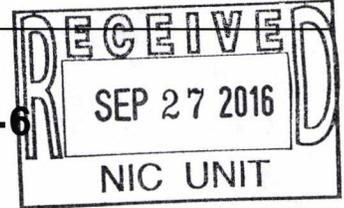


Board of Governors of the Federal Reserve System



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.

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

**June 30, 2016**

Month / Day / Year

NONE

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

I, **TROY LAMBDEN**

Name of the Holding Company Director and Official

**PRESIDENT / CEO**

Title of the Holding Company Director and Official

Reporter's Name, Street, and Mailing Address

**GRAHAM SAVINGS FINANCIAL CORP**

Legal Title of Holding Company

**P. O. BOX 1490**

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

<b>GRAHAM</b>	<b>TX</b>	<b>76450</b>
City	State	Zip Code

**745 ELM STREET; GRAHAM, TX**

Physical Location (if different from mailing address)

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.

Person to whom questions about this report should be directed:

**TROY LAMBDEN** **PRESIDENT / CEO**

Name Title

**940-549-2066**

Area Code / Phone Number / Extension

**940-549-0314**

Area Code / FAX Number

**troy.lambden@grahamsl.com**

E-mail Address

none

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

Signature of Holding Company Director and Official

**09/24/2016**

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 **3799006**  
 C.I. \_\_\_\_\_

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

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

- In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
- The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

No

FORM FR Y-6  
Graham Savings Financial Corp  
Graham, Texas  
Fiscal Year Ending June 30, 2016

Report Item 2a

1: The savings and loan holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the Federal Reserve Bank of Dallas, a copy has been enclosed.

2a: Organizational Chart

Graham savings Financial Corp, **LEI: NONE** (Holding Company & Parent) Graham, TX (Incorporated in Texas) owns 100% of

Graham Savings and Loan, SSB, **LEI: NONE** (State Savings Bank & Insured Subsidiary) Graham, TX (Incorporated in Texas)

2b: Domestic Branch Listing was previously reported with the FR Y-10.

**Results: A list of branches for your holding company: GRAHAM SAVINGS FINANCIAL CORP (3799006) of GRAHAM, TX.**  
 The data are as of 06/30/2016. Data reflects information that was received and processed through 07/11/2016.

**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	FCI UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	839974	GRAHAM SAVINGS AND LOAN, SSB	745 ELM STREET	GRAHAM	TX	76450	YOUNG	UNITED STATES	42040	0	GRAHAM SAVINGS AND LOAN, SSB	839974	
OK		Limited Service	4167255	BRECKENRIDGE BRANCH	1116 WEST WALKER STREET	BRECKENRIDGE	TX	76424	STEPHENS	UNITED STATES	273663	100	GRAHAM SAVINGS AND LOAN, SSB	839974	
OK		Limited Service	4167264	POSSUM KINGDOM BRANCH	1301 PARK ROAD 36	GRAFORD	TX	76449	PALO PINTO	UNITED STATES	273664	101	GRAHAM SAVINGS AND LOAN, SSB	839974	

Report Item 3: Securities Holders

(1)(a.) Name City, State, Country	(1)(b.) Country of Citizenship or Incorporation	(1)(c.) Number and Percentage of Each Class of Voting Securities	(1)(a.) Name City, State, Country	(1)(b.) Country of Citizenship or Incorporation	(1)(c.) Number and Percentage of Each Class of Voting Securities
ANGELA ALLISON PITCOCK ADAMS ALEDO, TX 76008	USA	13,653 - 5.388% Common Stock	JOHN ALLEN KNOX GRAHAM, TX 76450	USA	5,372 - 2.120% Common Stock
MEDORA JACQUELINE EUBANK FT WORTH, TX 76109	USA	13,653 - 5.388% Common Stock	KENNETH GENE KNOX GRAHAM, TX 76450	USA	5,388 - 2.126% Common Stock
MEDORA JACQUELINE PITCOCK EUGANK TRUSTEE FOR MELISSA PITCOCK TRUST FT WORTH, TX 76109	USA	13,653 - 5.388% Common Stock	LISA KNOX WINDLINGER DALLAS, TX 75248	USA	5,155 - 2.034% Common Stock
ROY T. PITCOCK, JR GRAHAM, TX 76450	USA	13,882 - 5.478% Common Stock	John, Kenneth & Lisa are Brothers & Sister Ken is a Director of the Holding Company *****		15,915 - 6.281% Common Stock
Angela, Medora, Melissa & Roy are Brother & Sisters Roy is a Director of the Holding Company *****		54,841 - 21.642% Common Stock	JUNE LITTLEPAGE GRAHAM, TX 76450	USA	6,681 - 2.637% Common Stock
KEN ANDREWS GRAHAM, TX 76450	USA	14,540 - 5.738% Common Stock	ESTATE OF THOMAS G LITTLEPAGE GRAHAM, TX 76450	USA	6,680 - 2.636% Common Stock
MARY ANDREWS GRAHAM, TX 76450	USA	2,672 - 1.054% Common Stock	June is the widow of Thomas *****		13,361 - 5.273% Common Stock
KATHERINE ANDREWS CRANFORD AUSTIN, TX 78757	USA	2,672 - 1.054% Common Stock	THAN W MCCRACKEN GRAHAM, TX 76450	USA	7,374 - 2.910% Common Stock
Ken & Mary Andrews are Husband & Wife Katherine is their Daughter Ken is a Director of the Holding Company *****		19,884 - 7.847% Common Stock	MATT MCCRACKEN GRAHAM, TX 76450	USA	7,173 - 2.831% Common Stock
GEORGE ALTON HAWKINS GRAHAM, TX 76450	USA	17,132 - 6.761% Common Stock	MARLA MCCRACKEN COLEMAN GRAHAM, TX 76450	USA	7,174 - 2.831% Common Stock
RODNEY HAWKINS GRAHAM, TX 76450	USA	7,555 - 2.981% Common Stock	Than, Matt & Maria are Brothers & Sister Than is a Director of the Holding Company *****		21,721 - 8.572% Common Stock
KERESS STUCKEY GRAHAM, TX 76450	USA	549 - 0.217% Common Stock	DARRELL WEATHERBEE GRAHAM, TX 76450	USA	12,120 - 4.783% Common Stock
George, Rodney & Keress are Father & Son & Daughter Rodney is a Director of the Holding Company *****		25,236 - 9.959% Common Stock	E GLENN WEATHERBEE ABILENE, TX 79601	USA	1,875 - 0.740% Common Stock
SHANNON PLOWMAN GRAHAM, TX 76450	USA	33,340 - 13.157% Common Stock	JANICE WEATHERBEE EVANS GRAHAM, TX 76450	USA	1,875 - 0.740% Common Stock
			Darrell, E. Glenn & Janice are Brothers & Sister Darrell is a Director of the Holding Company		15,870 - 6.263% Common Stock

(2): 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 06/30/2013 - NONE

Report Item 4: Insiders

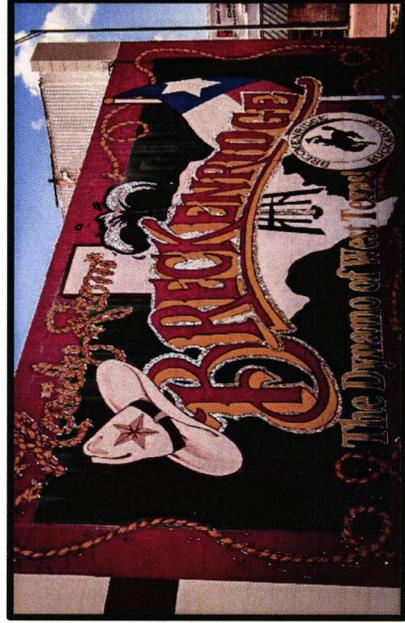
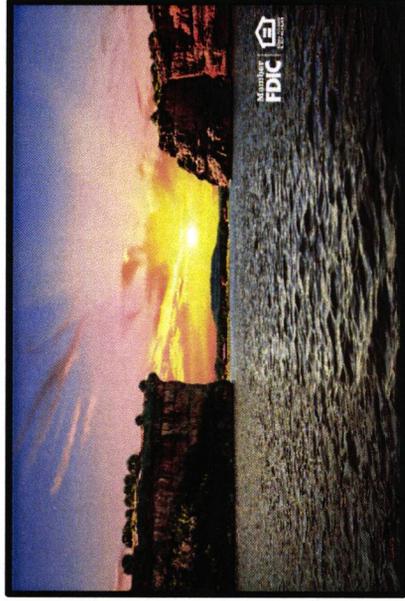
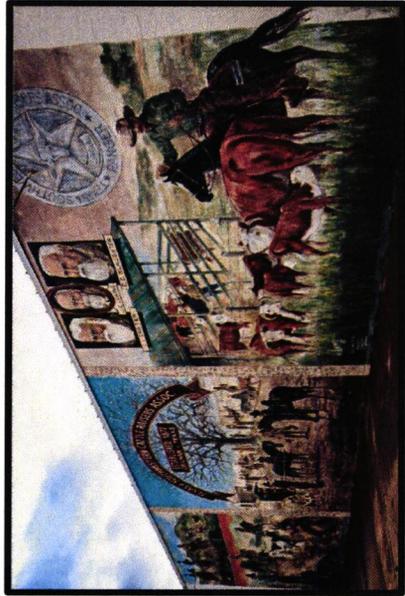
(1) Name City, State Country	(2) Principal Occupation If Other Than With Holding Company	(3)(a.) Title & Position With Holding Company	(3)(b.) Title & Position With Subsidiary (Name)	(3)(c.) Title & Position With Other Businesses (Name)	(4)(a.) Percentage of Voting Shares in Holding Company	(4)(b.) Percentage of Voting ** Shares in Subsidiaries(Name) Each Class of Voting Securities	(4)(c.) List Names of Other Companies if Holding 25% of Voting Shares
ROY T. PITCOCK, JR GRAHAM, TX 76450 USA	Oil & Gas Production	Director	Director (Graham Savings and Loan, SSB Pitcock Investments)	Vice-President (Pitcock Investments)	13,882 - 5.478% Common Stock	13,882 - 5.478% Common Stock (Graham Savings and Loan, SSB)	N/A
ANGELA ALLISON PITCOCK ADAMS ALEDO, TX 76008 USA	Housewife	Shareholder	None	None	13,653 - 5.388% Common Stock	13,653 - 5.388% Common Stock (Graham Savings and Loan, SSB)	N/A
MEDORA JACQUELINE EUBANK FT WORTH, TX 76109 USA	Housewife	Shareholder	None	None	13,653 - 5.388% Common Stock	13,653 - 5.388% Common Stock (Graham Savings and Loan, SSB)	N/A
MEDORA JACQUELINE PITCOCK EUGANK TRUSTEE FOR MELISSA PITCOCK TRUST FT WORTH, TX 76109 USA	Housewife	Shareholder	None	None	13,653 - 5.388% Common Stock	13,653 - 5.388% Common Stock (Graham Savings and Loan, SSB)	N/A
Angela, Medora, Melissa & Roy are Brother & Sisters Roy is a Director of the Holding Company *****	*****	*****	*****	*****	54,841 - 21.642% Common Stock	54,841 - 21.642% Common Stock (Graham Savings and Loan, SSB)	*****
KEN ANDREWS GRAHAM, TX 76450 USA	Attorney	Chairman of the Board	Director (Graham Savings and Loan, SSB)	N/A	14,540 - 5.738% Common Stock	14,540 - 5.738% Common Stock (Graham Savings and Loan, SSB)	N/A
RODNEY HAWKINS GRAHAM, TX 76450 USA	Oil & Gas Production	Director	Director (Graham Savings and Loan, SSB)	President (Hawkins Pump & Supply; Hawkins Family, LP; GA Hawkins Oil & Gas LTD; GA Hawkins Operating; GAH inc.)	7,555 - 2.981% Common Stock	7,555 - 2.981% Common Stock (Graham Savings and Loan, SSB)	N/A
SHANNON PLOWMAN GRAHAM, TX 76450 USA	Oil & Gas Production	Director	Director (Graham Savings and Loan, SSB)	N/A	33,340 - 13.157% Common Stock	33,340 - 13.157% Common Stock (Graham Savings and Loan, SSB)	N/A
KENNETH GENE KNOX GRAHAM, TX 76450 USA	Oil & Gas Production	Director	Director (Graham Savings and Loan, SSB)	Partner (Five K Partnership) SSB Managing Member (H. A. Knox Oil)	5,388 - 2.126% Common Stock	5,388 - 2.126% Common Stock (Graham Savings and Loan, SSB)	N/A
THAN MCGRACKEN GRAHAM, TX 76450 USA	Title Company Owner	Director	Director (Graham Savings and Loan, SSB)	Owner (Guaranty Abstract Co. - Title Company)	7,374 - 2.910% Common Stock	7,374 - 2.910% Common Stock (Graham Savings and Loan, SSB)	N/A
DARRELL WEATHERBEE GRAHAM, TX 76450 USA	Real Estate Constructio	Director	Director (Graham Savings and Loan, SSB)	Owner (Weatherbee Real Estate & Construction; Weatherbee Appraisal Service)	12,120 - 4.783% Common Stock	12,120 - 4.783% Common Stock (Graham Savings and Loan, SSB)	N/A
TROY LAMBDEN GRAHAM, TX USA	President/CEO/CFO/Director	Director	President/CEO/CFO/Director (Graham Savings and Loan, SSB)	N/A	2,907 - 1.147% Common Stock	2,907 - 1.147% Common Stock (Graham Savings and Loan, SSB)	N/A

\*\* Graham Savings Financial (parent) owns 100%  
 of Graham Savings and Loan, SSB (subsidiary). These totals reflect ownership should parent be dissolved.

# Graham Savings



Graham Savings and Loan, SSB  
Stockholders Report  
June 30, 2016



Like us on Facebook @GrahamSavings

# AGENDA

**Prayer: Rodney Hawkins**

**Welcome: Ken Andrews**

**Minutes from 2015 meeting**

**Financial statements: Troy Lambden**

**Election of directors: Ken Andrews**

**Indemnification of directors and officers: Darrell Weatherbee**

**Ratification of accountants: Darrell Weatherbee**

**Adjourn**





**Graham  
Savings  
Financial  
Corp**

To Our Stockholders:

Graham Savings Financial Corporation and its subsidiary, Graham Savings and Loan, SSB, and the Bank's service corporation, Oak Tree, Incorporated are represented in the audit report for the fiscal years ending June 30, 2016 and 2015. Graham Savings and Loan, SSB is the principal asset of Graham Savings Financial Corporation and will therefore be the primary focus of this report.

Graham Savings and Loan, SSB continued to encounter some of the economic headwinds of the recession that we had hoped we could avoid. However, all things considered, we experienced a relatively successful year, but we certainly have room for improvement. Total assets decreased from \$124,146,618 at the close of 2015 to \$121,486,688 at year-end. Total capital at June 30, 2016 was \$14,800,910 or 12.183% of total assets, which compares with \$14,358,119 or 11.565% of total assets last year. Our net income for the year was \$1,523,991 compared to \$1,582,655 last year.

The net loan portfolio decreased about 0.319% from \$84,435,970 at the end of the 2015 fiscal year to \$84,167,036 this past year-end. While this is substantially lower than the 4.282% decline we experienced last fiscal year, we originated almost \$17 million in loans during the year. This correlates to a continued large volume of pay-downs and pay-offs. Loan demand was tempered throughout the year as it has been throughout the country. We continue to see many individuals pay their loans off with their excess liquidity. The extended low-rate environment left few low-risk investment opportunities and liquidation of debt is a popular use for the excess cash. The Federal Reserve Open Market Committee held their target Fed Funds Rate at historical lows throughout the year hoping to spur more borrowing. We did see a 0.25% increase in the Fed Funds Rate that led to a prime interest rate of 3.50% effective December 17, 2015. The historically low long-term interest rate environment during the fiscal year did help continue the national trend toward higher real estate prices in some areas of the country. Fortunately, our lending territory continues to experience stable real estate prices with little downward trends in property values. No Provision for Loan Loss was necessary during the year. Our Allowance for Loan and Lease Loss ("ALLL") level was \$1,116,679 at year-end and we remain within acceptable reserve levels. During the year we did not experience a loss on the sale of the one piece of repossessed real estate we acquired. At year-end we held no REO properties. We did experience a loss on a small consumer loan where the collateral was ruined and we had to sell it for scrap. While we concentrate on originating adjustable rate and short-term, fixed-rate mortgage loans to retain in our loan portfolio, we have recently implemented a program to offer longer-term, fixed-rate mortgages.

Our deposit base decreased 1.910% from \$104,774,217 in 2015 to \$102,773,020 at year-end. We saw no unusual variance of deposits in any one account type. We have seen customers reducing their deposits for a variety of reasons. The funds are being used to purchase big-tickets items, such as real estate, automobiles and business equipment, which previously were being financed. Others are distributing money to their heirs to avoid taxes and legal expenses. While some are having to use the money to cover daily living expenses. We introduced new checking products this year that incorporate

**Graham Savings Financial Corp**  
P.O. Box 1490 • Graham, Texas 76450

some of the seemingly ever-changing technology available. Our checking customers can now take advantage of our “Person-To-Person” and “Remote Deposit Capture” products. We continually evaluate our deposit gathering function and have introduced new product offerings as well as product packaging and promotion.

As of June 30, 2016, Graham's capital levels compared with well-capitalized institution requirements were as follows (dollars in thousands):

	ACTUAL		WELL-CAPITALIZED	
	AMOUNT	RATIO	AMOUNT	RATIO
Common Equity Tier 1 Capital Ratio (CET1)	\$14,801	23.34%	\$4,122	6.500%
Tier 1 Capital Ratio	\$14,801	23.34%	\$5,073	8.000%
Total Capital Ratio	\$15,597	24.60%	\$6,341	10.000%
Tier 1 Leverage Ratio	\$14,801	12.24%	\$6,048	5.000%

Short-term interest rates held to unimaginable lows during the year under report. The Federal Reserve’s Governors took the action at their December 2015 meeting to raise the Fed Funds target rate to 0.50% and it remained there for the remainder of this period. During the year they continued to systematically increase the Fed’s role, powers and tools attempting to support the economy. Real estate prices saw a stabilization and increases in values in some areas of the country.

The importance of this discussion to the Bank is the Fed’s discount/Fed Funds target rates determine prime rate and short-term deposit rates. Most of our loan re-pricing is tied to prime. However, most of our introductory mortgage rates are tied to the mid-term Treasury market. The Bank’s deposit pricing is tied more closely to the short-term Treasury market. Throughout the fiscal year the Treasury Yield Curve trended toward a flattening with long-term rates falling and short-term rates increasing. The market feels that significantly higher interest rates will not be prevalent in the future. This means short-term rates (deposit pricing rates) are expected to increase by small increments over the next few years and longer-term rates (mortgage loan pricing rates) will probably stay about the same as they are in today’s environment. Under these conditions our cost of funds averaged 0.724%, which is lower than the 2015 level of 0.789%. During the same period the average return on earning assets was 4.369%, up from 4.134% in 2015. This average positive spread on interest of 3.646% (up from 3.238% last year) produced net interest income of \$4,203,056 compared to a figure of \$4,300,676 last year.

We have experienced minimal fallout from the national/global economic situation due in large part to our internal banking philosophy and geographic location. Our underwriting standards have not been relaxed over the years and we feel this is partially the reason our delinquencies are well below our peer group. Also, we do not purchase loans originated by other financial entities - private label mortgage-backed securities. The job market in this area has remained rather resilient and customers have not been forced to sell their homes at fire-sale prices and contribute to the downward spiral of real estate prices witnessed in other areas of the country. The slow-down in real estate transactions as well as the number

of cash purchases are the two areas having the largest impact on our operations. Our most troubling concern was that this crisis would affect the FHLB Dallas and its ability to continue providing us the liquidity to fund our day-to-day operations. Fortunately this never became an issue.

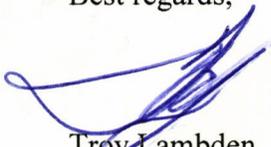
Today our most troubling concerns remain to be the United States Congress and the Consumer Financial Protection Bureau. They continue to be a great enemy of community banks with the laws passed and the regulations implemented. The "Wall Street Reform" act has had a greater impact on Main Street than Wall Street. Much of the punitive items in the legislation have a deeper impact on small banks than the "Too-Big-To-Fail" banks and financial conglomerates that created the problems to begin with. Thousands of pages of regulations have been written and issued and some still have to be ironed out so it will be a while before the impact can be fully recognized. We did implement all of the new real estate lending requirements, but these came with a very steep price tag.

The Dodd-Frank Wall Street Reform and Consumer Protection Act - the "Wall Street Reform" Act referred to above - was signed into law by President Barack Obama on July 21, 2010 implementing various financial regulatory reform measures. The Act was passed as a response to the late-2000s recession and was touted as the most sweeping change to financial regulation in the United States since the Great Depression and purportedly representing a significant change in the American financial regulatory environment affecting all Federal financial regulatory agencies and almost every aspect of the nation's financial services industry.

The Dodd-Frank Act created a new regulatory bureaucracy in the form of the Consumer Financial Protection Bureau mentioned above. It was charged with drafting and implementing the regulations called for by Dodd-Frank. The CFPB regularly issues new regulations for short comment periods before the provisions take official effect. The changes have been enormous. For example, a recent release combines and clarifies different lending disclosures into a single five-page document. The related regulation is almost 2,000 pages long. This is only one of over 250 new regulations the CFPB must implement and it is estimated they are still only about 80% complete.

The Board, management and staff have worked diligently to improve your shareholder value in Graham Savings and Loan, SSB. This could have only been achieved through the support of the stockholders. As for 2017, Graham Savings will continue its dedication to providing the **BEST** in quality customer service and financial products. More challenges and uncertainties lie ahead in the financial services industry than in any other time since the Great Depression. We will continue to monitor the rapidly changing financial services landscape. We are optimistic about the future and in the years to come we expect to report to you as an even larger and stronger institution. We thank you, our employees and our customers for your continuing loyalty and support.

Best regards,



Troy Lambden  
President/CEO

**Graham Savings Financial Corp**  
**Annual Stockholders Meeting**  
**September 23, 2015**

The annual meeting of Graham Savings Financial Corporation was held on September 23, 2015 at the Library of Graham with the following present:

Ken Andrews	Lindy Eubank
Janice Evans	Norma Grimes
Rodney Hawkins	John Knox
Ken Knox	Troy Lambden
Than McCracken	Roy Pitcock, Jr
Shannon Plowman	Darrell Weatherbee
Gail Young	

Also attending was Gerald Reid with Davis, Kinard & Co., P. C. The meeting was called to order by Chairman Ken Andrews and opened with prayer by Darrell Weatherbee. Andrews welcomed the stockholders. A motion was made by Shannon Plowman, with a second by Ken Knox, that the minutes from the September 24, 2014 Annual Stockholders Meeting be approved. Motion carried with all stockholders voting yea. The meeting was turned over to President Lambden.

Lambden reviewed the letter to the shareholders. It gives a detail of the activity for the years ending June 30, 2015 and 2014. Loans and deposits are our biggest functions. Our net loans decreased from 88 million to 84 million. The biggest thing we experienced was the amount of pay-downs on loans from personal funds. There is a lot of cash and limited safe places for people to put it to make any kind of return. On the deposit side Lambden reviews large items each day. Commercial accounts are buying equipment they once financed. People are paying cash for autos. There are also lots of large checks to the Internal Revenue Service. We have had production to keep loan balances up but pay-downs are exceeding production. More individuals are giving their cash to the next generation to avoid income tax and probate. A lot of these next generations do not live in Graham. We are packaging new products and creating rewards checking. They would have a step up on the rate or have reduced fees. We are also looking at new products such as Person to Person and mobile deposit capture. We want to attract the millennials - people in their twenties. Our commercial lending is starting to get some traction. We are also trying to get commercial checking so we can provide full service to businesses.

Lambden reviewed the capital ratios. This is a different presentation from last year due to the new BASIL III requirements. We have new capital requirements and how they are calculated. The unknown is CECL - current expected credit losses. It could require a 25-50% increase in loan loss reserves. That could increase our loan loss allowance by \$250,000-600,000. When it is implemented there will be a one-time adjustment that will come directly out of capital, but will not affect our income for the year. We are building up capital our ratios so it will not have an adverse effect on the bank. We like to be in excess of the well-capitalized status. The implementation date is 2018. The Fed keeps saying they are going to increase interest rates but they have not. This causes the Fed to lose credibility in the market. This low interest rate environment is creating a compression of our net interest margin. The deposits are as low as they are going to get. In

lending, the loans generated are at a lower rate and some of our ARM's are still adjusting down. Their floor is at or below where we are right now. They would adjust up if there was an increase in interest rates. Provisions of the Dodd Frank Act are still being enacted. On October 3<sup>rd</sup> the TRID goes into effect for loans. This will require new closing forms. We have been working on it and feel we are in good shape to implement it.

Lambden reviewed the Statement of Condition, the Statement of Earnings and the graphs. He recently talked with a representative from the FDIC. They said we are one of the better producing banks in their caseload. They feel we should be happy with our balance sheet. The floor was opened for questions. Andrews stated that Gerald Reid with Davis Kinard was here if the stockholders had any questions for him. Lambden noted that we have audit reports if anyone would like to have one.

Andrews presented the following list of Directors for Graham Savings Financial Corp for the 2015-2016 year:

Ken Andrews	Roy T. Pitcock, Jr.
Rodney Hawkins	Shannon Plowman
Ken Knox	Darrell Weatherbee
Troy Lambden	Than McCracken

A motion was made by Ken Andrews, with a second by Darrell Weatherbee, that the directors for the 2015-2016 year be elected as presented. Motion carried with all stockholders voting yea.

A motion was made by Darrell Weatherbee, with a second by Than McCracken, that the actions and business of the officers and directors of Graham Savings Financial Corp for the past 12 months be approved, ratified, and affirmed. Motion carried with all stockholders voting yea.

A motion was made by Darrell Weatherbee, with a second by Shannon Plowman, that the appointment of Davis, Kinard & Co., P. C. as independent public accountants for Graham Savings and Loan, SSB be approved, ratified, and affirmed. Motion carried with all stockholders voting yea.

There being no further business to come before the stockholders, a motion was made by Shannon Plowman, with a second by Roy Pitcock, that the meeting be adjourned. Motion carried with all stockholders voting yea.



## COMPARATIVE STATEMENT OF CONDITION

2016

2015

### ASSETS

#### CASH AND CASH EQUIVALENTS

CASH AND DUE FROM BANKS	5,567,326	6,806,483
INTEREST-BEARING DEPOSITS IN OTHER BANKS	<u>997,048</u>	<u>1,370,632</u>

#### TOTAL CASH AND CASH EQUIVALENTS

	6,564,374	8,177,115
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#### TIME AND CERTIFICATES OF DEPOSIT

	19,367,000	18,717,000
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#### SECURITIES HELD TO MATURITY

	9,254,394	10,804,720
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#### LOANS RECEIVABLE, NET OF ALLOWANCE FOR LOAN LOSS

	84,167,036	84,435,970
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#### ACCRUED INTEREST RECEIVABLE

	510,750	388,507
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#### PREMISES AND EQUIPMENT, NET

	1,396,817	1,390,994
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#### FORECLOSED ASSETS

	0	0
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#### INVESTMENTS REQUIRED BY LAW:

##### STOCK IN FHLB, AT COST

	185,900	173,100
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##### INVESTMENT IN OAK TREE, INC.

	233	233
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#### OTHER ASSETS

	<u>40,184</u>	<u>58,979</u>
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#### TOTAL ASSETS

	<u>121,486,688</u>	<u>124,146,618</u>
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## COMPARATIVE STATEMENT OF CONDITION

(CONTINUED)

2015

2016

### LIABILITIES AND SHAREHOLDERS' EQUITY

TOTAL DEPOSITS	102,773,020	104,774,217
ADVANCES FROM FHLB	2,525,224	2,654,453
ACCRUED INTEREST PAYABLE	4,670	5,804
ADVANCES FROM BORROWERS FOR TAXES AND INSURANCE	1,165,455	2,080,218
ACCRUED EXPENSES AND OTHER LIABILITIES	<u>217,409</u>	<u>273,807</u>

### TOTAL LIABILITIES

106,685,778

109,788,499

### STOCKHOLDERS' EQUITY

COMMON STOCK	254,400	254,400
CAPITAL SURPLUS	1,938,624	1,938,624
RETAINED EARNINGS ACCUMULATED	<u>12,607,886</u>	<u>12,165,095</u>

### TOTAL STOCKHOLDERS' EQUITY

14,800,910

14,358,119

### TOTAL LIABILITIES & SHAREHOLDERS' EQUITY

121,486,688

124,146,618



## COMPARATIVE STATEMENT OF OPERATIONS

### INTEREST INCOME:

	2016	2015
LOANS, INCLUDING FEES	4,588,335	4,769,388
INTEREST-BEARING DEPOSITS IN OTHER BANKS	18,297	13,069
DEBT SECURITIES	185,783	240,018
TIME & CERTIFICATES OF DEPOSIT IN OTHER BANKS	<u>194,290</u>	<u>142,240</u>

### TOTAL INTEREST INCOME

4,986,705

5,164,715

### INTEREST EXPENSE:

INTEREST-BEARING CHECKING ACCOUNTS	68,484	84,097
PASSBOOK ACCOUNTS	30,386	28,613
CERTIFICATES OF DEPOSIT	557,954	590,981
ADVANCES FROM FHLB	<u>126,825</u>	<u>160,348</u>

### TOTAL INTEREST EXPENSE

783,649

864,039

### NET INTEREST INCOME

4,203,056

4,300,676

### PROVISION FOR LOAN LOSSES

0

0

### NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

4,203,056

4,300,676



## COMPARATIVE STATEMENT OF OPERATIONS

(CONTINUED)

2015

2016

### NONINTEREST INCOME

OTHER SERVICE CHARGES AND FEES	315,247	289,840
OTHER INCOME	<u>1,631</u>	<u>3,069</u>

### TOTAL NONINTEREST INCOME

316,878

292,909

### NONINTEREST EXPENSES

SALARIES AND EMPLOYEE BENEFITS	1,710,272	1,697,219
OCCUPANCY AND EQUIPMENT	344,479	385,438
ADVERTISING	57,798	55,235
DATA PROCESSING	265,076	355,336
FEDERAL INSURANCE PREMIUMS	59,911	62,592
OFFICE SUPPLIES, TELEPHONE, & POSTAGE	71,794	75,121
OTHER EXPENSE	<u>486,613</u>	<u>379,989</u>

### TOTAL NONINTEREST EXPENSES

2,995,943

3,010,930

### INCOME BEFORE EQUITY IN EARNINGS OF SUBSIDIARY

1,523,991

1,582,655

### EQUITY IN EARNINGS OF SUBSIDIARY

0

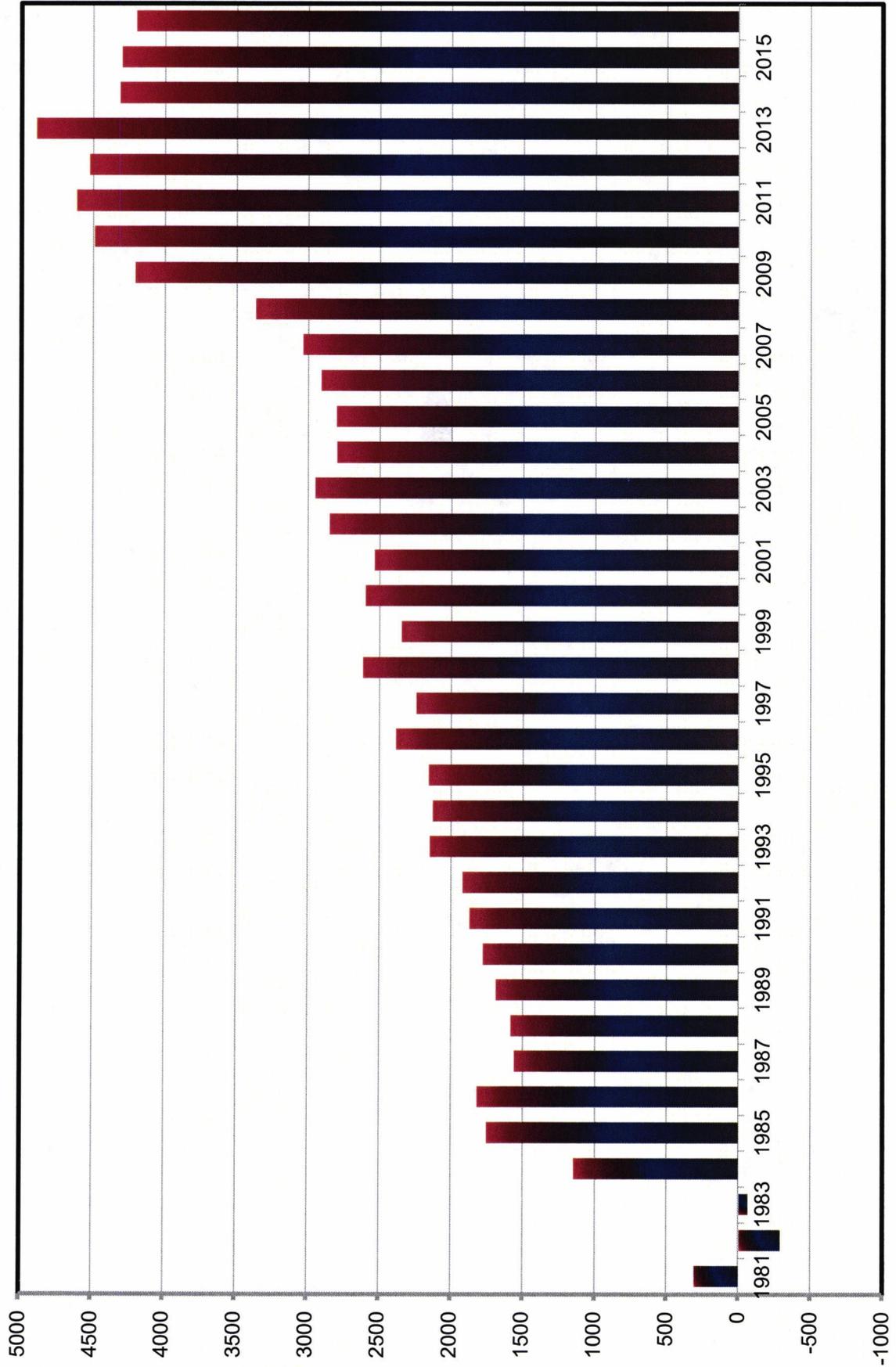
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### NET INCOME

1,523,991

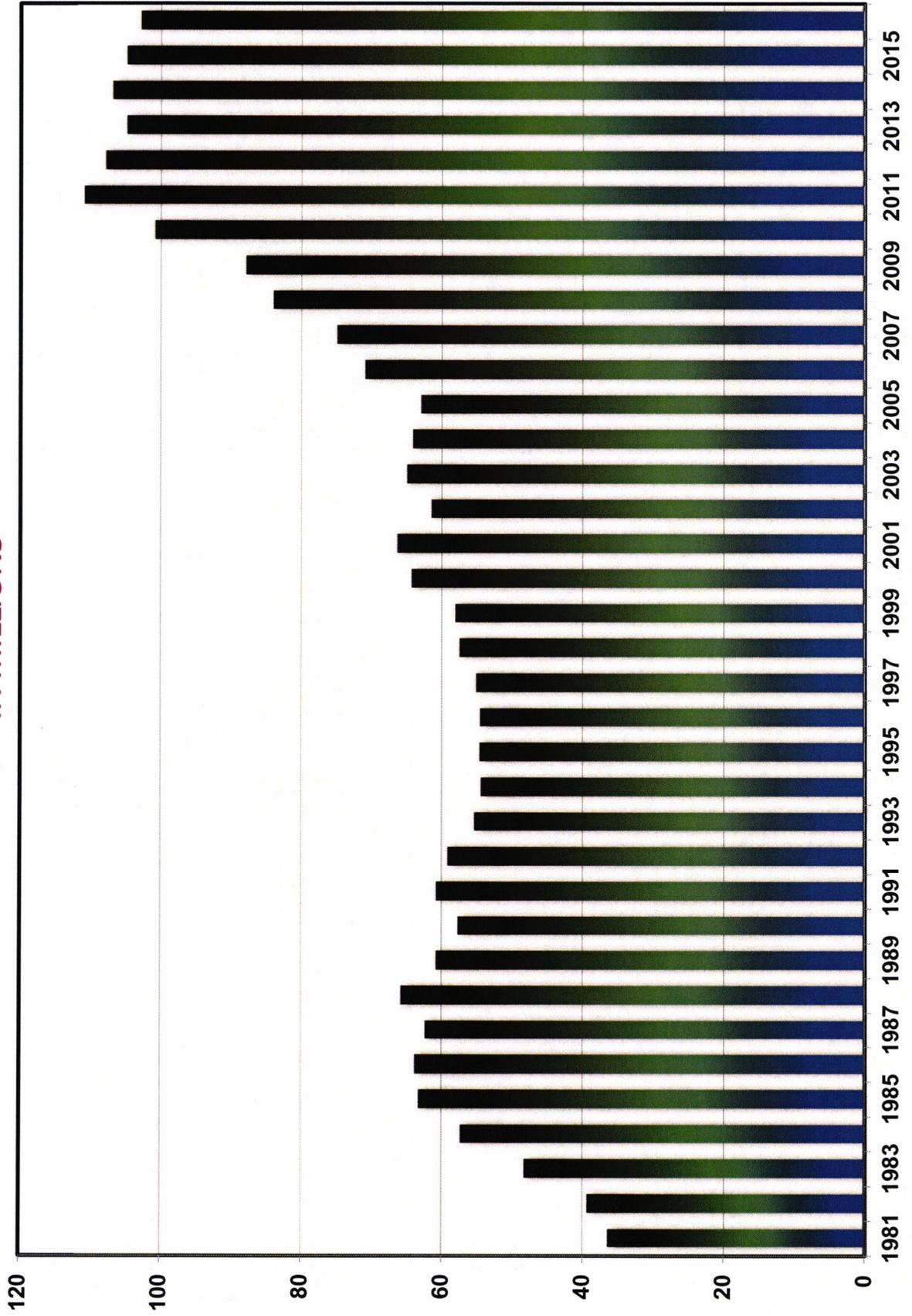
1,582,655

# TOTAL LOANS IN MILLIONS

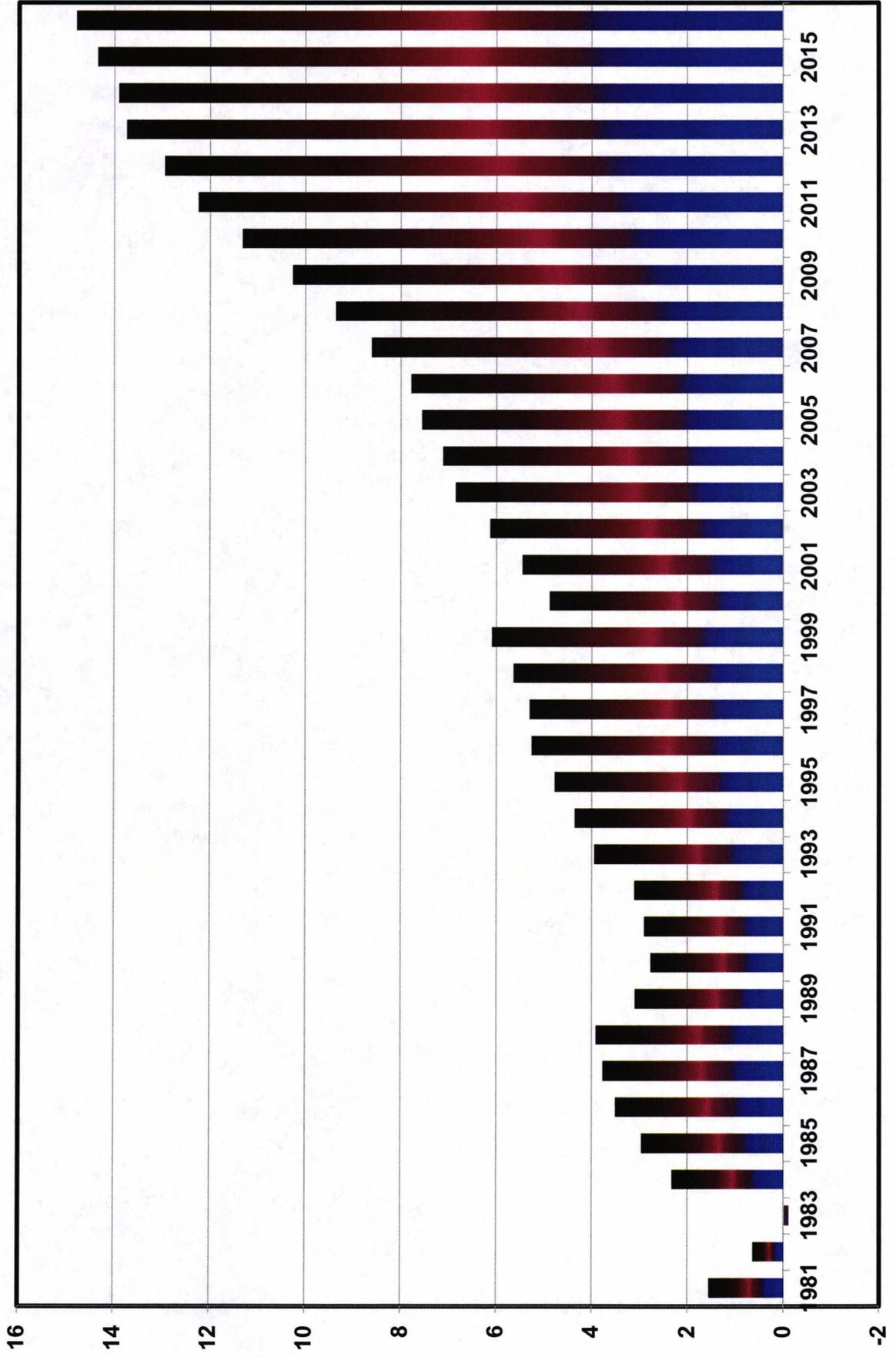


# TOTAL DEPOSITS

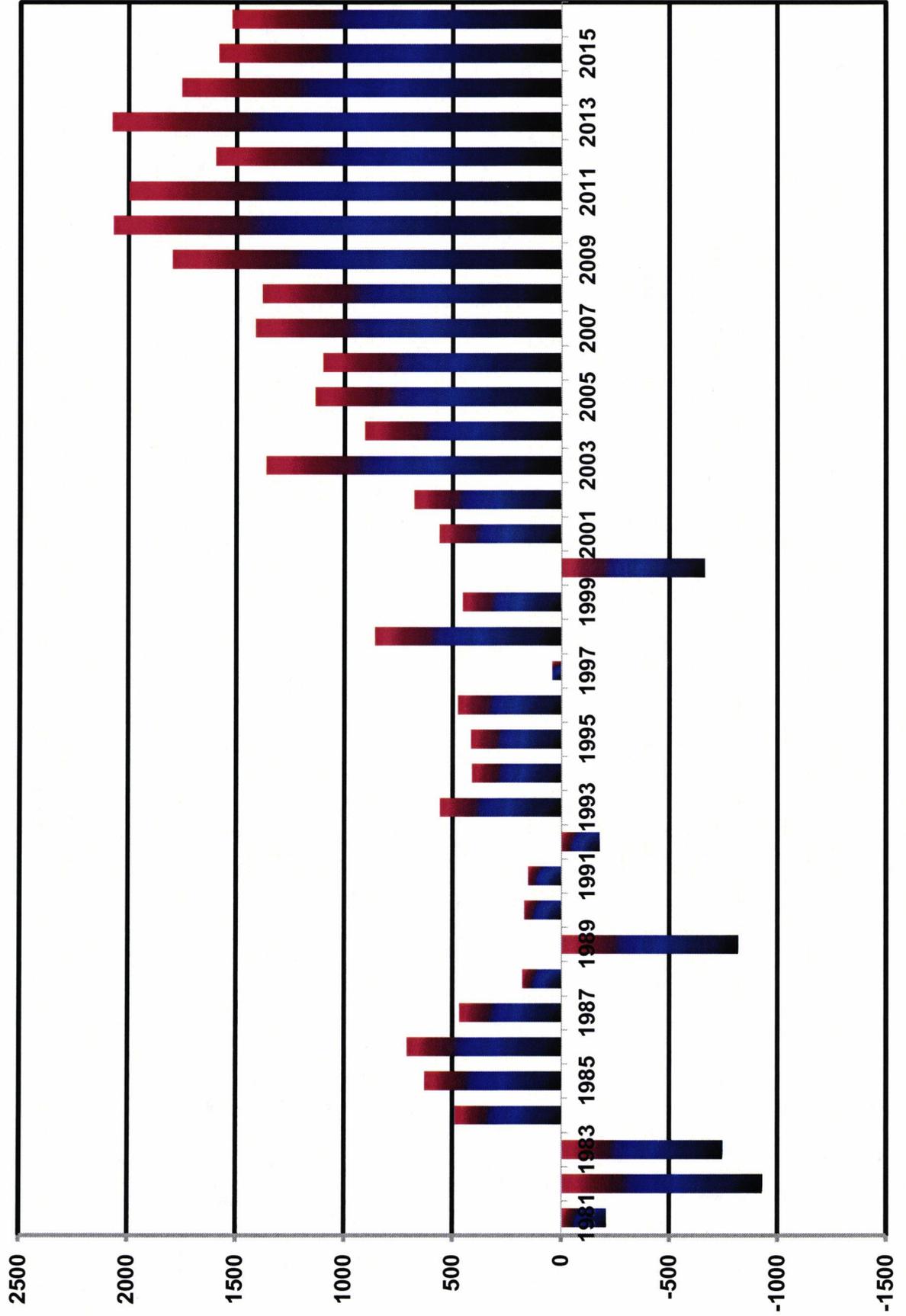
IN MILLIONS



# NET WORTH IN THOUSANDS

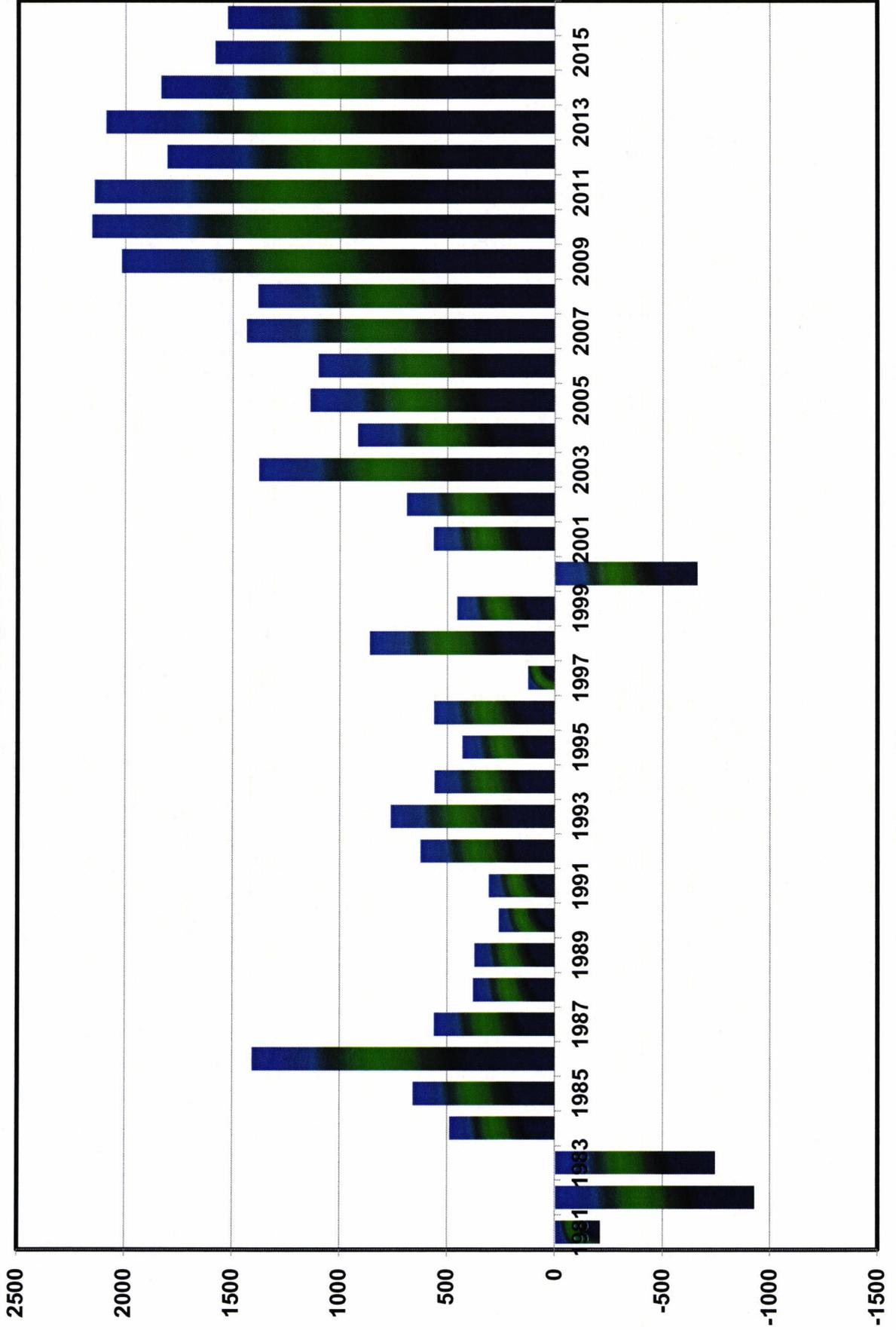


# NET INCOME IN THOUSANDS



# NET OPERATING INCOME

IN THOUSANDS



# NET INTEREST MARGIN

IN THOUSANDS

