Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Alan L. Lackey
Name of the Holding Company Director and Official

Chairman / CEO
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

02/29/2016
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 3641767
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

Lone Star State Bancshares, Inc.
Legal Title of Holding Company

6220 Milwaukee Avenue
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Lubbock	TX	79424

same
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Debbie Gleason	SVP

806-771-7717 212
Area Code / Phone Number / Extension

806-771-9658
Area Code / FAX Number

dgleason@lonestarwtx.co
E-mail Address

www.lonestarwtx.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:
Report items 4. - 3.(c) & 4.(c)
- ☒ 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

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

Annual Report of Bank Holding Companies - Form FR Y-6

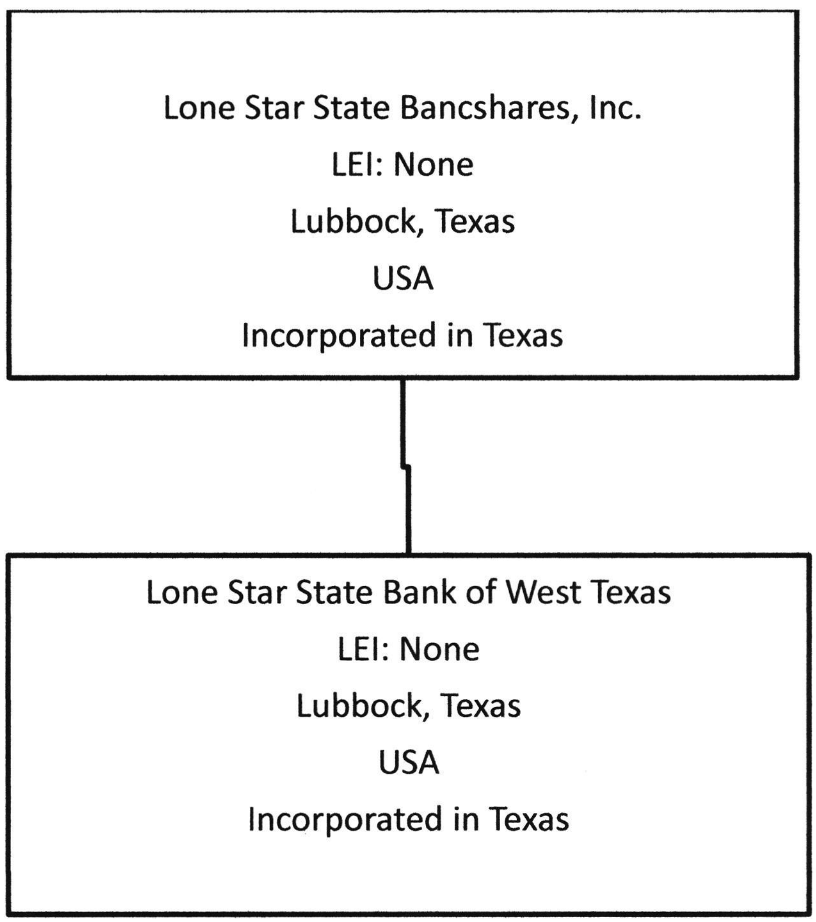
Lone Star State Bancshares, Inc.
Lubbock, Texas
Fiscal Year Ending December 31, 2015

Report Item

1: The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. The annual report is not available as of this date. It will be forwarded as soon as available.

2a: Organization Chart

Lone Star State Bancshares, Inc. owns 100% of Lone Star State Bank of West Texas



2b: Branch listing submitted to the Federal Reserve Bank via e-mail on 2/5/16.

Results: A list of branches for your depository institution: LONE STAR STATE BANK OF WEST TEXAS (ID_RSSD: 3607062).
This depository institution is held by LONE STAR STATE BANCSHARES, INC. (3641767) of LUBBOCK, TX
The data are as of 12/31/2015. Data reflects information that was received and processed through 01/07/2016.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

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

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

Submission Procedure

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	3607062	LONE STAR STATE BANK OF WEST TEXAS	6220 MILWAUKEE AVENUE	LUBBOCK	TX	79424-0604	LUBBOCK	UNITED STATES	1990	0	LONE STAR STATE BANK OF WEST TEXAS	3607062	
OK		Full Service	3736300	BIG SPRING BRANCH	600 EAST FM 700 (MARCY DRIVE)	BIG SPRING	TX	79720	HOWARD	UNITED STATES	478844	3	LONE STAR STATE BANK OF WEST TEXAS	3607062	
OK		Full Service	107150	BROWNFIELD BRANCH	301 WEST MAIN STREET	BROWNFIELD	TX	79316-4323	TERRY	UNITED STATES	463770	1	LONE STAR STATE BANK OF WEST TEXAS	3607062	
OK		Full Service	4803003	MIDLAND BRANCH	1004 NORTH BIG SPRING STREET, SUITE 100	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	LONE STAR STATE BANK OF WEST TEXAS	3607062	
OK		Full Service	3667682	ODESSA BRANCH	2975 JOHN BEN SHEPARD PARKWAY	ODESSA	TX	79762	ECTOR	UNITED STATES	469924	2	LONE STAR STATE BANK OF WEST TEXAS	3607062	

Form Y-6
Lone Star State Bancshares, Inc.
Year Ending December 31, 2015

Report item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2015					Securities Holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2014				
(1)(a)	(1)(b)	(1)(c)			(2)(a)	(2)(b)	(2)(c)		
Name,City, State, Country	**Country of Citizenship or Incorporation**	**Number of Common Stock Securities**	**Percentage of Voting Securities**	**Notes**	**Name,City, State, Country**	**Country of Citizenship or Incorporation**	**Number of Common Stock Securities**	**Percentage of Voting Securities**	**Notes**
Total Ware Family		1,976,285	35.69%	common stock					
William Robert Ware Estate Amarillo National Bank Trust Committee: Cliff Bickerstaff – Executive Vice President & Trust Chairman Johnny Crowley – Vice President & Personal Trust Manager Jason Gross – Assistant Vice President & Investment Officer DJ Hunt – Assistant Vice President & Investment Officer Stella Knickerbocker – Senior Vice President & Trust Officer Matt Ramsey – Senior Vice President Dennis Spear – Senior Vice President & Senior Trust Officer Michell Velasquez – Vice President & Trust Operations Officer Patrick Ware – Executive Vice President Amarillo, Texas USA	USA	135,653	2.45%	common stock		N/A			
Patrick O'Neill Ware Amarillo, Texas USA	USA	40,089 13,000	0.72% 0.22%	common stock vested options					
Richard Ware II Amarillo, Texas USA	USA	200,894	3.63%	common stock					
Richard Ware II 1976 Trust Richard Ware & Miles Childers, Trustees Amarillo, Texas USA	USA	21,591	0.39%	common stock					
Richard Ware 2009 GRAT Patrick Ware, Trustee Amarillo, Texas USA	USA	38,102	0.69%	common stock					
Richard Ware 2010 GRAT William J. Ware, Trustee Amarillo, Texas USA	USA	15,243	0.28%	common stock					
William James Ware Amarillo, Texas USA	USA	18,371 13,000	0.33% 0.22%	common stock vested options					
William Tol Ware Amarillo, Texas USA	USA	9,409	0.17%	common stock					

Report item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2015					Securities Holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2014				
(1)(a)	(1)(b)	(1)(c)			(2)(a)	(2)(b)	(2)(c)		
Name,City, State, Country	Country of Citizenship or Incorporation	Number of Common Stock Securities	Percentage of Voting Securities	Notes	Name,City, State, Country	Country of Citizenship or Incorporation	Number of Common Stock Securities	Percentage of Voting Securities	Notes
Anne Clayton Ware 1976 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	82,679	1.49%	common stock					
Anne Clayton Ware 1982 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	65,561	1.18%	common stock					
Benjamin T. Ware III 1976 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	66,591	1.20%	common stock					
Benjamin T. Ware III 1982 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	163,652	2.96%	common stock					
Mary Savannah Ware 1976 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	100,058	1.81%	common stock					
Mary Savannah Ware 1982 Grandchildren's Successor Trust William T. Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	105,723	1.91%	common stock					
Patrick O'Neill Ware 1976 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	141,204	2.55%	common stock					
Patrick O'Neill Ware 1982 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	187,153	3.38%	common stock					
William J. Ware 1976 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	157,185	2.84%	common stock					
William J. Ware 1982 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	192,861	3.48%	common stock					
William T. Ware 1976 Grandchildren's Successor Trust Richard Ware, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	99,032	1.79%	common stock					

Report item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2015					Securities Holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2014				
(1)(a)	(1)(b)	(1)(c)			(2)(a)	(2)(b)	(2)(c)		
Name,City, State, Country	Country of Citizenship or Incorporation	Number of Common Stock Securities	Percentage of Voting Securities	Notes	Name,City, State, Country	Country of Citizenship or Incorporation	Number of Common Stock Securities	Percentage of Voting Securities	Notes
William T. Ware 1982 Grandchildren's Successor Trust Mary Savannah Ware Singleton, Miles Childers & Rick B. Leverich, Trustees Amarillo, Texas USA	USA	135,234	2.44%	common stock					
Other greater than 5% securities holder									
Lone Star State Bancshares, Inc. and Subsidiaries Employee Stock Ownership Plan Alan Lackey, Melisa Roberts, Kirk Thomas & Brent Beakley, Trustees Lubbock, Texas USA	USA	504,296	9.11%	common stock					

Form Y-6
Lone Star State Bancshares, Inc.
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 Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Positions with Other Businesses - See Confidential Portion	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other Companies if 25% or more of voting Securities are held See Confidential Portion
Alan Lackey Lubbock, TX USA	N/A	CEO, Chairman Director	CEO, Chairman, Director Lone Star State Bank of West Texas		1.41% common stock 0.81% ESOP stock* 1.27% vested options on common stock 0.05% Family	None	
Kirk Thomas Lubbock, TX USA	N/A	N/A	Lubbock President Director Lone Star State Bank of West Texas		0.00% common stock 1.40% ESOP stock* 0.48% vested options on common stock 9.11% Trustee	None	
Brent Beakley Odessa, TX USA	N/A	N/A	Odessa President Director Lone Star State Bank of West Texas		1.14% ESOP stock* 0.44% vested options on common stock 9.11% Trustee 1.76% Family	None	
Melisa Roberts Lubbock, TX USA	N/A	Chief Lending Officer	Chief Lending Officer & EVP Director Lone Star State Bank of West Texas		0.09% common stock 0.70% ESOP stock* 0.44% vested options on common stock 9.11% Trustee 0.09% Family	None	
Lestie Glover Lubbock, TX USA	N/A	Chief Operations Officer	Chief Operations Officer & EVP Advisory Director Lone Star State Bank of West Texas		0.04% common stock 0.27% ESOP stock* 0.26% vested options on common stock 0.00% Family	None	
Edmund McGee Lubbock, TX USA	N/A	Chief Financial Officer	Chief Financial Officer & EVP Director Lone Star State Bank of West Texas		0.06% common stock 0.25% ESOP stock* 0.26% vested options on common stock	None	

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Lone Star State Bancshares, Inc.
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 Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Positions with Other Businesses - See Confidential Portion	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other Companies if 25% or more of voting Securities are held See Confidential Portion
Frosty Gilliam, Jr. Odessa, TX USA	Independent oil and gas producer	Director	Director Lone Star State Bank of West Texas		4.13% common stock 0.22% vested options on common stock	None	
Mark Hallgren Lubbock, TX USA	Life safety and security	Director	Director Lone Star State Bank of West Texas		1.95% common stock 0.22% vested options on common stock	None	

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Lone Star State Bancshares, Inc.
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 Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Positions with Other Businesses - See Confidential Portion	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other Companies if 25% or more of voting Securities are held See Confidential Portion
Charles E. Needham Lubbock, TX USA	Real estate and orthopedic sales	Director	Director Lone Star State Bank of West Texas		0.46% common stock 0.20% vested options on common stock 0.35% Family	None	
Wade Porter Amarillo, TX USA	Banking Amarillo National Bank	Director	Director Lone Star State Bank of West Texas		2.00% common stock 0.56% vested options on common stock	None	
ANB Trust Committee Trustee of William Robert Ware Estate Amarillo, TX USA	Bank Trust Committee Amarillo National Bank	N/A	N/A		2.45% Trustee	None	
Richard Ware II Amarillo, TX USA	Banking Amarillo National Bank	N/A	N/A		3.63% common stock 23.07% Trustee 1.06% Family	None	
Richard Ware II 1976 Trust Richard Ware and Miles Childers, Trustees Amarillo, TX USA	Trust	N/A	N/A		0.39%	Trust	
Richard Ware 2009 GRAT Patrick Ware, Trustee Amarillo, TX USA	Trust	N/A	N/A		0.69%	Trust	
Richard Ware 2010 GRAT William J. Ware, Trustee Amarillo, TX USA	Trust	N/A	N/A		0.28%	Trust	

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Lone Star State Bancshares, Inc.
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 Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Positions with Other Businesses - See Confidential Portion	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other Companies if 25% or more of voting Securities are held See Confidential Portion
William J. Ware Amarillo, TX USA	Banking Amarillo National Bank	Director	Director Lone Star State Bank of West Texas		0.33% common stock 0.22% vested options on common stock 0.28% Trustee 18.47% Family		
Patrick Ware Amarillo, TX USA	Banking Amarillo National Bank	Director	Director Lone Star State Bank of West Texas		0.72% common stock 0.22% vested options on common stock 0.69% Trustee 18.47% Family	None	
William Tol Ware Amarillo, TX USA	Banking Amarillo National Bank	N/A	N/A		0.17% common stock 1.91% Trustee	None	
Mary Savannah Ware Singleton Amarillo, TX USA	N/A	N/A	N/A		2.44% Trustee	None	
Anne Clayton Ware 1976 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		1.49% Trust	None	
Anne Clayton Ware 1982 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		1.18% Trust	None	
Benjamin T. Ware III 1976 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		1.20% Trust	None	
Benjamin T. Ware III 1982 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		2.96% Trust	None	
Mary Savannah Ware 1976 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		1.81% Trust	None	
Mary Savannah Ware 1982 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		1.91% Trust	None	
Patrick O'Neill Ware 1976 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		2.55% Trust	None	

Form Y-6
Lone Star State Bancshares, Inc.
Year Ending December 31, 2015

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

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name, City, State, Country	Principal Occupation if other than with Bank Holding Company	Title & Position with Bank Holding Company	Title & Position with Subsidiaries	Title & Positions with Other Businesses - **See Confidential Portion**	Percentage of Voting Shares in Bank Holding Company	Percentage of Voting Shares in Subsidiaries	List names of other Companies if 25% or more of voting Securities are held **See Confidential Portion**
Patrick O'Neill Ware 1982 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		3.38% Trust	None	
William J. Ware 1976 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		2.84% Trust	None	
William J. Ware 1982 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		3.48% Trust	None	
William T. Ware 1976 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		1.79% Trust	None	
William T. Ware 1982 Grandchildren's Successor Trust Amarillo, TX USA	Trust	N/A	N/A		2.44% Trust	None	
Miles B. Childers Amarillo, TX USA	Ranching LX Cattle Company	N/A	N/A		27.43% Trustee	None	
Rick B. Leverich Amarillo, TX USA	Oil & Gas	N/A	N/A		27.04% Trustee	None	
Mara Barham Odessa, TX USA	N/A	N/A	Executive VP-Lending Mgr Advisory Director Lone Star State Bank of West Texas		0.10% ESOP stock* 0.24% vested options on common stock 0.57% Family	None	
Ron Brooks Big Spring, TX USA	N/A	N/A	Big Spring President Advisory Director Lone Star State Bank of West Texas		0.19% ESOP stock* 0.22% common stock	None	
Nanette Deso Lubbock, TX USA	N/A	N/A	Senior VP Advisory Director Lone Star State Bank of West Texas		0.28% common stock 0.35% ESOP stock* 0.24% vested options on common stock	None	

Form Y-6
Lone Star State Bancshares, Inc.
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 Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Positions with Other Businesses - See Confidential Portion	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other Companies if 25% or more of voting Securities are held See Confidential Portion
G. Edward Pfeiffer Brownfield, TX USA	N/A	N/A	Executive VP Lone Star State Bank of West Texas		0.05% common stock 0.00% ESOP stock*	None	
Mike Richardson Brownfield, TX USA	N/A	N/A	Brownfield President Advisory Director Lone Star State Bank of West Texas		0.32% common stock 0.20% ESOP stock* 0.26% common stock	None	
Steve Yandell Lubbock, TX USA	N/A	N/A	Senior VP Advisory Director Lone Star State Bank of West Texas		0.14% common stock 0.43% ESOP stock* 0.17% common stock 0.22% Family	None	
Michael J. Davis Midland, TX USA	N/A	N/A	Midland President Lone Star State Bank of West Texas		0.09% ESOP stock*	None	

* ESOP stock represents shares owned at 12/31/2014. The allocation of shares by the Third Party Administrator will not be available until after March 30.

3641767

RECEIVED
MAY 06 2016
NIC UNIT

LONE STAR STATE BANCSHARES, INC.
AND SUBSIDIARY

Lubbock, Texas

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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CMMS
CONNOR ◆ McMILLON ◆ MITCHELL ◆ SHENNUM PLLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Audit Committee of the Board of Directors
Lone Star State Bancshares, Inc. and Subsidiary
Lubbock, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lone Star State Bancshares, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

801 South Fillmore, Suite 600, Amarillo, Texas 79101 ◆ PO Box 15650, Amarillo, Texas 79105 ◆ (806) 373.6661 ◆ FAX (806) 372.1237 ◆ www.cmmscpa.com

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Opinion

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2015 supplemental consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Connor McMillon Mitchell & Shennum PLLC

Amarillo, Texas
March 24, 2016

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LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and due from banks	$ 88,902,368	$ 81,862,475
Interest-bearing deposits in bank	5,545,750	531,119
Cash and cash equivalents	94,448,118	82,393,594
Accrued interest receivable	6,150,110	6,350,347
Available-for-sale securities, at fair value	29,809,797	26,110,344
Federal Reserve Bank stock and other investments, at cost	2,526,750	2,453,650
Loans	637,767,619	622,096,366
Allowance for loan losses	(7,164,209)	(7,636,293)
Net loans	630,603,410	614,460,073
Premises and equipment, net	9,516,614	8,890,185
Intangibles, net	8,738,447	9,126,895
Other assets	941,850	639,185
TOTAL ASSETS	$ 782,735,096	$ 750,424,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 185,023,769	$ 188,762,742
Interest-bearing	501,819,585	469,580,618
Total deposits	686,843,354	658,343,360
Accrued interest payable	354,869	204,223
Accrued expenses and other liabilities	325,918	298,817
Capital lease obligations	1,007,549	41,218
Notes payable	2,885,000	4,185,000
Total liabilities	691,416,690	663,072,618
STOCKHOLDERS' EQUITY		
Common stock, $1 par, 20,000,000 shares authorized, 5,536,962 and 5,532,962 shares issued and outstanding at December 31, 2015 and 2014	5,536,962	5,532,962
Additional paid-in capital	63,854,224	63,617,219
Retained earnings	21,849,302	18,053,009
Accumulated other comprehensive income	77,918	148,465
Total stockholders' equity	91,318,406	87,351,655
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 782,735,096	$ 750,424,273

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

LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2015 and 2014

	2015	2014
INTEREST INCOME		
Loans, including fees	$ 30,424,211	$ 27,390,393
Available-for-sale securities	649,004	383,769
Federal funds sold and interest-bearing deposits in banks	200,893	51,038
Total interest income	31,274,108	27,825,200
INTEREST EXPENSE		
Deposits	3,957,420	2,292,400
Other debt	153,021	231,690
Total interest expense	4,110,441	2,524,090
NET INTEREST INCOME	27,163,667	25,301,110
PROVISION FOR LOAN LOSSES	3,500,000	910,004
NET INTEREST INCOME, AFTER PROVISION FOR LOAN LOSSES	23,663,667	24,391,106
NONINTEREST INCOME		
Service charges on deposit accounts	591,602	496,466
Debit card income	369,144	338,525
Other noninterest income	154,606	158,203
Net gain (loss) on sale of fixed assets	(3,076)	(2,499)
Total noninterest income	1,112,276	990,695
NONINTEREST EXPENSES		
Salaries and employee benefits	10,039,745	9,654,542
Occupancy and equipment	1,366,540	1,212,593
Data processing	774,508	674,836
FDIC assessment expense	440,635	340,646
Professional fees	236,782	237,871
Advertising	97,215	141,520
Communication	322,486	232,214
Legal	31,416	36,256
Amortization of intangible assets	388,448	388,448
Other general and administrative	1,481,674	1,414,943
Total noninterest expenses	15,179,449	14,333,869
Income before income taxes	9,596,494	11,047,932
INCOME TAX EXPENSE	42,801	39,441
NET INCOME	$ 9,553,693	$ 11,008,491

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

LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2015 and 2014

	2015	2014
NET INCOME	$ 9,553,693	$ 11,008,491
OTHER ITEMS OF COMPREHENSIVE INCOME (EXPENSE)		
Unrealized gains (losses) on available-for-sale securities	(70,547)	(77,934)
Less: Reclassification adjustment for gains realized in net income	-	-
Total other items of comprehensive income (expense)	(70,547)	(77,934)
COMPREHENSIVE INCOME	$ 9,483,146	$ 10,930,557

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

LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014

	Common Stock, at Par		Additional	Retained	Accumulated Other	Total
	Shares	Dollars	Paid-in Capital	Earnings (Deficits)	Comprehensive Income	Stockholders' Equity
Balance at December 31, 2013	4,356,491	$ 4,356,491	$ 44,711,641	$ 11,313,879	$ 226,399	$ 60,608,410
Net income	-	-	-	11,008,491	-	11,008,491
Other comprehensive expense	-	-	-	-	(77,934)	(77,934)
Cash dividends declared, $0.98 per share	-	-	-	(4,269,361)	-	(4,269,361)
Common stock issuance	1,176,471	1,176,471	18,796,400	-	-	19,972,871
Stock options expense	-	-	109,178	-	-	109,178
Balance at December 31, 2014	5,532,962	5,532,962	63,617,219	18,053,009	148,465	87,351,655
Net income	-	-	-	9,553,693	-	9,553,693
Other comprehensive expense	-	-	-	-	(70,547)	(70,547)
Cash dividends declared, $1.04 per share	-	-	-	(5,757,400)	-	(5,757,400)
Common stock issuance	4,000	4,000	41,750	-	-	45,750
Stock options expense	-	-	195,255	-	-	195,255
Balance at December 31, 2015	5,536,962	$ 5,536,962	$ 63,854,224	$ 21,849,302	$ 77,918	$ 91,318,406

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

LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 9,553,693	$ 11,008,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Net securities amortization	(43,465)	132,352
Provision for loan losses	3,500,000	910,004
Accretion of deferred loan fees	(104,947)	(232,111)
Amortization of intangibles	388,448	388,448
Depreciation	713,501	669,947
(Gain) loss on asset disposals	3,076	2,499
(Gain) loss on sale of foreclosed assets	17,304	-
Stock option compensation	195,255	109,178
Change in other assets	(312,394)	(1,304,380)
Change in other liabilities	177,747	147,739
Net cash provided by operating activities	14,088,218	11,832,167
CASH FLOWS FROM INVESTING ACTIVITIES		
Available-for-sale securities sales, maturities, and calls	58,525,000	67,360,000
Purchase of available-for-sale securities	(62,251,535)	(72,556,022)
Federal Reserve Bank stock subscription remitted	-	(600,000)
Federal Home Loan Bank stock subscription redemption (remitted)	(73,100)	1,415,900
Net loan originations, collections and write-off	(19,403,374)	(139,286,181)
Proceeds from sale of foreclosed assets	57,646	-
Premise and equipment purchases	(346,519)	(207,449)
Proceeds from sale of fixed assets	2,690	-
Net cash used by investing activities	(23,489,192)	(143,873,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	28,499,994	178,765,473
Advance on other borrowings	-	2,500,000
Lease obligation (payments)	(32,846)	(15,904)
Dividends paid	(5,757,400)	(4,269,361)
Debt payments	(1,300,000)	(9,800,000)
Proceeds from the issuance of common stock, net	45,750	19,972,871
Net cash provided by financing activities	21,455,498	187,153,079
Net increase in cash and cash equivalents	12,054,524	55,111,494
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,393,594	27,282,100
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 94,448,118	$ 82,393,594
Supplemental Disclosure of Cash Flow Information:		
Interest paid on deposits and borrowed funds	$ 3,959,795	$ 2,423,717
Income taxes paid - state	42,801	39,441
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Assets acquired in settlement of loans	135,016	-
Capital lease obligation for banking facility	999,177	-

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Organization

Lone Star State Bancshares, Inc. and Subsidiary (LSSBI) is a Texas corporation and registered bank holding company and was formed on March 7, 2007. LSSBI operated as a development stage enterprise through December 2, 2007. Lone Star State Bank of West Texas (the Bank), a wholly owned Texas chartered bank subsidiary of LSSBI, began operations on December 3, 2007. The consolidated entity is referred to herein as the Company.

Operations

The Bank provides a variety of financial services to individuals, businesses and other entities through its locations in Lubbock, Odessa, Brownfield, Midland, and Big Spring, Texas. Its primary deposit products are interest and noninterest bearing demand deposit accounts, savings accounts and term certificates. The Bank also uses deposits as a source of funding. Its primary lending areas are oil and gas production and related service businesses, other commercial operations, commercial real estate, agriculture, residential real estate and consumer.

Tax Status

For Federal income tax purposes, LSSBI elected to be taxed as a Subchapter S corporation beginning at inception. The Bank is a Qualified Subchapter S corporation (Q-Sub) that is disregarded for Federal income tax purposes. The Company's consolidated Federal taxable income, income tax credits and tax preference items are recognized on LSSBI stockholders' personal income tax returns.

The Company adopted the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 740, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, effective January 1, 2009. The Company has evaluated their status as a pass-through entity and believes there is sufficient positive evidence to support their position.

The Company's Federal Tax Returns for 2013, 2014, and 2015 are subject to examination by the Internal Revenue Service for three years after they were filed.

In 2006, the State of Texas modified its franchise tax structure. The change was effective for franchise tax reports filed on or after January 1, 2008. Management has concluded that, as modified, Texas franchise taxes are income taxes for financial reporting purposes under generally accepted accounting principles (GAAP) and the Company is subject to the modified franchise tax as a combined group; the Company, instead of its stockholders, is liable for Texas franchise taxes. The franchise tax liability is based on the previous year's income and expenses; accordingly, accrued expenses and other liabilities in the accompanying consolidated balance sheets include $50,004 and $42,000 for estimated Texas franchise taxes payable at December 31, 2015 and 2014, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Consolidation

The Company's consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements include the accounts of LSSBI and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Increase in Authorized Shares

In August 2014, by the approval of more than two-thirds of the Company's outstanding shares entitled to vote, the certificate of formation was amended to increase the number of authorized shares of common stock from 5,000,000 shares to 20,000,000 shares.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates. The allowance for loan losses and related provision, and the fair value of financial instruments are material estimates that are particularly susceptible to significant change in the near term.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, and unrealized losses related to factors other than credit on debt securities.

Cash and Cash Equivalents

The Company includes all cash on hand and balances due from other banks, interest-bearing deposits and term certificates of other banks, federal funds sold and purchased under agreements to resell, which have original maturities less than three months, as cash and cash equivalents in the accompanying consolidated financial statements.

From time to time, the Company may invest in interest-bearing deposits and term certificates of other banks. These deposits will be carried at cost with interest income thereon recognized on the accrual basis.

Federal regulations require banks to set aside specified amounts of cash as reserves against transaction and time deposits which fluctuate daily. The Bank's reserve requirement totaled approximately $14,453,000 and $15,682,000 at December 31, 2015 and 2014, respectively. These reserves may be held as vault cash, in an interest-bearing account with a district Federal Reserve Bank or as deposits with correspondents. Management believes that the Bank complies with these requirements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. The Company had no securities classified as trading or held-to-maturity at December 31, 2015 or 2014. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company follows accounting guidance related to recognition and presentation of other-than-temporary impairments (OTTI), which is primarily codified in FASB Accounting Standards Codification (ASC) 320-10. This guidance amended the recognition guidance for OTTI of debt securities and expanded the financial statement disclosures for OTTI on debt and equity securities. The guidance replaced the "intent and ability" indication by specifying that (a) if a corporation does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

In accordance with OTTI guidance, the Company's Consolidated Statement of Income would reflect, if applicable, the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that more likely than not it will not be required to sell prior to recovery, only the credit loss component of the impairment would be recognized in earnings, while the fair value loss would be recognized in Accumulated Other Comprehensive Income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities (Continued)

which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

Federal Reserve Bank Stock and Other Investments

Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are carried at cost and can only be sold back to the FRB and FHLB or other member banks at par value. Dividends on FRB and FHLB are included in interest income in the Consolidated Statements of Income.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market, if any, are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to earnings. There were no loans held-for-sale at December 31, 2015 and 2014.

Loans

The Bank grants loans to customers based on source of repayment, credit history, availability of collateral and other considerations. Loans that management has the ability and intent to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding principal balances adjusted for charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan interest income in accordance with the effective interest method.

The accrual of interest on loans outstanding is discontinued at the time collection of principal or interest is considered doubtful. All interest accrued but not collected for loans placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual 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.

Allowance for Loan Losses

The Bank's allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses that reduces earnings. Management charges loan losses against the allowance (charge-offs) when loan impairment is confirmed. Subsequent recoveries of amounts previously charged-off through the allowance, if any, are credited back to the allowance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

An allowance is estimated by management, at least quarterly, based upon periodic consideration of loan impairment for specifically identified loans and groups of loans with similar risk characteristics. Management considers historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic and other environmental conditions. Determination of loan 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.

A loan is considered impaired when, based on current information and events, it is probable that scheduled payments of principal or interest will not be collected when due according to the contractual terms of the loan agreement. Factors management considers to determine impairment of a specific loan or relationship include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis and takes all of the circumstances surrounding the loan and the borrower under consideration, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a by-loan basis for significant credits by either the present value of expected future cash flows, the loan's obtainable market price or the fair value of the collateral, if the loan is collateral dependent, and in aggregate for groups of smaller balance, relatively homogenous loans with similar risk characteristics. Impairment determined in aggregate for groups of loans is not specific to individually identifiable loans or relationships.

Troubled Debt Restructurings

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may be modified by means of extending the maturity date of the loan, reducing the interest rate of the loan to a rate which is below market, a combination of rate adjustments and maturity extensions, or by other means including covenant modifications, forbearances or other concessions.

The Company does not accrue interest on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with their restructured terms for a reasonable period of at least six months and Management is reasonably assured of future performance and ultimate collectibility. The Company continues to accrue interest on troubled debt restructurings which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their restructured terms. When doubt exists about

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings (Continued)

the ultimate collectibility of principal and interest, the troubled debt restructuring remains on non-accrual status and payments received are applied to reduce principal to the extent necessary to eliminate such doubt. The determination of accrual status is judgmental and is based on facts and circumstances related to each troubled debt restructuring. Each of these loans is individually evaluated for impairment, and a specific reserve is recorded based upon probable losses taking into consideration the related collateral, modified loan terms and cash flow. Management evaluates the allowance for loan losses with respect to troubled debt restructures under the same policy and guidelines as all other performing loans.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Credit-Related Financial Instruments

In the ordinary course of business, the Bank enters into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosures, if any, are held for sale and are initially recorded at the lower of the loan investment carrying value or the estimated fair value of the assets acquired less cost to sell at the date of foreclosure, establishing a cost basis for the foreclosed assets. Excesses of the loan investment carrying value over the cost basis of the foreclosed assets are charged against the allowance. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the cost basis or estimated fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are grouped and netted in the consolidated financial statements. Foreclosed assets held at December 31, 2015 and 2014 were $60,065 and $-0-, respectively.

Premises and Equipment

Acquisitions are recorded at cost. Depreciation 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 asset, under the straight-line method. Maintenance, repairs, renewals and betterments that do not significantly extend the

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment (Continued)

useful life of the asset are recognized as expense when incurred. Book value (cost less accumulated depreciation at time of 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.

Goodwill

Goodwill represents the excess of the cost of the branch acquired over the fair value of the net assets acquired. The Company does not amortize goodwill. Goodwill has been assigned to the banking operations reporting unit and is tested for impairment at least annually, but may be tested for impairment if any event occurs or circumstances change that would more likely than not reduce the fair value of the banking operations reporting unit below its carrying value. Any impairment loss is to be recognized in the Consolidated Statements of Income. There were no impairment losses for the years ended December 31, 2015 and 2014.

Other Intangible Asset

The core deposit intangible is amortized to expense over its estimated useful life on the straight-line method. The remaining useful life and potential impairment of this core deposit intangible will be evaluated annually.

Advertising Costs

Advertising costs are recognized when incurred. Advertising costs for the years ended December 31, 2015 and 2014 were $97,215 and $141,520, respectively.

Concentrations

The Bank's deposit and lending activities are concentrated in the West Texas area and in oil and gas production and related service businesses, other commercial operations, commercial real estate and agriculture.

The ability of their debtors to honor their contracts is dependent upon cash flows from business operations, including real estate, and other sources which are dependent upon general economic conditions in this area and in these industries. The Bank does not have significant concentrations of credit risk to any one customer other than the U.S. government or its agencies (including guaranties of borrower credits by these agencies).

The Bank holds its primary liquid assets in the form of demand deposits in other commercial banks and the Federal Reserve Bank. A significant amount exceeds FDIC insurance. Management monitors the safety and soundness of its correspondents and does not believe these institutions present a significant credit risk.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Company maintains deposits with other financial institutions in amounts that exceed federal deposit insurance coverage. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

At December 31, 2015 and 2014, the Company had cash and cash equivalents of $14,328,350 and $10,024,126, respectively, deposited at Amarillo National Bank of which $250,000 was insured by FDIC Insurance.

At December 31, 2015 and 2014, the Company had a money market account of $5,558,449 and $582,256, respectively, deposited at First National Bank Omaha of which $250,000 was insured by FDIC insurance.

At December 31, 2015 and 2014, the Company had cash and cash equivalents of $987,413 and $714,587, respectively, deposited at JP Morgan Chase of which $250,000 was insured by FDIC insurance.

At December 31, 2015 and 2014, the Company had cash and cash equivalents of $258,627 and $191,351, respectively, deposited at Bank of Oklahoma of which $250,000 was insured by FDIC insurance.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost of securities and their approximate fair values at December 31, 2015 and 2014 were as follows:

December 31, 2015	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
U.S. Government Sponsored Entity Debt Securities	$ 10,499,980	$ 8,260	$ (22,595)	$ 10,485,645
State and municipal obligations	1,748,731	101,021	–	1,849,752
U.S. Treasury Securities	17,483,168	12,900	(21,668)	17,474,400
Total available-for-sale	$ 29,731,879	$ 122,181	$ (44,263)	$ 29,809,797

NOTE 3 - INVESTMENT SECURITIES (CONTINUED)

December 31, 2014	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
U.S. Government Sponsored Entity Debt Securities	$ 15,509,846	$ –	$ (22,431)	$ 15,487,415
State and municipal obligations	2,987,333	171,971	–	3,159,304
U.S. Treasury Securities	7,464,700	4,100	(5,175)	7,463,625
Total available-for-sale	$ 25,961,879	$ 176,071	$ (27,606)	$ 26,110,344

During 2015 and 2014, there were no sales of available-for-sale securities.

At December 31, 2015 and 2014, LSSBI had pledged securities with carrying values of approximately $13,446,000 and $17,953,000, respectively, to secure public deposits.

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

	Amortized cost	Fair value
Due in one year or less	$ -	$ -
Due after one year through five years	28,871,712	28,886,855
Due after five years through ten years	639,059	672,064
Due after ten years	221,108	250,878
Total	$ 29,731,879	$ 29,809,797

Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014.

	Less Than Twelve Months		Over Twelve Months		
December 31, 2015	Fair value	Losses	Fair value	Losses	Total unrealized losses
Securities available-for-sale:					
U.S. Government Sponsored Entity Debt Securities	$ 8,467,745	$ 22,595	$ –	$ –	$ 22,595
State and municipal obligations	–	–	–	–	–
U.S. Treasury Securities	9,984,400	21,668	–	–	21,668
Total available-for-sale	$ 18,452,145	$ 44,263	$ –	$ –	$ 44,263

NOTE 3 - INVESTMENT SECURITIES (CONTINUED)

Temporarily Impaired Securities (Continued)

	Less Than Twelve Months		Over Twelve Months		
December 31, 2014	Fair value	Losses	Fair value	Losses	Total unrealized losses
Securities available-for-sale:					
U.S. Government Sponsored Entity Debt Securities	$ 15,487,415	$ 22,431	$ –	$ –	$ 22,431
State and municipal obligations	–	–	–	–	–
U.S. Treasury Securities	2,464,225	5,175	–	–	5,175
Total available-for-sale	$ 17,951,640	$ 27,606	$ –	$ –	$ 27,606

Premiums paid for federal agency securities, if any, are not significant and U.S. government agencies guarantee the contractual cash flows. The unrealized losses on four of the investments are due to increased market interest rates, not credit quality.

Investment in tax-exempt securities is part of the Company's strategy to manage taxable income for shareholders. Premiums paid for state and municipal securities, if any, are not significant.

Management analyzed the unrealized losses and considered general market conditions and other factors in concluding that the unrealized losses were temporary. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values and managements assertions will occur in the near term and that such changes could materially affect the amounts reported in the Company's consolidated financial statements.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment model.

We routinely conduct periodic reviews to identify and evaluate each investment security to determine whether an OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. At December 31, 2015 and 2014, there were no securities with other-than-temporary impairments.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans at December 31, 2015 and 2014 were as follows:

	2015	2014
Real estate - construction	$ 53,311,351	$ 44,788,348
Real estate - 1-4 family and multi-family	39,568,782	31,981,209
Real estate - other	193,452,958	175,640,136
Real estate	286,333,091	252,409,693
Commercial	165,082,264	176,839,648
Agriculture	163,460,835	169,778,139
Consumer	10,822,367	10,713,419
Other	12,069,062	12,355,467
Total loans	637,767,619	622,096,366
Less: allowance for loan losses	7,164,209	7,636,293
Loans receivable, net	$ 630,603,410	$ 614,460,073
Deferred loan fees included in total loans	$ 130,317	$ 127,509

Commercial and agricultural operating loans are underwritten based on the Company's examination of current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. This underwriting includes the evaluation of cash flows of the borrower, underlying collateral, if applicable, and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans may fluctuate in value after the initial evaluation. A first priority lien on the general assets of the business normally secures these types of loans. Loan-to-value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and hail insurance is required for most agricultural borrowers. Loans are generally guaranteed by the principal(s). The Company's commercial and agricultural operating lending is primarily in its primary market area.

Commercial and agricultural real estate loans are subject to underwriting standards and processes similar to commercial and agricultural operating loans, in addition to those unique to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial and agricultural real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The loan-to-value ratio is generally 85% of the lower of cost or value of the assets. Appraisals on properties securing these loans are performed by fee appraisers approved by the Board of Directors or, depending on loan size, may be performed by internal evaluations by qualified individuals not involved in the loan approval process. Because payments on commercial and agricultural real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial and agricultural real estate loans based on collateral and risk-rating

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

criteria. The Company typically requires guarantees on these loans. The Company's commercial and agricultural real estate loans are secured primarily by properties located in its primary market area.

Construction loans are underwritten utilizing independent appraisals, sensitivity analysis of absorption, vacancy and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. The Company typically requires guarantees on these loans. The Company's construction loans are secured primarily by properties located in its primary market area.

The Company originates 1-4 family real estate and consumer loans utilizing credit reports to supplement the underwriting process. Properties securing 1-4 family real estate loans are appraised by either internal evaluations or fee appraisers, both of which are independent of the loan origination function and have been approved by the Board of Directors. The loan-to-value ratios normally do not exceed 90%. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. To monitor and manage loan risk, policies and procedures are developed and modified, as needed by management. This activity, coupled with smaller loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis. The Company's 1-4 family real estate is secured primarily by properties located in its primary market area.

The Company uses the services of a third party to perform a loan review on an annual basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

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

	2015	2014
Balance at beginning of year	$ 7,636,293	$ 6,945,958
Provision for loan losses	3,500,000	910,004
Charge-offs	(4,078,347)	(293,665)
Recoveries	106,263	73,996
Balance at end of year	$ 7,164,209	$ 7,636,293

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific changes in the allowance for loan losses and recorded investment in loans for the years ended December 31, 2015 and 2014 are as follows:

	Real Estate Construction	Real Estate 1-4 Family and Multi-Family	Real Estate Other	Commercial	Agriculture	Consumer	Other	Total
December 31, 2015								
Allowance for Loan Losses								
Balance, beginning	$ 278,725	$ 112,253	$ 962,936	$ 1,732,675	$ 4,190,034	$ 76,363	$ 283,307	$ 7,636,293
Provision for loan losses	108,143	58,255	1,138,919	705,696	1,390,206	85,490	13,291	3,500,000
Recoveries of loans charge-off	-	-	-	54,242	-	52,021	-	106,263
Loans charged-off	-	-	(1,000,000)	(120,543)	(2,832,766)	(125,038)	-	(4,078,347)
Balance, ending	$ 386,868	$ 170,508	$ 1,101,855	$ 2,372,070	$ 2,747,474	$ 88,836	$ 296,598	$ 7,164,209
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 64,122	$ 222,230	$ 207,093	$ 17,305	$ -	$ 510,750
Ending balance: Collectively evaluated for impairment	386,868	170,508	1,037,733	2,149,840	2,540,381	71,531	296,598	6,653,459
Ending balance	$ 386,868	$ 170,508	$ 1,101,855	$ 2,372,070	$ 2,747,474	$ 88,836	$ 296,598	$ 7,164,209
December 31, 2014								
Allowance for Loan Losses								
Balance, beginning	$ 360,495	$ 205,600	$ 1,145,388	$ 2,642,243	$ 1,831,649	$ 262,557	$ 498,026	$ 6,945,958
Provision for loan losses	(81,770)	(93,347)	(182,452)	(754,523)	2,358,385	(121,570)	(214,719)	910,004
Recoveries of loans charge-off	-	-	-	71,198	-	2,798	-	73,996
Loans charged-off	-	-	-	(226,243)	-	(67,422)	-	(293,665)
Balance, ending	$ 278,725	$ 112,253	$ 962,936	$ 1,732,675	$ 4,190,034	$ 76,363	$ 283,307	$ 7,636,293
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ 59,205	$ 850,000	$ 17,722	$ -	$ 926,927
Ending balance: Collectively evaluated for impairment	278,725	112,253	962,936	1,673,470	3,340,034	58,641	283,307	6,709,366
Ending balance	$ 278,725	$ 112,253	$ 962,936	$ 1,732,675	$ 4,190,034	$ 76,363	$ 283,307	$ 7,636,293
December 31, 2015								
Loans								
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 3,142,108	$ 383,249	$ 1,639,737	$ 46,362	$ -	$ 5,211,456
Ending balance: Collectively evaluated for impairment	53,311,351	39,568,782	190,310,849	164,699,015	161,821,098	10,776,005	12,069,063	632,556,163
Ending balance	$ 53,311,351	$ 39,568,782	$ 193,452,957	$ 165,082,264	$ 163,460,835	$ 10,822,367	$ 12,069,063	$ 637,767,619
December 31, 2014								
Loans								
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 839,425	$ 111,605	$ 1,511,447	$ 44,891	$ -	$ 2,507,368
Ending balance: Collectively evaluated for impairment	44,788,348	31,981,209	174,800,711	176,728,043	168,266,692	10,668,528	12,355,467	619,588,998
Ending balance	$ 44,788,348	$ 31,981,209	$ 175,640,136	$ 176,839,648	$ 169,778,139	$ 10,713,419	$ 12,355,467	$ 622,096,366

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of construction, commercial and agricultural real estate loans and commercial and agricultural operating loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in our market area. Information for all credit quality indicators is updated annually.

The Company utilizes a risk rating matrix to assign risk ratings to each of its construction, commercial and agricultural loans. Loans are rated on a scale of 1 to 7. A description of the general characteristics of the 7 risk ratings is as follows:

Ratings 1, 2, and 3 – These ratings include loans of average to excellent credit quality borrowers. These borrowers generally have significant capital strength, moderate leverage and stable earnings and growth commensurate to their relative risk rating.

Rating 4 – This rating includes loans on management's "pass watch list" and is intended to be utilized for pass rated borrowers where credit quality has begun to show signs of financial weakness or is a type of loan that has more inherent risk and, therefore, requires management's heightened attention.

Rating 5 – This rating is for "Special Mention" in accordance with regulatory guidelines. This rating is intended to be temporary and includes loans to borrowers whose potential credit weaknesses could cause credit quality to deteriorate further unless active measures are taken to correct the situation.

Rating 6 – This rating for "Substandard" loans has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business.

Rating 61 – This rating includes "Substandard-Impaired" loans, in accordance with regulatory guidelines, that may not be collected in full according to the terms of the Note. This rating includes: (i) loans where payments are significantly past due, (ii) loans not fully secured, or (iii) loans where a specific valuation allowance may be necessary.

Rating 7 – This rating includes loans where repayment is "doubtful." Weaknesses in the credit are significant and could impede collection. The probability of loss is very high, but, because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The credit risk profile by internally assigned ratings at December 31, 2015 and 2014 is as follows:

	Real Estate Construction	Real Estate 1-4 family & Multifamily	Real Estate Other	Commercial	Agriculture	Consumer	Other	Total
December 31, 2015								
Rating 1	$ -	$ 194,900	$ -	$ 7,759,621	$ 958,407	$ 818,168	$ 5,210	$ 9,736,306
Rating 2	1,023,306	80,919	-	13,609,328	4,092,235	151,772	-	18,957,560
Rating 3	48,628,570	36,442,647	151,503,456	95,469,629	82,535,583	9,736,818	7,846,010	432,162,713
Rating 4	3,659,475	2,043,750	24,846,884	30,032,873	41,980,652	40,199	4,217,842	106,821,675
Rating 41	-	274,361	5,784,397	101,550	18,246,820	-	-	24,407,128
Rating 5	-	-	1,509,584	14,007,878	1,515,598	-	-	17,033,060
Rating 6	-	532,205	6,666,529	3,718,136	12,491,803	29,048	-	23,437,721
Rating 61	-	-	3,142,108	383,249	1,639,737	46,362	-	5,211,456
Rating 7	-	-	-	-	-	-	-	-
Totals	$ 53,311,351	$ 39,568,782	$ 193,452,958	$ 165,082,264	$ 163,460,835	$ 10,822,367	$ 12,069,062	$ 637,767,619
December 31, 2014								
Rating 1	$ -	$ -	$ -	$ 7,018,616	$ 1,634,101	$ 929,602	$ -	$ 9,582,319
Rating 2	1,404,587	214,324	-	12,177,840	7,382,034	4,726	-	21,183,511
Rating 3	39,898,319	29,265,813	145,527,907	136,667,250	103,117,283	9,734,655	8,479,030	472,690,257
Rating 4	3,485,442	2,086,566	21,235,360	10,946,855	30,928,830	(1,853)	3,712,511	72,393,711
Rating 41	-	-	161,000	5,341,764	8,090,587	-	-	13,593,351
Rating 5	-	55,730	1,526,197	434,322	2,689,350	-	-	4,705,599
Rating 6	-	358,776	6,350,247	4,141,396	14,424,507	1,398	163,926	25,440,250
Rating 61	-	-	50,000	111,605	1,511,447	44,891	-	1,717,943
Rating 7	-	-	789,425	-	-	-	-	789,425
Totals	$ 44,788,348	$ 31,981,209	$ 175,640,136	$ 176,839,648	$ 169,778,139	$ 10,713,419	$ 12,355,467	$ 622,096,366

Impaired Loans

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include certain loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The Company shall measure impairment based on the present value of expected future cash flows discounted at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Regardless of the measurement method, the Company shall measure impairment based on the fair value of the collateral when the Company determines that foreclosure is probable. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans (Continued)

Since impaired loans have risk characteristics that are unique to an individual borrower, the Company will apply the measurement methods on a loan-by-loan basis. The Company shall consider estimated costs to sell, on a discounted basis, in the measure of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measure of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), the Company shall recognize an impairment by creating a valuation allowance with a corresponding charge to bad debt expense or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to bad debt expense.

Subsequent to the initial measurement of impairment, if there is a significant change (increase or decrease) in the amount or timing of an impaired loan's expected future cash flows or if the cash flows are significantly different from the cash flows previously projected, the Company shall recalculate the impairment. When the Company measures impairment based on the observable market price of the impaired loan or the fair value of an impaired collateral-dependent loan, the Company shall adjust the valuation allowance if there is a significant change (increase or decrease) in either of those basis. However, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan.

Information concerning impaired loans by loan type as of December 31, 2015 and 2014 is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015					
With no specific reserve recorded:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	-
Real estate - other	739,336	739,336	-	789,381	-
Commercial	25,427	23,979	-	30,190	-
Agriculture	3,175,530	559,447	-	279,724	-
Consumer	7,919	7,919	-	5,764	-
Other	-	-	-	-	-
Total loans with no specific reserve	$ 3,948,212	$ 1,330,681	$ -	$ 1,105,059	$ -
With an allowance recorded:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	-
Real estate - other	3,402,772	2,402,772	64,122	1,201,386	-
Commercial	359,270	359,270	222,230	217,238	-
Agriculture	1,080,290	1,080,290	207,093	1,295,869	-
Consumer	38,443	38,443	17,305	39,863	-
Other	-	-	-	-	-
Total loans with specific reserve	$ 4,880,775	$ 3,880,775	$ 510,750	$ 2,754,356	$ -

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans (Continued)

	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015 (Continued)					
Total					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	-
Real estate - other	4,142,108	3,142,108	64,122	1,990,767	-
Commercial	384,697	383,249	222,230	247,428	-
Agriculture	4,255,820	1,639,737	207,093	1,575,593	-
Consumer	46,362	46,362	17,305	45,627	-
Other	-	-	-	-	-
Total loans	$ 8,828,987	$ 5,211,456	$ 510,750	$ 3,859,415	$ -
December 31, 2014					
With no specific reserve recorded:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	-
Real estate - other	839,425	839,425	-	479,213	-
Commercial	36,400	36,400	-	57,368	-
Agriculture	-	-	-	-	-
Consumer	3,609	3,609	-	6,122	-
Other	-	-	-	-	-
Total loans with no specific reserve	$ 879,434	$ 879,434	$ -	$ 542,703	$ -
With an allowance recorded:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	-
Real estate - other	-	-	-	-	-
Commercial	75,205	75,205	59,205	218,251	-
Agriculture	1,511,447	1,511,447	850,000	755,724	-
Consumer	41,282	41,282	17,722	47,226	-
Other	-	-	-	-	-
Total loans with specific reserve	$ 1,627,934	$ 1,627,934	$ 926,927	$ 1,021,201	$ -
Total					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	-
Real estate - other	839,425	839,425	-	479,213	-
Commercial	111,605	111,605	59,205	275,619	-
Agriculture	1,511,447	1,511,447	850,000	755,724	-
Consumer	44,891	44,891	17,722	53,348	-
Other	-	-	-	-	-
Total loans	$ 2,507,368	$ 2,507,368	$ 926,927	$ 1,563,904	$ -

There are no significant differences between impaired loans compared to nonaccrual loans at December 31, 2015 and 2014.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings

The restructuring of a loan is considered a "troubled debt restructuring" (TDR) if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concession may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, covenant modifications and other actions intended to minimize potential losses. Effective for 2012, the Company adopted the provisions of FASB ASC 310-40, *Troubled Debt Restructuring by Creditors*.

The Company does not accrue interest on loans that were on non-accrual status prior to the troubled debt restructuring until they have performed in accordance with their restructured terms for a reasonable period of at least six months and Management is reasonably assured of future performance and ultimate collectibility. The Company continues to accrue interest on TDRs which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their restructured terms.

The Company had three loans totaling $4,915,837 and one loan totaling $50,000 meeting the definition of a TDR as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, balances on accrual status were $3,087,329 and $-0-, respectively.

The Company's loans that were modified in the years ended December 31, 2015 and 2014, and considered a troubled debt restructuring are as follows:

Modifications as of December 31, 2015	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real Estate - Other	1	$ 1,802,770	$ 1,802,770
Agriculture	1	3,087,329	3,087,329
Consumer	1	25,738	25,738
Totals	3	$ 4,915,837	$ 4,915,837
Modifications as of December 31, 2014			
Real Estate - Other	-	$ -	$ -
Agriculture	-	-	-
Consumer	-	-	-
Totals	-	$ -	$ -

For the year ended December 31, 2015, one consumer loan totaling $25,738 was modified with concessions of a lower interest rate and an extension of the loan maturity. In addition, one real estate loan totaling $1,802,770 and one agriculture loan totaling $3,087,329 were modified with changes to loan covenants to address collateral deficiencies.

There were no troubled debt restructurings that subsequently defaulted as of December 31, 2015.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings

As of December 31, 2015 and 2014, there were $73,494 and $0, respectively, in specific reserves for non-accruing TDR loans.

As of December 31, 2015 the Company was committed to lend an additional $128,680 on a non-impaired troubled debt restructuring. As of December 31, 2014, the Company had no commitments to lend additional funds to loan customers whose terms have been modified in any trouble debt restructuring.

Analysis of Past Due Loans

At December 31, 2015 and 2014, the Company's past due loans are as follows:

	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans > 90 Days Past Due	Total Loans Past due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
December 31, 2015							
Real estate - construction	$ -	$ -	$ -	$ -	$ 53,311,351	$ 53,311,351	$ -
Real estate - 1-4 family and multi-family	-	-	-	-	39,568,782	39,568,782	-
Real estate - other	-		-	-	193,452,958	193,452,958	-
Commercial	58,442	92,859	44,264	195,565	164,886,699	165,082,264	8,903
Agriculture	174,127	61,821	42,000	277,948	163,182,887	163,460,835	-
Consumer	164,498	69,239	34,476	268,213	10,554,154	10,822,367	22,350
Other	617,056	7,825	-	624,881	11,444,181	12,069,062	-
Total	$ 1,014,123	$ 231,744	$ 120,740	$ 1,366,607	$ 636,401,012	$ 637,767,619	$ 31,253
December 31, 2014							
Real estate - construction	$ -	$ -	$ -	$ -	$ 44,788,348	$ 44,788,348	$ -
Real estate - 1-4 family and multi-family	9,908	-	-	9,908	31,971,301	31,981,209	-
Real estate - other	-		-	-	175,640,136	175,640,136	-
Commercial	-	-	-	-	176,839,648	176,839,648	-
Agriculture	174,798	-	-	174,798	169,603,341	169,778,139	-
Consumer	61,815	11,029	4,681	77,525	10,635,894	10,713,419	-
Other	60,001	12,696	8	72,705	12,282,762	12,355,467	-
Total	$ 306,522	$ 23,725	$ 4,689	$ 334,936	$ 621,761,430	$ 622,096,366	$ -

There are no other known problem loans that cause management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms.

As of December 31, 2015, there were no material commitments to lend additional funds to customers whose loans were classified as impaired.

Related Party Loans

Loans are made in the normal course of business to certain employees, directors and executive officers of the Company and to their affiliates. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with others and do not

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Related Party Loans (Continued)

involve more than a normal risk of collectibility. Loan transactions with related parties as of December 31, 2015 and 2014 and were as follows:

	2015	2014
Balance at beginning of year	$ 21,828,606	$ 20,283,496
New loans	14,266,763	4,849,433
Repayments	(11,124,662)	(3,304,323)
Balance at end of year	$ 24,970,707	$ 21,828,606

NOTE 5 - PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2015 and 2014 follows:

	2015	2014
Land and improvements	$ 1,419,071	$ 1,414,843
Buildings and improvements	7,839,718	7,842,192
Furniture, equipment and software	2,558,234	2,345,589
Building and equipment under capital lease	1,078,970	79,793
	12,895,993	11,682,417
Less: Accumulated depreciation	3,379,379	2,792,232
Total	$ 9,516,614	$ 8,890,185

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to $713,501 and $669,947, respectively, and include $47,675 of capital asset amortization for the year ended December 31, 2015, and $15,959 for the year ended December 31, 2014.

NOTE 6 - INTANGIBLE ASSETS

A summary of intangible assets at December 31, 2015 and 2014 follows:

	2015	2014
Brownfield core deposit intangible	$ 3,722,630	$ 3,722,630
Less: Accumulated amortization	2,816,250	2,427,802
Amortizable intangible assets, net	906,380	1,294,828
Goodwill	7,832,067	7,832,067
Intangible assets, net	$ 8,738,447	$ 9,126,895

NOTE 6 - INTANGIBLE ASSETS (CONTINUED)

Management believes the remaining useful life of the Brownfield core deposit intangible is appropriate and does not believe the intangible assets were impaired at December 31, 2015.

NOTE 7 - TIME DEPOSITS

A summary of time deposits at December 31, 2015 and 2014 follows:

	2015	2014
Brokered deposits of $250,000 or more	$ –	$ –
Other deposits of $250,000 or more	145,817,339	113,465,186
Total denominations of $250,000 or more	145,817,339	113,465,186
Brokered deposits less than $250,000	23,882,425	14,699,346
Other deposits less than $250,000	112,237,605	99,876,949
Total denominations less than $250,000	136,120,030	114,576,295
Total time deposits	$ 281,937,369	$ 228,041,481

Time deposit scheduled maturities as of December 31, 2015 follows:

2016	$ 238,172,669
2017	38,662,348
2018	2,071,019
2019	2,987,466
2020	43,867
	$ 281,937,369

At December 31, 2015 and 2014, approximately $220,000 and $341,000, respectively, of deposit overdrafts were reclassified as loan balances.

NOTE 8 - NOTES PAYABLE

In October 2008, LSSBI entered into a $7,000,000 revolving line of credit which carried a variable interest rate (prime plus 25 basis points) and required interest to be paid quarterly beginning January 1, 2009. In December 2009, LSSBI amended and renewed the $7,000,000 revolving line of credit and also obtained an additional $2,500,000 multiple advance term note with a variable interest rate (prime plus 125 basis points). In April 2011, LSSBI amended and renewed both the multiple advance term note and the revolving line of credit note. The multiple advance term note was renewed with a principal balance of $7,760,000, and the revolving line of credit note was amended to allow a revolving borrowing capacity of $1,000,000. In April 2012, LSSBI amended and renewed both the multiple advance term note and the revolving line of credit note. The multiple advance term note was renewed into a term note with a principal balance of $7,760,000, and the revolving line of credit note was amended to allow a revolving

NOTE 8 - NOTES PAYABLE (CONTINUED)

borrowing capacity of $2,500,000. Both notes carried a variable interest rate on the unpaid principal balance (prime rate plus 100 basis points). Scheduled quarterly principal payments of $325,000 were paid in July 2012, October 2012, and January 2013. In April 2013, LSSBI made a principal payment totaling $1,300,000 reducing the outstanding principal balance of the term note to $5,485,000. In April 2013, LSSBI amended and renewed both the term note with a principal balance of $5,485,000 and the $2,500,000 revolving line of credit. Both notes carried a variable interest rate (prime plus 75 basis points) with interest paid quarterly on July 1, 2013, October 1, 2013, January 1, 2014, and April 1, 2014. In April 2014, LSSBI made a principal payment totaling $1,300,000 reducing the outstanding principal balance of the term note to $4,185,000. In April 2014, LSSBI amended and renewed both the term note and the revolving line of credit. The interest rate on both facilities remained unchanged (prime plus 75 basis points) with interest payments due quarterly on July 1, 2014, October 1, 2014, January 1, 2015 and April 1, 2015. A principal payment on the term note of $325,000 was due on April 1, 2015. On June 26, 2014, LSSBI drew $2,500,000 on the revolving line of credit. Then on October 7, 2014, this borrowing was repaid. The unpaid principal of both notes, $4,185,000 for the term note and $-0- for the revolving facility, was payable April 9, 2015. In April 2015, LSSBI made a principal payment totaling $1,300,000 reducing the outstanding principal balance of the term note to $2,885,000. In April 2015, LSSBI amended and renewed both the term note and the revolving line of credit. The revolving line of credit amount was increased to a maximum of $6,500,000. The interest rate on both facilities was lowered to prime plus 25 basis points, with interest payments due quarterly on July 1, 2015, October 1, 2015, January 1, 2016 and April 1, 2016. A principal payment on the term note of $962,000 is due on or before April 9, 2016. The unpaid principal on both notes is payable April 9, 2016. LSSBI intends to retire the term note on or before April 9, 2016, and renew the revolving line of credit facility. All Bank stock collateralizes these notes. The Company is required to meet various covenants under the revolving amended credit agreement.

NOTE 9 - OTHER BORROWINGS

In June 2010, the Bank was approved by the Federal Home Loan Bank (FHLB) for blanket lien collateral status. At December 31, 2015, the collateral status was approximately $167,731,000. The Bank established this line of credit with the FHLB to provide liquidity and meet pledging requirements for public entities that are required to have securities pledged to secure uninsured deposits. All loan assets, certain investment securities and related rights of the Bank are used for collateral. FHLB advances are considered short-term, overnight borrowings and used to control liquidity as needed. At December 31, 2015, the Bank has issued custodial letters of credit of $56,332,000 and has settled advances of $-0-. Total funds available under the blanket lien collateral status were approximately $111,399,000 under this agreement.

In May 2011, the Bank entered into a secured and unsecured borrowing agreement that allowed for the borrowing of federal funds up to $5,000,000 unsecured, with any borrowings in excess to be secured. At December 31, 2015, there were no borrowings outstanding under this agreement.

NOTE 10 - LEASES

The Bank leases certain facilities and equipment under noncancelable operating leases. Operating lease rent expense was $124,918 and $16,977 in 2015 and 2014, respectively. There were no noncancelable operating leases for future years at December 31, 2015.

The Company entered into a long-term capital lease for its new Midland banking facilities in October of 2015. The lease arrangement requires monthly payments, including estimated executory costs of $3,000 per month, for a term of 111 months ending December 31, 2024. The following schedule recaps the future minimum lease payments as of December 31, 2015. The interest rate related to the lease obligation is 11.91% and the maturity date is December 31, 2024.

Minimum Lease Payments

2016	$ 199,730
2017	203,052
2018	206,373
2019	209,695
2020	213,016
Thereafter through December 2024	885,279
Total minimum lease payments	1,917,144
Less: Amount representing executory costs	(324,000)
Less: Amount representing interest	(632,486)
Present Value of minimum lease payments	$ 960,658

The Company also acquired office equipment under capital leases. Future minimum payments under the leases as of December 31, 2015, follow:

Minimum Lease Payments

2016	$ 20,451
2017	18,103
2018	6,553
2019	6,305
Total minimum lease payments	51,412
Less: Amount representing interest	(4,521)
Present value of minimum lease payments	$ 46,891

NOTE 11 - COMMITMENTS AND 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 consolidated financial statements.

NOTE 12 - MINIMUM REGULATORY CAPITAL MATTERS

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

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

As of December 31, 2015 and 2014, the Bank 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 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. At December 31, 2015, there are no conditions or events that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2015 and 2014 are also presented in the table (in thousands).

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total Risk-Based Capital (to Risk Weighted Assets):						
LSSBI	$ 90,210	12.9%	$ 55,862	≥ 8.0%	N/A	N/A
The Bank	92,803	13.3%	55,861	≥ 8.0%	$ 69,826	≥ 10%
Tier I Capital (to Risk Weighted Assets):						
LSSBI	$ 83,046	11.9%	$ 41,896	≥ 6.0%	N/A	N/A
The Bank	85,639	12.3%	41,896	≥ 6.0%	$ 55,861	≥ 8%
Common Equity Tier 1 Capital						
LSSBI	$ 83,046	11.9%	$ 31,422	≥ 4.5%	N/A	N/A
The Bank	85,639	12.3%	31,422	≥ 4.5%	$ 45,387	≥ 6.5%
Tier I Capital (to Adjusted Average Assets):						
LSSBI	$ 83,046	10.7%	$ 30,984	≥ 4.0%	N/A	N/A
The Bank	85,639	11.1%	30,984	≥ 4.0%	$ 38,730	≥ 5%

NOTE 12 - MINIMUM REGULATORY CAPITAL MATTERS (CONTINUED)

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total Risk-Based Capital (to Risk Weighted Assets):						
LSSBI	$ 85,713	12.9%	$ 53,093	≥ 8.0%	N/A	N/A
The Bank	89,686	13.5%	53,093	≥ 8.0%	$ 66,366	≥ 10%
Tier I Capital (to Risk Weighted Assets):						
LSSBI	$ 78,077	11.8%	$ 26,547	≥ 4.0%	N/A	N/A
The Bank	82,050	12.4%	26,546	≥ 4.0%	$ 39,819	≥ 6%
Tier I Capital (to Adjusted Average Assets):						
LSSBI	$ 78,077	10.8%	$ 28,899	≥ 4.0%	N/A	N/A
The Bank	82,050	11.4%	28,899	≥ 4.0%	$ 36,124	≥ 5%

State banking regulations place certain restrictions on dividends paid by the Bank to LSSBI. Dividends paid by the Bank would be prohibited if the effect of the dividends would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers, through the use of commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

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

The following table summarizes the Company's off-balance-sheet financial instruments as of December 31, 2015 and 2014:

	2015	2014
Unfunded lines of credit	$ 166,669,995	$ 143,213,179
Less: Participations on unfunded lines of credit	31,167,655	27,221,757
Unfunded lines of credit, net	$ 135,502,340	$ 115,991,422
Commercial and standby letters of credit	$ 2,051,579	$ 1,910,126
Commercial and standby letters of credit	$ 2,051,579	$ 1,910,126

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

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. Such commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on managements' credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, single and multi-family residences, property and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on managements' credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, single and multi-family residences, property and equipment and income-producing commercial properties. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2015 and 2014, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

NOTE 14 - EMPLOYEE BENEFITS

401(k) Plan

LSSBI established the Lone Star State Bancshares, Inc. and Subsidiaries 401(k) Plan (the Plan) effective October 1, 2007. Company employees that have attained the age of 21 and provided three months of service are eligible to participate and may enter the Plan on the immediately following or coincident January 1 or July 1. Employees may contribute to the Plan through salary deferrals and rollovers from other qualified plans; the Company may make matching and/or discretionary contributions. Employees immediately vest 100% in all contributions to the Plan and related earnings thereon.

The Company recognized $21,678 and $21,300 of the Plan administrative expenses in 2015 and 2014, respectively. The Company contributions to the Plan were $297,029 and $263,788 in 2015 and 2014, respectively.

NOTE 14 - EMPLOYEE BENEFITS (CONTINUED)

ESOP

LSSBI established the Lone Star State Bancshares, Inc. and Subsidiaries Employee Stock Ownership Plan and Trust (ESOP) effective November 1, 2007. Company employees that have attained the age of 21 and provided three months of service are eligible to participate and may enter the ESOP on the immediately following or coincident January 1 or July 1. The ESOP is noncontributory, except for rollovers from other qualified plans, and is funded through discretionary employer contributions, if any, annually. Employees must complete 1,000 hours of service during a calendar year to be eligible for allocation of employer contributions in that year. Participants immediately vest 100% in all contributions to the ESOP and related earnings thereon, including stock appreciation and dividends on shares of allocated stock.

The ESOP is not leveraged, but there are plan provisions that allow the Company to borrow to acquire shares of LSSBI stock.

ESOP participants have a put option whereby LSSBI must settle any stock benefits under the ESOP by providing cash to the participant in exchange for the stock distributed. The put option is exercisable for 60 days following distribution of stock to the participant or beneficiary and for an additional 60 days immediately following the completion of the next stock valuation that will apply in the plan year following the plan year of distribution. LSSBI is obligated to repurchase allocated shares, at fair market value as determined by independent appraisal, from participants that (a) elect to diversify holdings as they approach retirement, (b) retire or (c) are vested in all or a portion of their LSSBI stock in the ESOP and terminate employment. The ESOP may assume LSSBI's rights and obligations at the time the put option is exercised, but under no circumstances may the put option bind the ESOP or related trust.

Upon a change of control in the Company, as defined, participant protections and rights related to the put option and certain additional protections are effective, including termination of the ESOP not later than the date of the change of control with distributions to follow shortly thereafter, suspension of annual service or continuing employment requirements, participant option to receive a lump sum payment (elimination of the Company's option to pay distributions over a five-year period), participant voting rights on all matters submitted to shareholders and valuation of shares that is no more than six months old.

Certain officers of the Company are trustees of the ESOP.

The Company recognized $7,905 and $7,730 of ESOP administrative expenses in 2015 and 2014, respectively. Company contributions to the ESOP were $30,300 and $50,000 for December 31, 2015 and 2014, respectively.

NOTE 14 - EMPLOYEE BENEFITS (CONTINUED)

Employee Health Benefits

The Company also sponsors health, dental and vision plans, which provide medical, prescription drug, dental and vision benefits. The Company pays a significant portion of the premiums for health, dental and vision insurance based on the coverage selected by the employee. Employees are eligible on the first of the month following their employment date. Premium expense was $937,668 and $874,884 in 2015 and 2014, respectively.

Employee Life Insurance

The Bank provides life insurance at no cost to the employee in the amount of 1.5 times the employee's annual salary. Additional life insurance is available for purchase at the employee's expense. At December 31, 2015 and 2014, the Company carried Key Man Life Insurance on four employees. Each policy has a value of $2,000,000. Premium expense was $36,219 and $32,350 for December 31, 2015 and 2014, respectively. The Bank also provides short-term and long-term disability to employees at no cost. Premium expense was $23,478 and $21,773 in 2015 and 2014, respectively.

Share-Based Payments

The Company has a Stock Incentive Plan intended to promote shareholder value by attracting and retaining directors, executive officers and employees through the granting of options to acquire equity participation so that their financial interests are aligned with long-term shareholder value. At December 31, 2015, the aggregate number of shares of stock to be issued pursuant to the exercise of all options granted under the plan should not exceed 10.0% of the then outstanding shares of stock.

A summary of the Company's stock option activity and related information for the year ended December 31, 2015 is presented in the table and narrative below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Fair Value at Grant Date
Outstanding, beginning of year	506,199	$ 11.60		
Granted	36,000	–		
Exercised	4,000	–		
Cancelled	–	–		
Forfeited or expired	–	–		
Outstanding, end of year	538,199	$ 12.00	4.58	$ 1,500,343
Exercisable at end of year	378,199	$ 10.49	2.88	$ 809,606

NOTE 14 - EMPLOYEE BENEFITS (CONTINUED)

Share-Based Payments (Continued)

The options outstanding at December 31, 2015 had exercise prices ranging from $10.00 to $17.50. The following table summarizes information concerning outstanding and vested stock options as of December 31, 2015:

Awarded:	Exercise Price	Number Outstanding	Remaining Contracted Life (Years)	Number Vested
March 1, 2008	$ 10.00	254,499	2.17	254,499
November 1, 2008	11.75	15,500	2.84	15,500
December 30, 2008	11.75	18,500	3.00	18,500
December 31, 2009	12.00	35,500	4.00	35,500
December 31, 2010	11.00	25,500	5.01	25,500
July 1, 2011	11.00	8,000	5.50	8,000
December 30, 2011	11.00	20,700	6.00	20,700
January 22, 2013	13.50	30,000	7.07	-
December 31, 2013	13.50	36,000	8.00	-
April 14, 2014	15.25	10,000	8.29	-
October 10, 2014	17.00	10,000	8.78	-
December 31, 2014	17.00	38,000	9.00	-
December 31, 2015	17.50	36,000	10.00	-

The stock option fair values on the grant dates are determined under the Black-Scholes-Merton option-pricing model (BSM). The following table presents the assumptions used to determine the fair value of options granted during the years ended December 31, 2015 and 2014:

	2015	2014
Weighted average fair value of awards issued	$ 4.83	$ 4.59
Assumptions:		
Expected volatility	22.5%	21.5% -25.0%
Weighted-average volatility	22.5%	23%
Expected dividends	0.00%	0.00%
Expected term (years)	6.5	6.5
Risk-free rate	1.93%	1.77% - 1.90%

The following table summarizes the changes in the Company's nonvested shares of common stock for the year ended December 31, 2015.

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2015	124,000	$ 4.23
Granted	36,000	4.83
Vested	-	-
Forfeited	-	-
Nonvested at December 31, 2015	160,000	$ 4.37

NOTE 14 - EMPLOYEE BENEFITS (CONTINUED)

Share-Based Payments (Continued)

Compensation expense has been recognized over the vesting period based on the fair market value of the shares on the grant date. Compensation expense of $195,255 and $109,178 was recognized during years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, there was $389,317 and $413,533, respectively. of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over the next three years. The total fair value at grant date of shares vested as of December 31, 2015 and 2014, was $809,606 and $817,716, respectively.

On April 30, 2009, certain officers of the Bank were awarded 7,000 stock appreciation rights with the initial value for the grant at $12 per share. The options cliff vest in three years and expire April 30, 2019. As of December 31, 2015 and 2014, there was $38,500 and $35,000, respectively, of compensation expense recognized on these stock appreciation rights.

On December 31, 2009, certain officers of the Bank were awarded 4,000 stock appreciation rights with the initial value for the grant at $12 per share. Of the total 4,000 rights, 3,000 were awarded in consideration of the termination of stock option awards which are included in the forfeited March 1, 2008, stock options. The stock appreciation rights were fully vested on March 1, 2011, with an expiration date of March 1, 2018. As of December 31, 2015 and 2014, there was $22,000 and $20,000, respectively, of compensation expense recognized on these stock appreciation rights.

NOTE 15 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank enters into transactions with related parties, including its employee, officers and directors. As of December 31, 2015 and 2014, outstanding loans, either directly or indirectly, to this group aggregated $24,970,707 and $21,828,606, respectively. Unused lines of credit to directors were $3,976,610 and $4,208,314, which is net of participations of $2,645,585 and $4,195,045 at December 31, 2015 and 2014, respectively. There were no charge-offs related to these loans in 2015 and 2014 and advance and repayment activity was routine.

Related party deposits, including officers and directors, were $22,601,128 and $34,452,286 at December 31, 2015 and 2014, respectively.

NOTE 16 - FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the

NOTE 16 - FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Determination of Fair Value (Continued)

price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

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

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

NOTE 16 - FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (Continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents – The carrying amounts approximate fair value.

Available-for-Sale Securities – Fair value is based on quoted market price, if available. If a quoted market price is not available, the quoted prices for identical or similar assets are used. The fair value of securities is reported in Note 3. Available-for-sale securities will be measured and reported at fair value on a recurring basis in periods subsequent to initial recognition.

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.

Federal Reserve Bank Stock and Other Investments – These subscriptions are restricted and can only be redeemed by withdrawal of the Bank's membership, carrying amounts represent amounts that would be received upon redemption and, therefore, approximate fair value.

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.

Notes Payable and Other Borrowings – Due to the variable rates on these notes, the carrying amounts approximate fair value.

Accrued Interest – The carrying amounts approximate fair value.

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.

NOTE 16 - FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows:

	Fair Value Hierarchy Level	2015 Carrying Amount	2015 Fair Value	2014 Carrying Amount	2014 Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	Level 1	$ 94,448,118	$ 94,448,118	$ 82,393,594	$ 82,393,594
Available-for-sale securities	See table below	29,809,797	29,809,797	26,110,344	26,110,344
Accrued interest receivable	Level 1	6,150,110	6,150,110	6,350,347	6,350,347
Loans, net	Level 2	630,603,410	628,795,410	614,460,073	615,730,073
Federal Reserve Bank Stock and other investments	Level 2	2,526,750	2,526,750	2,453,650	2,453,650
FINANCIAL LIABILITIES					
Deposits	Level 2	$ 686,843,354	$ 686,857,354	$ 658,343,360	$ 658,536,360
Notes payable	Level 2	2,885,000	2,885,000	4,185,000	4,185,000
Accrued interest payable	Level 1	354,869	354,869	204,223	204,223
Capital Lease Obligation	Level 2	1,007,549	1,007,549	41,218	41,218

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
December 31, 2015				
Available-for-sale securities				
U.S Government Sponsored Entity Debt Securities	$ –	$ 10,485,645	$ –	$ 10,485,645
State and municipal obligations	–	1,849,752	–	1,849,752
U.S. Treasury Securities	–	17,474,400	–	17,474,400
Total available-for-sale	$ –	$ 29,809,797	$ –	$ 29,809,797
December 31, 2014				
Available-for-sale securities				
U.S Government Sponsored Entity Debt Securities	$ –	$ 15,487,415	$ –	$ 15,487,415
State and municipal obligations	–	3,159,304	–	3,159,304
U.S. Treasury Securities	–	7,463,625	–	7,463,625
Total available-for-sale	$ –	$ 26,110,344	$ –	$ 26,110,344

NOTE 16 - FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances we make adjustments to fair value for our financial assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2015 and 2014, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2015				
Impaired loans	$ –	$ –	$ 5,211,456	$ 5,211,456
Other repossessed assets	–	–	60,065	60,065
Total	$ –	$ –	$ 5,271,521	$ 5,271,521
December 31, 2014				
Impaired loans	$ –	$ –	$ 2,507,368	$ 2,507,368
Total	$ –	$ –	$ 2,507,368	$ 2,507,368

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 input based on the discounting of the collateral. At December 31, 2015, impaired loans with a carrying value of $5,211,456 were reduced by specific valuation allowance totaling $510,750 resulting in a net fair value of $4,700,706 based on Level 3 inputs. At December 31, 2014, impaired loans with a carrying value of $2,507,368 were reduced by specific valuation allowance totaling $926,927 resulting in a net fair value of $1,580,441 based on Level 3 inputs.

Other Repossessed Assets – Other repossessed assets in the table above were obtained through foreclosure and recorded at fair value less estimated selling costs at the date of transfer. The carrying value of other repossessed assets is not remeasured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value less estimated selling costs. Management uses appraisal values based on information from the National Automobile Dealers Association (NADA) and adjusts for trends observed in the market and for disposition costs in determining the value. The Company considers these fair values Level 3.

NOTE 16 - FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014, are as follows:

	Valuation Techniques	Observable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other repossessed assets	NADA	NADA	NM*

* Not meaningful. Evaluations of the underlying assets are completed for each impaired loan with a specific reserve. The types of collateral vary widely and could include accounts receivable, inventory, a variety of equipment and real estate. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal may be obtained. Types of discounts considered included aging of receivables, conditions of the collateral, potential market for the collateral, and estimated disposal costs. These discounts will vary from loan to loan, thus providing a range could not be meaningful.

Certain nonfinancial assets and nonfinancial liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment), nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other nonfinancial long-lived assets measured at fair value for impairment assessment. There were no nonfinancial asset instruments for which a nonrecurring change in fair value has been recorded at December 31, 2015 and 2014.

NOTE 17 - RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU 2014-02, *Intangibles—Goodwill and Other: Accounting for Goodwill.* These amendments permit a private company to subsequently amortize goodwill on a straight-line bases over a period of ten years, or less if the Company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill. The pronouncement is effective for annual periods beginning after December 15, 2014. The Company has elected to not apply this ASU and will not amortize their goodwill.

In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of this guidance is to clarify when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan,

NOTE 17 - RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 20 14-04 did not have a material impact on the Company's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers.* The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The pronouncement is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the impact the pronouncement will have on the financial statements and related disclosures.

In January 2015, the FASB issued ASU No. 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU eliminates from U.S. GAAP the concept of extraordinary items. Prior to 2015-01, the Company was required to separately classify, present, and disclose extraordinary events or transactions – which were deemed to be both unusual in nature and infrequent in occurrence – on the income statement, net of tax, after income from continuing operations. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. ASU 2015-01 is not expected to have a significant impact on the Company's financial statements.

NOTE 18 - SUBSEQUENT EVENTS

The Company has evaluated for inclusion as a subsequent event disclosure only those events that occurred prior to March 24, 2016, the date the financial statements were available to be issued.

In January 2016, a dividend of $110,739 ($.02 per share) was declared and paid for shareholders of record on December 31, 2015.

SUPPLEMENTAL INFORMATION

LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2015

	Lone Star State Bank of West Texas (Bank)	Lone Star State Bancshares, Inc. (LSSBI)	Eliminating Entries	Consolidated Balance
ASSETS				
Cash and due from banks	$ 88,902,368	$ 352,913	$ (352,913)	$ 88,902,368
Interest-bearing deposits in bank	5,545,750	-	-	5,545,750
Cash and cash equivalents	94,448,118	352,913	(352,913)	94,448,118
Accrued interest receivable	6,150,110	-	-	6,150,110
Available-for-sale securities, at fair value	29,809,797	-	-	29,809,797
Federal Reserve Bank stock and other investments, at cost	2,526,750	-	-	2,526,750
Loans	637,767,619	-	-	637,767,619
Allowance for loan losses	(7,164,209)	-	-	(7,164,209)
Net loans	630,603,410	-	-	630,603,410
Premises and equipment, net	9,513,036	3,578	-	9,516,614
Intangibles, net	8,738,447	-	-	8,738,447
Other assets	936,690	5,160	-	941,850
Investment in subsidiary	-	93,911,408	(93,911,408)	-
TOTAL ASSETS	$ 782,726,358	$ 94,273,059	$ (94,264,321)	$ 782,735,096
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposits				
Noninterest-bearing	$ 185,376,682	$ -	$ (352,913)	$ 185,023,769
Interest-bearing	501,819,585	-	-	501,819,585
Accrued interest payable	354,869	-	-	354,869
Accrued expenses and other liabilities	256,265	69,653	-	325,918
Capital lease obligations	1,007,549	-	-	1,007,549
Notes payable	-	2,885,000	-	2,885,000
Total liabilities	688,814,950	2,954,653	(352,913)	691,416,690
STOCKHOLDERS' EQUITY				
Common stock	2,250,000	5,536,962	(2,250,000)	5,536,962
Additional paid-in capital	71,933,839	63,854,224	(71,933,839)	63,854,224
Retained earnings	19,649,651	21,849,302	(19,649,651)	21,849,302
Accumulated other comprehensive income	77,918	77,918	(77,918)	77,918
Total stockholders' equity	93,911,408	91,318,406	(93,911,408)	91,318,406
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 782,726,358	$ 94,273,059	$ (94,264,321)	$ 782,735,096

LONE STAR STATE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2015

	Lone Star State Bank of West Texas (Bank)	Lone Star State Bancshares, Inc. (LSSBI)	Eliminating Entries	Consolidated Balance
INTEREST INCOME				
Loans, including fees	$ 30,424,211	$ -	$ -	$ 30,424,211
Available-for-sale securities	649,004	-	-	649,004
Federal funds sold and interest-beaing deposits in banks	200,893	-	-	200,893
Total interest income	31,274,108	-	-	31,274,108
INTEREST EXPENSE				
Deposits	3,957,420	-	-	3,957,420
Other debt	32,404	120,617	-	153,021
Total interest expense	3,989,824	120,617	-	4,110,441
NET INTEREST INCOME	27,284,284	(120,617)	-	27,163,667
PROVISION FOR LOAN LOSSES	3,500,000	-	-	3,500,000
NET INTEREST INCOME, AFTER PROVISION FOR LOAN LOSSES	23,784,284	(120,617)	-	23,663,667
NONINTEREST INCOME				
Service charges on deposit accounts	591,602	-	-	591,602
Debit card income	369,144	-	-	369,144
Other noninterest income	154,606	-	-	154,606
Net gain (loss) on sale of fixed assets	(3,076)	-	-	(3,076)
Equity in subsidiary earnings	-	10,057,140	(10,057,140)	-
Total noninterest income	1,112,276	10,057,140	(10,057,140)	1,112,276
NONINTEREST EXPENSES				
Salaries and employee benefits	9,718,990	320,755	-	10,039,745
Occupancy and equipment	1,366,540	-	-	1,366,540
Data processing	774,508	-	-	774,508
FDIC assessment expense	440,635	-	-	440,635
Professional fees	225,377	11,405	-	236,782
Advertising	97,215	-	-	97,215
Communication	322,486	-	-	322,486
Legal	24,220	7,196	-	31,416
Amortization of intangible assets	388,448	-	-	388,448
Other general and administrative	1,438,200	43,474	-	1,481,674
Total noninterest expenses	14,796,619	382,830	-	15,179,449
Income before income taxes	10,099,941	9,553,693	(10,057,140)	9,596,494
INCOME TAX EXPENSE	42,801	-	-	42,801
NET INCOME	$ 10,057,140	$ 9,553,693	$ (10,057,140)	$ 9,553,693

LONE STAR STATE BANCSHARES, INC.
6220 Milwaukee Avenue
Lubbock, Texas 79424

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 26, 2016, AT 5:00 P.M.

To the Shareholders of Lone Star State Bancshares, Inc.:

The 2016 Annual Meeting of the Shareholders of Lone Star State Bancshares, Inc. will be held on Thursday, May 26, 2016, at 5:00 p.m., local time, at our office, 6220 Milwaukee Avenue, Lubbock, Texas. At the meeting, shareholders will be asked to:

1. Elect directors; and

2. Consider any other business that may properly come before the meeting or any adjournment of the meeting.

The matters to be considered at the annual meeting are more fully discussed in the attached proxy statement, which we urge you to read carefully. Shareholders of record at the close of business on April 28, 2016, our record date, are entitled to receive notice of, and to vote at, the annual meeting or any adjournment or postponement of the meeting.

You are cordially invited to attend the meeting in person. However, whether or not you expect to attend the meeting in person, we urge you to sign, date and return the enclosed proxy sheet at your earliest convenience. This will ensure the presence of a quorum at the meeting and that your shares are voted in accordance with your wishes. For your convenience, we have enclosed a self-addressed, stamped envelope for the return of your proxy. Your prompt response will help reduce the cost of soliciting proxies, which are paid for by our company. Sending in your proxy will not prevent you from voting your stock at the meeting if you desire to do so, as your proxy is revocable at your option. You may revoke your proxy at any time before it is voted at the meeting in the manner described in the section of the proxy statement titled *"General Information About the Meeting — Can I change my vote?"* Any executed but unmarked proxy sheets that we receive will be voted in favor of the directors nominated by the board.

BY ORDER OF THE BOARD OF DIRECTORS

April 28, 2016
Lubbock, Texas

Alan Lackey
Chairman & Chief Executive Officer

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 26, 2016

This proxy statement contains information about the 2016 Annual Meeting of Shareholders of Lone Star State Bancshares, Inc. The meeting is scheduled to be held on Thursday, May 26, 2016, beginning at 5:00 p.m., at our office, located at 6220 Milwaukee Avenue, Lubbock, Texas.

This proxy statement is furnished to you in connection with the solicitation of proxies by our board of directors. *When we refer in this proxy statement to "the Company," "we," "our," and "us," we are referring to Lone Star State Bancshares, Inc. unless the context indicates otherwise. When we refer in this proxy statement to "the Bank," we are referring to Lone Star State Bank of West Texas unless the context indicates otherwise.*

GENERAL INFORMATION ABOUT THE MEETING

What is the purpose of the annual meeting?

At the annual meeting, you will be asked to elect directors and consider any other business that may properly come before the meeting or any adjournment of the meeting.

How many votes do I have?

You will have one vote for every share of common stock that you owned on April 28, 2016, our record date.

How many votes can be cast by all shareholders?

As of April 28, 2016, 5,550,962 shares of common stock were issued and outstanding and held of record by approximately 169 shareholders.

How many votes must be present to hold the meeting?

In order for business to be conducted at the meeting, a quorum must be present. A quorum consists of a majority of the shares of common stock issued and outstanding on the record date and entitled to vote, or at least 2,775,482 shares. Shares of common stock represented at the annual meeting in person or by a properly executed proxy (including shares that abstain or do not vote with respect to one or more of the matters to be acted upon) will be counted for purposes of determining whether a quorum exists. If a quorum does not exist, the annual meeting will be adjourned until a quorum is obtained. Accordingly, we urge you to vote by proxy even if you plan to attend the meeting; so that we will know as soon as possible that enough votes will be present for us to hold the meeting.

How do I vote?

You may vote by completing and returning the enclosed proxy sheet or by voting in person at the meeting. We encourage you to attend the annual meeting, and execution of the enclosed proxy will not affect your right to attend the meeting and vote in person. However, to ensure that your shares are voted in accordance with your wishes and that a quorum is present at the meeting so that we can transact business, we urge you to complete, sign and return the enclosed proxy sheet to us as promptly as possible in the enclosed, self-addressed, stamped envelope. Your prompt response will help reduce proxy costs, which are paid for by the Company.

Voting by proxy. If you vote by proxy, your proxy will be voted in accordance with your instructions. If you execute a proxy, but do not specify a choice on the election of directors, your proxy will be voted **"FOR"** the persons nominated by our board of directors to serve as directors. Our board of directors does not know of any other matters to be presented for a vote at the annual meeting, other than the election of directors. If any other matters are brought before the annual meeting, the persons named in the proxies, acting under the proxy, would have the discretion to vote on those matters in accordance with their best judgment.

Voting in person. If you attend the meeting, you may deliver your completed proxy sheet in person or you may vote by completing a ballot which will be available at the meeting.

Can I change my vote?

Yes, you may change your vote by sending in a new proxy sheet with a later date, or by sending a written notice of revocation to the Secretary of the Company at the address on the Notice of Annual Meeting of Shareholders. To be effective, the new proxy sheet or written revocation must be received by the Secretary prior to the exercise of the proxy at the annual meeting. If you attend the meeting and want to vote in person, you can deliver a written revocation of your proxy to the Secretary at the meeting, and you will receive a ballot to vote at the meeting. However, mere attendance at the shareholders' meeting will not of itself revoke a proxy.

What if my shares are not registered in my name?

If your shares are not registered in your name, you will need to bring appropriate documentation from the record shareholder to vote in person at the annual meeting. If you have any questions regarding the documentation required, please contact Debbie Gleason at (806) 771-7717.

What happens if the meeting is postponed or adjourned?

Your proxy will still be good and may be voted at the postponed or adjourned meeting. You will still be able to change or revoke your proxy until it is voted.

What vote is required to approve the election of directors?

The affirmative vote of a plurality of the votes cast in person or by proxy at the annual meeting is required for the election of directors. Abstentions and broker non-votes will have no legal effect on the election of directors. As of April 28, 2016, our executive officers and directors owned beneficially 2,137,382 shares, or approximately 36.4%, of our outstanding common stock. These individuals have indicated that they intend at this time to vote their shares in favor of the directors nominated by the board.

What does the board recommend?

Our board of directors has unanimously approved and recommends that you vote **"FOR"** the directors nominated by the board.

Are there any other matters to be voted on at the meeting?

We know of no other business that is likely to be brought before the annual meeting. If any other matters are properly brought before the meeting, or any adjournment thereof, the persons named in the proxies, acting under the proxy, will have discretion to vote on those matters in accordance with their best judgment.

ITEM ONE – ELECTION OF DIRECTORS

Our board of directors currently consists of seven members, each of which is to be elected at the annual meeting. The board has nominated the following seven individuals to serve as directors of the Company until the 2017 annual meeting of shareholders: Frosty Gilliam, Jr., Mark Hallgren, Alan Lackey, Charles E. Needham, William Wade Porter, William J. Ware and Tol Ware. Each of the nominees currently serves as a director of the Company. The directors elected at the annual meeting will hold office until the next annual meeting of shareholders or until their respective successors are elected and qualified. Information concerning the nominees is set forth below.

Frosty Gilliam, Jr. has served as a director of the Company and the Bank since our inception in 2007. Mr. Gilliam is a 1980 graduate of Texas A & M University with a Bachelor of Science degree in Petroleum Engineering. Mr. Gilliam began his career in the oil and gas industry in 1980 with Amoco Production Company. After four years with Amoco, he joined Oxoco, Inc. in Houston, Texas as the Production Engineering Manager for the Western U.S. In 1987, Mr. Gilliam left Oxoco to become the Acquisition Manager for an independent oil and gas producer located in Dallas, Texas. In April 1988, Mr. Gilliam returned to Odessa to begin his company, Aghorn Energy, Inc. Since 1988, Mr. Gilliam has seen Aghorn grow from a company with two wells to one that now has over 1,000 wells in two states. In addition to oil and gas, Mr. Gilliam has been, or is a founding partner in, companies that are involved in real estate, ranching, music royalties and electric power. Mr. Gilliam was inducted into the Texas A&M Petroleum Engineering Academy of Distinguished Graduates in 2009 and recognized by the Texas A&M Dwight Look College of Engineering as an Outstanding Alumni in 2012. Mr. Gilliam currently serves on the Texas A&M 12th Man Foundation as a Trustee. Mr. Gilliam has been married to his wife, Rhonda, for over 30 years and they have two children and one grandchild. Mr. Gilliam presently resides in Odessa where he is actively involved in First Baptist Church, numerous charities and serves on the boards of the Permian Basin Mission Center and the Odessa Country Club.

Mark S. Hallgren, AHC has served as a director of the Company and the Bank since our inception in 2007. Mr. Hallgren is the co-founder and president of the Hallgren Company, a life safety and security consulting entity and distributor of architectural doors, frames and hardware as well as other building specialties for use in commercial construction projects. Founded in 1975, The Hallgren Company has experienced steady growth through expansion and acquisitions. From the original location in Lubbock, Texas, the company has offices in Midland and Ft. Worth, Texas; Albuquerque, New Mexico; Colorado Springs, Colorado; Livermore, California; Las Vegas, Nevada and Phoenix, Arizona. Mr. Hallgren is known and respected industry wide for his life safety expertise. His knowledge of building codes, life safety and security applications is relied upon by the commercial building industry on a daily basis. Mr. Hallgren obtained his AHC (Architectural Hardware Consultant) accreditation in 1980 at the age of 20, one of the youngest recipients in the history of the industry. He has served as President of the Door and Hardware Institute, an international non-profit organization with 5,000 members dedicated to the advancement of life safety and security. He is Past President and current board member of the Door Security and Safety Foundation. Their mission is to promote secure and safe openings that enhance life safety through awareness and education to the building design, code authority, and facility management communities. He is also actively involved as an officer and/or Director in 16 other corporations of various industries ranging from manufacturing to aviation and trustee over several large commercial trusts. Many of these entities are involved in the construction industry and have significant real estate holdings. Mr. Hallgren has been a resident of Lubbock, Texas and a successful business owner in the West Texas area for over 40 years.

Alan Lackey has served as a director of the Company and Bank and as Chairman, President and Chief Executive Officer since the Bank's inception in 2007. Mr. Lackey has been actively engaged in banking for the past 34 years. After graduating with an undergraduate degree in accounting with honors and a Masters in Business Administration from Baylor University in 1982, Mr. Lackey joined MBank Dallas, N.A., a $20 billion regional bank, where he served until 1990. When he left the bank, which was acquired during his employment by Bank One, he was Manager of the Correspondent Banking Department. He joined First National Bank, Lubbock, Texas, a subsidiary of the Ford Bank Group, Inc., Lubbock, Texas, where he ultimately managed commercial and real estate lending for the $1 billion Lubbock office. First National Bank was acquired by Norwest Corporation, (which later merged with Wells Fargo & Co.) during his employment with the bank. Mr. Lackey left Wells Fargo (Texas), N.A. to join State National Bank in 1996. He was there until 2007. His final five years, he served as Executive Vice President and Chief Credit Officer of State National Bancshares, Inc., which grew to be a $1.7 billion dollar publicly traded commercial banking company with offices in 18 Texas and New Mexico communities. In this role, Mr. Lackey oversaw and was responsible for all loans, lending activity, and lending operations in a total loan portfolio of almost $1.1 billion. State National Bancshares was acquired by BBVA Compass in 2006. And in 2007, Mr. Lackey joined with others to start Lone Star State Bank. Mr. Lackey has held various board and leadership positions with numerous organizations, including United Way, Lakeridge United Methodist Church, Texas Bankers Association, American Bankers Association, Federal Reserve Bank of Dallas and Community Bank Advisory Council. He is currently Board Chair of Early Learning Centers in Lubbock.

Charles E. Needham has served as a director of the Company and the Bank since our inception in 2007. Mr. Needham moved to Lubbock from Dalhart, Texas in 1980. He attended and graduated from Texas Tech with a Finance Degree emphasizing in investments. Upon graduating from college, Mr. Needham began selling Real Estate being employed by Jim Wills Realtors. In 1987, he began his career with the Stryker Corporation in orthopedic sales. He formed his own distributorship and began Omni-Tex Medical in 1992 selling a complete line of medical products in West Texas and New Mexico, including Stryker products. In 1997 he formed a property company, Needham Properties, Inc., owning and managing commercial and residential real estate. Mr. Needham continues to sell medical products along with investing in real estate.

Wade Porter has served as a director of the Company and the Bank since our inception in 2007. Mr. Porter has more than 35 years of banking experience and currently serves as a director and Executive Vice President/Chief Lending Officer of Amarillo National Bank, a $3.8 billion asset commercial bank based in Amarillo, Texas. Mr. Porter began his banking career in 1980 as a teller with Plains National Bank, Lubbock, Texas and First National Bank, Lubbock, Texas while attending Texas Tech University. After graduating in 1983 with his Bachelor of Business Administration degree in finance, he joined Mercantile National Bank, Dallas, Texas (which was renamed to MBank Dallas, N.A. on October 15, 1984) in its credit training program, before becoming a commercial lender and correspondent banker with MBank in 1985 and rising to First Vice President and Department Manager of the Correspondent Banking Department. He left MBank's successor, Bank One, Texas N.A., to join Amarillo National Bank in 1991.

William J. Ware has served as a director of the Company and the Bank since our inception in 2007. Mr. Ware has been actively involved in banking for approximately 13 years, with experience in lending, operations, marketing and media relations. Mr. Ware has served as a commercial loan officer with Amarillo National Bank since May 2003. Mr. Ware is Executive Vice President of Amarillo National Bank and Director of Amarillo National Bancorp, Inc. Prior to joining Amarillo National Bank, he served as a commercial loan analyst with Frost National Bank in San Antonio from August 2002 to May 2003. Mr. Ware is a 2002 graduate of Southern Methodist University, where he earned a Bachelor's of Science degree in corporate communications and a minor in history. Mr. Ware is very active in local civic and community organizations including Children's Miracle Network, Amarillo Chamber of Commerce, and United Way.

Tol Ware has been involved in banking since rolling coins in the vault of Amarillo National Bank at 12 years old. He is the youngest of the fifth generation of ownership and management of Amarillo National Bank. Before he began high school, he had worked his way up to teller. In high school Mr. Ware mentored under his father, Bill Ware, and his grandfather, Tol Ware, working in various areas of the bank through his high school work program. He earned a degree in Film from Arizona State University 2007 and worked in the film industry for 3 years. In 2010 he moved back home to return to his banking career. He completed the management training program at Amarillo National Bank and is now an AVP in commercial lending after stints in almost every department in the bank. He serves on the board at Cal Farley's, Center City and Amarillo Business Foundation and is very active civically. Mr. Ware is the father of two boys - a one year old and a newborn.

Voting

The directors will be elected by a plurality of votes cast, in person or by proxy, at the annual meeting. The persons named in the enclosed proxy will vote to elect the nominees as directors, unless you withhold authority to vote for the election of the nominees as directors by marking the proxy to that effect. The nominees have indicated a willingness to serve, if elected, but if any nominee should be unable or unwilling to serve, proxies may be voted for a substitute nominee designated by our board of directors.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of common stock by:

- each person known to us to own beneficially more than 5% of our common stock,
- each of our executive officers and directors, and
- all directors and executive officers, as a group.

The number of shares indicated in the table as beneficially owned, and the percentage ownership information, is based on "beneficial ownership" concepts as defined by the federal securities laws. In general, beneficial ownership includes shares owned by spouses, minor children and other relatives residing in the same household, trusts, partnerships, corporations or deferred compensation plans which are affiliated with the principal, as well as shares of common stock issuable upon exercise of stock options and other rights beneficially owned that are exercisable on or before April 28, 2016.

The beneficial ownership concept is broad and may result in the attribution of the same shares to multiple persons. For example, our Employee Stock Ownership Plan is managed by three trustees. Under the "beneficial ownership rules", all of those shares are attributable to each trustee, and each beneficiary is also shown as beneficially owning the shares in his/her account. In addition, the shares held by a trust will be attributable to all the trustees as well as the beneficiaries. We would caution you against overreliance on the beneficial ownership percentages because they may be misleading as they relate to any specific person, for the reasons described above. However, the collective ownership percentage of the board of directors and management may be more meaningful because the effects of duplication are eliminated in the aggregate percentage.

The applicable percentage of ownership for each shareholder is based on 5,550,962 shares of common stock outstanding as of April 28, 2016. In addition, shares of common stock issuable upon exercise of options and other rights beneficially owned that are exercisable on or before April 28, 2016, are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights, and the group as a whole, but are not deemed outstanding for computing the percentage ownership of any other person. The address of our directors and executive officers is the same as our address. To our knowledge, unless indicated in the footnotes to this table and pursuant to applicable community property laws, each person named in the table has sole voting and investment power with respect to all shares of common stock attributed to him. The references to ownership are derived from our stock transfer books.

Name	Number of Shares Beneficially Owned^	Ownership Percentage
Directors and Executive Officers:		
Brent Beakley	534,046[1,2]	9.57%
Ron Brooks	25,516[1,3]	* .46%
Mike Davis	4,904[3]	* .09%
Frosty Gilliam, Jr.	242,545[1]	4.36%
Lestie Glover	34,168[1,3]	* .61%
Mark Hallgren	121,959[1]	2.19%
Alan Lackey	198,151[1,3]	3.52%
Edmund McGee	33,915[1,3]	* .61%
Charles E. Needham	38,401[1]	* .69%
Wade Porter	144,658[1]	2.59%
R. Michael Richardson	44,270[1,3]	* .80%
Melisa Roberts	539,399[1,2]	9.67%
Kirk Thomas	536,796[1,2]	9.61%
William J. Ware	397,660[1,7,8,9,16]	7.15%
Tol Ware	349,398[13,14,15,16]	6.29%
All directors and executive officers, as a group (15 persons)	**2,137,382 ****	**36.40% ****
Additional Greater Than 5% Shareholders:		
Richard Ware	1,545,806[10,16]	27.85%
Miles Childers	1,532,524[11,16]	27.61%
Rick B. Leverich	1,510,933[11,16]	27.22%
Mary Savannah Ware Singleton	341,015[12,13,14,16]	6.14%
Patrick O'Neill Ware	420,548[4,5,6,16]	7.58%

Notes to beneficial ownership table

^ Beneficial ownership includes shares owned by trusts for which the individual acts as joint trustee, shares owned by trusts that benefit the individual shown, shares owned personally and/or vested options.

* Represents less than 1.0% of the total outstanding shares of common stock.

** The number of shares and percentage shown is not a total of these columns. It represents the shares and percentage for which directors and executive officers have voting or beneficial control.

(1) Includes shares issuable upon exercise of vested options as follows: Mr. Beakley – 29,750, Mr. Brooks – 15,100, Mr. Gilliam – 14,000, Ms. Glover – 17,200, Mr. Hallgren – 14,000, Mr. Lackey – 75,000, Mr. McGee – 17,200, Mr. Needham – 13,000, Mr. Porter – 34,000, Mr. Richardson – 15,500, Ms. Roberts – 29,750, Mr. Thomas – 32,499 and Mr. William J. Ware – 14,000.

(2) The Employee Stock Ownership Plan (ESOP) owns a total of 504,296 shares representing 9.08%. Mr. Beakley, Ms. Roberts and Mr. Thomas serve as Trustees of the ESOP with any one of the three holding voting rights for all the stock owned by the ESOP for purposes of this proxy statement.

(3) Includes shares held by the ESOP allocated as follows: Mr. Brooks – 10,415.60, Mr. Davis – 4,904.14, Ms. Glover – 14,743.10, Mr. Lackey – 44,838.23, Mr. McGee - 13,597.18, and Mr. Richardson – 11,313.89.

(4) Includes 141,204 shares, representing 2.54%, owned by Patrick O'Neill Ware 1976 Grandchildren's Successor Trust shown as beneficially owned by Mr. Patrick O'Neill Ware, Mr. Richard Ware, Mr. Childers and Mr. Leverich.

(5) Includes 201,153 shares, representing 3.62% owned by Patrick O'Neill Ware 1982 Grandchildren's Successor Trust shown as beneficially owned by Mr. Patrick O'Neill Ware, Mr. Richard Ware, Mr. Childers and Mr. Leverich.

(6) Includes 38,102 shares representing .69% owned by Richard Ware 2009 GRAT shown as beneficially owned by Mr. Patrick Ware and Mr. Richard Ware.

(7) Includes 157,185 shares, representing 2.83%, owned by William J. Ware 1976 Grandchildren's Successor Trust shown as beneficially owned by Mr. William J. Ware, Mr. Richard Ware, Mr. Childers and Mr. Leverich.

(8) Includes 192,861 shares, representing 3.47% owned by William J. Ware 1982 Grandchildren's Successor Trust shown as beneficially owned by Mr. William J. Ware, Mr. Richard Ware, Mr. Childers and Mr. Leverich.

(9) Includes 15,243 shares representing .27% owned by Richard Ware 2010 GRAT shown as beneficially owned by Mr. William J. Ware and Mr. Richard Ware.

(10) Includes 1,269,976 shares held by trusts for which Mr. Richard Ware serves as joint trustee with Mr. Childers and Mr. Leverich. Additionally includes 74,936 shares held by trust for which Mr. Richard Ware is beneficiary.

(11) All shares are owned by trusts for which Mr. Childers and Mr. Leverich serve as a joint trustees with Mr. Richard Ware for beneficiaries of the Ware family.

(12) Includes 100,058 shares, representing 1.80% owned by Mary Savannah Ware 1976 Grandchildren's Successor Trust shown as beneficially owned by Ms. Singleton, Mr. Richard Ware, Mr. Childers and Mr. Leverich.

(13) Includes 105,723 shares, representing 1.90% owned by Mary Savannah Ware 1982 Grandchildren's Successor Trust shown as beneficially owned by Ms. Singleton, Mr. Tol Ware, Mr. Childers and Mr. Leverich.

(14) Includes 135,234 shares, representing 2.44% owned by William T. Ware 1982 Grandchildren's Successor Trust shown as beneficially owned by Ms. Singleton, Mr. Tol Ware, Mr. Childers and Mr. Leverich.

(15) Includes 99,032 shares, representing 1.78% owned by William T. Ware 1976 Grandchildren's Successor Trust shown as beneficially owned by Mr. Tol Ware, Mr. Richard Ware, Mr. Childers and Mr. Leverich.

(16) The total number of shares owned by the Ware family individually and in trusts and by other Ware Group members is 2,225,516 shares or 40.09% of total shares outstanding.

Certain transactions

Certain of our officers, directors and principal shareholders, their immediate families and their affiliates have deposit accounts with our subsidiary, the Bank, and from time to time, the Company or the Bank may enter into other transactions in the ordinary course of business and otherwise with certain of our officers, directors or principal shareholders. In all cases, these transactions are and will be made on the same basis and terms as similar transactions made with persons or entities that are not officers, directors or principal shareholders of the Company and do not involve more than the normal risk of collectability or involve a delinquency as to payment of principal or interest or present other unfavorable features. All loans made to our officers, directors, principal shareholders, their immediate families and their affiliates are believed to be in compliance with the Financial Institutions Regulatory and Interest Rate Control Act of 1978. As of the date of this proxy statement, none of such loans was categorized as nonaccrual, past due, restructured or potential problem loans. We expect to continue to enter into transactions in the ordinary course of business on similar terms with our officers, directors and principal shareholders, their immediate families and their affiliates.

ADDITIONAL INFORMATION

We will bear all costs of the solicitation of proxies by our board. In addition to soliciting proxies through the mail, proxies may be solicited by our directors and officers in person or by telephone or other means of communication. Our directors and officers will not receive additional compensation for their efforts during this solicitation, but may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation. After the original mailing of the proxies and other solicitation materials, we request that brokers, custodians, nominees and other record holders of common stock forward copies of the proxy statement, proxy and solicitation materials to beneficial owners for whom they hold shares.

BY ORDER OF THE BOARD OF DIRECTORS

April 28, 2016	Alan Lackey
Lubbock, Texas	Chairman & Chief Executive Officer

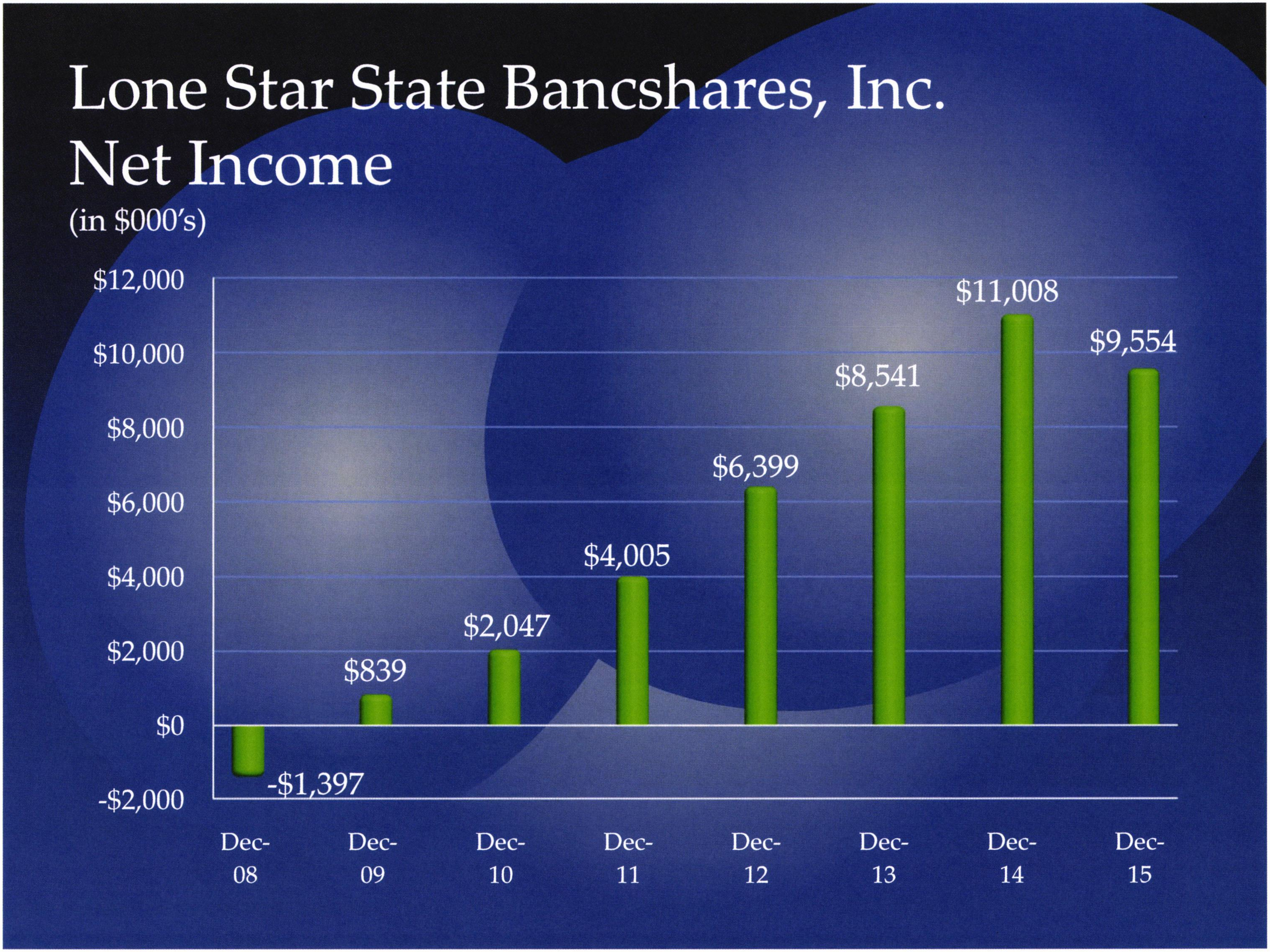
LONE STAR STATE BANCSHARES, INC

NINTH ANNUAL STOCKHOLDERS' MEETING

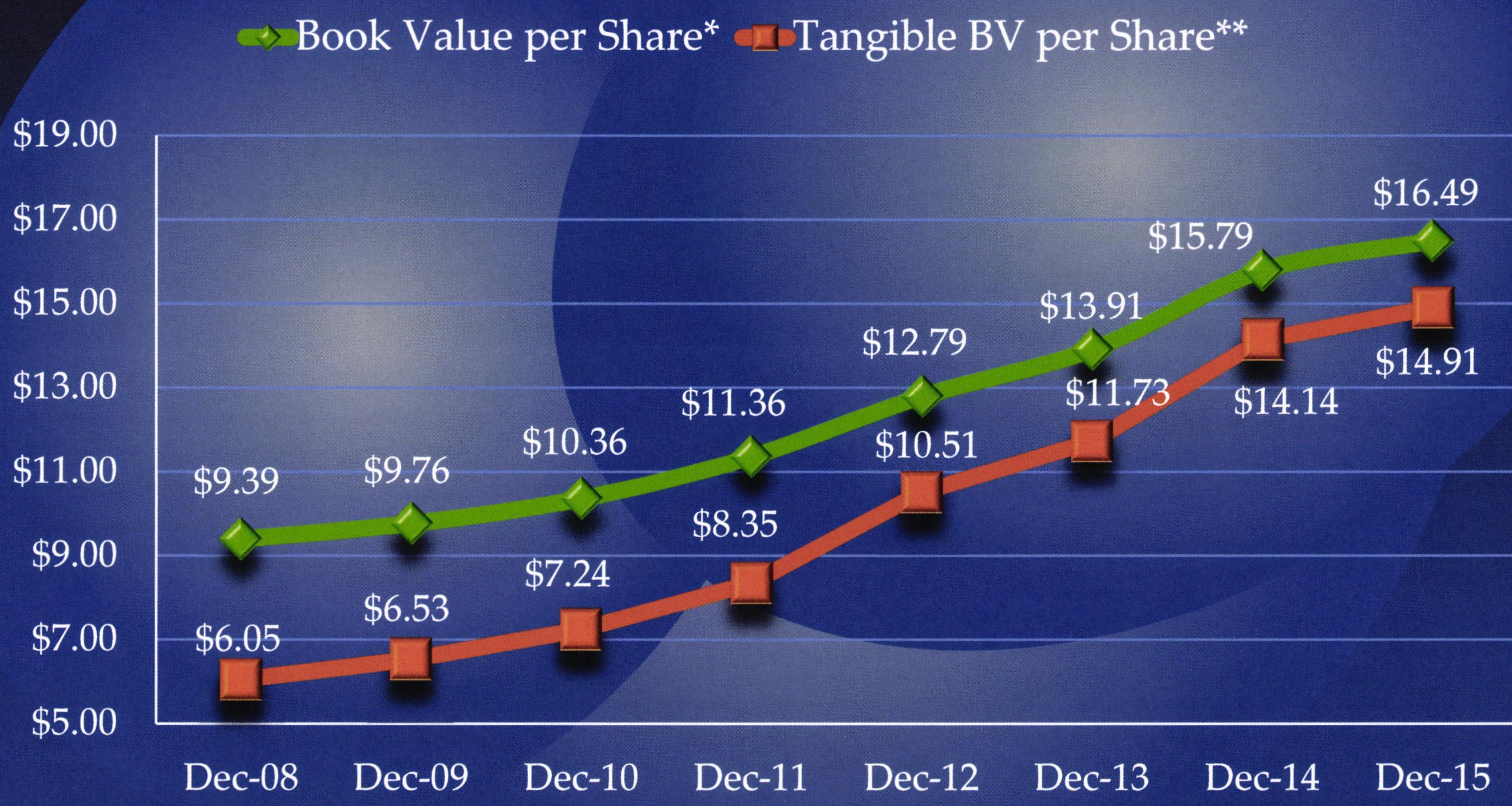
MAY 26, 2016

2015 Financial Review

Organization Chart


Lone Star State Bancshares, Inc.
Net Income
(in $000's)
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
-$2,000
-$1,397
$839
$2,047
$4,005
$6,399
$8,541
$11,008
$9,554
Dec-08
Dec-09
Dec-10
Dec-11
Dec-12
Dec-13
Dec-14
Dec-15

Lone Star State Bancshares, Inc.
Book Value Per Share



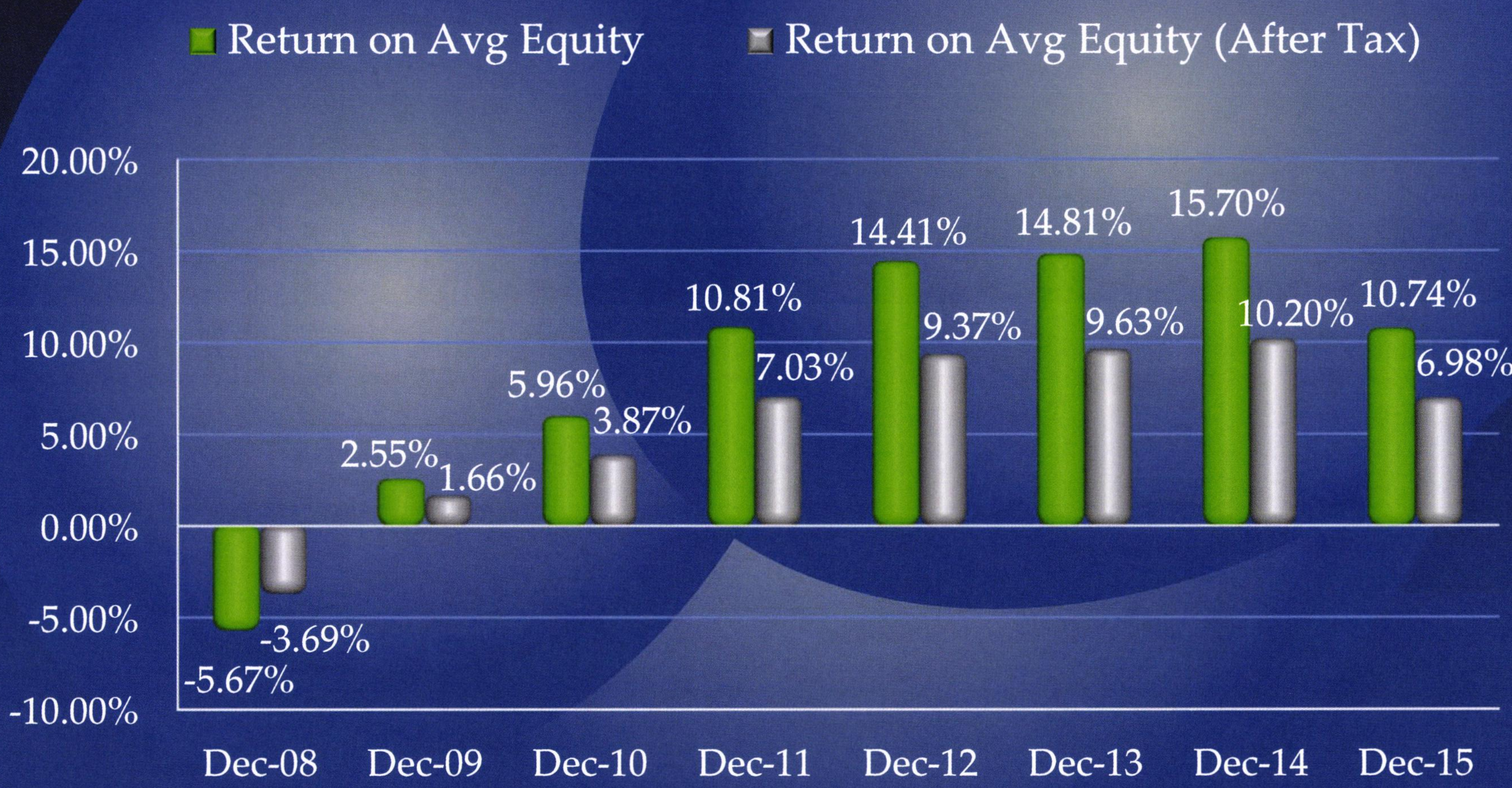
* Consolidated total equity divided by number of shares outstanding at year end

** Consolidated total equity less intangible assets (i.e. Goodwill) divided by number of shares outstanding at year end

Lone Star State Bancshares, Inc.
Earnings Per Share*

* Consolidated net income divided by weighted average shares outstanding for the year

Lone Star State Bancshares, Inc.
Return on Average Equity*



* Consolidated net income divided by average consolidated equity

Lone Star State Bank
Return on Average Assets*
(after tax)

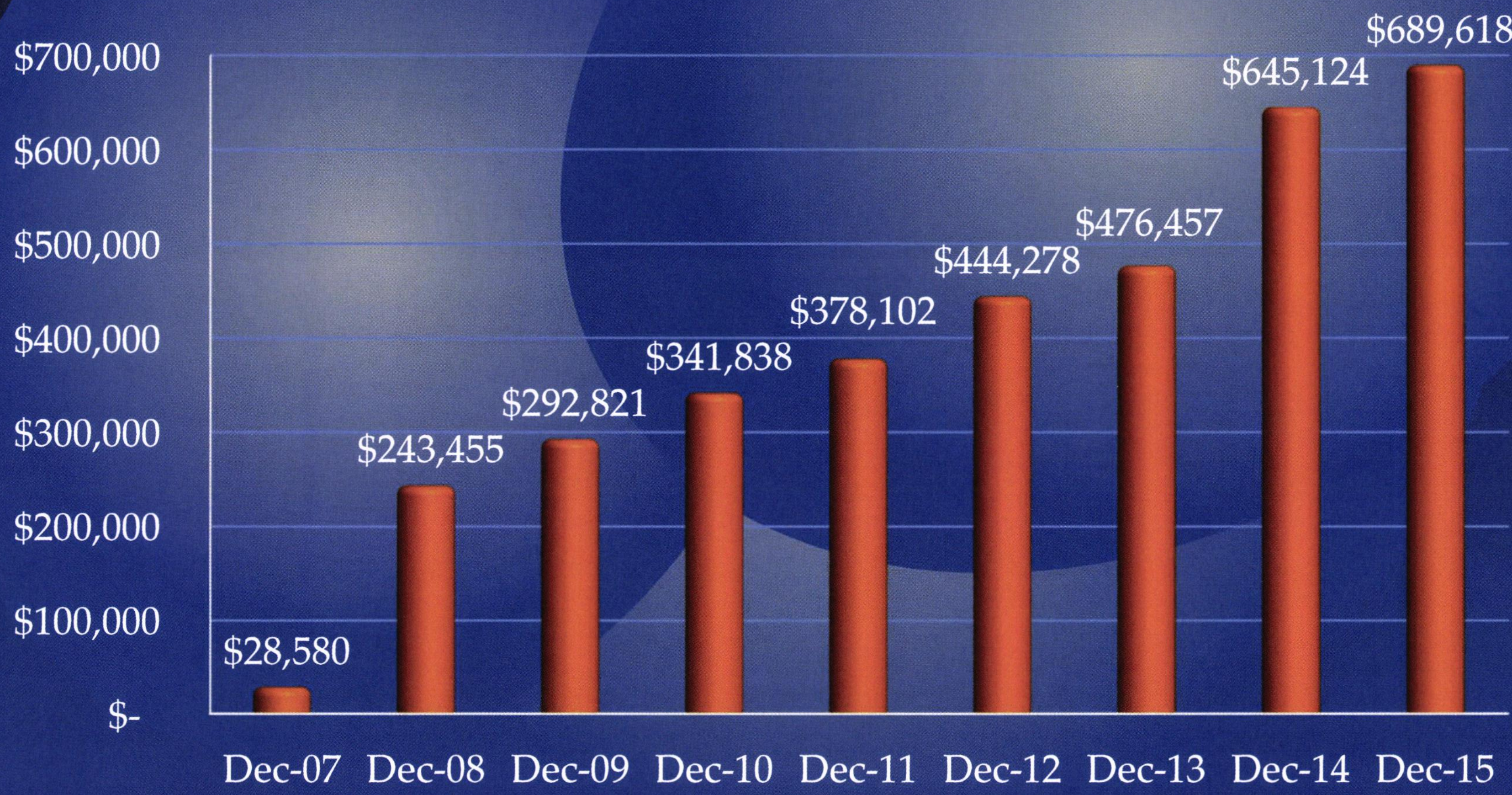
*Bank net income divided by average Bank assets

Lone Star State Bank
Provision Expense as a % of Avg Assets*

*Provision for loan and lease receivable losses divided by average assets

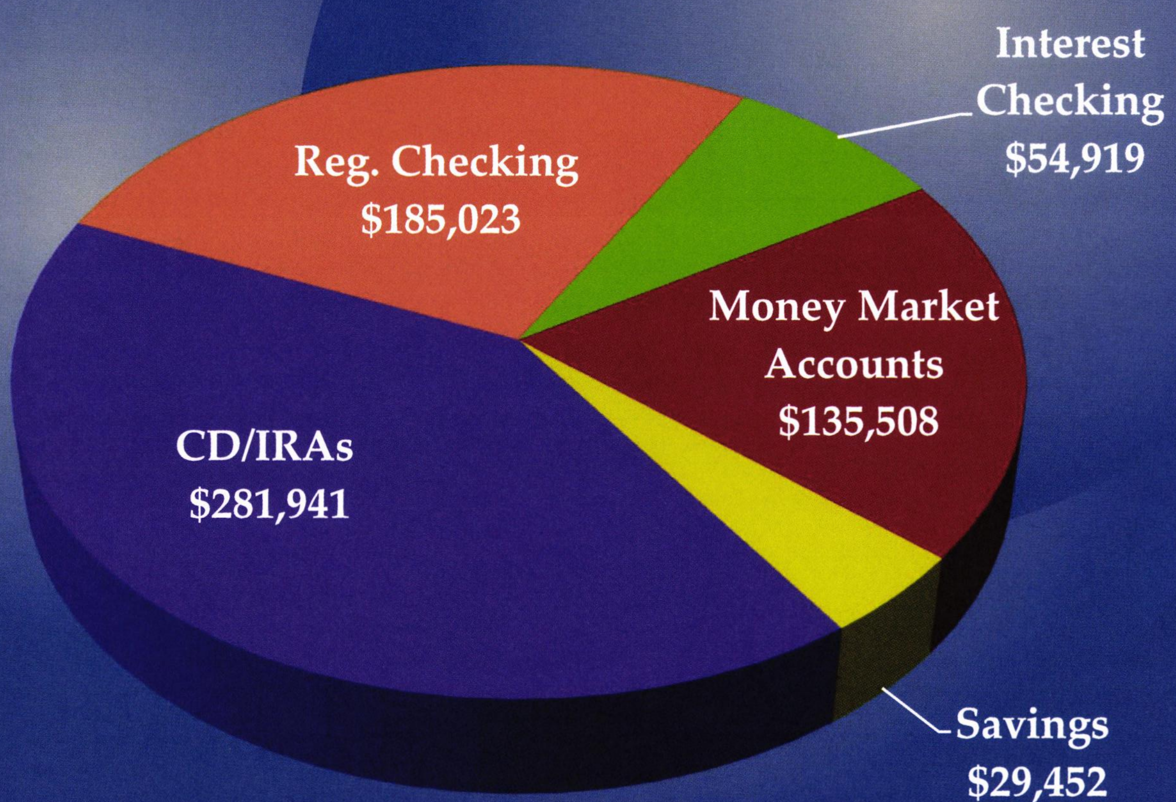
Lone Star State Bancshares, Inc.
Total Assets
(in $000's)

Lone Star State Bank
Average Deposits
(in $000s)



Lone Star State Bank
Deposit Mix
(in $000's)

As of December 31, 2015: $687 million outstanding

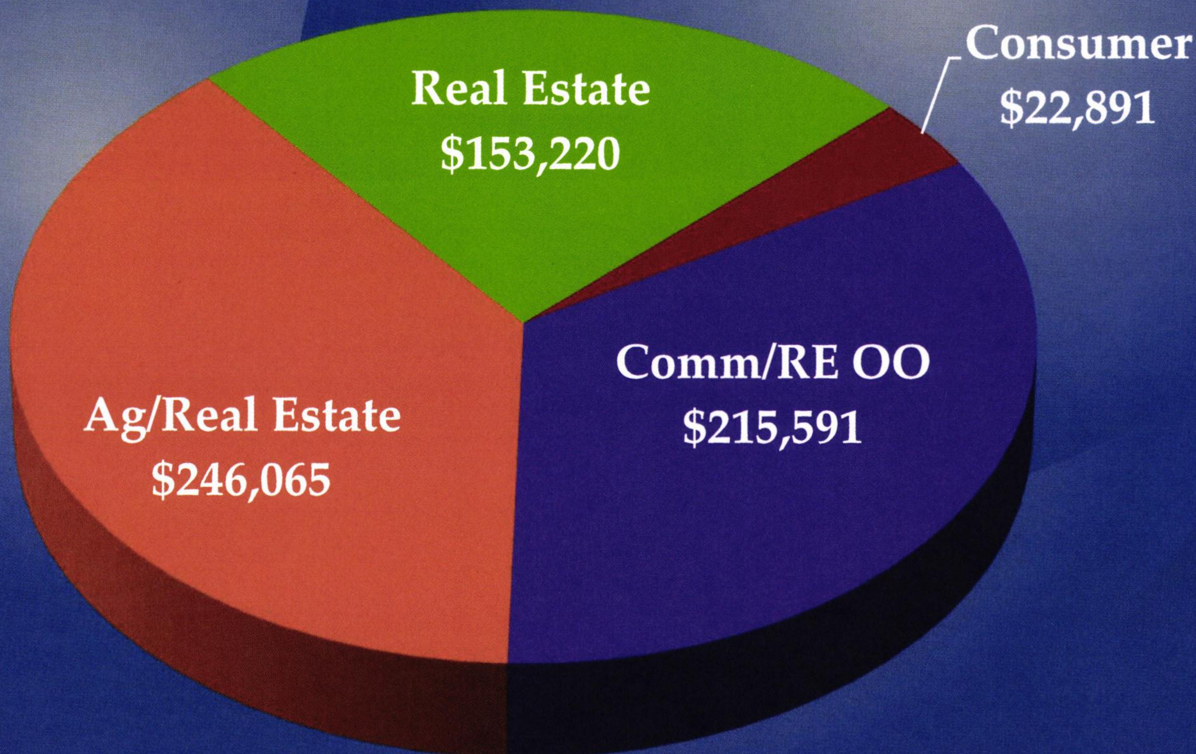


Lone Star State Bank
Average Loans
(in $000's)

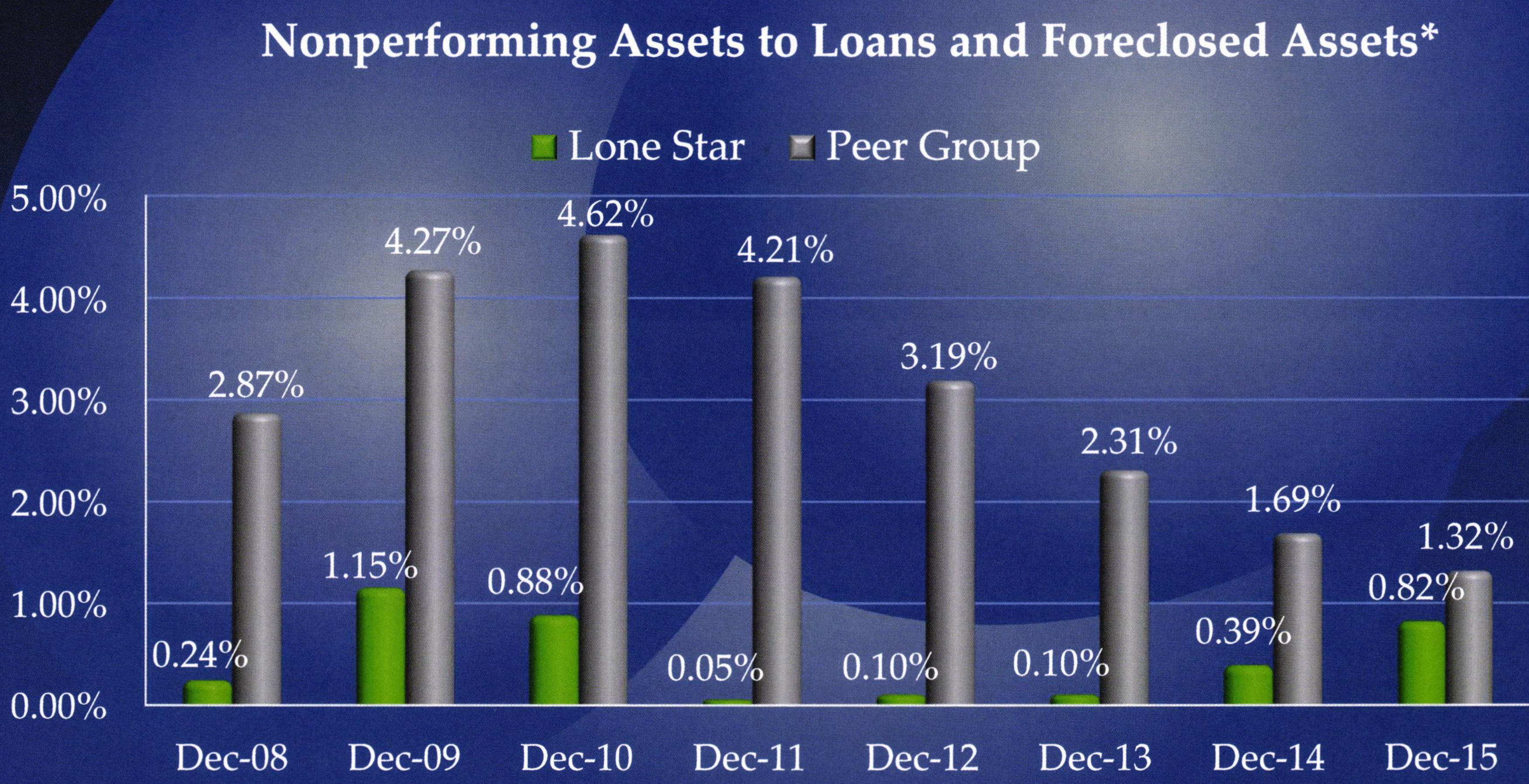
Lone Star State Bank Loan Portfolio Mix

(in $000's)

As of December 31, 2015: $638 million outstanding



Lone Star State Bank
Sound Lending Practices

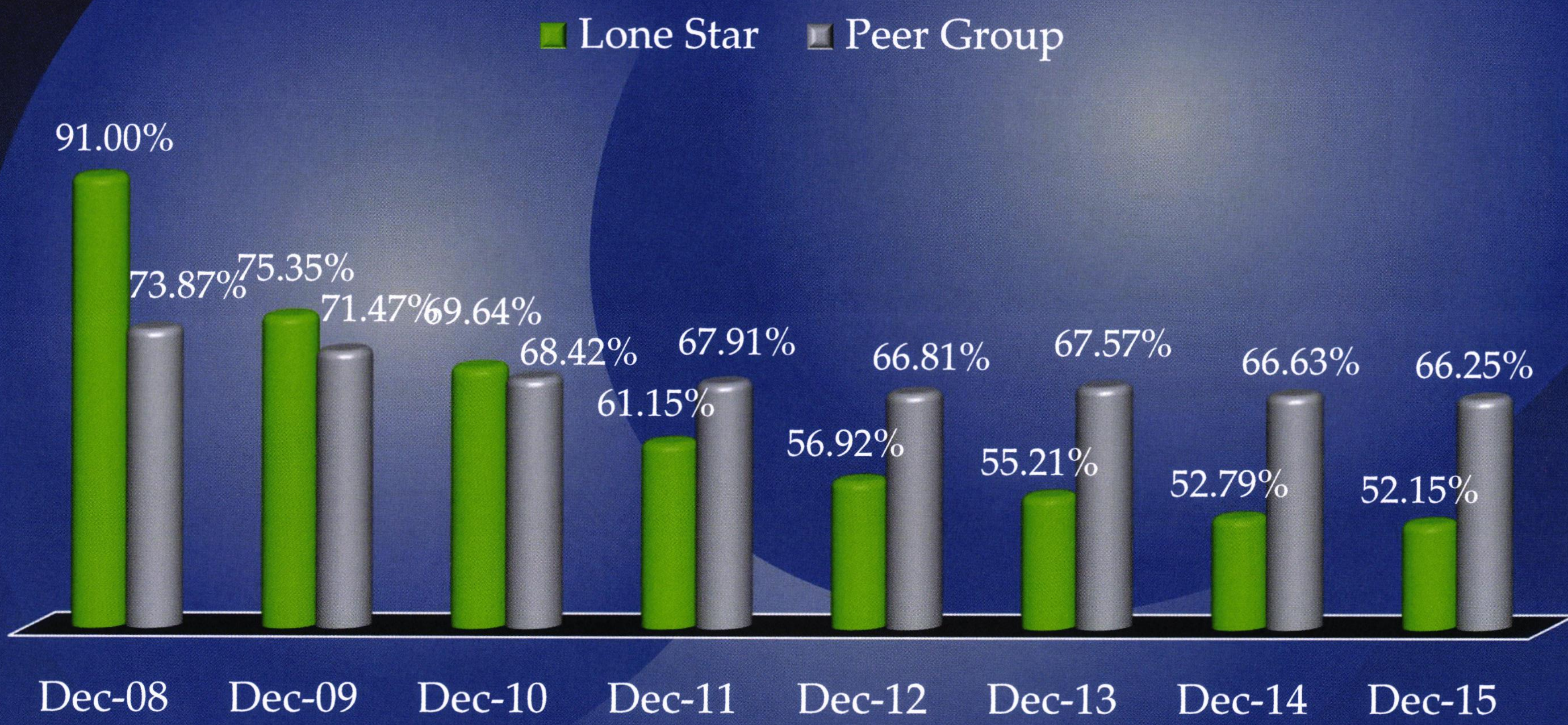


* Total non-performing assets (loans past due>90 days, non-accrual loans, restructured loans, and assets acquired due to foreclosures) divided by total loans plus assets acquired due to foreclosure

Lone Star State Bank
Net Interest Margin*

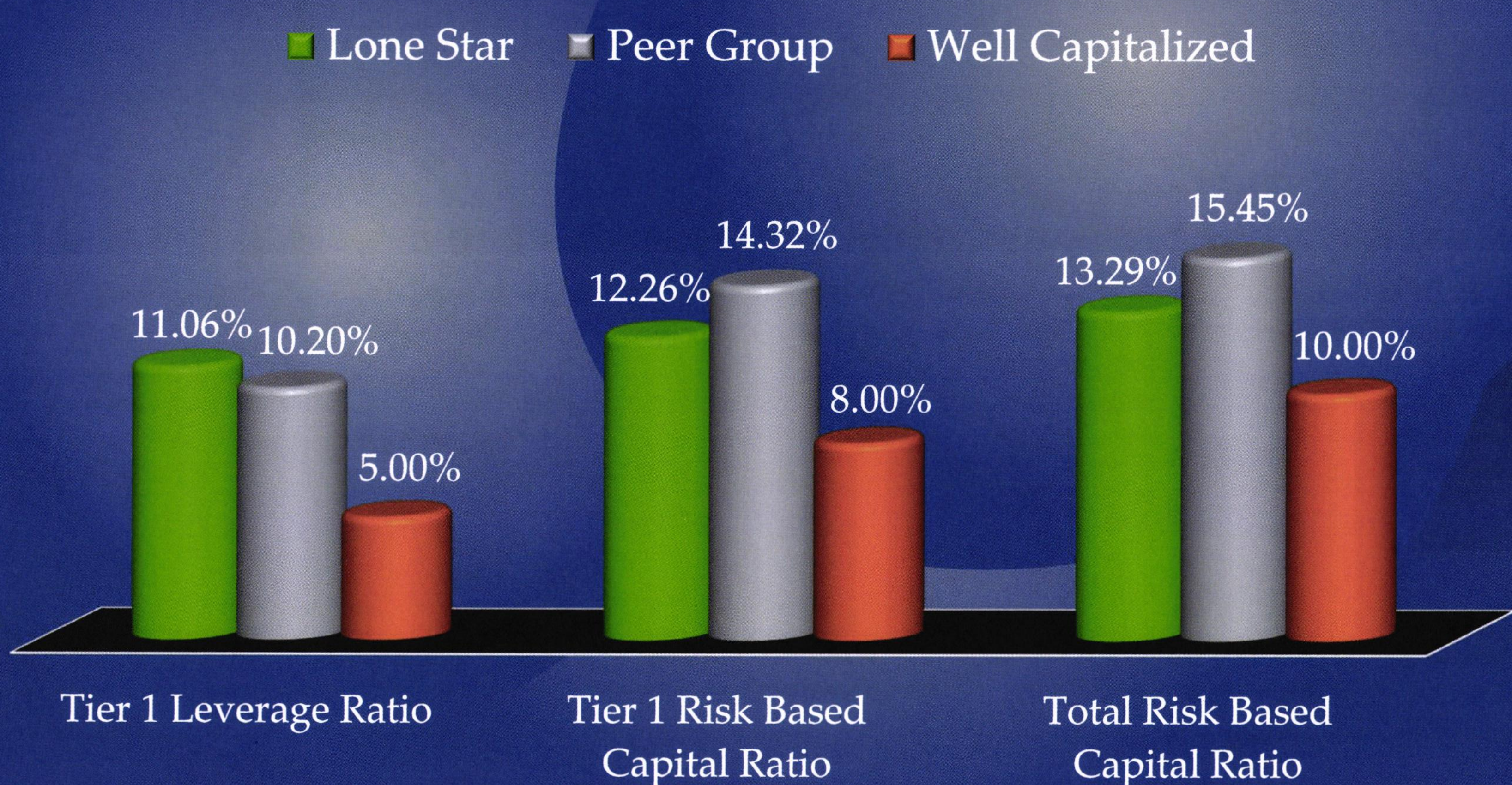
*Interest Income on earning assets (i.e. loans and securities) less interest expense paid on deposits and borrowings divided by average earning assets

Lone Star State Bank
History of Efficiency Ratio*

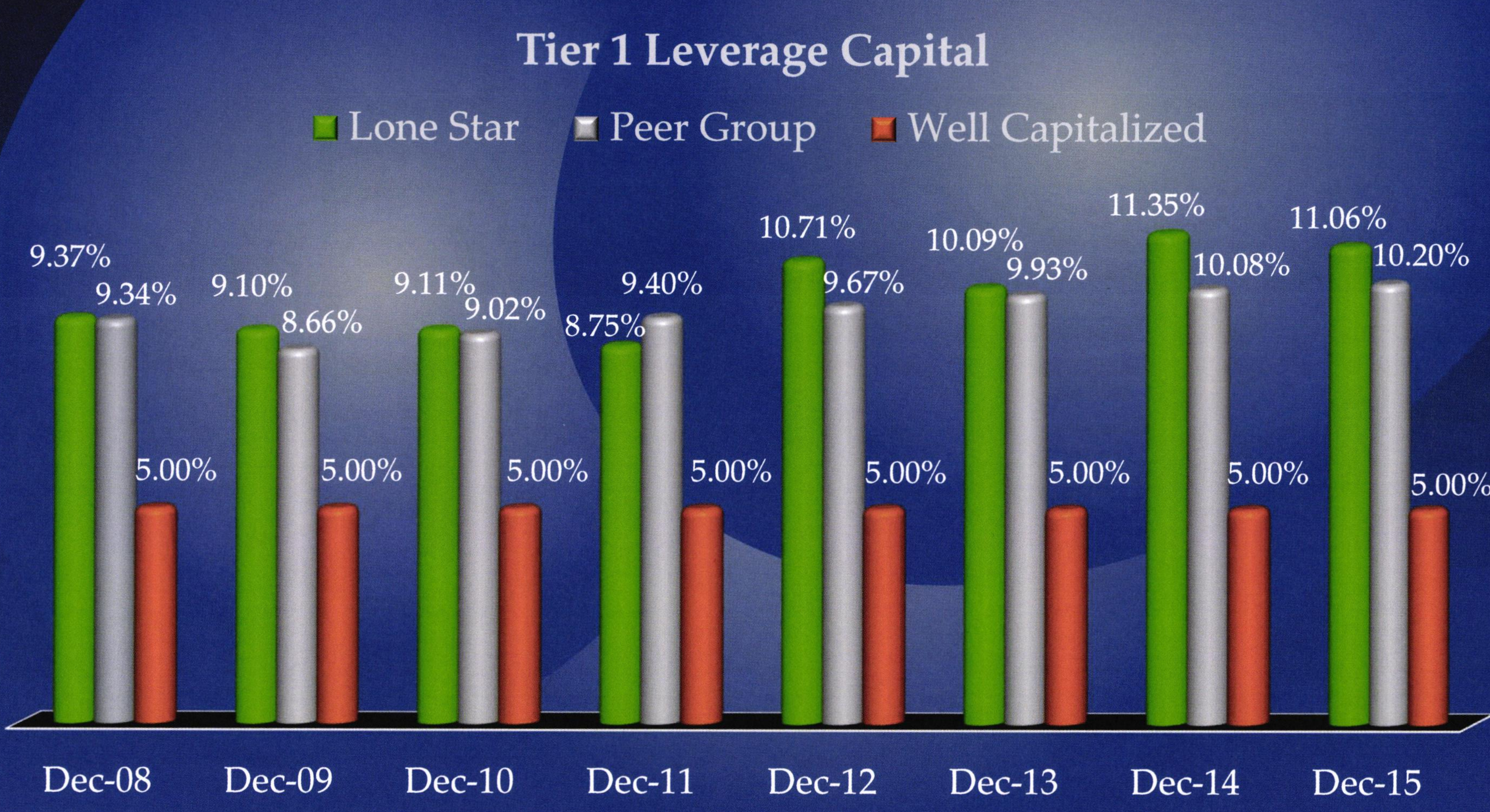


*Noninterest expense (i.e. salaries, occupancy, operating expenses) divided by net interest income (i.e. income from loans and securities less interest paid on deposits and borrowings) plus noninterest income (source: Uniform Bank Performance Report)

Lone Star State Bank
Capital Ratios
As of December 31, 2015



Lone Star State Bank
History of Leverage Capital Ratio



Lone Star State Bank Peer Comparison:

(% of Avg. Assets as of December 31, 2015)	Lone Star State	$300mm - $1 bil. Peer Group
Profitability:		
Net Interest Income	3.48%	3.51%
Provision for Loan Loss Expense	0.45%	0.10%
Adjusted Sub S Net Income	0.84%	0.93%
Net Income	1.28%	1.04%
Margin:		
Net Interest Income to Avg Earning Assets	3.63%	3.74%
Liquidity:		
Net Non-Core Fund Dependence	14.32%	6.44%
Capitalization:		
Tier One Leverage Capital	11.06%	10.20%
Non-Interest Expense:		
Personnel Expense	1.24%	1.60%
Occupancy Expense	0.17%	0.35%
Other Non-Interest Expense	0.48%	0.90%
Total Non-Interest Expense	1.89%	2.86%

Lone Star State Bank Loan Quality Peer Comparison:

(as of December 31, 2015)	Lone Star State	$300M - $1 bil. Peer Group
Past Dues and Non Accrual:		
Past Due > 30 Days	0.19%	0.52%
Past Due > 90 Days	0.00%	0.05%
Non Accrual	0.81%	0.78%
Non Current Loans to Allowance for Loan Loss	72.71%	67.40%
Non Current Loans to Capital	5.55%	5.46%
Non Current Loans plus OREO to Total Loans plus OREO	0.82%	1.32%
Allowance and Net Loss Ratios:		
Loan Loss Allowance to Total Loans	1.12%	1.35%
Net Loss to Average Total Loans	0.62%	0.12%
Loss Provision to Average Assets	0.45%	0.10%

Lone Star State Bancshares, Inc.
Net Income

(in $000's)

Lone Star State Bancshares, Inc. Consolidated Balance Sheet

As of December 31 (unaudited, in $000's)	2010	2011	2012	2013	2014	2015
Cash & Due From Banks	$ 25,151	$ 28,258	$ 28,466	$ 26,753	$ 81,863	$ 88,902
Fed Funds Sold	-	-	-	-	-	-
Interest-Bearing Deposits in Banks	8,506	9,005	10,515	529	531	5,546
Accrued Interest Receivable	3,557	3,896	4,677	5,105	6,350	6,150
AFS Securities, at fair value	32,701	36,440	42,698	21,125	26,110	29,810
Loans, Net	295,474	334,628	409,078	475,852	614,460	630,603
Premises & Equipment, Net	5,255	5,481	9,918	9,355	8,890	9,517
Federal Reserve Bank & FHLB Stock, at cost	1,454	2,059	2,660	3,270	2,454	2,527
Intangibles, Net	10,681	10,292	9,904	9,515	9,127	8,738
Other Assets	1,371	933	1,131	579	639	942
Total Assets	$ 384,150	$ 430,992	$ 519,047	$ 552,083	$ 750,424	$ 782,735
Noninterest-Bearing Deposits	$ 75,642	$ 113,319	$ 156,710	$ 173,630	$ 188,763	$ 185,024
Interest Bearing Deposits	263,480	270,657	298,736	305,948	469,581	501,819
Total Deposits	339,122	383,976	455,446	479,578	658,344	686,843
Note Payable	9,060	7,760	6,785	5,485	4,185	2,885
Other Borrowings	-	-	-	6,000	-	-
Capital Lease and Other Liabilities	487	344	1,166	412	544	1,689
Total Liabilities	348,669	392,080	463,397	491,475	663,073	691,417
Common Stock	3,426	3,426	4,352	4,356	5,533	5,537
Additional Paid-In Capital	32,917	33,005	44,626	44,712	63,617	63,854
Accumulated Other Comprehensive Income	50	518	503	226	148	78
Retained Earnings (Deficit)	(912)	1,963	6,169	11,314	18,053	21,849
Total Stockholders' Equity	35,481	38,912	55,650	60,608	87,351	91,318
Total Liabilities & Stockholders' Equity	$ 384,150	$ 430,992	$ 519,047	$ 552,083	$ 750,424	$ 782,735

Lone Star State Bancshares, Inc. Consolidated Income Statement

(unaudited, in $000's)	2010	2011	2012	2013	2014	2015
Interest & Dividend Income	$ 16,320	$ 18,278	$ 20,950	$ 22,878	$ 27,825	$ 31,274
Interest Expense	4,221	3,572	2,724	2,033	2,524	4,110
Interest Margin	12,099	14,706	18,226	20,845	25,301	27,164
Provision for Loan & Lease Losses	1,128	1,382	1,197	750	910	3,500
Interest Margin after Provision for Loan Losses	10,971	13,324	17,029	20,095	24,391	23,664
Noninterest Income	865	662	652	867	990	1,112
Salaries & Employee Benefits	6,280	6,630	7,521	8,136	9,655	10,040
Occupancy & Equipment	772	749	778	1,128	1,213	1,367
Overhead Expenses	2,697	2,584	2,931	3,124	3,466	3,772
Total Noninterest Expenses	9,749	9,963	11,230	12,388	14,334	15,179
Income Tax Expense	40	18	52	33	39	43
Net Income (Loss)	$ 2,047	$ 4,005	$ 6,399	$ 8,541	$ 11,008	$ 9,554

LONE STAR STATE BANCSHARES, INC

NINTH ANNUAL STOCKHOLDERS' MEETING

MAY 26, 2016