INSCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

INSCORP, INC.
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS 3

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME 4

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY 5

CONSOLIDATED STATEMENTS OF CASH FLOWS 6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 7

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
InsCorp, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of InsCorp, Inc., which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in shareholders' 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of InsCorp, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

Franklin, Tennessee
March 27, 2015

INSCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and due from financial institutions	$ 1,577,395	$ 1,730,316
Interest-bearing deposits in financial institutions	12,819,943	17,743,877
Cash and cash equivalent	14,397,338	19,474,193
Bank owned certificates of deposit	250,064	250,000
Securities available for sale	14,366,779	16,887,000
Securities held to maturity (fair value $989,000 in 2013)	-	1,000,000
Loans held for sale	2,448,498	898,700
Loans, net of allowance of $2,740,313 in 2014 and $2,510,588 in 2013	214,391,448	171,880,953
Premises and equipment, net	5,297,746	5,000,023
Restricted equity securities	2,712,373	2,361,819
Bank owned life insurance	4,367,262	4,238,614
Accrued interest receivable	671,986	568,744
Goodwill	1,240,971	1,240,971
Core deposit intangibles	-	7,100
Deferred tax asset	803,182	824,149
Other assets	585,585	664,799
Total assets	$ 261,533,232	$ 225,297,065
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 18,272,118	$ 13,624,147
Interest-bearing	181,004,997	155,897,282
Total deposits	199,277,115	169,521,429
Federal Home Loan Bank advances	34,650,000	33,650,000
Other borrowings	3,283,526	-
Accrued interest payable	313,590	165,179
Other liabilities	450,783	294,728
Total liabilities	237,975,014	203,631,336
Shareholders' equity		
Non-cumulative preferred stock, Series A; 3,000 shares authorized; $3,000,000 liquidation value; 3,000 shares issued and outstanding in 2014 and 2013	3,000,000	3,000,000
Common stock, no par value; 5,000,000 shares authorized; 1,809,019 shares issued in 2014 and 2013	17,107,049	17,082,617
Retained earnings	3,393,931	1,693,524
Accumulated other comprehensive income (loss)	57,238	(110,412)
Total shareholders' equity	23,558,218	21,665,729
Total liabilities and shareholders' equity	$ 261,533,232	$ 225,297,065

See accompanying notes to consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2014 and 2013

	2014	2013
Interest income		
Loans, including fees	$ 10,040,650	$ 8,504,616
Taxable securities	345,527	321,551
Federal funds sold and other	113,297	137,955
Total interest income	10,499,474	8,964,122
Interest expense		
Deposits	1,549,628	1,322,182
Federal Home Loan Bank advances and other	720,678	794,743
Total interest expense	2,270,306	2,116,925
Net interest income	8,229,168	6,847,197
(Credit) provision for loan losses	330,000	(170,000)
Net interest income after (credit) provision for loan losses	7,899,168	7,017,197
Noninterest income		
Service charges on deposit accounts	85,044	72,772
Mortgage banking income	643,940	192,251
Income on bank owned life insurance	128,648	138,503
Other	62,268	27,511
Total noninterest income	919,900	431,037
Noninterest expense		
Salaries and employee benefits	3,485,561	2,853,995
Occupancy and equipment	450,366	418,236
Marketing and advertising	274,569	207,959
Professional services	159,839	168,054
Data processing fees	254,175	248,045
Amortization of core deposit intangible	7,100	82,100
Net loss on interest rate caps	81,015	7,082
Goodwill Impairment	-	159,000
Other	1,079,943	774,793
Total noninterest expense	5,792,568	4,919,264
Income before income taxes	3,026,500	2,528,970
Income tax expense	1,042,830	899,895
Net income	1,983,670	1,629,075
Preferred stock dividends	(30,000)	(30,000)
Net income available to common shareholders	$ 1,953,670	$ 1,599,075
Other comprehensive income (loss):		
Unrealized holding gain (loss) on securities	254,016	(550,706)
Net unrealized gain (loss)	254,016	(550,706)
Tax effect	(86,366)	209,983
Total other comprehensive income (loss)	167,650	(340,723)
Comprehensive income	$ 2,151,320	$ 1,288,352

See accompanying notes to consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Earnings	Income (Loss)	Equity
Balance at January 1, 2013	3,000	$ 3,000,000	1,809,019	$ 17,042,004	$ 275,350	$ 230,311	$ 20,547,665
Stock compensation expense	-	-	-	40,613	-	-	40,613
Dividends paid on preferred stock	-	-	-	-	(30,000)	-	(30,000)
Dividends paid on common stock	-	-	-	-	(180,901)	-	(180,901)
Net income	-	-	-	-	1,629,075	-	1,629,075
Other comprehensive loss	-	-	-	-	-	(340,723)	(340,723)
Balance at December 31, 2013	3,000	3,000,000	1,809,019	17,082,617	1,693,524	(110,412)	21,665,729
Stock compensation expense	-	-	-	24,432	-	-	24,432
Dividends paid on preferred stock	-	-	-	-	(30,000)	-	(30,000)
Dividends paid on common stock	-	-	-	-	(253,263)	-	(253,263)
Net income	-	-	-	-	1,983,670	-	1,983,670
Other comprehensive income	-	-	-	-	-	167,650	167,650
Balance at December 31, 2014	3,000	$ 3,000,000	1,809,019	$ 17,107,049	$ 3,393,931	$ 57,238	$ 23,558,218

See accompanying notes to consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net income $	1,983,670	$ 1,629,075
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation of premises and equipment	202,097	198,896
Net amortization of securities	95,629	135,034
Provision (Credit) for loan losses	330,000	(170,000)
Goodwill Impairment	-	159,000
Amortization of core deposit intangibles	7,100	82,100
Stock compensation expense	24,432	40,613
Deferred income taxes	(65,399)	95,579
Income from bank owned life insurance	(128,648)	(138,503)
Net change in:		
Loans held for sale	(1,549,798)	(335,000)
Accrued interest receivable and other assets	(24,092)	389,970
Accrued interest payable and other liabilities	304,466	(837,893)
Net cash from operating activities	1,179,457	1,248,872
Cash flows from investing activities		
Purchases of securities available for sale	(4,499,580)	(4,727,429)
Proceeds from sales, calls, and maturities of securities available for sale	7,178,188	4,918,669
Proceeds from sales, calls, and maturities of securities held to maturity	1,000,000	-
Net change in loans	(42,840,495)	(24,164,128)
Purchase of restricted securities	(350,554)	(322,226)
Purchases of premises and equipment, net	(499,820)	(94,597)
Net cash used for investing activities	(40,012,261)	(24,389,711)
Cash flows from financing activities		
Net change in deposits	29,755,686	21,208,740
Net change in federal funds purchased	-	(2,000,000)
Proceeds from Federal Home Loan Bank advances	2,000,000	-
Proceeds from refinancing of Federal Home Loan Bank advances	-	8,216
Repayments of Federal Home Loan Bank advances	(1,000,000)	-
Proceeds from other borrowings	3,283,526	-
Dividends paid on common stock	(253,263)	(180,901)
Dividends paid on preferred stock	(30,000)	(30,000)
Net cash from financing activities	33,755,949	19,006,055
Net change in cash and cash equivalents	(5,076,855)	(4,134,784)
Cash and cash equivalents, beginning of year	19,474,193	23,608,977
Cash and cash equivalents, end of year	$ 14,397,338	$ 19,474,193
Supplemental cash flow information:		
Interest paid	$ 2,121,895	$ 2,111,636
Income taxes paid	937,000	980,000

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include InsCorp, Inc. (the Company,) and its wholly-owned subsidiary, InsBank (formerly Insurors Bank of Tennessee, "the Bank"). InsBank is the parent company of InsBank Finance, Inc. and Finworth Mortgage, LLC, an InsBank Company. Finworth Mortgage, LLC is a mortgage loan subsidiary whose business is the origination and sales of mortgage loans on the secondary market. Activities of other subsidiaries are not considered to be significant in relation to the consolidated financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

The Bank markets itself to commercial customers, independent insurance agents, their employees and clients, as well as others within the Bank's market area which encompasses the state of Tennessee. Its primary deposit products are demand and money market deposits and certificates of deposit, and its primary lending products are commercial loans, real estate loans, and lines of credit. Substantially all loans are secured by collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one customer, but there is a concentration in commercial real estate loans. At December 31, 2014, 77% of the Company's loan portfolio was classified as commercial real estate. The customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March, 27, 2015, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has to the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Debt securities that are bought and held for the purpose of selling them in the near future are classified as trading securities and reported at fair value, with unrealized gain and loses recorded in earnings.

Interest income includes amortization of purchase premium or discount. Premium and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage back securities where prepayment are anticipated. Gains and losses on sales are recorded on the trade dated and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are sold with servicing right released. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Interest income on all classes of loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual term of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered in doubt. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

For all classes of loans, all interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on all classes of loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when based on current information and events; it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified with a concession granted, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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 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 the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial and commercial real estate loans that meet certain size requirements are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less selling costs if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less cost of disposition. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The historical loss experience used in the general component of the allowance for loan losses is determined by portfolio segment and is based on both a peer group historical average of net charge-offs for each loan segment and the Company's actual loss history. The peer group historical average net charge-off rate is defined using an average of two peer groups from data obtained from the Federal Deposit Insurance Corporation. For both Peer Groups, the average net charge-off rate is determined by examining the trailing four quarters' average net charge-off rate. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

Commercial loans include loans for commercial and industrial purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Mortgage title insurance and hazard insurance are normally required. Adverse economic conditions in the Company's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

Commercial Real Estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

Construction loans include loans to finance the process of improving loans preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Further, the nature of these loans is such that they are more difficult to evaluate and monitor.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans to substantiate draw requests.

Consumer and Other loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by customer vehicles and other household goods. The collateral securing consumer loans may depreciate over time.

Due to the added risks associated with loans which are graded as watch, special mention or substandard that are not classified as impaired, an additional analysis is performed to determine whether an allowance is needed that is not fully captured by the historical loss experience. While historical loss experience by loss segment and migration of loans into higher risk classifications are considered, the following factors are also considered in determining the level of needed allowance on such loans: the historical loss rates (or severity) of loans specifically classified as watch, special mention, substandard, or doubtful; and the trends in collateral on the loans included within these calculations. This analysis indicated the need for an additional $92,565 of allowance for loan loss at December 31, 2014. At December 31, 2013, this amount was determined to be $56,862. As of December 31, 2014, the Company had an additional unallocated allowance of $405,535. The unallocated allowance at December 31, 2013 was $409,780. The Company calculated that the amount in the unallocated allowance is appropriate given the nature of the loan portfolio. The Company will continue to closely monitor its economic environment and loan portfolio and make adjustments where appropriate.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life. Furniture, equipment, and automobiles are depreciated principally on the straight-line method over the estimated useful lives of the assets.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The Bank is also a member of its regional Federal Reserve Bank. FHLB and FRB stock are carried at cost, classified as a restricted equity security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected November 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions and are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Benefit Plans: Employee 401(k) plan expense is the amount of matching contribution determined at the discretion of the Board of Directors.

Stock Based Compensation: Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivative Financial Instruments: The Company has entered into derivative transactions in which the Company earns a fee by providing the Company's commercial loan customers the ability to swap from variable to fixed, or fixed to variable interest rates. Under these agreements, the Company enters into a variable or fixed rate loan agreement with its customer in addition to a swap agreement. The swap agreement effectively swaps the customer's variable rate to a fixed rate or vice versa. The Company then enters into a corresponding swap agreement with a third party in order to swap its exposure on the variable to fixed rate swap with the Company's customer. The agreements are considered stand-alone derivatives and changes in the fair value of derivatives are reported in earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the receiving status. In this situation, the Company receives collateral from the counterparty for the fair market value of the derivative. Also, the Company minimizes its credit risk by monitoring the credit standing of the counterparties. We anticipate the counterparties will be able to fully satisfy their obligations under these agreements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingencies: Contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements and no loss contingencies have been recorded in the financial statements.

Restrictions on Cash: Included in cash and due from banks is cash on hand or on deposit with the Federal Reserve Bank which is required to meet regulatory reserve and clearing requirements as of December 31, 2014 and 2013.

Dividend Restrictions: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair value of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayment, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2014 and 2013 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Government sponsored entities and agencies	$ 1,500,000	$ -	$ (23,965)	$ 1,476,035
Mortgage-backed securities-residential	4,651,514	22,749	(59,036)	4,615,227
Collateralized mortgage obligations	8,128,540	149,136	(2,159)	8,275,517
Total	$ 14,280,054	$ 171,885	$ (85,160)	$ 14,366,779
2013				
Available for Sale				
U.S. Government sponsored entities and agencies	$ 5,951,102	$ -	$ (311,592)	$ 5,639,510
Mortgage-backed securities-residential	3,059,336	37,006	(29,223)	3,067,119
Collateralized mortgage obligations	8,043,853	198,435	(61,917)	8,180,371
Total	$ 17,054,291	$ 235,441	$ (402,732)	$ 16,887,000

(Continued)

NOTE 2 – SECURITIES (Continued)

2013	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to Maturity				
U.S. Government sponsored entities and agencies	$ 1,000,000	$ -	$ (10,200)	$ 989,800

Securities carried at $14,366,779 and $16,885,473 at year-end 2014 and 2013, were pledged to secure Federal Home Loan Bank advances.

There were no security sales in 2014 or 2013.

The amortized cost and fair value of the securities available for sale at December 31, 2014 are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity, mortgage-backed securities and collateralized mortgage obligations, are shown separately.

Maturity	Amortized Cost	Fair Value
Available for sale		
Beyond ten years	$ 1,500,000	$ 1,476,035
Mortgage-backed securities – residential	4,651,514	4,615,227
Collateralized mortgage obligations	8,128,540	8,275,517
Total	$ 14,280,054	$ 14,366,779

At year end 2014 and 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year end 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
US Government sponsored entities and agencies	$ -	$ -	$ 1,476,035	$ (23,965)	$ 1,476,035	$ (23,965)
Mortgage-backed securities residential	2,361,142	(43,133)	878,822	(15,903)	3,239,964	(59,036)
Collateralized mortgage obligations	560,708	(269)	890,908	(1,890)	1,451,616	(2,159)
Total temporarily impaired	$ 2,921,850	$ (43,402)	$ 3,245,765	$ (41,758)	$ 6,167,615	$ (85,160)

(Continued)

NOTE 2 – SECURITIES (Continued)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
2013						
Available for sale						
US Government sponsored entities and agencies	$ 5,637,983	$ (311,592)	$ -	$ -	$ 5,637,983	$ (311,592)
Mortgage-backed securities residential	-	-	1,084,511	(29,223)	1,084,511	(29,223)
Collateralized mortgage obligations	3,188,598	(61,917)	-	-	3,188,598	(61,917)
Total temporarily impaired	$ 8,826,581	$ (373,509)	$ 1,084,511	$ (29,223)	$ 9,911,092	$ (402,732)
Held to maturity						
U.S. Government sponsored entities and agencies	$ 989,800	$ (10,200)	$ -	$ -	$ 989,800	$ (10,200)

Unrealized losses on securities have not been recognized into income because the securities are of high credit quality, management does not have the intent to sell and it is not more likely than not that the Company will be required to sell the securities, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach maturity.

NOTE 3 - LOANS

Loans at year end were as follows:

	2014	2013
Real estate:		
Construction	$ 27,583,686	$ 20,480,570
Residential	20,935,681	18,020,241
Commercial	118,171,057	108,133,136
Total real estate	166,690,424	146,633,947
Commercial	42,455,035	23,174,305
Consumer and other loans	7,986,302	4,583,289
	217,131,761	174,391,541
Less: Allowance for loan losses	(2,740,313)	(2,510,588)
Loans, net	$ 214,391,448	$ 171,880,953

(Continued)

NOTE 3 – LOANS (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2014 and 2013:

	Real Estate Loans						
December 31, 2014	Construction	Commercial	Residential	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 356,941	$ 1,079,495	$ 121,356	$ 415,693	$ 127,323	$ 409,780	$ 2,510,588
(Credit) provision for loan losses	60,538	(6,805)	7,084	320,217	(46,789)	(4,245)	330,000
Loans charged-off	-	-	-	(104,560)	-	-	(104,560)
Recoveries	-	-	4,285	-	-	-	4,285
Total ending allowance balance	$ 417,479	$ 1,072,690	$ 132,725	$ 631,350	$ 80,534	$ 405,535	$ 2,740,313
December 31, 2013							
Allowance for loan losses:							
Beginning balance	$ 105,407	$ 1,336,176	$ 211,547	$ 461,075	$ 147,370	$ 404,490	$ 2,666,065
(Credit) provision for loan losses	251,534	(256,681)	(104,714)	(45,382)	(20,047)	5,290	(170,000)
Loans charged-off	-	-	(8,820)	-	-	-	(8,820)
Recoveries	-	-	23,343	-	-	-	23,343
Total ending allowance balance	$ 356,941	$ 1,079,495	$ 121,356	$ 415,693	$ 127,323	$ 409,780	$ 2,510,588

(Continued)

NOTE 3 – LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2014 and 2013. For purposes of this disclosure, recorded investment in loans excludes accrued interest receivable and deferred fees and costs.

	Real Estate Loans						
December 31, 2014	Construction	Commercial	Residential	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 299,000	$ -	$ 61,000	$ -	$	$ 360,000
Collectively evaluated for impairment	$ 417,479	$ 773,690	$ 132,725	$ 570,350	$ 80,534	$ 405,535	$ 2,380,313
Total ending allowance balance	$ 417,479	$ 1,072,690	$ 132,725	$ 631,350	$ 80,534	$ 405,535	$ 2,740,313
Loans:							
Loans individually evaluated for impairment	$ -	$ 3,665,305	$ -	$ 131,387	$ -	$ -	$ 3,796,692
Loans collectively evaluated for impairment	$ 27,583,686	$ 114,505,752	$ 20,935,681	$ 42,323,648	$ 7,986,302	$ -	$ 213,335,069
Total ending loans balance	$ 27,583,686	$ 118,171,057	$ 20,935,681	$ 42,455,035	$ 7,986,302	$ -	$ 217,131,761
December 31, 2013							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 360,000	$ -	$ 77,000	$ -	$ -	$ 437,000
Collectively evaluated for impairment	356,941	719,495	121,356	338,693	127,323	409,780	2,073,588
Total ending allowance balance	$ 356,941	$ 1,079,495	$ 121,356	$ 415,693	$ 127,323	$ 409,780	$ 2,510,588
Loans:							
Loans individually evaluated for impairment	$ -	$ 3,789,817	$ -	$ 210,560	$ -	$ -	$ 4,000,377
Loans collectively evaluated for impairment	20,480,570	104,343,319	18,020,241	22,963,745	4,583,289	-	170,391,164
Total ending loans balance	$ 20,480,570	$ 108,133,136	$ 18,020,241	$ 23,174,305	$ 4,583,289	$ -	$ 174,391,541

(Continued)

NOTE 3 – LOANS (Continued)

The following tables present information related to impaired loans by class of loans as of and for the years ended December 31, 2014 and 2013:

December 31, 2014	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
With no allowance recorded:				
Commercial real estate	$ 1,461,453	$ 1,461,453	$ -	$ 1,489,382
Subtotal	1,461,453	1,461,453	-	1,489,382
With an allowance recorded:				
Commercial real estate	2,203,852	2,203,852	299,000	2,223,719
Commercial	131,387	131,387	61,000	160,533
Subtotal	2,335,239	2,335,239	360,000	2,384,252
Total	$ 3,796,692	$ 3,796,692	$ 360,000	$ 3,873,634
December 31, 2013				
With no allowance recorded:				
Commercial real estate	$ 1,534,289	$ 1,534,289	$ -	$ 1,554,734
Subtotal	1,534,289	1,534,289	-	1,554,734
With an allowance recorded:				
Commercial real estate	2,255,528	2,255,528	360,000	2,274,085
Commercial	210,560	210,560	77,000	285,604
Subtotal	2,466,088	2,466,088	437,000	2,559,689
Total	$ 4,000,377	$ 4,000,377	$ 437,000	$ 4,114,423

	December 31, 2014		December 31, 2013	
	Interest Income Recognized	Cash-basis Interest income Recognized	Interest Income Recognized	Cash-basis Interest income Recognized
With no related allowance recorded:				
Commercial real estate	$ 80,999	$ 86,325	$ 90,213	$ 94,528
Commercial	-	-	68,425	68,572
	80,999	86,325	158,638	163,100
With an allowance recorded:				
Commercial real estate	138,385	139,876	149,609	153,411
Commercial	4,948	4,948	7,114	7,693
Subtotal	143,333	144,824	156,723	161,104
Total	$ 224,332	$ 231,149	$ 315,361	$ 324,204

(Continued)

NOTE 3 – LOANS (Continued)

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is reduced for net charge-offs.

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of year-end:

	December 31, 2014		December 31, 2013	
	Nonaccrual	90+ Days Past Due Still Accruing	Nonaccrual	90+ Days Past Due Still Accruing
Real Estate:				
Residential	$ 91,061	$ -	$ 39,011	$ -
Commercial	-	-	147,330	7,922
Commercial	250,701	-	-	-
Total	$ 341,762	$ -	$ 186,341	$ 7,922

Residential real estate loans of $60,490 and commercial loans of $121,053 were over 90 days past due as of December 31, 2014. The Company did not have any loans past due 30 to 89 days as of December 31, 2014. The Company had one commercial loan with a balance of $128,370 past due 48 days as of December 31, 2013.

The Company had troubled debt restructurings of $3,797,000 and $3,937,000 included in impaired loans as of December 31, 2014 and 2013. The Company has allocated $360,000 and $437,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

There were no loans modified as troubled debt restructurings during the years ended December 31, 2014 or 2013. There were no loans modified as a troubled debt restructuring for which there was a payment default within twelve months following the modification during the years ended December 31, 2014 or 2013. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy.

(Continued)

NOTE 3 – LOANS (Continued)

Credit Quality Indicators:
The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes all loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at inception, upon renewal, and as circumstances change indicating a change in credit risk. This analysis is performed on a quarterly basis. For residential real estate, consumer, and other loans, this analysis primarily involves monitoring the past due status of these loans and at such time a loan becomes past due, the risk rating of the loan is evaluated. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate					
Construction	$ 27,583,686	$ -	$ -	$ -	$ 27,583,686
Residential	20,844,620	-	91,061	-	20,935,681
Commercial	115,254,589	-	2,916,468	-	118,171,057
Commercial	41,006,777	1,197,557	250,701	-	42,455,035
Consumer and Other	7,969,032	-	17,270	-	7,986,302
Total	$ 212,658,704	$ 1,197,557	$ 3,275,500	$ -	$ 217,131,761

(Continued)

NOTE 3 – LOANS (Continued)

December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate					
Construction	$ 20,480,570	$ -	$ -	$ -	$ 20,480,570
Residential	17,981,230	-	39,011	-	18,020,241
Commercial	104,833,769	-	3,299,367	-	108,133,136
Commercial	22,963,745	-	210,560	-	23,174,305
Consumer and Other	4,570,326	-	12,963	-	4,583,289
Total	$ 170,829,640	$ -	$ 3,561,901	$ -	$ 174,391,541

NOTE 4 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

(Continued)

NOTE 4 - FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at December 31, 2014 and 2013 using level 2 inputs are summarized below: ($ in thousands)

Assets:	2014 Significant Other Observable Inputs (Level 2)	2013 Significant Other Observable Inputs (Level 2)
Available for sale securities:		
U.S. Government sponsored-entities and agencies	$ 1,476,035	$ 5,639,510
Mortgage-backed securities-residential	4,615,227	3,067,119
Collateralized mortgage-obligations	8,275,517	8,180,371
Total	$ 14,366,779	$ 16,887,000
Assets:		
Interest rate swap	$ 92,000	$ 109,000
Interest rate caps	$ 75,000	$ 101,000
Liabilities:		
Interest rate swap	$ 92,000	$ 109,000

Assets and Liabilities Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at December 31, 2014 and 2013 using significant unobservable inputs (level 3) are summarized below: ($ in thousands)

Assets:	2014 Significant Other Observable Inputs (Level 3)	2013 Significant Other Observable Inputs (Level 3)
Impaired loans		
Commercial real estate	$ 1,905,000	$ 1,896,000
Commercial	70,000	134,000

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,335,000, with a valuation allowance of $360,000, resulting in no additional provision for loan losses for the year ended December 31, 2014. At December 31, 2013, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,467,000, with a valuation allowance of $437,000, resulting in no additional provision for loan losses for the year ended December 31, 2013.

(Continued)

NOTE 4 - FAIR VALUE (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014 and 2013:

December 31, 2014	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans – Commercial real estate	$ 1,905,000	Income approach	Capitalization rates	8.25% - 10.00% (9.07%)
Commercial	70,000	Market approach	Discount to allow for market value of assets comparable sales	50.00%
December 31, 2013				
Impaired loans – Commercial real estate	$ 1,896,000	Income approach	Capitalization rates	8.25% - 10.00% (9.00%)
Commercial	134,000	Market approach	Discount to allow for market value of assets comparable sales	50.00%

Carrying amount and estimated fair values of financial instruments at year end were as follows:
($ in thousands):

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,397	$ 14,397	$ 19,474	$ 19,474
Bank owned certificate of deposit	250	250	250	250
Securities available for sale	14,367	14,367	16,887	16,887
Security held to maturity	-	-	1,000	989
Loans, net	214,391	219,959	171,881	171,316
Loans held for sale	2,448	2,448	899	899
Restricted equity securities	2,712	N/A	2,362	N/A
Accrued interest receivable	672	672	569	569
Interest rate swap	92	92	109	109
Interest rate caps	75	75	101	101
Financial liabilities:				
Deposits	199,277	199,689	169,521	170,338
Federal Home Loan Bank advances	34,650	35,131	33,650	34,291
Other borrowings	3,284	3,499	-	-
Accrued interest payable	314	314	165	165
Interest rate swap	92	92	109	109

(Continued)

NOTE 4 - FAIR VALUE (Continued)

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk including consideration of widening credit spreads. The methods utilized to estimate fair value of loans do not necessarily represent an exit price. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material. The methodologies used for estimation of fair values of available for sale securities and impaired loans are as previously described.

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:	2014	2013
Land	$ 1,815,363	$ 1,815,363
Building	3,233,330	2,937,532
Furniture, equipment and automobiles	1,705,789	1,524,673
	6,754,482	6,277,568
Less: Accumulated depreciation	1,456,736	1,277,545
	$ 5,297,746	$ 5,000,023

Depreciation expense was $202,097 and $198,896 for 2014 and 2013.

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

The Bank was a joint venture between the Company and another Bank Holding Company, each owning 50%. The Company acquired the remaining 50% interest in the Bank during 2007. The purchase price resulted in approximately $1,039,000 in goodwill and approximately $785,000 in core deposit intangibles. During 2008, the Company purchased 100% of Finworth Mortgage, LLC, a mortgage banking company. The purchase price resulted in goodwill of approximately $309,000.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. If the carrying amount of a reporting unit is zero or less than zero, a qualitative analysis of whether it is more likely than not that the reporting unit goodwill is impaired will be performed. If the qualitative analysis indicates that it is more likely than not that goodwill is impaired, a second step to the impairment test is required to be performed. Finworth Mortgage, LLC experienced a significant decline in mortgage originations in 2013, which impacted the Company's profitability and the implied value of its goodwill. As of December 31, 2013, management determined that the goodwill associated with Finworth Mortgage, LLC was impaired and based on the Company's quantitative analysis, recorded impairment of goodwill of $159,000 during 2013. No impairment was recorded during 2014. As of December 31, 2014, the goodwill associated with Finworth Mortgage, LLC was $150,000.

(Continued)

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS (Continued)

The change in goodwill is as follows:	2014	2013
Beginning of year	$ 1,240,971	$ 1,399,971
Impairment	-	(159,000)
End of year	$ 1,240,971	$ 1,240,971

Amortizable intangible assets were as follows at year end:

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization/ Accretion	Gross Carrying Amount	Accumulated Amortization/ Accretion
Core deposit intangible	$ 575,000	$ 575,000	$ 575,000	$ 567,900

Aggregate amortization expense of the core deposit intangible was $7,100 in 2014 and $82,100 in 2013.

NOTE 7 - RESTRICTED EQUITY SECURITIES

At December 31, 2014 and 2013, the Company had the following equity investments in restricted equity securities:

	2014	2013
Federal Home Loan Bank Stock	$ 1,374,700	$ 1,347,426
Federal Reserve Bank Stock	640,800	544,800
Investment in Southeast Community Capital	300,000	300,000
Investment in The Housing Fund	177,645	169,593
Investment in Pharos Capital	219,228	-
	$ 2,712,373	$ 2,361,819

NOTE 8 - DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year end 2014 and 2013 were $37,745,162 and $33,648,728. The Company had brokered deposits of approximately $30,752,000 and $28,211,000 at year-end 2014 and 2013.

Scheduled maturities of time deposits for the next five years were as follows:

2015	$ 37,585,684
2016	37,777,887
2017	23,995,664
2018	11,443,269
2019	44,870

(Continued)

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2014 and 2013, advances from the FHLB totaled $34,650,000 and $33,650,000. The fixed interest rates on these advances range from 0.81% to 4.60% with an average rate of 1.66%. Maturities range from January 2016 to December 2018. Prepayment of an advance will result in a penalty payable to FHLB. Securities totaling $14,366,779 and $16,885,473, commercial real estate mortgage loans totaling $56,730,114 and $58,149,941, and first residential mortgage loans totaling $8,710,088 and $11,430,075 were pledged as collateral under a blanket pledge agreement with the FHLB at December 31, 2014 and 2013. Not all loans pledged are eligible as collateral and based on the eligible collateral and the Company's holding of FHLB stock, the Company could borrow up to approximately $30,100,000 in additional borrowings at year-end 2014.

Required payments over the next five years and thereafter are as follows:

2015	$ -
2016	10,900,000
2017	17,750,000
2018	6,000,000
2019	-

There were no modified rates or terms on FHLB advances in 2014. In 2013, the Company modified the rates and terms on $4,141,784 of outstanding advances, lowering the interest payments on these borrowings. Modification fees of $89,808 were incurred and expensed during 2013. In 2012, the Company modified the rates and terms on $14,000,000 of outstanding advances, lowering the interest payments on these borrowings. Based on these modifications and modifications in years prior to 2012, there was a portion of the modification fees deferred over the life of the advances of approximately $18,207 and $56,888 were amortized into expense during 2014 and 2013.

NOTE 10 - OTHER DEBT

During 2014, the Company entered into a term loan agreement in the amount of $3,500,000 with an in-state financial institution with the primary purpose of providing capital to InsBank. The loan is a ten year fully amortizing instrument at 4.16%. Payments are made quarterly from dividends paid by the bank to the Company. At December 31, 2014 the outstanding balance on the note was $3,283,526. Collateral for the loan is stock of the Company’s subsidiary, InsBank.

Required principal payments over the next five years and thereafter are as follows:

2015	$ 296,785
2016	309,145
2017	322,748
2018	336,578
2019 and thereafter	2,018,270

In addition, the Company entered into a line of credit (LOC) for $2,500,000 with the same in-state financial institution with the primary purpose of providing capital to InsBank at the time the Small Business Lending Fund (SBLF) preferred shares are redeemed. The interest on this LOC is 30 day LIBOR+2.75% with a scheduled maturity of March 15, 2019. Collateral for the loan is stock of InsBank. There was no balance on the LOC at December 31, 2014.

The Company had approximately $13.6 million in available lines of credit for federal funds (or the equivalent thereof) with correspondent banks at December 31, 2014. There were no amounts outstanding as of December 31, 2014.

(Continued)

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company's employees are eligible to participate in a 401(k) plan after ninety days of service and attaining the age of 21. The bank has the option, on an annual basis, to fund a matching contribution based on the employee contributions and to make a discretionary contribution. Employees vest in employer contributions over five years. The Company made $63,144 and $57,773 in matching contributions and no discretionary contributions in 2014 and 2013.

NOTE 12 - INCOME TAXES

Income tax expense (benefit) recognized in each year is made up of current and deferred Federal and State tax amounts shown below:

	2014	2013
Current Federal	$ 1,009,417	$ 662,209
Current State	98,812	142,107
Deferred Federal	(27,066)	113,047
Deferred State	(38,333)	(17,468)
Income tax expense	$ 1,042,830	$ 899,895

The tax effect of each type of temporary difference that results in net deferred tax assets and liabilities is as follows:

	2014	2013
Asset (liability)		
Allowance for loan losses	$ 1,015,621	$ 916,596
Purchase accounting adjustment	-	(2,719)
Accumulated depreciation	(271,863)	(181,838)
FHLB stock basis	(49,408)	(50,000)
Fair market value adjustments	1,177	(29,843)
Unrealized (gains) losses on available for sale securities	(29,487)	56,879
Other, net	137,142	115,074
Balance at end of year	$ 803,182	$ 824,149

The need for a valuation allowance is evaluated periodically by management. Factors considered in the evaluation include historical operating results, forecasted future earnings, expansion plans, and other income considerations. As of December 31, 2014 and 2013, there was no valuation allowance recorded.

A reconciliation of the amount computed by applying the federal statutory rate (34%) to pretax income with income tax expense (benefit) follows:

	2014	2013
Tax expense at statutory rate	$ 1,029,010	$ 859,850
Increase (decrease) in taxes resulting from		
State income taxes, net of federal benefit	39,916	82,262
Tax-exempt income	(36,706)	(92,635)
Other	10,610	50,418
Income tax expense	$ 1,042,830	$ 899,895

(Continued)

NOTE 12 - INCOME TAXES (Continued)

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Tennessee as well as various other state income taxes. The Company is no longer subject to examination by taxing authorities for years before 2011.

NOTE 13 - RELATED PARTY TRANSACTIONS

The aggregate amount of loans to executive officers and directors of the Company and their related interests were approximately $14,369,640 and $9,526,070 at year end 2014 and 2013.

The aggregate amount of deposits from executive officers and directors of the Company and their related interests were approximately $2,162,979 and $1,960,906 at year end 2014 and 2013.

NOTE 14 - STOCK-BASED COMPENSATION

The Company has a share based compensation plan as described below. Total compensation cost that has been charged against income for the plan was $24,432 and $40,613 for 2014 and 2013. The total income tax benefit was $9,325 and $15,500.

The Company's 2001 Statutory-Nonstatutory Stock Option Plan (stock option plan or the Plan), which is shareholder-approved, permits the grant of share options to its employees for up to 19% of the outstanding shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods of 5 years and have 10-year contractual terms. Currently, the Company has a sufficient number of shares authorized to satisfy expected share option exercises.

There were no options granted or exercised in in 2013. A summary of the activity in the stock option plan for 2014 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	204,968	$ 8.35	
Granted	64,000	10.60	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding at end of year	268,968	$ 8.88	6.22
Vested or expected to vest	268,968	$ 8.88	6.22
Exercisable at end of year	184,968	$ 8.48	4.86

As of December 31, 2014, there was $51,770 of total unrecognized compensation cost related to nonvested options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.3 years.

(Continued)

NOTE 15 - REGULATORY CAPITAL MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes, as of December 31, 2014, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2014 and 2013, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios for the Bank are presented below at year end.
($ in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2014						
Total capital to risk weighted assets	$ 28,134	11.76%	$ 19,132	8.00%	$ 23,915	10.00%
Tier 1 to risk weighted assets	$ 25,394	10.62%	$ 9,566	4.00%	$ 14,349	6.00%
Tier 1 to average assets	$ 25,394	9.88%	$ 10,280	4.00%	$ 12,850	5.00%
2013						
Total capital to risk weighted assets	$ 22,911	11.87%	$ 15,439	8.00%	$ 19,299	10.00%
Tier 1 to risk weighted assets	$ 20,497	10.62%	$ 7,720	4.00%	$ 11,580	6.00%
Tier 1 to average assets	$ 20,497	9.85%	$ 8,320	4.00%	$ 10,400	5.00%

Dividend Restrictions - The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2015, the Bank could, without prior approval, declare dividends of approximately $3,301,000 plus any of 2015 net profits retained to the date of the dividend declaration.

(Continued)

NOTE 16 - INTEREST RATE SWAPS

During 2014 and 2013, the Company entered into interest rate swaps for the benefit of its customers. The notional amount of these customer derivative instrument and the offsetting counterparty derivative instruments were $5,852,309 and $5,852,309 as of December 31, 2014. At December 31, 2013, the notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $5,921,575 and $5,921,575. Maturities at December 31, 2014 ranged from 5 days to 8.0 years. Since the swaps are structured to offset each other, changes in fair value, while recorded, have no material net earnings impact. The current fair value of the swaps was approximately $92,400 and $109,000 at December 31, 2014 and 2013, and is included in other assets and other liabilities for the value of each of the swaps.

During 2014 and 2013, the Company also entered into interest cap agreements as free standing derivative instruments to protect against rapidly increasing interest rates. The notional amount of these free standing derivative instruments were $60,000,000 and $40,000,000 as of December 31, 2014 and 2013, respectively. Maturities at December 31, 2014 ranged from 1.0 to 3.0 years. The current fair value of the instruments was approximately $75,000 at December 31, 2014 and is included in other assets. A corresponding credit (charge) is made to non-interest income is made when the fair value of the interest cap changes.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Bank is in the receiving status. Although collateral or other security is not obtained, credit risk is minimized by monitoring the credit standing of the counterparties. Management anticipates the counterparties will be able to fully satisfy their obligations under these agreements.

NOTE 17 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. Commitments to extend credit are generally made for periods of 60 days or less.

The contractual amounts of financial instruments with off-balance sheet risk were as follows at year end:

	2014	2013
Commitments to extend credit	$ 3,711,000	$ 3,467,000
Unused lines of credit and letters of credit	30,558,000	24,249,000
Performance standby letters of credit	1,066,000	473,000

NOTE 18 - PREFERRED STOCK

On September 27, 2011, as part of the Small Business Lending Fund (“SBLF”), the Company entered into a Small Business Lending Fund Securities Purchase Agreement (“SBLF Purchase Agreement”) with the United States Department of the Treasury (“Treasury”). Under the SBLF Purchase Agreement, the Company issued 3,000 shares of preferred stock series A to the Treasury. The preferred stock series A shares qualify as Tier 1 capital and dividends are paid quarterly. The initial dividend rate was 5%. After the first ten quarters of reporting the rate became fixed based on qualified lending growth. The dividend rate at December 31, 2014 and 2013 was 1%. During the years ended December 31, 2014 and 2013, dividends of $30,000 and $30,000 were paid to the Treasury.