

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)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, top-tier savings and loan holding companies, and U.S. intermediate 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. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016

Month / Day / Year

N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

I, Darryl Calley

Name of the Holding Company Director and Official

Director & Secretary

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.

WTSB Bancorp, Inc.

Legal Title of Holding Company

P O Box 1396

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

Snyder TX 79550-1396

City State Zip Code

5009 College Snyder, TX 79549

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Darryl Calley Director & Secretary

Name Title

325/573-5441 x 253

Area Code / Phone Number / Extension

325/573-1136

Area Code / FAX Number

darryl@wtsb.com

E-mail Address

www.ebanktexas.com

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

Signature of Holding Company Director and Official

08/29/2017

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 2692548
 C.I.

Is confidential treatment requested for any portion of this report submission? 0=No 1=Yes 0

In accordance with the General Instructions for this report (check only one),

- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

FORM FR Y-6

**WTSB BANCORP, INC
Snyder, Texas
Fiscal Year Ending December 31, 2016**

Report Item:

1 The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate Reserve Bank, one copy is enclosed.

2a Organizational Chart

**WTSB BANCORP, INC
LEI: None
Snyder, Texas
Incorporated in Texas**

100%

**WEST TEXAS STATE BANK
LEI: None
Snyder, Texas
Incorporated in Texas**

Report created: 2/22/2017

WTSB BANCORP, INC. (2692548)

as of 02/22/2017

Hierarchy report with the following institution types: Commercial Bank, Cooperative Bank, Credit Union, Edge/Agreement Corporation, Financial Holding Company, Holding Company, Industrial Bank, Insurance Co. Broker/Agent/Underwriter, Nondepository Trust Company, Other Company, Savings Bank, Savings and Loan Association, the Securities Broker/Dealer/Underwriter, Farm Credit System Institution, and Savings and Loan Holding Company

| Seq Num | Name (RSSD ID) | Parent Seq | City | State or Country | Entity Type |
|--------------------|-----------------------------------|-----------------------|-------------|-----------------------------|-------------------------|
| 1 | * WTSB BANCORP, INC. (2692548) | | SNYDER | TX | Bank Holding Company |
| 2 | -* WEST TEXAS STATE BANK (406666) | 1 | SNYDER | TX | Non-member Bank |

Total Records: 2 (with 2 unique institutions)

* Institutions Matching Selection Rule.

+ For purposes of Regulation Y, the top-tier reporter's ownership level in this banking organization does not meet the definition of "control"; however, the ownership level does meet the FR Y-10 reportability criteria as this banking relationship is regulated by the Federal Reserve.

^ Although this relationship is not governed by U.S. banking statutes, it is included because it is of interest to the Federal Reserve.

**FR Y-6 Report
FYE December 31, 2016
WTSB BANCORP, INC
Snyder, Texas**

Report Item 2b: Submitted via email on 02/22/2017

Results: A list of branches for your depository institution: WEST TEXAS STATE BANK (ID_RSSD: 406666)
 This depository institution is held by WTSB BANCORP, INC. (2692548) of SNYDER, TX
 The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017

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) | 406666 | WEST TEXAS STATE BANK | 5009 COLLEGE AVENUE | SNYDER | TX | 79549 | SCURRY | UNITED STATES | 10962 | 0 | WEST TEXAS STATE BANK | 406666 | |
| OK | | Full Service | 991667 | ROWENA BRANCH | 211 EDWARDS STREET | ROWENA | TX | 76875 | RUNNELS | UNITED STATES | 3732 | 2 | WEST TEXAS STATE BANK | 406666 | |

FORM FR Y-6
WTSB BANCORP, INC
Snyder, Texas
Fiscal Year Ending December 31, 2016

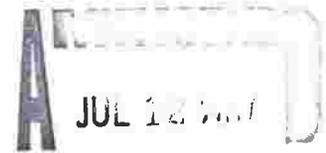


Report Item 3: Securities holders

(1)(a)(b)(c) and (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016.

| (1)(a) Name City, State, Country | (1)(b) Country of Citizenship | (1)(c) Number and Percentage of Each Class of Voting Securities |
|--|-------------------------------------|---|
| Eiland Family: | | |
| Jay Eiland Dallas, TX | USA | 13,687 - 15.49% Common Stock |
| Carol Eiland Snyder, TX | USA | 4,523 - 5.12% Common Stock |
| Terry & Martha Martin Snyder, TX | USA | 4,464 - 5.05% Common Stock |
| Martha Eiland Martin Snyder, TX | USA | 361 - 0.40% Common Stock |
| Mary Eiland Snyder, TX | USA | 3,000 - 3.39% Common Stock |
| Susan Eiland Smith Tucson, AZ | USA | 2,361 - 2.67% Common Stock |
| Total Family Percentage | | 28,396 - 32.12% Common Stock |
| Calley Family: | | |
| Calley Family Trust D Verline Calley, trustee Snyder, TX | USA | 5,718 - 6.47% Common Stock |
| Darryl Calley Snyder, TX | USA | 600 - 0.67% Common Stock |
| Total Family Percentage | | 6,318 - 7.14% Common Stock |

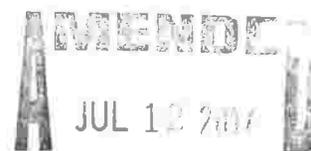


| | | |
|---|-----|------------------------------|
| West Texas State Bank ESOP Darryl Calley & Mark Williamson, trustees Snyder, TX | USA | 10,464 - 11.85% Common Stock |
| Sally Walton Snyder, TX | USA | 5,089 - 5.76% Common Stock |
| Martin & Dixie Brooks Snyder, TX | USA | 5,000 - 5.66% Common Stock |
| Mark Williamson Snyder, TX | USA | 525 - 0.59% Common Stock |

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 12-31-2016.

-None-

FORM FR Y-6
WTSB BANCORP, INC
Snyder, Texas
Fiscal Year Ending December 31, 2016



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

| (1) Names City, State Country | (2) Principal Occupation | (3)(a) Title w/ BHC | (3)(b) Title w/ Subs | (3)(c) Titles w/ Others | (4)(a) % Vote w/ BHC | (4)(b) % Vote w/ Subs | (4)(c) Other Companies |
|--|--------------------------------|---------------------------|--|-------------------------------|----------------------------|-----------------------------|------------------------------|
| Eiland Family: | | | | | | | |
| Jay Eiland Dallas, TX | N/A | Director | Director (West Texas State Bank) | N/A | 15.49% | none | N/A |
| Terry Martin Snyder, TX | N/A | Director | Director (West Texas State Bank) | N/A | * 5.05% | none | N/A |
| Carol Eiland Snyder, TX | N/A | Prin Sec Holder | N/A | N/A | 5.12% | none | N/A |
| Mary Eiland Snyder, TX | N/A | Prin Sec Holder | N/A | N/A | 3.39% | none | N/A |
| Susan Eiland Smith Tucson, AZ | N/A | Prin Sec Holder | N/A | N/A | 2.67% | none | N/A |
| Martha Eiland Martin Snyder, TX | N/A | Prin Sec Holder | N/A | N/A | 0.40% | none | N/A |
| Total Family Percentage: | | | | | 32.12% | | |
| James Brown Snyder, TX | CPA | Director | Director (West Texas State Bank) | Manager-JCB Investments | 3.28% | none | N/A |
| Darryl Calley Snyder, TX | Banker | Director & Secretary | Director, President & Cashier (West Texas State Bank) | N/A | 0.68% | none | N/A |
| Dan Cotton Snyder, TX | Attorney | Director | Director (West Texas State Bank) | N/A | 0.91% | none | N/A |
| John Greene Snyder, TX | Retired Banker | Director & Chairman | Director & Chairman (West Texas State Bank) | N/A | 0.57% | none | N/A |
| James McMillan Snyder, TX | Farmer | Director | Director (West Texas State Bank) | N/A | 0.57% | none | N/A |
| Mark Williamson Snyder, TX | Banker | Director & President | Director & Chief Executive Officer (West Texas State Bank) | N/A | 0.59% | none | N/A |

AMENDED
JUL 12 2017

| | | | | | | | |
|---|-----|-----------------|-----|-----|--------|------|-----|
| West Texas State Bank ESOP Darryl Calley & Mark Williamson, trustees Snyder, TX | | Prin Sec Holder | N/A | N/A | 11.85% | none | N/A |
| Calley Family Trust D Verline Calley, trustee Snyder, TX | N/A | Prin Sec Holder | N/A | N/A | 6.47% | none | N/A |

*Shares are jointly owned with spouse Martha Eiland Martin

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Annual Report
December 31, 2016 and 2015



WTSB Bancorp, Inc. and Subsidiaries

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621 West 7th Street Plainview, TX 79072

2405 20th Street Lubbock, TX 79411

Independent Auditors' Report

Board of Directors and Stockholders of
WTSB Bancorp, Inc. and Subsidiaries

We have audited the accompanying financial statements of WTSB Bancorp, Inc. (a Texas S-corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WTSB Bancorp, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in pages 16 through 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads 'Moseley & Riddle'.

Lubbock, Texas
January 20, 2017

Phone: 806.293.3681 Fax: 806.293.3338

Phone: 806.281.9245 Fax: 806.293.3338

Member: American Institute of Certified Public Accountants



Member: Texas Society of Certified Public Accountants

Consolidated Financial Statements

WTSB Bancorp, Inc.
Snyder, Texas
Consolidated Balance Sheets
December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and due from banks | \$ 6,467,211 | \$ 8,052,449 |
| Securities available for sale | 34,791,141 | 51,814,347 |
| Loans, net | 75,111,784 | 74,341,260 |
| Bank premises and equipment, net | 4,913,675 | 4,902,682 |
| Accrued interest receivable | 962,340 | 1,146,060 |
| Other assets | <u>3,261,532</u> | <u>3,777,978</u> |
| Total Assets | \$ 125,507,683 | \$ 144,034,776 |
| Liabilities | | |
| Deposits | | |
| Non-interest bearing accounts | \$ 33,299,676 | \$ 33,417,272 |
| NOW accounts | 26,857,995 | 30,357,928 |
| Savings accounts | 11,013,508 | 10,739,185 |
| Money market accounts | 14,080,454 | 21,161,639 |
| Time Certificates of Deposit | | |
| Less than \$100,000 | 11,923,976 | 12,732,734 |
| \$100,000 or more | <u>13,420,110</u> | <u>15,758,904</u> |
| Total Deposits | 110,595,719 | 124,167,662 |
| Accrued interest payable | 56,191 | 46,541 |
| Note payable | 500,000 | 900,000 |
| Other liabilities | <u>273,167</u> | <u>1,480,216</u> |
| Total Liabilities | 111,425,077 | 126,594,419 |
| Stockholders' Equity | | |
| Common stock, \$20 par value; 120,000 shares authorized for 2016 and 2015: 88,334 & 88,634 shares issued and outstanding for 2016 and 2015, respectively. | 1,766,680 | 1,772,680 |
| Capital surplus | 4,373,920 | 4,422,970 |
| Retained earnings | 8,239,773 | 10,903,254 |
| Accumulated other comprehensive income | <u>(297,767)</u> | <u>341,453</u> |
| Total Stockholders' Equity | 14,082,606 | 17,440,357 |
| Total Liabilities and Stockholders' Equity | \$ 125,507,683 | \$ 144,034,776 |

See accompanying notes.

WTSB Bancorp, Inc.
Snyder, Texas
Consolidated Statements of Income
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|---------------------|
| Interest Income | | |
| Interest and fees on loans | \$ 3,778,611 | \$ 3,624,527 |
| Interest on investment securities | 884,904 | 1,247,569 |
| Interest on federal funds sold | <u>23,878</u> | <u>18,174</u> |
| Total Interest Income | <u>4,687,393</u> | <u>4,890,270</u> |
| Interest Expense | | |
| Interest on interest bearing checking accounts | 97,256 | 87,455 |
| Interest on savings | 11,220 | 10,460 |
| Interest on time deposits | <u>114,475</u> | <u>110,080</u> |
| Total Interest Expense | <u>222,951</u> | <u>207,995</u> |
| Net interest income | 4,464,442 | 4,682,275 |
| Provision for loan losses | <u>(3,380,000)</u> | <u>(120,000)</u> |
| Net interest income after provision for loan losses | <u>1,084,442</u> | <u>4,562,275</u> |
| Other Income | | |
| Service charges on deposits | 257,368 | 269,750 |
| Other customer fees | 236,185 | 245,290 |
| Other | <u>110,811</u> | <u>106,821</u> |
| Total Other Income | <u>604,364</u> | <u>621,861</u> |
| Other Expenses | | |
| Salaries and employee benefits | 1,658,357 | 1,785,659 |
| Net occupancy expenses | 233,400 | 186,760 |
| Equipment expenses | 573,257 | 469,694 |
| Directors fees | 145,500 | 178,000 |
| Stationery, printing & supplies | 33,649 | 29,805 |
| Telephone | 21,580 | 23,425 |
| Advertising | 71,100 | 72,739 |
| Other | 551,836 | <u>1,245,307</u> |
| Total Other Expense | <u>3,288,679</u> | <u>3,991,389</u> |
| Net Income | <u>\$ (1,599,873)</u> | <u>\$ 1,192,747</u> |

See accompanying notes.

WTSB Bancorp, Inc.
Snyder, Texas
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2016 and 2015

| | Capital Stock | Additional Paid- In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|--|---------------|--------------------------------|----------------------|---|----------------------------------|
| Balances, January 01, 2015 | \$ 1,775,680 | \$ 4,446,520 | \$ 11,042,267 | \$ 670,977 | \$ 17,935,444 |
| Net income (loss) | - | - | 1,192,747 | - | 1,192,747 |
| Dividends paid | - | - | (1,331,760) | - | (1,331,760) |
| Retired stock | (3,000) | (23,550) | - | - | (26,550) |
| Net change in unrealized gain (loss) on available-for-sale securities | - | - | - | (329,524) | (329,524) |
| Balances, December 31, 2015 | 1,772,680 | 4,422,970 | 10,903,254 | 341,453 | 17,440,357 |
| Net income (loss) | - | - | (1,599,873) | - | (1,599,873) |
| Dividends paid | - | - | (1,063,608) | - | (1,063,608) |
| Retired stock | (6,000) | (49,050) | - | - | (55,050) |
| Net change in unrealized gain (loss) on available-for-sale securities | - | - | - | (639,220) | (639,220) |
| Balances, December 31, 2016 | \$ 1,766,680 | \$ 4,373,920 | \$ 8,239,773 | \$ (297,767) | \$ 14,082,606 |

See accompanying notes.

WTSB Bancorp, Inc.
Snyder, Texas
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Net income (loss) | \$ (1,599,873) | \$ 1,192,747 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 209,423 | 122,511 |
| Investment securities amortization (accretion), net | 785,071 | 1,058,359 |
| Provision for loan losses | 3,380,000 | 120,000 |
| Gain on sale of fixed assets | - | (7,250) |
| (Increase) decrease in accrued interest receivable | 183,720 | 20,512 |
| (Increase) decrease in other assets | 73,485 | (322,236) |
| Increase (decrease) in accrued interest payable | 9,650 | 2,426 |
| Increase (decrease) in other liabilities | (764,088) | 1,028,777 |
| Net Cash Provided by Operating Activities | <u>2,277,388</u> | <u>3,215,846</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from maturities of available-for-sale securities | 4,673,601 | 9,885,148 |
| Purchases of available-for-sale securities | (6,012,648) | (44,423,557) |
| Proceeds from sales of available-for-sale securities | 14,857,962 | 35,277,264 |
| Net (increase) decrease in loans | (2,070,524) | (1,658,746) |
| Purchases of bank premises and equipment | (220,416) | (2,671,183) |
| Proceeds from sale of premises and equipment | - | 7,250 |
| Net Cash Provided (Used) by Investing Activities | <u>11,227,975</u> | <u>(3,583,824)</u> |
| Cash Flows From Financing Activities | | |
| Net increase (decrease) in noninterest bearing, interest bearing demand and savings deposit | (10,424,391) | (6,006,400) |
| Net increase (decrease) in certificates of deposit | (3,147,552) | (34,208) |
| Proceeds on borrowings of long term debt | 500,000 | 1,000,000 |
| Payments on long term debt | (900,000) | (100,000) |
| Retired stock | (55,050) | (26,550) |
| Dividends paid | (1,063,608) | (1,331,760) |
| Net Cash Provided (Used) by Financing Activities | <u>(15,090,601)</u> | <u>(6,498,918)</u> |
| Net increase (decrease) in cash and cash equivalents | (1,585,238) | (6,866,896) |
| Cash and cash equivalents - beginning | <u>8,052,449</u> | <u>14,919,345</u> |
| Cash and cash equivalents - ending | <u>\$ 6,467,211</u> | <u>\$ 8,052,449</u> |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid For: | | |
| Interest | <u>\$ 237,526</u> | <u>\$ 229,924</u> |

See accompanying notes.

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of WTSB Bancorp, Inc. and Subsidiaries, West Texas State Bank (the "Bank") conform to generally accepted accounting principles and prevailing practices within the banking industry. A summary of the more significant accounting policies follows:

1. Nature of Operations

WTSB Bancorp, Inc. is a bank holding company which owns all of the outstanding common stock of West Texas State Bank. The Bank provides a variety of financial services to individuals and corporate customers through its location in Snyder, Texas and at its branch in Rowena, Texas. The Bank's primary deposit products are demand deposits, savings and certificates of deposit. Their primary lending products are commercial business loans, real estate loans, agriculture loans and consumer loans. Bank customers are located primarily in Snyder and Rowena and the surrounding areas.

2. Consolidation

Each of the consolidated financial statements presented includes the accounts of WTSB Bancorp, Inc. and its subsidiary West Texas State Bank. All significant intercompany accounts and transactions have been eliminated upon consolidation.

3. Use of Estimates

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

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination.

Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

4. Cash Equivalents

For purposes of the statements of cash flows, the Bank considers cash on hand and amounts due from banks with original maturities of 3 months or less to be cash equivalents.

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

5. Investment Securities

Securities Available for Sale - Securities classified as available for sale are those debt securities that the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported in other comprehensive income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in other income (expense) and when applicable reported as a reclassification adjustment in other comprehensive income. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. (Also see Note B)

6. Loans

Loans are stated at the principal amount outstanding less unearned income and the allowance for loan losses. Unearned income on installment loans is recognized as income over terms which approximate the interest method. Interest on other loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due status is based on contractual terms of the loan.

The Bank grants commercial, real estate, agriculture and consumer loans to customers in the Snyder, Rowena and surrounding west Texas areas. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the general economic conditions of the areas. (Also see Note C)

7. Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

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

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

8. Bank Premises and Equipment

Land is carried at cost. Buildings, furniture and equipment are carried at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. Gains or losses on dispositions are credited or charged to income. Maintenance, repairs and minor improvements are charged to expense as incurred. (Also see Note D)

9. Bank Owned Life Insurance

Bank owned life insurance is carried at the aggregate cash surrender value of life insurance policies owned where the Bank is named beneficiary. Increases in cash surrender value derived from crediting rates for underlying insurance policies is credited to noninterest income. The Bank's surrender value of these insurance policies at December 31, 2016 and 2015 was \$3,202,935 and \$3,113,307.

10. Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank's carrying amount of fair value less estimated selling cost at the date of the foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

11. Income Taxes

Effective January 1, 1999, WTSB Bancorp, Inc. and its Subsidiaries, with the consent of its stockholders, has elected under the Internal Revenue Code to be taxed as an S Corporation. The stockholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. Certain specific deductions and credits flow through the Company to its stockholders.

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. (Also see Note I)

Note B – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of securities as of December 31, 2016 and 2015 are in the following schedule:

Securities Available for Sale - 2016

| | Amortized Costs | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------------|------------------------------|-------------------------------|-------------------------|
| U.S government agencies | \$ 712,500 | \$ - | \$ - | \$ 712,500 |
| Mortgage backed securities | 18,144,488 | 39,852 | (225,495) | 17,958,845 |
| Obligations of state and local and political subdivisions | 16,231,922 | 149,230 | (261,356) | 16,119,796 |
| | <u>\$ 35,088,910</u> | <u>\$ 189,082</u> | <u>\$ (486,851)</u> | <u>\$ 34,791,141</u> |

Securities Available for Sale - 2015

| | Amortized Costs | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------------|------------------------------|-------------------------------|-------------------------|
| U.S government agencies | \$ 619,500 | \$ - | \$ - | \$ 619,500 |
| Mortgage backed securities | 28,012,770 | 142,202 | (191,344) | 27,963,628 |
| Obligations of state and local and political subdivisions | 22,840,625 | 465,648 | (75,054) | 23,231,219 |
| | <u>\$ 51,472,895</u> | <u>\$ 607,850</u> | <u>\$ (266,398)</u> | <u>\$ 51,814,347</u> |

The scheduled maturities of securities available for sale at December 31, 2016 and 2015 are shown below. There were no securities being held to maturity at December 31, 2016 and 2015. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 2016 | | 2015 | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$ 110,000 | \$ 110,498 | \$ 105,000 | \$ 105,521 |
| After one year - five years | 5,846,919 | 5,684,725 | 1,876,312 | 1,887,394 |
| After five years - ten years | 7,640,307 | 7,676,167 | 10,499,627 | 11,613,779 |
| After ten years | 3,347,196 | 3,360,906 | 10,979,186 | 10,244,025 |
| Mortgage backed securities | 18,144,488 | 17,958,845 | 28,012,770 | 27,963,628 |
| Totals | <u>\$ 35,088,910</u> | <u>\$ 34,791,141</u> | <u>\$ 51,472,895</u> | <u>\$ 51,814,347</u> |

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

At December 31, 2016 and 2015 investment securities with a carrying amount of approximately \$15,078,152 and \$14,682,917, respectively were pledged to secure public deposits and for other purposes as required or permitted.

Thirty available for sale securities were sold in 2016 with proceeds of \$14,857,962 resulting in a gross realized gain of \$58,104 and twenty-five available for sale securities were sold in 2015 with proceeds of \$35,277,264 resulting in a gross realized gain of \$116,799. Information pertaining to securities with gross unrealized losses at December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | 2016 | | | | | |
|----------------------------|---------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Less Than 12 Months | | 12 Months or Greater | | Totals | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. Govt Agencies | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Mortgage Backed Securities | 3,011,448 | (8,935) | 11,538,001 | (215,609) | 14,549,449 | (224,545) |
| State and Municipal Govt | 624,692 | (3,895) | 9,010,777 | (646,458) | 9,635,469 | (650,354) |
| Totals | <u>\$ 3,636,141</u> | <u>\$ (12,831)</u> | <u>\$ 20,548,777</u> | <u>\$ (862,067)</u> | <u>\$ 24,184,918</u> | <u>\$ (874,898)</u> |

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

| | 2015 | | | | | |
|----------------------------|---------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Less Than 12 Months | | 12 Months or Greater | | Totals | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. Govt Agencies | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Mortgage Backed Securities | 489,492 | (74) | 16,517,714 | (191,270) | 17,007,206 | (191,344) |
| State and Municipal Govt | 2,352,988 | (5,472) | 5,623,551 | (69,582) | 7,976,539 | (75,054) |
| Totals | <u>\$ 2,842,480</u> | <u>\$ (5,546)</u> | <u>\$ 22,141,265</u> | <u>\$ (260,852)</u> | <u>\$ 24,983,745</u> | <u>\$ (266,398)</u> |

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

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

At December 31, 2016, the 42 debt securities with unrealized losses have depreciated 3.49% from the Bank's amortized cost basis. These securities are guaranteed by either the U. S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

At December 31, 2015, the 34 debt securities with unrealized losses have depreciated 1.06% from the Bank's amortized cost basis. These securities are guaranteed by either the U. S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note C – LOANS

Major classifications of loans as of December 31, 2016 and 2015, are summarized as follows:

| | 2016 | 2015 |
|--------------------------------|----------------------|----------------------|
| Commercial | \$ 15,827,938 | \$ 18,261,563 |
| Real estate | 43,710,737 | 39,371,635 |
| Consumer | 7,371,064 | 6,466,461 |
| Agriculture | 11,884,388 | 11,210,919 |
| | <u>78,794,127</u> | <u>75,310,578</u> |
| Less allowance for loan losses | 3,682,343 | 969,318 |
| Loans, net | <u>\$ 75,111,784</u> | <u>\$ 74,341,260</u> |

An analysis of the allowance for loan losses is as follows:

| | 2016 | 2015 |
|-------------------------------|---------------------|-------------------|
| Balance, beginning of year | \$ 969,318 | \$ 420,543 |
| Provision charged to earnings | 3,380,000 | 120,000 |
| Less loans charged off | (696,311) | (25,088) |
| Loan recoveries | 29,336 | 453,863 |
| Balance, end of year | <u>\$ 3,682,343</u> | <u>\$ 969,318</u> |

At December 31, 2016 and 2015, the total recorded investment in impaired loans, all of which had allowances determined in accordance with ASC No. 310, amounted to approximately \$7,253,683 and \$6,586,587, respectively. The allowance for loan losses related to impaired loans amounted to approximately \$2,528,856 and \$-0- at December 31, 2016 and 2015, respectively.

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

Note D – BANK PREMISES AND EQUIPMENT

Major categories of bank premises and equipment as of December 31, 2016 and 2015, are summarized as follows:

| | 2016 | 2015 |
|---------------------------------|---------------------|---------------------|
| Land | \$ 178,150 | \$ 178,150 |
| Building | 6,114,781 | 5,943,639 |
| Furniture, fixtures & equipment | 945,647 | 896,373 |
| | <u>7,238,578</u> | <u>7,018,162</u> |
| Less accumulated depreciation | 2,324,903 | 2,115,480 |
| | <u>\$ 4,913,675</u> | <u>\$ 4,902,682</u> |

Depreciation expense amounted to \$209,423 and \$122,511 for the years ended December 31, 2016 and 2015, respectively. All depreciation expense was charged to operations.

Note E – DEPOSITS

At December 31, 2016 and 2015, the scheduled maturities of certificates of deposit were as follows:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| One year or less | \$ 21,540,076 | \$ 7,681,223 |
| more than one year, less than three years | 3,704,798 | 16,036,351 |
| Over three years | 99,212 | 4,774,064 |
| | <u>\$ 25,344,086</u> | <u>\$ 28,491,638</u> |

Note F – DEBT

At December 31, 2016 and 2015, notes payable outstanding is as follows:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| First State Bank, Abernathy, executed October 19, 2016 in the amount of \$500,000 for the purpose of refinancing the note with The Independent BankersBank. The note bears interest at 5% and is payable in full on April 1, 2018. The note is secured by 120,000 shares of preferred stock in West Texas State Bank. | \$ 500,000 | \$ - |
| The Independent BankersBank, executed May 20, 2015 in the amount of \$1,000,000. The note bears interest at prime plus .75% and is payable in annual installments of \$250,000 beginning May 20, 2016 with the final installment being due May 20, 2019. The note is secured by stock in West Texas State Bank. | - | 900,000 |
| | <u>\$ 500,000</u> | <u>\$ 900,000</u> |

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

The balance on the note with First State Bank, Abernathy is \$500,000 as of December 31, 2016. The future maturities of long-term debt are as follows:

| | | |
|------|----|---------|
| 2017 | \$ | - |
| 2018 | | 500,000 |

Note G - LEASES

On October 30, 2014, the bank leased a portion of the building in Snyder, Texas to a third party beginning November 1, 2014, for one year with an automatic renewal of twelve months. The monthly rent is \$1,200. The bank collected \$14,400 and \$14,400 in lease payments for the years ended December 31, 2016 and 2015. The income is included in other income of the bank and the consolidated statements.

Note H – RELATED PARTY TRANSACTIONS

The Bank conducts banking transactions with its directors, officers, employees, principal shareholders and their associates in the ordinary course of business. It is the Bank's policy that all such loan and deposit transactions be conducted on the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with others. Loan balances with these related parties were approximately \$1,127,192 and \$1,212,976 at December 31, 2016 and 2015, respectively. Deposit balances with these related parties were approximately \$2,697,368 and \$2,397,750 at December 31, 2016 and 2015, respectively.

Note I – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit. Management of the Bank does not anticipate material losses as a result of these commitments and contingent liabilities.

The bank is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the bank.

NOTE J- EMPLOYEE RETIREMENT PLAN

The Bank has a defined contribution retirement plan that covers its eligible employees. The purpose of this defined contribution plan is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. The Bank's contributions to the plan are based on employee contributions and totaled \$81,152 and \$91,008 in 2016 and 2015, respectively.

NOTE K – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amount of those instruments reflects the extent of involvement the Bank has in particular classes of financial instruments.

The Bank'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 bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. At December 31, 2016 and 2015, unused commitment under standby letters of credit and lines of credit aggregate approximately \$442,962 and \$492,962 and \$8,515,938 and \$6,309,191, respectively. Commitments to extend credit are

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit generally have fixed expiration dates or other termination clauses. Since many of the commitments and letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the bank upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

NOTE L – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

All of the Bank's loans, commitments and commercial and standby letters of credit have been granted to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in Note C.

The Bank carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. The bank had on deposit at the Independent Bankers Bank on December 31, 2016 and 2015, \$750,000 and \$3,491,206 respectively.

NOTE M – RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserves were \$80,000 and \$420,000 at December 31, 2016 and 2015, respectively.

NOTE N – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations). Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I based, and Tier I leverage ratios as set forth in the table below.

There are no conditions or events since that notification that management believes have changed the institution's category.

WTSB Bancorp, Inc. and Subsidiaries
Snyder, Texas
Notes to Consolidated Financial Statements
December 31, 2016

The Bank's actual total capital amounts and ratios are also presented in the table below.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under the Prompt Corrective Action Provisions | |
|---|---------------------------|--------|-------------------------------|---------|--|----------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | As of December 31, 2016 : | | | | | |
| Total capital to risk weighted assets | \$ 17,263 | 17.52% | ≥ \$7,883 | ≥ 8.00% | ≥ \$9,854 | ≥ 10.00% |
| Tier I capital risk weighted assets | \$ 16,018 | 16.26% | ≥ \$3,941 | ≥ 4.00% | ≥ \$5,912 | ≥ 6.00% |
| Tier I capital to adjusted total assets | \$ 16,018 | 12.49% | ≥ \$5,128 | ≥ 4.00% | ≥ \$6,410 | ≥ 5.00% |
| As of December 31, 2015 : | | | | | | |
| Total capital to risk weighted assets | \$ 18,839 | 19.66% | ≥ \$7,665 | ≥ 8.00% | ≥ \$9,581 | ≥ 10.00% |
| Tier I capital risk weighted assets | \$ 17,870 | 18.65% | ≥ \$3,832 | ≥ 4.00% | ≥ \$5,748 | ≥ 6.00% |
| Tier I capital to adjusted total assets | \$ 17,870 | 12.62% | ≥ \$5,666 | ≥ 4.00% | ≥ \$7,083 | ≥ 5.00% |

NOTE O – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events through January 20, 2017, which is the date the financial statements were available to be issued.

There were no subsequent events through January 20, 2017, that would have been required to have been recognized in the financial statements if the financial statements would have otherwise been misleading.

Supplementary Information

Supplementary Information

WTSB Bancorp, Inc.

WTSB Bancorp, Inc.
(Parent Company Only)
Balance Sheets
December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Assets | | |
| Cash | \$ 167,335 | \$ 32,640 |
| Investment in unconsolidated subsidiary | 14,413,315 | 18,211,739 |
| Other assets | <u>7,095</u> | <u>100,000</u> |
| Total Assets | <u>\$ 14,587,745</u> | <u>\$ 18,344,379</u> |
| Liabilities | | |
| Accrued interest payable | \$ 5,139 | \$ 4,022 |
| Note payable | <u>500,000</u> | <u>900,000</u> |
| Total Liabilities | <u>505,139</u> | <u>904,022</u> |
| Stockholders' Equity | | |
| Common stock, \$20 par value; 120,000 shares authorized for 2016 and 2015: 88,334 & 88,634 shares issued and outstanding for 2016 and 2015, respectively. | 1,766,680 | 1,772,680 |
| Additional paid-in capital | 4,373,920 | 4,422,970 |
| Retained earnings | 8,239,773 | 10,903,254 |
| Accumulated other comprehensive income | <u>(297,767)</u> | <u>341,453</u> |
| Total Stockholders' Equity | <u>14,082,606</u> | <u>17,440,357</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 14,587,745</u> | <u>\$ 18,344,379</u> |

Refer to accountants' report on supplementary information.

WTSB Bancorp, Inc.
(Parent Company Only)
Statements of Income
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|---------------------|
| Revenue | | |
| Equity in losses or earnings of unconsolidated subsidiary | \$ (1,563,792) | \$ 2,074,987 |
| Total Revenue | <u>(1,563,792)</u> | <u>2,074,987</u> |
| Operating Expenses | | |
| Other expenses | <u>36,081</u> | <u>882,240</u> |
| Total Operating Expenses | <u>36,081</u> | <u>882,240</u> |
| Net Income | <u>\$ (1,599,873)</u> | <u>\$ 1,192,747</u> |

Refer to accountants' report on supplementary information.

WTSB Bancorp, Inc.
(Parent Company Only)
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2016 and 2015

| | Capital Stock | Additional Paid-In Capital | Retained Earnings | Accumulated | | Total Stockholders' Equity |
|---|---------------|----------------------------|-------------------|----------------------------|--------|----------------------------|
| | | | | Other Comprehensive Income | Income | |
| Balances, January 01, 2015 | \$ 1,775,680 | \$ 4,446,520 | \$ 11,042,267 | \$ 670,977 | \$ | \$ 17,935,444 |
| Net income (loss) | - | - | 1,192,747 | - | - | 1,192,747 |
| Dividends paid | - | - | (1,331,760) | - | - | (1,331,760) |
| Retired stock | (3,000) | (23,550) | - | - | - | (26,550) |
| Net change in unrealized gain (loss) on available-for-sale securities | - | - | - | (329,524) | - | (329,524) |
| Balances, December 31, 2015 | 1,772,680 | 4,422,970 | 10,903,254 | 341,453 | | 17,440,357 |
| Net income (loss) | - | - | (1,599,873) | - | - | (1,599,873) |
| Dividends paid | - | - | (1,063,608) | - | - | (1,063,608) |
| Retired stock | (6,000) | (49,050) | - | - | - | (55,050) |
| Net change in unrealized gain (loss) on available-for-sale securities | - | - | - | (639,220) | - | (639,220) |
| Balances, December 31, 2016 | \$ 1,766,680 | \$ 4,373,920 | \$ 8,239,773 | \$ (297,767) | \$ | \$ 14,082,606 |

Refer to accountants' report on supplementary information.

WTSB Bancorp, Inc.
(Parent Company Only)
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| Cash Flows From Operating Activities | | |
| Net income (loss) | \$ (1,599,873) | \$ 1,192,747 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| (Increase) decrease in other assets | 92,905 | (100,000) |
| Increase (decrease) in accrued interest payable | 1,117 | 4,022 |
| Earnings of West Texas State Bank | 1,563,792 | (2,074,987) |
| Net Cash Provided (Used) by Operating Activities | <u>57,941</u> | <u>(978,218)</u> |
| Cash Flows From Investing Activities | | |
| Dividends received | <u>1,595,412</u> | <u>1,400,000</u> |
| Net Cash Provided (Used) by Investing Activities | <u>1,595,412</u> | <u>1,400,000</u> |
| Cash Flows From Financing Activities | | |
| Proceeds on borrowings of long term debt | 500,000 | 1,000,000 |
| Payments on long term debt | (900,000) | (100,000) |
| Retired stock | (55,050) | (26,550) |
| Dividends paid | <u>(1,063,608)</u> | <u>(1,331,760)</u> |
| Net Cash Provided (Used) by Financing Activities | <u>(1,518,658)</u> | <u>(458,310)</u> |
| | | |
| Net increase (decrease) in cash and cash equivalents | 134,695 | (36,528) |
| Cash and cash equivalents - beginning | 32,640 | 69,168 |
| Cash and cash equivalents - ending | <u>\$ 167,335</u> | <u>\$ 32,640</u> |
| | | |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid For: | | |
| Interest | <u>\$ 23,109</u> | <u>\$ 20,333</u> |

Refer to accountants' report on supplementary information.

Supplementary Information

West Texas State Bank

West Texas State Bank
Snyder, Texas
Balance Sheets
December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and due from banks | \$ 6,467,211 | \$ 8,052,449 |
| Securities available for sale | 34,791,141 | 51,814,347 |
| Loans, net | 75,111,784 | 74,341,260 |
| Bank premises and equipment, net | 4,913,675 | 4,902,682 |
| Accrued interest receivable | 962,340 | 1,146,060 |
| Other assets | 3,261,532 | 3,677,978 |
| Total Assets | \$ 125,507,683 | \$ 143,934,776 |
| Liabilities | | |
| Deposits | | |
| Non-interest bearing accounts | \$ 33,467,010 | 33,449,912 |
| NOW accounts | 26,857,995 | 30,357,928 |
| Savings accounts | 11,013,508 | 10,739,185 |
| Money market accounts | 14,080,454 | 21,161,639 |
| Time Certificates of Deposit | | |
| Less than \$100,000 | 11,923,976 | 12,732,734 |
| \$100,000 or more | 13,420,110 | 15,758,904 |
| Total Deposits | 110,763,053 | 124,200,302 |
| Accrued interest payable | 51,052 | 42,519 |
| Other liabilities | 280,263 | 1,480,216 |
| Total Liabilities | 111,094,368 | 125,723,037 |
| Stockholders' Equity | | |
| Common stock, \$20 par value, 120,000 shares authorized, issued and outstanding | 2,400,000 | 2,400,000 |
| Capital surplus | 4,900,000 | 4,900,000 |
| Retained earnings | 7,411,082 | 10,570,286 |
| Accumulated other comprehensive income | (297,767) | 341,453 |
| Total Stockholders' Equity | 14,413,315 | 18,211,739 |
| Total Liabilities and Stockholders' Equity | \$ 125,507,683 | \$ 143,934,776 |

Refer to accountants' report on supplementary information.

West Texas State Bank
Snyder, Texas
Statements of Income
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|---------------------|
| Interest Income | | |
| Interest and fees on loans | \$ 3,778,611 | \$ 3,624,527 |
| Interest on investment securities | 884,904 | 1,247,569 |
| Interest on federal funds sold | 23,878 | 18,174 |
| Total Interest Income | <u>4,687,393</u> | <u>4,890,270</u> |
| Interest Expense | | |
| Interest on interest bearing checking accounts | 97,256 | 87,455 |
| Interest on savings | 11,220 | 10,460 |
| Interest on time deposits | 114,475 | 110,080 |
| Total Interest Expense | <u>222,951</u> | <u>207,995</u> |
| Net interest income | 4,464,442 | 4,682,275 |
| Provision for loan losses | <u>(3,380,000)</u> | <u>(120,000)</u> |
| Net Interest Income After Provision for Loan Losses | <u>1,084,442</u> | <u>4,562,275</u> |
| Other Income | | |
| Service charges on deposits | 257,368 | 269,750 |
| Other customer fees | 236,185 | 245,290 |
| Other | 110,811 | 106,821 |
| Total Other Income | <u>604,364</u> | <u>621,861</u> |
| Other Expenses | | |
| Salaries and employee benefits | 1,658,357 | 1,785,659 |
| Net occupancy expenses | 233,400 | 186,760 |
| Equipment expenses | 573,257 | 469,694 |
| Directors fees | 145,500 | 178,000 |
| Stationery, printing & supplies | 33,649 | 29,805 |
| Telephone | 21,580 | 23,425 |
| Advertising | 71,100 | 72,739 |
| Other | 515,755 | 363,067 |
| Total Other Expense | <u>3,252,598</u> | <u>3,109,149</u> |
| Net Income | <u>\$ (1,563,792)</u> | <u>\$ 2,074,987</u> |

Refer to accountants' report on supplementary information.

**West Texas State Bank
Snyder, Texas
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2016 and 2015**

| | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|--|--------------|-----------------|-------------------|---|----------------------------------|
| Balances at January 01, 2015 | \$ 2,400,000 | \$ 4,900,000 | \$ 9,895,299 | \$ 670,977 | \$ 17,866,276 |
| Net earnings | - | - | 2,074,987 | - | 2,074,987 |
| Net change in unrealized gain (loss) on securities available-for-sale | - | - | - | (329,524) | (329,524) |
| Cash dividends paid | - | - | (1,400,000) | - | (1,400,000) |
| Balances at December 31, 2015 | 2,400,000 | 4,900,000 | 10,570,286 | 341,453 | 18,211,739 |
| Net earnings | - | - | (1,563,792) | - | (1,563,792) |
| Net change in unrealized gain (loss) on securities available-for-sale | - | - | - | (639,220) | (639,220) |
| Cash dividends paid | - | - | (1,595,412) | - | (1,595,412) |
| Balances at December 31, 2016 | \$ 2,400,000 | \$ 4,900,000 | \$ 7,411,082 | \$ (297,767) | \$ 14,413,315 |

Refer to accountants' report on supplementary information.

West Texas State Bank
Snyder, Texas
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Net income (loss) | \$ (1,563,792) | \$ 2,074,987 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 209,423 | 122,511 |
| Investment securities amortization (accretion), net | 785,071 | 1,058,359 |
| Provision for loan losses | 3,380,000 | 120,000 |
| Gain on sale of fixed assets | - | (7,250) |
| (Increase) decrease in accrued interest receivable | 183,720 | 20,512 |
| (Increase) decrease in other assets | (26,516) | (222,236) |
| Increase (decrease) in accrued interest payable | 8,533 | (1,596) |
| Increase (decrease) in other liabilities | (756,991) | 1,028,777 |
| Net Cash Provided (Used) by Operating Activities | <u>2,219,448</u> | <u>4,194,064</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from maturities of available-for-sale securities | 4,673,601 | 9,885,148 |
| Purchases of available-for-sale securities | (6,012,648) | (44,423,557) |
| Proceeds from sales of available-for-sale securities | 14,857,962 | 35,277,264 |
| Net (increase) decrease in loans | (2,070,524) | (1,658,746) |
| Purchases of bank premises and equipment | (220,416) | (2,671,183) |
| Proceeds from sale of premises and equipment | - | 7,250 |
| Net Cash Provided (Used) by Investing Activities | <u>11,227,975</u> | <u>(3,583,824)</u> |
| Cash Flows From Financing Activities | | |
| Net increase (decrease) in noninterest bearing, interest bearing demand and saving deposits | (10,289,697) | (6,042,928) |
| Net increase (decrease) in certificates of deposit | (3,147,552) | (34,208) |
| Dividends paid | (1,595,412) | (1,400,000) |
| Net Cash Provided (Used) by Financing Activities | <u>(15,032,661)</u> | <u>(7,477,136)</u> |
| Net increase (decrease) in cash and cash equivalents | (1,585,238) | (6,866,896) |
| Cash and cash equivalents - beginning | <u>8,052,449</u> | <u>14,919,345</u> |
| Cash and cash equivalents - ending | <u>\$ 6,467,211</u> | <u>\$ 8,052,449</u> |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid For: | | |
| Interest | <u>\$ 214,417</u> | <u>\$ 209,591</u> |

Refer to accountants' report on supplementary information.