evaluated and classified as *impaired*, but judged to have no *impairment*, are excluded from any other *impairment* calculations in accordance with GAAP.

Aside from *significant credits* identified as *impaired*, it is *probable* that the Bank will not collect all the principal or interest due on all the *other loans* in the portfolio in accordance with the contractual terms of those loan agreements. Therefore, the portfolio includes *impaired* loans other than the *significant credits* individually identified as *impaired*, even though they are not specifically identified, and additional *impairment* in the portfolio is *probable.* Accordingly, *impairment* on any remaining Retained Loans that are not *impaired significant credits* is determined in aggregate for groups of loans with similar risk characteristics, including loans classified as SubStd. *Impairment* determined in aggregate for groups of loans is not specific to individually identifiable loans or relationships.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). The Bank's management has identified the following segments and *classes* (segment subgroups) of the loan portfolio based on borrower categories and the nature and purpose of loans and underlying collateral as groups of loans with similar risk characteristics that are used to develop the estimated *impairment* in the loan portfolio for Retained Loans that are not specifically identified as *impaired*:

Real Estate.... *Loans secured by real estate* ("**R/E**"). The source of repayment for these loans may be from sale of or rents from the underlying R/E, business operations in the R/E, or other sources. The repayment sources and R/E collateral values are sensitive to economic and other environment factors which may vary based on the type of R/E or related operations, geographically or both, as well as the quality of borrowers and other managers responsible for operations. Construction and development loans also present risks related to existence of collateral that should result from advances for construction or development activities and require additional monitoring.

Construction, development & other land.........To finance land under development or to be developed, or on-site construction of industrial, commercial, residential, or farm buildings.

Farmland..Secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Includes land known to be used or usable for agricultural purposes, such as crop and livestock production. Includes grazing or pasture land, whether tillable or not, and whether wooded or not. Excludes loans for farm property construction and land development purposes.

1-4 family residential property.........................Secured by mortgages or other liens on dwelling units including single family residences, vacation homes, condominiums, interest in individual cooperative housing units, and mobile homes. Loans in this class are considered to be part of a group of smaller balance relatively homogenous loans that are not individually evaluated for classification as *impaired*, although unusually significant loans in this class may be evaluated if they are identified as presenting risk of loss that would be an outlier compared to the historical range of loss.

Multifamily (5+) residential property...............Secured by mortgages or other liens on dwelling units for five or more family units such as apartments.

Owner-occupied commercial property ....Secured by nonfarm, nonresidential property including business & industrial, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, group homes for aged persons and orphans, golf courses, recreational facilities, and other similar properties that are occupied by the owner (e.g., not rental properties).

Other commercial property ....Same as previous, except not occupied by the owner (e.g., rental properties).

Other............. All other loans not secured by real estate present additional risks related to uncertainties about the existence, continuing utility, and values of non R/E collateral. Sources of repayment vary widely, but are generally related to cash flows reflected by the nature of the classes below. Accordingly, these sources of repayment are sensitive to economic and other environmental factors, as well as the quality of the borrowers and other managers that oversee the operations.

Commercial & industrial ("**C&I**") ....Loans for commercial and industrial purposes to legal entities (corporations, partnerships, limited liability entities, sole proprietorships, and other business enterprises) and individuals (except for loans to individuals for investing or personal expenditures), but not to nonprofit organizations. Includes loans to finance construction that are not secured by real estate and loans to farmers for business purposes other than farming. Includes leases to the same types of borrowers for the same purposes.

Agricultural production ....Loans to finance agricultural production, regardless of the borrower. Agricultural production includes growing and storing of crops; marketing and carrying of ag products by the producers thereof; breeding, raising, fattening, or marketing of livestock; fisheries; and forestries. Includes loans to purchase related equipment, machinery, or implements.

Consumer ....Loans to individuals for household, family, and other personal expenditures, except home mortgages (1-4 family residential) and loans to purchase or carry investment securities. Includes credit cards and other revolving credits, passenger and recreational vehicles, household appliances and furnishings, and others. Includes leases to the same types of borrowers for the same purposes. Loans in this class are considered to be part of a group of smaller balance relatively homogenous loans that are not individually evaluated for classification as *impaired*.

All others ....Loans to financial institutions (banks and other depository institutions and other associations, companies and financial intermediaries whose primary business is to accept deposits and to extend credit); US, State & local governments & subdivisions (other than investment securities, loans to United States government and agencies, the fifty states and District of Columbia and their municipalities, school and other districts, Puerto Rico and US territories and possessions and their political subdivisions and Indian tribes in the US); foreign governments & institutions; and loans to individuals for investment purposes (other than loans secured by real estate).

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). Identification and classification of *significant credits* and determination of *impairment* is inherently subjective and requires judgments and estimates that are susceptible to significant revision as more information becomes available due to changing circumstances and/or the passage of time. Judgments by knowledgeable professionals are subject to variations, even given the same facts and circumstances. The Bank's regulators routinely review the adequacy of the Bank's ALLL and may require the Bank to increase its ALLL based on their policies and/or judgments about individual borrowers, economic conditions, and other factors available to them at the time of their examinations.

The portfolio of Retained Loans is reported at its ***net carrying amount***: outstanding principal balances adjusted for charge-offs, the ALLL, and any deferred fees or costs on originated loans.

Interest income is accrued on outstanding principal balances. Management places loans on *nonaccrual status* ("**NonAccrual**") and discontinues accrual of interest income when collection of principal or interest is considered doubtful, including:

- When the financial condition of the borrower has deteriorated to the point the loan is maintained on the cash basis or specific *impairment* has been identified; or
- When principal or interest has been in default for a period of 90 days or more[1] under its contractual terms unless the loan is *well-secured*[1] and *in the process of collection*.[2 3 4]

1 A loan is *well-secured* if it is secured by: *i*) collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or *ii*) the guarantee of a financially responsible person.

2 A loan is *in the process of collection* if collection is proceeding in due course either i) through legal action, including judgment enforcement procedures, or ii) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

3 This criterion is established by regulation and is considered to comply with GAAP in all material respects.

4 Loans placed on NonAccrual are also moved to an *impaired* classification since management does not expect to collect interest and, therefore, it is *probable* that all principal and interest will not be collected according to the contractual terms of the loan agreement. Management may not suspend accrual of interest on *impaired* loans if all principal and interest are expected to be collected, just not according to the contractual terms of the loan agreement. An example of this circumstance and of an *impaired* loan with no *impairment* would be a loan where all principal and interest will be collected through foreclosure and liquidation of collateral, net of selling costs. Accordingly, NonAccrual loans are *impaired*, but *impaired* loans are not necessarily NonAccrual. However, *impaired* loans with identified *impairment* are NonAccrual since management does not expect to collect all principal and, therefore, does not expect to collect interest.

All interest accrued but not collected when a loan is placed on NonAccrual or is *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 status, if ever. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, generally through demonstrated performance.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan interest income.

Servicing. Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Capitalized mortgage servicing rights are reported in other assets and are amortized into non interest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Credit-Related Financial Instruments. In the ordinary course of business, the Company enters into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit.

Note 2: Summary of Significant Accounting Policies (continued)

Transfers of Financial Assets. Transfers of financial assets (primarily "loan participations sold") must be evaluated to determine whether the transfer meets all of the following conditions to qualify for sale accounting: (*a*) isolation of the transferred assets from the transferor, (*b*) the transferee has the right to pledge or exchange the assets received, and (*c*) the transferor's lack of effective control over the transferred assets. In general, a loan participation must have all of the following characteristics to meet the definition of a participating interest and qualify for sale treatment:

- It must represent a proportionate (pro rata) ownership interest in an entire financial asset;
- All cash flows received from the entire financial asset, except any cash flows allocated as compensation for servicing or other services performed (which must not be subordinated and must not significantly exceed an amount that would fairly compensate a substitute service provider should one be required), must be divided proportionately among the participating interest holders in an amount equal to their share of ownership;
- The rights of each participating interest holder (including the lead lender) must have the same priority, no interest is subordinated to another interest, and no participating interest holder has recourse to the lead lender or another participating interest holder other than standard representations and warranties and ongoing contractual servicing and administration obligations; and
- No party has the right to pledge or exchange the entire financial asset unless all participants agree to do so.

If a transfer of a portion of a financial asset does not meet the definition of a participating interest, both the lead lender transferring the participation and the party acquiring the participation must account for the transaction as a secured borrowing.

"Last-in, first-out" ("**LIFO**") participations in which all principal cash flows collected on the loan are paid first to the party acquiring the participation do not meet the definition of a participating interest. Similarly, so-called "first-in, first-out" ("**FIFO**") participations in which all principal cash flows collected on the loan are paid first to the lead lender do not meet the definition of a participating interest. As a result, neither LIFO nor FIFO participations qualify for sale accounting and would be reported as secured borrowings.

Upon the completion of a transfer of a participating interest that satisfies the conditions to be accounted for as a sale, the transferor (seller) must allocate the previous carrying amount of the entire financial asset between the participating interests sold and any that are retained based on their relative fair values at the transfer date, derecognize the participating interests sold, recognize and initially measure at fair value servicing assets (or servicing liabilities) and any other assets obtained and liabilities incurred in the sale, recognize in Earnings any gain or loss on the sale, and report any retained participating interests as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

Foreclosed & Repossessed Assets. Assets acquired through, or in lieu of, loan *foreclosure or repossession* ("**F&R**"), if any, are held for sale and are initially recorded at fair value less cost to sell at the date of F&R, establishing a cost basis for the asset(s). Differences between the loan investment carrying value and the cost basis of the F&R asset(s) are charged against the ALLL. Subsequent to F&R, capital improvements to F&R assets that increase the value, if any, are added to the F&R cost basis and management performs periodic valuations and the assets are carried at the lower of the F&R cost basis or estimated fair value less cost to sell. Revenue and expenses from holding and/or operating foreclosed assets and changes in the valuation allowance are netted and included in Earnings.

Premises & Equipment. Acquisitions are recorded at cost. Land is carried at cost. Depreciation on depreciable assets is provided over the estimated useful life of the asset, except for assets under capital lease obligations, which are depreciated over the shorter of the non-cancelable lease term or the estimated useful life of the leased asset, under the straight-line method. Maintenance, repairs, renewals, and betterments that do not significantly extend the useful life of the asset are recognized as expense as incurred. Book value (cost less accumulated depreciation at disposal) of asset disposals are removed from the accounts and the difference between the proceeds, if any, and the book value are netted and reported as gain or loss in Earnings for the corresponding period. The proceeds from trade-ins are added to the cost basis of the new asset and any difference between the proceeds and book value of the trade-in is reflected as gain or loss in Earnings.

Note 2: Summary of Significant Accounting Policies (continued)

Advertising Costs. Advertising costs are recognized when incurred. Advertising costs for the years ended December 31, 2015 & 2014 were $98,517 & $92,263, respectively.

Income Taxes. For Federal and state income tax purposes, the Company elected to be taxed as a Subchapter S corporation. The Company's Federal and state taxable income, income tax credits, and tax preference items are recognized on stockholders' personal income tax returns.

Concentrations. The Company's deposit and lending activities are concentrated in the eastern New Mexico and west Texas areas and in the agriculture (primarily cattle production), oil and gas, and wholesale/retail industries. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area and in these industries. Additional information on the types of securities and loans in which the Company invests is included in following notes. The Company does not have any significant concentrations of credit risk to any one customer or investment security issuer other than the U.S. government or its agencies or sponsored entities (including guaranties of borrower credits by these agencies).

The Company holds its primary liquid assets in the form of demand deposits in, and Federal funds sold to, other commercial banks and the Federal Reserve Bank. These amounts routinely exceed FDIC insurance limits and, at times, by significant amounts. Management monitors the safety and soundness of its correspondents and does not believe these institutions present significant credit risk.

Subsequent Events. The Company evaluated subsequent events for potential recognition and/or disclosure through April 21, 2016, the date the CFS were available to be issued.

Note 3: Investment Securities

Investment securities are held by LCSB. At December 31, 2015 & 2014, LCSB had pledged securities with carrying values of approximately $55,015,000 & $68,901,000, respectively, to secure public deposits, borrowings at the Federal Reserve Bank, repurchase agreements, and to meet other purposes required by law.

AFS portfolio composition follows:

Dollars in $000's	Amortized Cost	Unrealized Amounts Recognized in AOCI: Gross Gains	Gross Losses	Fair Value
US Treasury note	$ 9,191	$ 48	$ 31	$ 9,208
US Treasury IPS	11,201	—	111	11,090
GSE notes & bonds	18,270	—	172	18,098
GSE RMBS's	4,402	222	—	4,624
US Government Agency RMBS	412	80	—	492
GSE CMO	28,105	340	112	28,333
US Government Agency CMO's	6,696	72	34	6,734
State & municipal	145,341	3,207	145	148,403
December 31, 2015	$ 223,618	$ 3,969	$ 605	$ 226,982
US Treasury note	$ 9,273	$ 29	$ 62	$ 9,240
GSE notes & bonds	35,766	12	504	35,274
GSE RMBS's	31,660	1,128	4	32,784
US Government Agency RMBS	1,295	126	—	1,421
GSE CMO	34,413	509	121	34,801
US Government Agency CMO's	12,665	128	68	12,725
State & municipal	102,238	2,619	245	104,612
December 31, 2014	$ 227,310	$ 4,551	$ 1,004	$ 230,857

Note 3: Investment Securities (continued)

Contractual Maturities. AFS security contractual maturities follow:

Dollars in $000's	December 31, 2015 Amortized Cost	December 31, 2015 Fair Value
Within 1 year	$ 6,532	$ 6,593
1 to 5 years	83,691	84,119
5 to 10 years	42,770	43,734
Over 10 years	51,010	52,353
Subtotal	184,003	186,799
RMBS's	4,814	5,116
CMO's	34,801	35,067
Totals	$ 223,618	$ 226,982

Temporary Impairments. Additional information on securities that are temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position follow:

Dollars in $000's	December 31, 2015				December 31, 2014			
	< One Year		> One Year		< One Year		> One Year	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
US Treasury note	$ —	$ —	$ 31	$ 4,154	$ —	$ —	$ 62	$ 4,203
US Treasury IPS	112	144,778	—	—	—	—	—	—
GSE notes & bonds	—	—	172	18,099	—	—	504	32,499
GSE RMBS's	—	—	—	—	—	—	4	2,027
GSE CMO's	89	9,085	23	2,221	115	14,905	6	1,698
US Government Agency CMO's	10	2,841	23	1,697	67	4,518	1	540
State & municipal	116	16,675	29	11,844	121	16,229	124	19,664
AFS Securities	$ 327	$173,379	$ 278	$ 38,015	$ 303	$ 35,652	$ 701	$ 60,631

The impairments on GSE CMO's and US Government agency CMO's detailed above are due to increased interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than their amortized cost bases. Although these securities are AFS, the Company does not intend to sell them and it is more likely than not that the Company will not be required to sell these securities prior to recovery of their amortized cost bases, including maturity, and the losses are considered temporary.

The impairments on state & municipal securities above are due to increased interest rates, not credit quality. Although these securities are AFS, the Company does not intend to sell them and it is more likely than not that the Company will not be required to sell these securities prior to recovery of their amortized cost bases, including maturity, and the losses are considered temporary.

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans")

Recorded Investments in Retained Loans. *Recorded investments* in Retained Loans by portfolio segment and class and *net carrying amounts* at each year end follow:

Dollars in $000's	December 31, 2015	December 31, 2014
Construction, development, & other land	$ 849	$ 3,329
Farmland	52	—
1-4 family residential property	1,261	1,882
Multifamily (5+) residential property	—	—
Owner-occupied commercial property	15,395	11,336
Other commercial property	—	—
Real estate	17,557	16,547
Commercial & industrial	28,826	27,729
Agricultural production	2,237	2,171
Consumer	7,234	2,171
All others	2,408	1,317
Other	40,705	33,388
Recorded Investment in Retained Loans	58,262	49,935
ALLL	(1,117)	(759)
Retained Loans, Net Carrying Amount	$ 57,145	$ 49,176

Net unamortized deferred loan fees and origination costs were $71,577 & $70,294 at December 31, 2015 & 2014, respectively.

Credit Quality Indicators. Management considers payment status to be a significant indicator of credit quality. The payment status of *recorded investments* in Retained Loans by portfolio segment and class follows:

Dollars in $000's * "**DPD**" is Days Past Due.	Retained Loans Accruing Interest Income: Current to 29 DPD*	30-89 DPD*	90+ DPD*	NonAccrual	Totals
Construction, development, & other land	$ 849	$ —	$ —	$ —	$ 849
Farmland	52	—	—	—	52
1-4 family residential property	1,261	—	—	—	1,261
Multifamily (5 or more) residential property	—	—	—	—	—
Owner-occupied commercial property	15,395	—	—	—	15,395
Other commercial property	—	—	—	—	—
Real estate	17,557	—	—	—	17,557
Commercial & industrial	27,513	—	—	1,313	28,826
Agricultural production	2,237	—	—	—	2,237
Consumer	7,234	—	—	—	7,234
All others	2,408	—	—	—	2,408
Other	39,392	—	—	1,313	40,705
December 31, 2015	$ 56,949	$ —	$ —	$ 1,313	$ 58,262
Construction, development, & other land	$ 3,329	$ —	$ —	$ —	$ 3,329
Farmland	—	—	—	—	—
1-4 family residential property	1,793	5	—	84	1,882
Multifamily (5 or more) residential property	—	—	—	—	—
Owner-occupied commercial property	11,323	13	—	—	11,336
Other commercial property	—	—	—	—	—
Real estate	16,445	18	—	84	16,547
Commercial & industrial	26,300	—	—	1,429	27,729
Agricultural production	2,171	—	—	—	2,171
Consumer	2,171	—	—	—	2,171
All others	1,317	—	—	—	1,317
Other	31,959	—	—	1,429	33,388
December 31, 2014	$ 48,404	$ 18	$ —	$ 1,513	$ 49,935

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Credit Quality Indicators (continued). *Recorded investments* in Retained Loans categorized based on managements' evaluation of credit quality by portfolio segment and class follow:

Dollars in $000's	Impairment Evaluated				
	Collectively			Specifically	
	Acceptable		Criticized/Classified		
	P/W*	OAEM	SubStd	Impaired	Total
Construction, development, & other land	$ 849	$ —	$ —	$ —	$ 849
Farmland	52	—	—	—	52
1-4 family residential property	1,261	—	—	—	1,261
Multifamily (5 or more) residential property	—	—	—	—	—
Owner-occupied commercial property	14,975	—	420	—	15,395
Other commercial property	—	—	—	—	—
Real estate	17,137	—	420	—	17,557
Commercial & industrial	24,498	—	3,006	1,322	28,826
Agricultural production	2,237	—	—	—	2,237
Consumer	7,224	10	—	—	7,234
All others	2,408	—	—	—	2,408
Other	36,367	10	3,006	1,322	40,705
December 31, 2015	$ 53,504	$ 10	$ 3,426	$ 1,322	$ 58,262
Construction, development, & other land	$ 3,329	$ —	$ —	$ —	$ 3,329
Farmland	—	—	—	—	—
1-4 family residential property	1,798	—	—	84	1,882
Multifamily (5 or more) residential property	—	—	—	—	—
Owner-occupied commercial property	10,777	—	559	—	11,336
Other commercial property	—	—	—	—	—
Real estate	15,904	—	559	84	16,547
Commercial & industrial	23,425	2,830	—	1,474	27,729
Agricultural production	2,171	—	—	—	2,171
Consumer	2,150	21	—	—	2,171
All others	1,317	—	—	—	1,317
Other	29,063	2,851	—	1,474	33,388
December 31, 2014	$ 44,967	$ 2,851	$ 559	$ 1,558	$ 49,935

* The P/W category includes loans that have not been reviewed and classified by credit quality categories.

Allowance for Loan & Lease Losses. Annual ALLL activity follows:

Dollars in $000's	Years Ended December 31,			
	2015		2014	
Beginning		$ 759		$ 574
Provision for Loan & Lease Losses		—		168
Real estate	$ 62		$ —	
Other	29		—	
Charge-Offs		91		—
Real estate	13		14	
Other	436		3	
Recoveries		449		17
ALLL		$ 1,117		$ 759

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Allowance for Loan & Lease Losses (continued). The *recorded investment* in Retained Loans and ALLL disaggregated by segment/class and *impairment* methodology at each year end follows:

Dollars in $000's	ALLL Individually[1]	ALLL Collectively[2]	ALLL Total	Recorded Investment Individually[3]	Recorded Investment Collectively[4]	Recorded Investment Total
Construction, development, & other land $	—	$ 11	$ 11	$ —	$ 849	$ 849
Farmland	—	1	1	—	52	52
1-4 family residential property	—	16	16	—	1,261	1,261
Multifamily (5+) residential property	—	—	—	—	—	—
Owner-occupied commercial property	—	193	193	—	15,395	15,395
Other commercial property	—	—	—	—	—	—
Real estate	—	221	221	—	17,557	17,557
Commercial & industrial	385	362	747	1,322	27,504	28,826
Agricultural production	—	28	28	—	2,237	2,237
Consumer	—	91	91	—	7,234	7,234
All others	—	30	30	—	2,408	2,408
Other	385	511	896	1,322	39,383	40,705
December 31, 2015 $	385	$ 732	$ 1,117	$ 1,322	$ 56,940	$ 58,262
Construction, development, & other land $	—	$ 35	$ 35	$ —	$ 3,329	$ 3,329
Farmland	—	—	—	—	—	—
1-4 family residential property	—	19	19	84	1,798	1,882
Multifamily (5+) residential property	—	—	—	—	—	—
Owner-occupied commercial property	—	116	116	—	11,336	11,336
Other commercial property	—	—	—	—	—	—
Real estate	—	170	170	84	16,463	16,547
Commercial & industrial	248	284	532	1,474	26,255	27,729
Agricultural production	—	22	22	—	2,171	2,171
Consumer	—	22	22	—	2,171	2,171
All others	—	13	13	—	1,317	1,317
Other	248	341	589	1,474	31,914	33,388
December 31, 2014 $	248	$ 511	$ 759	$ 1,558	$ 48,377	$ 49,935

1 *Impairment* on *impaired* Retained Loans determined individually in accordance with ASC§310-10, *Receivables*.

2 *Impairment* on Retained Loans determined collectively in accordance with ASC§450-20, *Loss Contingencies*.

3 *Recorded investment* in *impaired* Retained Loans individually evaluated for *impairment* in accordance with ASC§310-10, *Receivables*.

4 *Recorded investment* in Retained Loans collectively evaluated for *impairment* in accordance with ASC§450-20, *Loss Contingencies*.

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Identified Impaired Retained Loans. Management evaluates *significant credits* identified as *impaired* to measure *impairment* on those loans. Information on identified *impaired* loans and related *impairment* by portfolio segment and class follows:

Dollars in $000's	[A] Total Unpaid Contractual Principal Balance	[B] Total	[C] Recorded Investments in Identified Impaired Retained Loans Without Impairment	[D] With Impairment	[E] Impairment on Identified Impaired Retained Loans
Construction, development, & other land	$ —	$ —	$ —	$ —	$ —
Farmland	—	—	—	—	—
1-4 family residential property	—	—	—	—	—
Multifamily (5+) residential property	—	—	—	—	—
Owner-occupied commercial property	—	—	—	—	—
Other commercial property	—	—	—	—	—
Real Estate	—	—	—	—	—
Commercial & industrial	1,322	1,322	78	1,244	385
Agricultural production	—	—	—	—	—
Consumer	—	—	—	—	—
All others	—	—	—	—	—
Other	1,322	1,322	78	1,244	385
December 31, 2015	$ 1,322	$ 1,322	$ 78	$ 1,244	$ 385
Construction, development, & other land	$ —	$ —	$ —	$ —	$ —
Farmland	—	—	—	—	—
1-4 family residential property	84	84	84	—	—
Multifamily (5+) residential property	—	—	—	—	—
Owner-occupied commercial property	—	—	—	—	—
Other commercial property	—	—	—	—	—
Real Estate	84	84	84	—	—
Commercial & industrial	1,474	1,474	229	1,245	248
Agricultural production	—	—	—	—	—
Consumer	—	—	—	—	—
All others	—	—	—	—	—
Other	1,474	1,474	229	1,245	248
December 31, 2014	$ 1,558	$ 1,558	$ 313	$ 1,245	$ 248

[A] = [B] + Past Partial Charge-Offs of Loans in [B] [E] is impairment on Loans in [D] [B] = [C] + [D]

The annual average *recorded investments* in identified *impaired* Retained Loans and related interest income recognized thereon by portfolio segment and class follows:

Dollars in $000's	2015 Average Recorded Investments In Identified Impaired Retained Loans	2015 Interest Income On Recorded Investments In Identified Impaired Retained Loans	2014 Average Recorded Investments In Identified Impaired Retained Loans	2014 Interest Income On Recorded Investments In Identified Impaired Retained Loans
Construction, land development & other land	$ —	$ —	$ —	$ —
Farmland	—	—	—	—
1-4 family residential property	42	—	42	—
Multifamily (5 or more) residential property	—	—	—	—
Owner-occupied commercial property	—	—	—	—
Other commercial property	—	—	—	—
Real Estate	42	—	42	—
Commercial & industrial	1,398	1	894	5
Agricultural production	—	—	—	—
Consumer	—	—	—	—
All others	—	—	—	—
Other	1,398	1	894	5
Totals	$ 1,440	$ 1	$ 936	$ 5

Note 5: Premises & Equipment

Composition of premises & equipment follows:

	Depreciable Life	December 31, 2015	December 31, 2014
Buildings,	31.5 yrs		
major improvements,	30 yrs		
& minor improvements	7 yrs	$ 5,204,560	$ 5,196,132
Furniture & equipment	3 – 8 yrs	3,278,623	3,114,475
Software	3 – 5 yrs	849,067	866,523
Depreciable premises & equipment, at cost		9,332,250	9,177,130
Less: accumulated depreciation		7,324,307	7,105,365
Depreciable premises & equipment, net		2,007,943	2,071,765
Land		336,835	336,835
Construction in process		7,082	97,285
Art		13,169	13,169
Premises & Equipment, Net		$ 2,365,029	$ 2,519,054

Note 6: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying CFS. The unpaid principal balances of mortgage loans serviced for others were $80,190,793 & $75,421,948 at December 31, 2015 & 2014, respectively. Mortgage servicing right activity follows:

	2015	2014
Beginning	$ 246,970	$ 266,355
Servicing rights retained on loans sold	90,699	63,558
Amortization	(91,370)	(82,943)
Mortgage Servicing Rights	$ 246,299	$ 246,970

Note 7: Time Deposits

Composition of time deposits follows:

	December 31, 2015	December 31, 2014
Brokered deposits	$ —	$ —
Other	11,601,088	$ 17,448,389
Denominations of $250,000 or more	11,601,088	$ 17,448,389
Brokered deposits	3,000,000	—
Other	25,666,846	26,954,130
Denominations less than $250,000	28,666,846	26,954,130
Time Deposits	$ 40,267,934	$ 44,402,519

Time deposits scheduled maturities as of December 31, 2015 follow:

2016	$ 23,316,440
2017	3,707,877
2018	2,067,762
2019	4,074,686
2020	4,101,169
Brokered deposits	3,000,000
	$ 40,267,934

Note 8: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. LCSB may be required to provide additional collateral based on the fair value of the underlying securities.

Note 9: Federal Home Loan Bank Advances

LCSB uses the FHLB as a source of funds with varying maturities for short- and long-term financing purposes. These borrowings are secured by a blanket lien. There were no advances outstanding at December 31, 2015 & 2014.

Note 10: Note Payable

LCBI has a $3,000,000 bank line of credit. The line bears interest at 5.75% per annum. It is secured by LCSB stock. The line of credit matures on July 1, 2016. The line of credit was not drawn on at December 31, 2015.

Note 11: Commitments & Contingent Liabilities

Various legal claims arise from time to time in the normal course of business that, in management's opinion, will not have a material effect on the CFS.

Note 12: Trust Preferred Securities

At December 31, 2015 & 2014, LCBI had $6,000,000 (at face value) of *7½% Junior Subordinated Deferrable Interest Debentures* (the "**Debentures**") outstanding and LCBT had $6,000,000 of *7½% Series C Preferred Securities* (the preferred securities or "**TPS**") and $180,000 of common securities outstanding. Since LCBT owns all of LCBI's outstanding debentures, LCBT's investment and LCBI's liability eliminate in consolidation, leaving the TPS in the accompanying CFS.

LCBT's sole assets are the Debentures and its exclusive purposes and functions are to issue and sell its securities and use the proceeds from such sales to acquire debentures of LCBI and to engage in those activities necessary, advisable or incidental thereto. Under an expense agreement, all Trust expenses are paid by LCBI.

The TPS and Debentures have virtually identical terms, including interest rate, payment or distribution amounts and dates, payment deferral provisions and maturities. TPS distributions and Debenture interest payments may be deferred at LCBI's discretion, at any time or from time to time, for up to twenty (20) consecutive quarters (5 years), except that the deferral cannot extend beyond the stated maturities. The Debentures were issued in 2006 and mature in 2036, which may be accelerated, in whole or in part, at LCBI's option, subject to prior regulatory approval. The Debentures may also be prepaid at any time, in whole, if there are specified changes in Debenture tax status, LCBT is required to be registered under the Investment Company Act of 1940, as amended, or LCBI's ability to treat the TPS as Tier I capital is impaired. The TPS are subject to mandatory redemption if the Debentures are prepaid. In each case, redemption will be made at par, plus the accrued and unpaid distributions thereon through the redemption date. Under a Guarantee Agreement, all contractual payments due to the TPS holders are guaranteed by LCBI.

The TPS qualify as Tier I capital for LCBI, subject to a limitation to 25% of Tier I capital (including any other cumulative preferred stock), subject to a minimum 5-year consecutive deferral period on distributions and specified subordination of related LCBI debentures. Further, the Federal Reserve Board must give prior approval before LCBI can redeem the TPS.

Debenture interest payments and TPS distributions are $450,000 annually, due in equal quarterly payments, unless deferred, in which case they will accumulate, along with additional interest thereon, and become due at the end of the deferral period.

Note 13: Regulatory Capital

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

In July 2013, the Federal Reserve Board published final rules for the adoption of the *Basel III regulatory capital framework* ("**Basel III**"). Basel III, among other things, (i) introduces a new capital measure called *Common Equity Tier 1* ("**CET1**"), (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 Capital instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the deductions/adjustments as compared to existing regulations. Basel III was effective for the Company and LCSB on January 1, 2015, with certain transition provisions fully phased-in on January 1, 2019. Management does not anticipate that there will be a material impact on the Company or LCSB.

Quantitative measures established by regulation to ensure capital adequacy require the Company and LCSB to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 & 2014, that the Company and LCSB met all capital adequacy requirements to which they are subject.

As of December 31, 2015, LCSB was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since December 31, 2015 that management believes have changed LCSB's category. The Company's and LCSB's actual capital amounts and ratios as of December 31, 2015 & 2014 follow:

Dollars in $000's	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015:						
Total Risk-Based Capital to Risk-Weighted Assets:						
Company	$ 29,502	24.2%	$ 9,746	8.0%	$ N/A	N/A
LCSB	28,668	23.6	9,709	8.0	12,136	10.0
Tier I Capital to Risk-Weighted Assets:						
Company	28,385	23.3	7,310	6.0	N/A	N/A
LCSB	27,552	22.7	7,281	6.0	9,709	8.0
Common Tier 1 (CET1):						
Company	22,385	18.4	5,482	4.5	N/A	N/A
LCSB	27,552	22.7	5,461	4.5	7,888	6.5
Tier I Capital to Adjusted Average Assets:						
Company	28,385	9.2	12,398	4.0	N/A	N/A
LCSB	27,552	9.1	12,139	4.0	15,173	5.0

Note 13: Regulatory Capital (continued)

Dollars in $000's

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Risk-Based Capital to Risk-Weighted Assets:						
Company	$ 25,385	23.1%	$ 8,809	8.0%	$ N/A	N/A
LCSB	25,551	23.3	8,759	8.0	10,949	10.0
Tier I Capital to Risk-Weighted Assets:						
Company	24,626	22.4	6,607	6.0	N/A	N/A
LCSB	24,793	22.6	6,569	6.0	8,759	8.0
Common Tier 1 (CET1):						
Company	18,651	16.9	4,955	4.5	N/A	N/A
LCSB	24,818	22.7	4,927	4.5	7,117	6.5
Tier I Capital to Adjusted Average Assets:						
Company	24,626	8.5	11,605	4.0	N/A	N/A
LCSB	24,793	8.4	11,785	4.0	14,732	5.0

LCSB, as a state bank, is subject to the dividend restrictions set forth by the *State of New Mexico Banking Act* (the "**Act**") and the Federal Reserve. Under such restrictions, LCSB may declare dividends not more than once in each calendar quarter from undivided profits if (1) the undivided profits account has been maintained in accordance with the Act and (2) the reserve against deposits required by the Act is not and will not thereby be impaired.

Note 14: Financial Instruments with Off-Balance Sheet Risk

Credit-Related Financial Instruments. In the normal course of business to meet the financing needs of its customers, LCSB is a party to credit-related financial instruments with off-balance sheet risk. These instruments include commitments to extend credit: standby letters of credit and commercial letters of credit which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying CFS. LCSB's exposure to credit loss is represented by the contractual amount of these commitments. Management applies the same policies in making decisions to extend credit under on- and off-balance sheet instruments.

At December 31, 2015 & 2014, the following off-balance sheet financial instruments, whose contract amounts represent credit risk, were outstanding (at contract amounts):

	2015	2014
Unfunded lines of credit	$ 9,021,000	$ 11,998,000
Unfunded credit card lines	2,675,000	2,574,000
Commercial and standby letters of credit	1,212,000	1,027,000
Other	12,000	13,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit and other revolving credit arrangements are commitments for possible future extensions of credit to existing customers. These lines of credit may be uncollateralized, may not contain a specified maturity date and may not be drawn upon to the total extent of the commitment.

Note 14: Financial Instruments with Off-Balance Sheet Risk (continued)

Commercial and standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially 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 loans to customers and collateral is generally held supporting those commitments, as management deems necessary.

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

Note 15: Employee Benefits

The Company sponsors a 401(k) plan ("**Plan**") that allows eligible employee salary deferrals and employer safe harbor matching, discretionary matching and profit-sharing, and *qualified non-elective contributions* ("**QNEC**"). LCSB makes safe harbor matching contributions equal to each participant's annual elective salary deferrals of up to 3% of the participants' compensation and an additional 50% of salary deferrals from 3% to 5% of the participants' compensation. Entry dates for new employees are the first of any month following six months of service. Participants are always fully-vested in their salary deferrals and employer safe harbor matching and QNEC contributions. Participants vest in employer discretionary matching and profit-sharing contributions under a 6-year graded vesting schedule, except that participants become fully-vested upon death or disability. Company contributions were $110,614 & $112,078 in 2015 & 2014, respectively.

The Company sponsors health, dental, and vision plans which provide medical, prescription drug, dental, and vision benefits. To be eligible, employees must work on a full-time basis (at least 30 hours per week). Vision and dental benefits are provided by third party insurers. The Company has limited health and prescription drug benefit risks through a stop-loss policy with a third party insurer which reimburses benefits paid that exceed $25,000 per participant per year (plus an additional $25,000 in aggregate benefits paid above the $25,000 specific deductibles) or $319,889 in aggregate per year. Benefit and premium expense was $336,524 & $250,569 for the years ended December 31, 2015 & 2014, respectively. Claims incurred but not paid (including IBNR) are not significant.

Note 16: Related Party Transactions

In the ordinary course of business, LCSB enters into transactions with related parties, including its officers, directors, stockholders and employees. As of December 31, 2015 & 2014, outstanding loans, either directly or indirectly, to this group aggregated approximately $989,000 & $1,310,000, respectively. Unused lines-of-credit to directors and executive officers was approximately $5,106,000 & $4,388,000 as of December 31, 2015 & 2014, respectively. There were no charge-offs related to these loans in 2015 or 2014 and advance and repayment activity was routine.

Related party deposits, including officers, directors, stockholders, and employees were $6,119,676 & $6,076,696 as of December 31, 2015 & 2014, respectively.

Note 17: Fair Value Measurements

AFS securities are the only assets measured and reported at fair value on a recurring basis. No liabilities are measured and reported at fair value on a recurring basis. AFS security values under the fair value hierarchy at December 31, 2015 follow:

Dollars in $000's	Level 1	Level 2	Level 3	Total
US Treasury note	$ 9,208	$ —	$ —	$ 9,208
US Treasury IPS	11,089	—	—	11,089
GSE notes & bonds	—	18,099	—	18,099
GSE RMBS's	—	4,624	—	4,624
US Government Agency RMBS's	—	492	—	492
GSE CMO's	—	28,334	—	28,334
US Government Agency CMO's	—	6,733	—	6,733
State & municipal	—	148,403	—	148,403
	$ 20,297	$ 206,685	$ —	$ 226,982

The methods and assumptions used to estimate the fair value of each class of financial instrument, for which it is practical to estimate that value, follow:

Cash & Equivalents. The carrying amounts approximate fair value.

Interest-Bearing Deposits in Banks. The carrying amounts approximate fair value.

AFS Securities. Fair value is based on quoted market price, if available. If a quoted market price is not available, then a model that matches quoted prices for similar assets adjusted for tranche type, collateral coupon, and the appropriate prepayment speeds is used. The fair value of securities are reported in Note 3. AFS securities are measured and reported at fair value on a recurring basis in periods subsequent to initial recognition.

HTM Securities. Fair value for HTM securities, which are carried at amortized cost, are based on quoted market prices, where available. If quoted market prices are not available, then a model that matches quoted prices for similar assets adjusted for tranche type, collateral coupon, and the appropriate prepayment speeds is used.

Federal Home Loan Bank Stock. The carrying amounts approximate fair value.

Federal Reserve Bank Stock. The carrying amounts approximate fair value.

Loans Held-for-Sale. The carrying amounts approximate fair value, in all material respects.

Loans. Specifically identified impaired loans are included in these financial statements at the estimated *fair value of the underlying collateral less cost to sell.* Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Management discounts the future cash flows of loans that are not specifically identified as impaired at current rates at which similar loans would be made to borrowers with similar credit ratings for comparable maturities and then deducts ALLL general reserves to estimate fair value on these loans. The sum of these values, for specifically identified impaired loans and loans that are not specifically identified as impaired, would not vary materially from the fair value of the loan portfolio as a whole and is the value reported below.

Deposit Liabilities. The carrying amounts of demand deposits approximate fair value. The carrying amounts of variable-rate time deposits approximate fair value. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently offered on time deposits with comparable maturities.

Short-Term Borrowings. The carrying amounts of Federal funds purchased and borrowings under repurchase agreements approximate fair value.

Federal Home Loan Bank Advances. The carrying amounts of overnight advances are fair values. Fair values of advances with longer terms are estimated using a discounted cash flow calculation that applies interest rates currently offered on advances with comparable maturities.

Note 17: Fair Value Measurements (continued)

Accrued Interest. The carrying amounts approximate fair value.

Trust Preferred Securities. Fair values for the fixed-rate, 30-year trust preferred securities is presumed to be par value due to mandatory redemption at par and payment deferral features, related party holders of the securities, and the closely-held nature of the entities involved.

Off-Balance-Sheet Instruments. These financial instruments have contractual interest rates at or above current market rates and the deferred income amounts arising from unrecognized financial instruments are not significant. Therefore, no market value disclosure is provided for these items.

The carrying and fair values of the Company's financial assets and liabilities (1) that are not measured and reported at fair value on recurring or non-recurring basis and (2) whose carrying values do not approximate fair value follow:

Dollars in $000's	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans, net	$ 57,145	$ 58,445	$ 49,176	$ 50,625
Financial Liabilities				
Time deposits	$ 40,268	$ 40,052	$ 44,403	$ 44,415

Lea County Bancshares, Inc.
& Subsidiaries
Hobbs, New Mexico

Supplemental Schedules

Years Ended:

December 31, 2015 & 2014

	BDFS	BDMC	LCBT	LCSB	LCBP	LCBI	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Company
Cash & due from banks	$ -	$ 48,116	$ 859	$ 8,159,492	$ 1,100	$ 114,812	[1]	$ (164,887)	$ 8,159,492
Cash & equivalents	-	48,116	859	8,159,492	1,100	114,812		(164,887)	8,159,492
Interest-bearing deposits in banks	-	-	-	375,279	-	-		-	375,279
AFS securities, at fair value	-	-	-	226,982,079	-	-		-	226,982,079
Federal Home Loan Bank stock, at cost	-	-	-	407,200	-	-		-	407,200
Federal Reserve Bank stock subscription, at amount deposited	-	-	-	165,000	-	-		-	165,000
Investment in subsidiaries	-	-	-	-	-	31,429,355	[2]	(31,429,355)	-
Junior subordinated deferrable interest debentures	-	-	6,110,927	-	-	-	[1]	(6,110,927)	-
Loans held-for-sale	-	-	-	642,378	-	-		-	642,378
Loans, net	-	140,672	-	57,003,882	-	-		-	57,144,554
Accrued interest receivable	-	840	-	2,121,250	-	-		-	2,122,090
Foreclosed & repossessed assets, net	-	-	-	129,107	-	-		-	129,107
Premises & equipment, net	-	-	-	2,267,729	97,300	-		-	2,365,029
Cash surrender value of life insurance	-	-	-	3,300,341	-	328,507		-	3,628,848
Other assets	-	113,918	-	964,675	-	141,635		-	1,220,228
Assets	$ -	$ 303,546	$ 6,111,786	$ 302,518,412	$ 98,400	$ 32,014,309		$ (37,705,169)	$ 303,341,284
Non interest-bearing	$ -	$ -	$ -	$ 102,775,624	$ -	$ -	[1]	$ 164,887	$ 102,610,737
Interest-bearing	-	-	-	162,606,239	-	-		-	162,606,239
Deposits	-	-	-	265,381,863	-	-		164,887	265,216,976
FFP & repurchase agreements	-	-	-	4,714,180	-	-		-	4,714,180
Accrued interest payable	-	-	-	16,175	-	-		-	16,175
Note payable	-	-	-	-	-	-		-	-
Junior subordinated deferrable interest debentures	-	-	-	-	-	6,110,927	[1]	6,110,927	-
Accrued expenses & other liabilities	-	-	-	1,490,571	-	154,689		-	1,645,260
Trust preferred securities	-	-	6,000,000	-	-	-		-	6,000,000
Liabilities	-	-	6,000,000	271,602,789	-	6,265,616		6,275,814	277,592,591
Class A common stock	-	30,000	180,000	2,431,000	-	527	[2]	2,641,000	527
Additional paid-in capital	-	266,500	-	3,069,000	100,000	2,351,829	[2]	3,435,500	2,351,829
Retained earnings (deficits)	-	7,046	(68,214)	22,052,111	(1,600)	20,032,825	[2]	21,989,343	20,032,825
Accumulated other comprehensive income	-	-	-	3,363,512	-	3,363,512	[2]	3,363,512	3,363,512
Treasury stock	-	-	-	-	-	-		-	-
Stockholders' Equity	-	303,546	111,786	30,915,623	98,400	25,748,693		31,429,355	25,748,693
Liabilities & Stockholders' Equity	$ -	$ 303,546	$ 6,111,786	$ 302,518,412	$ 98,400	$ 32,014,309		$ 37,705,169	$ 303,341,284

[1] Eliminate intercompany accounts.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report*.

	BDFS	BDMC	LCBT	LCSB	LCBP	LCBI	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Company
Loans, including fees	$ -	$ 18,501	$ -	$ 3,688,288	$ -	$ -		$ -	$ 3,706,789
Securities	-	-	450,000	4,674,216	-	-	[1]	450,000	4,674,216
Federal funds sold	-	-	-	1,316	-	-		-	1,316
Interest-bearing deposits	-	-	-	14,046	-	-		-	14,046
Interest & dividend income	-	18,501	450,000	8,377,866	-	-		450,000	8,396,367
Deposits	-	-	-	343,242	-	-		-	343,242
FFP & repurchase agreements	-	-	-	9,883	-	-		-	9,883
Other debt	-	-	455,282	-	-	448,236	[1]	(450,000)	453,518
Interest expense	-	-	455,282	358,585	-	448,236		(450,000)	812,103
Interest Margin (Deficit)	-	18,501	(5,282)	8,019,281	-	(448,236)		-	7,584,264
Loan & lease loss provision	-	-	-	0	-	-		-	-
Interest Margin (Deficit), Net of Loan & Lease Loss Provision	-	18,501	(5,282)	8,019,281	-	(448,236)		-	7,584,264
Service charges on deposit accounts	-	-	-	454,685	-	-		-	454,685
Net realized gain on AFS securities	-	-	-	769,177	-	-		-	769,177
Net gain on loan sales	-	-	-	579,021	-	-		-	579,021
Loan servicing fees	-	-	-	193,175	-	-		-	193,175
Foreclosed & repossessed assets, net	-	-	-	(22,123)	-	-		-	(22,123)
Other	-	-	-	1,115,519	9,600	19,730	[1]	19,835	1,125,014
Equity in subsidiary earnings	-	-	-	-	-	3,699,565	[2]	3,699,565	-
Non interest income	-	-	-	3,089,454	9,600	3,719,295		3,719,400	3,098,949
Salaries & employee benefits	-	-	-	3,730,741	-	-		-	3,730,741
Occupancy & equipment	-	-	-	653,799	-	-	[1]	(9,600)	644,199
Data processing	-	-	-	1,074,744	-	-		-	1,074,744
Other general & administrative	-	21,625	-	1,951,080	-	194,210	[1]	(10,235)	2,156,680
Non interest expense	-	21,625	-	7,410,364	-	194,210		(19,835)	7,606,364
Net Income (Loss)	-	(3,124)	(5,282)	3,698,371	9,600	3,076,849		3,699,565	3,076,849
Change in net unrealized gain on AFS securities	-	-	-	585,092	-	585,092	[2]	585,092	585,092
Net unrealized gain realized & reclassed to earnings	-	-	-	(769,177)	-	(769,177)	[2]	(769,177)	(769,177)
Other Comprehensive Loss	-	-	-	(184,085)	-	(184,085)		(184,085)	(184,085)
Comprehensive Income (Loss)	$ -	$ (3,124)	$ (5,282)	$ 3,514,286	$ 9,600	$ 2,892,764		$ 3,515,480	$ 2,892,764

[1] Eliminate intercompany accounts.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report*.

	BDFS	BDMC	LCBT	LCSB	LCBP	LCBI	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Company
Cash & due from banks	$ -	$ 186,776	$ 859	$ 10,232,847	$ 1,100	$ 181,913	[1]	$ (370,648)	$ 10,232,847
Cash & equivalents	-	186,776	859	10,232,847	1,100	181,913		(370,648)	10,232,847
Interest-bearing deposits in banks	-	-	-	394,046	-	-		-	394,046
AFS securities, at fair value	-	-	-	230,857,120	-	-		-	230,857,120
Federal Home Loan Bank stock, at cost	-	-	-	113,300	-	-		-	113,300
Investment in subsidiaries	-	-	-	-	-	28,887,478	[2]	(28,887,478)	-
Junior subordinated deferrable interest debentures	-	-	6,116,210	-	-	-	[1]	(6,116,210)	-
Loans held-for-sale	-	-	-	371,689	-	-		-	371,689
Loans, net	-	119,208	-	49,056,602	-	-		-	49,175,810
Accrued interest receivable	-	687	-	1,833,974	-	-		-	1,834,661
Foreclosed & repossessed assets, net	-	-	-	-	-	-		-	-
Premises & equipment, net	-	-	-	2,421,754	97,300	-		-	2,519,054
Cash surrender value of life insurance	-	-	-	3,313,142	-	328,503		-	3,641,645
Other assets	-	-	-	995,204	-	141,635		-	1,136,839
Assets	$ -	$ 306,671	$ 6,117,069	$ 299,589,678	$ 98,400	$ 29,539,529		$ (35,374,336)	$ 300,277,011
Non interest-bearing	$ -	$ -	$ -	$ 105,228,383	$ -	$ -	[1]	$ 370,648	$ 104,857,735
Interest-bearing	-	-	-	162,356,002	-	-		-	162,356,002
Deposits	-	-	-	267,584,385	-	-		370,648	267,213,737
FFP & repurchase agreements	-	-	-	2,376,653	-	-		-	2,376,653
Accrued interest payable	-	-	-	19,495	-	-		-	19,495
Note payable	-	-	-	-	-	1,015,000		-	1,015,000
Junior subordinated deferrable interest debentures	-	-	-	-	-	6,116,210	[1]	6,116,210	-
Accrued expenses & other liabilities	-	-	-	1,243,807	-	209,972		-	1,453,779
Trust preferred securities	-	-	6,000,000	-	-	-		-	6,000,000
Liabilities	-	-	6,000,000	271,224,340	-	7,341,182		6,486,858	278,078,664
Class A common stock	-	30,000	180,000	2,431,000	-	527	[2]	2,641,000	527
Additional paid-in capital	-	266,500	-	3,069,000	100,000	2,351,829	[2]	3,435,500	2,351,829
Retained earnings (deficits)	-	10,171	(62,931)	19,317,741	(1,600)	17,361,503	[2]	19,263,381	17,361,503
Accumulated other comprehensive income	-	-	-	3,547,597	-	3,547,597	[2]	3,547,597	3,547,597
Treasury stock	-	-	-	-	-	(1,063,109)		-	(1,063,109)
Stockholders' Equity	-	306,671	117,069	28,365,338	98,400	22,198,347		28,887,478	22,198,347
Liabilities & Stockholders' Equity	$ -	$ 306,671	$ 6,117,069	$ 299,589,678	$ 98,400	$ 29,539,529		$ 35,374,336	$ 300,277,011

[1] Eliminate intercompany accounts.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report*.

	BDFS	BDMC	LCBT	LCSB	LCBP	LCBI	*Eliminating Entries* Ref	*Eliminating Entries* Dr (Cr)	Company
Loans, including fees	$ -	$ 3,371	$ -	$ 2,529,466	$ -	$ -		$ -	$ 2,532,837
Securities	-	-	450,000	4,885,746	-	-	[1]	450,000	4,885,746
Federal funds sold	-	-	-	4,231	-	-		-	4,231
Interest-bearing deposits	-	-	-	16,012	-	-		-	16,012
Interest & dividend income	-	3,371	450,000	7,435,455	-	-		450,000	7,438,826
Deposits	-	-	-	381,631	-	-		-	381,631
FFP & repurchase agreements	-	-	-	4,257	-	-		-	4,257
Federal Home Loan Bank advances	-	-	-	-	-	-		-	-
Other debt	-	-	455,282	-	-	468,543	[1]	(450,000)	473,825
Interest expense	-	-	455,282	385,888	-	468,543		(450,000)	859,713
Interest Margin (Deficit)	-	3,371	(5,282)	7,049,567	-	(468,543)		-	6,579,113
Loan & lease loss provision	-	-	-	168,000	-	-		-	168,000
Interest Margin (Deficit), Net of Loan & Lease Loss Provision	-	3,371	(5,282)	6,881,567	-	(468,543)		-	6,411,113
Service charges on deposit accounts	-	-	-	464,780	-	-		-	464,780
Net realized gain on AFS securities	-	-	-	702,954	-	-		-	702,954
Net gain on loan sales	-	-	-	458,233	-	-		-	458,233
Loan servicing fees	-	-	-	182,773	-	-		-	182,773
Other	-	-	-	1,221,679	9,600	3,499	[1]	17,225	1,217,553
Equity in subsidiary earnings	-	-	-	-	-	2,951,871	[2]	2,951,871	-
Non-interest income	-	-	-	3,030,419	9,600	2,955,370		2,969,096	3,026,293
Salaries & employee benefits	-	-	-	3,370,853	-	-		-	3,370,853
Occupancy & equipment	-	-	-	644,101	-	-	[1]	(9,600)	634,501
Data processing	-	-	-	1,021,831	-	-		-	1,021,831
Other general & administrative	-	8,882	-	1,922,137	-	173,439	[1]	(7,625)	2,096,833
Non-interest expense	-	8,882	-	6,958,922	-	173,439		(17,225)	7,124,018
Net Income (Loss)	-	(5,511)	(5,282)	2,953,064	9,600	2,313,388		2,951,871	2,313,388
Change in net unrealized gain on AFS securities	-	-	-	3,155,710	-	3,155,710		3,155,710	3,155,710
Net unrealized gain realized & reclassed to earnings	-	-	-	(702,954)	-	(702,954)		(702,954)	(702,954)
Other Comprehensive Income	-	-	-	2,452,756	-	2,452,756		2,452,756	2,452,756
Comprehensive Income (Loss)	$ -	$ (5,511)	$ (5,282)	$ 5,405,820	$ 9,600	$ 4,766,144		$ 5,404,627	$ 4,766,144

[1] Eliminate intercompany accounts.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report*.