# COMMUNITY CAPITAL BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED FINANCIAL REPORT

## DECEMBER 31, 2012

# COMMUNITY CAPITAL BANCSHARES, INC.
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MAULDIN & JENKINS

CERTIFIED PUBLIC ACCOUNTANTS, LLC

# INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors**
**Community Capital Bancshares, Inc.**
**Albany, Georgia**

***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of Community Capital Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, other comprehensive loss, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Capital Bancshares, Inc. and Subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Albany, Georgia
March 28, 2013

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# COMMUNITY CAPITAL BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS
## DECEMBER 31, 2012 AND 2011

| **Assets** | **2012** | 2011 |
|---|---|---|
| Cash and due from banks | **$ 910,439** | $ 1,136,101 |
| Interest-bearing deposits in other banks | **15,452,205** | 16,473,330 |
| Cash and cash equivalents | **16,362,644** | 17,609,431 |
| Securities available for sale, at fair value | **16,670,138** | 19,176,919 |
| Restricted equity securities, at cost | **546,300** | 934,050 |
| Loans | **94,001,259** | 104,598,734 |
| Less allowance for loan losses | **1,787,614** | 2,141,789 |
| Loans, net | **92,213,645** | 102,456,945 |
| Premises and equipment held for sale | **690,900** | 777,056 |
| Premises and equipment | **2,893,399** | 4,780,874 |
| Other real estate owned | **1,051,227** | 1,539,887 |
| Accrued interest receivable | **431,222** | 415,787 |
| Other assets | **1,012,368** | 1,037,776 |
| | **$ 131,871,843** | $ 148,728,725 |
| **Liabilities and Stockholders' Equity** | | |
| Deposits | | |
| Noninterest-bearing | **$ 24,828,194** | $ 23,000,597 |
| Interest-bearing | **81,699,777** | 100,155,305 |
| Total deposits | **106,527,971** | 123,155,902 |
| Securities sold under agreements to repurchase | **10,787,305** | 7,720,050 |
| Other borrowings | **3,211,861** | 6,389,321 |
| Guaranteed preferred beneficial interests in junior subordinated debentures | **4,124,000** | 4,124,000 |
| Accrued interest payable | **163,395** | 94,461 |
| Other liabilities | **1,356,746** | 895,781 |
| Total liabilities | **126,171,278** | 142,379,515 |
| Commitments and contingencies (Note 15) | | |
| Stockholders' equity: | | |
| Preferred stock, authorized 2,000,000 shares | | |
| Series A, fixed rate cumulative convertible preferred, no par value, liquidation preference $3.29 per share; 393,631 shares outstanding | **1,295,046** | 1,295,046 |
| Series B, fixed rate cumulative convertible preferred, no par value, liquidation preference $6.58 per share; 563,062 shares outstanding | **3,704,948** | 3,704,948 |
| Common stock, par value $1; 10,000,000 shares authorized; 3,104,040 shares issued | **3,104,040** | 3,104,040 |
| Capital surplus | **23,120,616** | 23,135,255 |
| Retained deficit | **(25,793,893)** | (24,842,302) |
| Accumulated other comprehensive income (loss) | **273,714** | (4,412) |
| | **5,704,471** | 6,392,575 |
| Less cost of treasury stock, 2,939 and 32,630 shares | **3,906** | 43,365 |
| Total stockholders' equity | **5,700,565** | 6,349,210 |
| | **$ 131,871,843** | $ 148,728,725 |

**See Notes to Consolidated Financial Statements.**

# COMMUNITY CAPITAL BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS
## YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| Interest income | | |
| Loans, including fees | **$ 4,918,291** | $ 5,588,488 |
| Taxable securities | **348,523** | 760,700 |
| Nontaxable securities | **30,851** | 30,849 |
| Deposits in other banks | **30,161** | 53 |
| Federal funds sold | **1,386** | 592 |
| Total interest income | **5,329,212** | 6,380,682 |
| Interest expense | | |
| Deposits | **549,181** | 1,184,125 |
| Other borrowed money | **303,432** | 394,726 |
| Total interest expense | **852,613** | 1,578,851 |
| Net interest income | **4,476,599** | 4,801,831 |
| Provision for loan losses | **250,002** | 930,000 |
| Net interest income after provision for loan losses | **4,226,597** | 3,871,831 |
| Other income | | |
| Service charges on deposit accounts | **513,169** | 606,390 |
| Financial service fees | **439,480** | 593,107 |
| Mortgage origination fees | **409,096** | 370,785 |
| Gain on sales of securities available for sale | **64,178** | 517,945 |
| Gain on sale of branch | **119,904** | - |
| Other operating income | **71,450** | 67,464 |
| Total other income | **1,617,277** | 2,155,691 |
| Other expenses | | |
| Salaries and employee benefits | **3,465,300** | 3,780,293 |
| Equipment and occupancy expenses | **691,397** | 837,511 |
| Impairment loss on premises and equipment held for sale | **86,156** | 134,821 |
| Loss on sales and writedowns of other real estate owned | **74,015** | 98,508 |
| Marketing expenses | **83,452** | 138,523 |
| Data processing expenses | **693,805** | 727,610 |
| Administrative expenses | **296,385** | 323,019 |
| Legal and professional fees | **326,077** | 325,003 |
| FDIC insurance expense | **124,274** | 143,476 |
| Stationery and supply expenses | **43,051** | 50,113 |
| Other real estate expenses | **97,647** | 74,087 |
| Conversion expenses | **136,435** | - |
| Other operating expenses | **276,246** | 213,784 |
| Total other expenses | **6,394,240** | 6,846,748 |
| Loss before income tax benefit | **(550,366)** | (819,226) |
| Income tax benefit | **-** | - |
| Net loss | **(550,366)** | (819,226) |
| Preferred stock dividends accumulated undeclared | **401,225** | 400,132 |
| Net loss available to common shareholders | **$ (951,591)** | $ (1,219,358) |
| Basic loss per share | **$ (0.31)** | $ (0.40) |
| Diluted loss per share | **$ (0.31)** | $ (0.40) |

**See Notes to Consolidated Financial Statements.**

# COMMUNITY CAPITAL BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS
## YEARS ENDED DECEMBER 31, 2012 AND 2011

| | **2012** | 2011 |
|---|---|---|
| **Net loss** | **$ (550,366)** | $ (819,226) |
| **Other comprehensive income (loss):** | | |
| Net unrealized holding gains arising during period | **342,304** | 413,034 |
| Reclassification adjustment for gains included in net loss | **(64,178)** | (517,945) |
| Total other comprehensive income (loss) | **278,126** | (104,911) |
| **Comprehensive loss** | **$ (272,240)** | $ (924,137) |

**See Notes to Consolidated Financial Statements.**

# COMMUNITY CAPITAL BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
## YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Preferred Stock | | | | | |
|---|---|---|---|---|---|---|
| | Series A | | Series B | | Common Stock | |
| | Shares | Par Value | Shares | Par Value | Shares | Par Value |
| **Balance, December 31, 2010** | 393,631 | $ 1,295,046 | 563,062 | $ 3,704,948 | 3,104,040 | $ 3,104,040 |
| Net loss | - | - | - | - | - | - |
| Preferred dividends accumulated undeclared, 8% coupon | - | - | - | - | - | - |
| Stock-based compensation | - | - | - | - | - | - |
| Treasury stock transactions, net | - | - | - | - | - | - |
| Other comprehensive loss | - | - | - | - | - | - |
| **Balance, December 31, 2011** | 393,631 | 1,295,046 | 563,062 | 3,704,948 | 3,104,040 | 3,104,040 |
| Net loss | - | - | - | - | - | - |
| Preferred dividends accumulated undeclared, 8% coupon | - | - | - | - | - | - |
| Stock-based compensation | - | - | - | - | - | - |
| Treasury stock transactions, net | - | - | - | - | - | - |
| Other comprehensive income | - | - | - | - | - | - |
| **Balance, December 31, 2012** | 393,631 | $ 1,295,046 | 563,062 | $ 3,704,948 | 3,104,040 | $ 3,104,040 |

**See Notes to Consolidated Financial Statements.**

| Capital Surplus | Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Treasury Stock Shares | Treasury Stock Cost | Total Stockholders' Equity |
|---|---|---|---|---|---|
| $ 23,141,963 | $ (23,622,944) | $ 100,499 | 22,811 | $ (45,941) | $ 7,677,611 |
| - | (819,226) | - | - | - | (819,226) |
| - | (400,132) | - | - | - | (400,132) |
| 21,911 | - | - | - | - | 21,911 |
| (28,619) | - | - | 9,819 | 2,576 | (26,043) |
| - | - | (104,911) | - | - | (104,911) |
| 23,135,255 | (24,842,302) | (4,412) | 32,630 | (43,365) | 6,349,210 |
| - | (550,366) | - | - | - | (550,366) |
| - | (401,225) | - | - | - | (401,225) |
| 13,151 | - | - | - | - | 13,151 |
| (27,790) | - | - | (29,691) | 39,459 | 11,669 |
| - | - | 278,126 | - | - | 278,126 |
| $ 23,120,616 | $ (25,793,893) | $ 273,714 | 2,939 | $ (3,906) | $ 5,700,565 |

# COMMUNITY CAPITAL BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss | **$ (550,366)** | $ (819,226) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | **219,812** | 298,050 |
| Provision for loan losses | **250,002** | 930,000 |
| Net loss on sales of premises and equipment | **81,042** | 179 |
| Impairment loss on premises and equipment held for sale | **86,156** | 134,821 |
| Gain on sale of branch | **(119,904)** | - |
| Gains on sales of securities available for sale | **(64,178)** | (517,945) |
| Net loss on sales and writedowns of other real estate owned | **74,015** | 98,508 |
| (Increase) decrease in interest receivable | **(57,317)** | 146,043 |
| Increase (decrease) in interest payable | **94,016** | (86,153) |
| Decrease in prepaid FDIC assessment | **114,546** | 133,108 |
| Stock-based compensation | **13,151** | 21,911 |
| Other operating activities | **(33,596)** | (82,274) |
| Net cash provided by operating activities | **107,379** | 257,022 |
| **INVESTING ACTIVITIES** | | |
| Decrease in restricted equity securities | **387,750** | 108,600 |
| Net increase in loans | **(783,462)** | (8,848,120) |
| Purchases of securities available for sale | **(5,507,653)** | (7,127,225) |
| Proceeds from maturities, paydowns and calls of securities available for sale | **3,414,458** | 8,132,076 |
| Proceeds from sales of securities available for sale | **4,942,280** | 9,206,158 |
| Net cash paid for sale of branch | **(5,834,534)** | - |
| Purchases of premises and equipment | **(122,800)** | (194,923) |
| Proceeds from sales of premises and equipment | **18,873** | - |
| Proceeds from sales of other real estate owned | **414,645** | 502,216 |
| Net cash provided by (used in) investing activities | **(3,070,443)** | 1,778,782 |
| **FINANCING ACTIVITIES** | | |
| Net increase (decrease) in deposits | **1,814,813** | (1,374,322) |
| Proceeds from other borrowings | **5,822,540** | 7,031,027 |
| Repayment of other borrowings | **(5,932,745)** | (3,000,000) |
| Treasury stock transactions, net | **11,669** | (26,043) |
| Net cash provided by financing activities | **1,716,277** | 2,630,662 |
| Net increase (decrease) in cash and cash equivalents | **(1,246,787)** | 4,666,466 |
| Cash and cash equivalents at beginning of year | **17,609,431** | 12,942,965 |
| Cash and cash equivalents at end of year | **$ 16,362,644** | $ 17,609,431 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Cash paid for: | | |
| Interest | **$ 783,679** | $ 1,665,004 |
| Income taxes | **$ -** | $ - |
| **NONCASH TRANSACTIONS** | | |
| Unrealized gains (losses) on securities available for sale | **$ 278,126** | $ (104,911) |
| Loans transferred to other real estate owned | **$ -** | $ 883,694 |

**See Notes to Consolidated Financial Statements.**

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

Community Capital Bancshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned bank subsidiary, AB&T National Bank ("the Bank"). AB&T National Bank's main office is located in Albany, Dougherty County, Georgia, with additional full service branches in Albany and Leesburg, Georgia. The Bank provides a full range of banking services to individual and corporate customers in their primary market areas of Dougherty and Lee County, Georgia.

The Company also owns Community Capital Statutory Trust I, a Delaware statutory business trust. This non-operating subsidiary was created in 2003 for the sole purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company, all of which are described more fully in Note 10.

### Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, deferred tax assets, other-than-temporary impairments of securities, the fair value of financial instruments and contingent assets and liabilities. The determination of the adequacy of the allowance for loan losses is based on estimates that are susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and the valuation of foreclosed real estate, management obtains independent appraisals for significant collateral.

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

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events and circumstances for consideration or disclosure through March 28, 2013, the date these consolidated financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Cash Equivalents and Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items in process of collection, amounts due from banks and interest-bearing deposits in other banks. Cash flows from loans, restricted equity securities, deposits and treasury stock transactions are reported net.

The Banks are required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was approximately $604,000 and $348,000 at December 31, 2012 and 2011, respectively.

### Securities

All debt securities and equity securities with a readily determinable fair value are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

The Company evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless there is a credit loss that has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

### Restricted Equity Securities

The Bank is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs of consumer and installment loans are recognized at the time the loan is placed on the books. Loan origination fees for all other loans are deferred and recognized as an adjustment of the yield over the life of the loan using the straight-line method without anticipating prepayments.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Loans (Continued)

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current or when the loan establishes a favorable collateral margin and the borrower displays the willingness and capacity to repay debt.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower’s request, 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 when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company’s homogeneous loan pools include commercial real estate loans, real estate construction and land development loans, residential real estate loans, owner occupied real estate loans, non-owner occupied real estate loans, commercial and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company’s loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings ("TDRs") when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

### Premises and Equipment Held for Sale

Premises and equipment held for sale is initially recorded at the lower of cost or fair value less estimated selling costs. Subsequent to transfer to premises and equipment held for sale, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell.

### Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

| | Years |
|---|---|
| Buildings | 39 |
| Furniture and equipment | 3-7 |

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

### Advertising Costs

Advertising costs are expensed as incurred.

### Other Real Estate Owned

Other real estate owned acquired through or in lieu of loan foreclosure are held for sale and initially recorded at the lower of cost or fair value less selling costs. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed.

### Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. Based upon management's estimates of future earnings for 2013, it was determined that there would not be sufficient earnings to realize the tax benefits within the time span for regulatory capital purposes. Based upon this expectation, a valuation allowance of $7,665,952 was established to offset net deferred tax assets.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Stock Compensation Plans

Stock compensation accounting guidance (FASB ASC 718, *Compensation - Stock Compensation)* requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' 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. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

### Loss Per Share

Basic loss per share are computed by dividing net loss available to common shareholders by the weighted-average number of shares of common stock outstanding during the year. Diluted loss available to common shareholders per share are computed by dividing net loss available to common shareholders by the sum of the weighted-average number of shares of common stock outstanding and dilutive potential common shares. Potential common shares consist of stock options and warrants.

Presented below is a summary of the components used to calculate basic and diluted loss per share:

| | Years Ended December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Net loss available to common shareholders | **$ (951,591)** | $ (1,219,358) |
| Weighted average number of common shares outstanding | **3,098,800** | 3,078,344 |
| Effect of dilutive potential common shares | **-** | - |
| Weighted average number of common shares outstanding used to calculate dilutive loss per share | **3,098,800** | 3,078,344 |

At December 31, 2012 and 2011, there were 327,249 and 273,244, respectively, potential common shares not included in the calculation of diluted loss per share because any such shares would be anti-dilutive.

### Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net loss, are components of comprehensive loss.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Trust Department

The Company's subsidiary, AB&T National Bank, as fiduciary or agent, provides trust services to their customers. Property, other than cash deposits held by AB&T National Bank in its fiduciary capacity, is not accounted for in the accompanying consolidated financial statements.

### Reclassification

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation, with no effect on total assets or net loss.

### Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

### Recent Accounting Pronouncements

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in a two separate consecutive statement approach and changes the presentation of reclassification items out of other comprehensive income to net income. In December 2011, the FASB deferred certain provisions related to the reclassifications of items out of accumulated other comprehensive income and the presentation of the reclassification items. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

## NOTE 2. SECURITIES

The amortized cost and fair value of securities available for sale with gross unrealized gains and losses are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2012:** | | | | |
| **State and municipal securities** | **$ 748,662** | **$ 26,026** | **$ -** | **$ 774,688** |
| **Mortgage-backed securities -** | | | | |
| **GSE residential** | **14,824,094** | **403,876** | **(15,314)** | **15,212,656** |
| **Corporate securities** | **823,567** | **-** | **(140,873)** | **682,694** |
| **Total debt securities** | **16,396,323** | **429,902** | **(156,187)** | **16,670,038** |
| **Equity securities** | **100** | **-** | **-** | **100** |
| **Total securities** | **$ 16,396,423** | **$ 429,902** | **$ (156,187)** | **$ 16,670,138** |
| December 31, 2011: | | | | |
| State and municipal securities | $ 748,561 | $ 28,224 | $ (8,005) | $ 768,780 |
| Mortgage-backed securities - | | | | |
| GSE residential | 17,048,399 | 296,251 | (36,824) | 17,307,826 |
| Corporate securities | 1,384,270 | - | (284,057) | 1,100,213 |
| Total debt securities | 19,181,230 | 324,475 | (328,886) | 19,176,819 |
| Equity securities | 100 | - | - | 100 |
| Total securities | $ 19,181,330 | $ 324,475 | $ (328,886) | $ 19,176,919 |

The amortized cost and fair value of debt securities available for sale as of December 31, 2012 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due after ten years | $ 1,572,229 | $ 1,457,382 |
| Mortgage-backed securities | 14,824,094 | 15,212,656 |
| | $ 16,396,323 | $ 16,670,038 |

Securities with a carrying value of approximately $2,345,016 and $3,212,638 at December 31, 2012 and 2011, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. As of December 31, 2012 and 2011, investment securities with a carrying value of $11,790,682 and $10,074,523, respectively, were pledged to secure repurchase agreements.

The following table shows the gross unrealized losses and fair value of the entity’s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011.

## NOTE 2. SECURITIES (Continued)

Available for sale securities that have been in a continuous unrealized loss position are as follows:

| Description of Securities | Less Than 12 Months Fair Value | Less Than 12 Months Unrealized Losses | Over 12 Months Fair Value | Over 12 Months Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **December 31, 2012:** | | | | | | |
| **State and municipal securities** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| **Mortgage-backed securities -** | | | | | | |
| **GSE residential** | **3,457,927** | **(15,314)** | **-** | **-** | **3,457,927** | **(15,314)** |
| **Corporate securities** | **-** | **-** | **682,694** | **(140,873)** | **682,694** | **(140,873)** |
| **Total debt securities** | **3,457,927** | **(15,314)** | **682,694** | **(140,873)** | **4,140,621** | **(156,187)** |
| **Equity securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total securities** | **$ 3,457,927** | **$ (15,314)** | **$ 682,694** | **$ (140,873)** | **$ 4,140,621** | **$ (156,187)** |
| December 31, 2011: | | | | | | |
| State and municipal securities | $ - | $ - | $ 241,995 | $ (8,005) | $ 241,995 | $ (8,005) |
| Mortgage-backed securities - | | | | | | |
| GSE residential | 3,922,695 | (36,824) | - | - | 3,922,695 | (36,824) |
| Corporate securities | 465,465 | (47,898) | 634,748 | (236,159) | 1,100,213 | (284,057) |
| Total debt securities | 4,388,160 | (84,722) | 876,743 | (244,164) | 5,264,903 | (328,886) |
| Equity securities | - | - | - | - | - | - |
| Total securities | $ 4,388,160 | $ (84,722) | $ 876,743 | $ (244,164) | $ 5,264,903 | $ (328,886) |

*Mortgage-backed securities – GSE residential*. The unrealized losses on four investments in GSE mortgage-backed securities were caused by changes in interest rates. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2012.

*Corporate securities*. The unrealized losses on the Company's one investment in corporate securities was caused by changes in interest rates and the declining credit quality of the respective financial institution. The Company had a third party impairment analysis performed as of December 31, 2012 for the investment for which no other than temporary impairment was noted. Due to the impairment review conducted as of December 31, 2012 and because the Company does not intend to sell the investment and it is not more-likely-than-not that the Company will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2012.

## NOTE 2. SECURITIES (Continued)

***Other-Than-Temporary Impairment***

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

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

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities.

There were no other-than-temporarily impairment charges related to securities available for sale recorded in 2012 or 2011.

Gains and losses on sales of securities available for sale consist of the following:

| | Years Ended December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Gross gains | **$ 64,178** | $ 517,945 |
| Gross losses | **-** | - |
| Net realized gains | **$ 64,178** | $ 517,945 |

Restricted equity securities consist of the following:

| | December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Federal Reserve Bank stock | **$ 323,500** | $ 354,250 |
| Federal Home Loan Bank stock | **222,800** | 579,800 |
| | **$ 546,300** | $ 934,050 |

The Company has investments in the common stock of the Federal Reserve Bank and Federal Home Loan Bank of Atlanta at December 31, 2012 and 2011. These investments are accounted for by the cost method, which represents par value, and is made for long-term business affiliation reasons. In addition, these investments are subject to restrictions relating to sale, transfer or other disposition. Dividends are recognized in income when declared.

## NOTE 3. LOANS

The composition of loans is summarized as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Commercial real estate: | | |
| Construction and land development | **$ 3,117,639** | $ 4,902,431 |
| Owner occupied | **25,831,866** | 28,620,741 |
| Non-owner occupied | **16,692,399** | 19,293,418 |
| Residential real estate | **31,267,228** | 35,376,197 |
| Commercial | **12,138,192** | 11,293,315 |
| Consumer | **4,856,685** | 4,998,996 |
| | **93,904,009** | 104,485,098 |
| Deferred loan fees | **97,250** | 113,636 |
| Allowance for loan losses | **(1,787,614)** | (2,141,789) |
| Loans, net | **$ 92,213,645** | $ 102,456,945 |

The Company has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled $7,717,376 and $11,043,315 at December 31, 2012 and 2011, respectively.

### Portfolio Segmentation

For purposes of the disclosures required pursuant to the adoption of ASC 310, the loan portfolio was disaggregated into portfolio segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are four loan portfolio segments that include commercial real estate, residential real estate, commercial and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan and an entity's method for monitoring and assessing credit risk. Classes within the commercial real estate portfolio segment include construction and land development, owner occupied and non-owner occupied. Residential real estate, commercial and consumer have not been disaggregated into additional classes.

The following describe risk characteristics relevant to each of the portfolio segments:

**Commercial and residential real estate:** As discussed below, the Company offers various types of real estate loan products. All loans within these two portfolio segments are particularly sensitive to the valuation of real estate:

- Loans for commercial real estate construction and land development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio segment also includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- Commercial real estate mortgage loans include owner-occupied commercial real estate loans, owner-occupied construction loans for commercial businesses, and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

## NOTE 3. LOANS (Continued)

### Portfolio Segmentation (Continued)

- Residential real estate mortgage loans include 1-4 family and multifamily residential mortgage loans. 1-4 family residential mortgage loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. Multifamily residential real estate mortgage loans include real estate loans secured by apartment buildings and duplexes. These are repaid by various means such as rental income from the property, borrower's income or sale of the property.

**Commercial:** The commercial loan portfolio segment includes commercial, financial and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

**Consumer:** The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans and educational loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

### Credit Risk Management

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios, including a third party review of the largest credits on an annual basis or more frequently as needed. To insure problem credits are identified on a timely basis, specific portfolio reviews occur to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Chief Credit Officer and the Directors Loan Committee.

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated quarterly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends, and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

## NOTE 3. LOANS (Continued)

### Credit Risk Management (Continued)

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include commercial real estate loans, real estate construction and land development loans, residential real estate loans, real estate other loans, commercial/financial/agricultural, industrial loans and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio plus the internally determined qualitative factors and the total dollar amount of the loans in the pool.

The following tables detail activity in the allowance for loan losses by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

| | Commercial Real Estate | Residential Real Estate | Commercial | Consumer | Total |
|---|---|---|---|---|---|
| **December 31, 2012:** | | | | | |
| **Allowance for loan losses:** | | | | | |
| **Beginning balance** | $ 1,023,811 | $ 771,363 | $ 299,531 | $ 47,084 | $ 2,141,789 |
| **Charge-offs** | (411,450) | (318,918) | (375) | (13,517) | (744,260) |
| **Recoveries** | 65,986 | 27,588 | 35,117 | 11,392 | 140,083 |
| **Provision** | 214,561 | (19,867) | 46,681 | 8,627 | 250,002 |
| **Ending balance** | $ 892,908 | $ 460,166 | $ 380,954 | $ 53,586 | $ 1,787,614 |
| **Ending balance - individually evaluated for impairment** | $ 71,647 | $ - | $ - | $ - | $ 71,647 |
| **Ending balance - collectively evaluated for impairment** | $ 821,261 | $ 460,166 | $ 380,954 | $ 53,586 | $ 1,715,967 |
| **Loans:** | | | | | |
| **Ending balance** | $ 45,641,904 | $ 31,267,228 | $ 12,138,192 | $ 4,856,685 | $ 93,904,009 |
| **Ending balance - individually evaluated for impairment** | $ 6,317,678 | $ 774,647 | $ - | $ - | $ 7,092,325 |
| **Ending balance - collectively evaluated for impairment** | $ 39,324,226 | $ 30,492,581 | $ 12,138,192 | $ 4,856,685 | $ 86,811,684 |

## NOTE 3. LOANS (Continued)

### Credit Risk Management (Continued)

| | Commercial Real Estate | Residential Real Estate | Commercial | Consumer | Total |
|---|---|---|---|---|---|
| **December 31, 2011:** | | | | | |
| **Allowance for loan losses:** | | | | | |
| Beginning balance | $ 903,795 | $ 1,216,563 | $ 285,261 | $ 47,238 | $ 2,452,857 |
| Charge-offs | (858,755) | (61,237) | (608,368) | (15,731) | (1,544,091) |
| Recoveries | 36,920 | 225,666 | 37,080 | 3,357 | 303,023 |
| Provision | 941,851 | (609,629) | 585,558 | 12,220 | 930,000 |
| Ending balance | $ 1,023,811 | $ 771,363 | $ 299,531 | $ 47,084 | $ 2,141,789 |
| Ending balance - individually evaluated for impairment | $ 14,977 | $ - | $ - | $ - | $ 14,977 |
| Ending balance - collectively evaluated for impairment | $ 1,008,834 | $ 771,363 | $ 299,531 | $ 47,084 | $ 2,126,812 |
| **Loans:** | | | | | |
| Ending balance | $ 52,816,590 | $ 35,376,197 | $ 11,293,315 | $ 4,998,996 | $ 104,485,098 |
| Ending balance - individually evaluated for impairment | $ 3,567,032 | $ 242,138 | $ - | $ - | $ 3,809,170 |
| Ending balance - collectively evaluated for impairment | $ 49,249,558 | $ 35,134,059 | $ 11,293,315 | $ 4,998,996 | $ 100,675,928 |

A description of the general characteristics of the risk grades used by the Company is as follows:

**Pass:** Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loan in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

**Special Mention:** Loans in this category are currently bankable, but are potentially weak and deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. The credit is not currently adequate and constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

**Substandard:** These are loans inadequately protected by the current sound worth and repayment capacity of the borrower or of the pledged collateral. Loans are normally classified as Substandard when they have unsatisfactory characteristics causing more than acceptable levels of risk. A Substandard loan normally has one or more well-defined weaknesses that could jeopardize the repayment of the loan. This risk rating may apply to non-accrual loans and other real estate owned. Weaknesses are well defined by management and there is a distinct possibility that the bank will sustain some loss if deficiencies are not corrected.

## NOTE 3. LOANS (Continued)

### Credit Risk Management (Continued)

**Doubtful:** Any loan classified Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. Loans in this category must be placed in non-accrual and all payments applied to principal recapture. The weakness in credits under this classification is so severe that collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable or improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors cannot be determined at this time. The classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. All doubtful loans must be on non-accrual; however, all non-accrual loans are not necessarily rated doubtful. If a split classification exists, it is possible to reclassify a part of the loan as Loss and another part as Substandard.

**Loss:** Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Bank should not attempt long-term recoveries while the loans remain booked. Loans classified Loss should be written off in the period that they surface as uncollectible. Loans that qualify in this category are typically charged-off.

The following tables summarize the risk category of the Company's loan portfolio based upon on the most recent analysis performed:

| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **December 31, 2012:** | | | | | |
| **Commercial real estate** | | | | | |
| **Construction and land development** | **$ 2,520,704** | **$ -** | **$ 596,935** | **$ -** | **$ 3,117,639** |
| **Owner occupied** | **21,996,207** | **695,067** | **3,140,592** | **-** | **25,831,866** |
| **Non-owner occupied** | **14,739,997** | **-** | **1,952,402** | **-** | **16,692,399** |
| **Residential real estate** | **30,046,414** | **669,600** | **551,214** | **-** | **31,267,228** |
| **Commercial** | **12,102,298** | **35,894** | **-** | **-** | **12,138,192** |
| **Consumer** | **4,856,685** | **-** | **-** | **-** | **4,856,685** |
| **Total** | **$ 86,262,305** | **$ 1,400,561** | **$ 6,241,143** | **$ -** | **$ 93,904,009** |
| **December 31, 2011:** | | | | | |
| Commercial real estate | | | | | |
| Construction and land development | $ 4,013,739 | $ - | $ 888,692 | $ - | $ 4,902,431 |
| Owner occupied | 26,292,402 | 4,101 | 2,324,238 | - | 28,620,741 |
| Non-owner occupied | 18,262,611 | - | 1,030,807 | - | 19,293,418 |
| Residential real estate | 34,583,856 | 209,684 | 582,657 | - | 35,376,197 |
| Commercial | 10,847,575 | 375,014 | 70,726 | - | 11,293,315 |
| Consumer | 4,997,989 | - | 1,007 | - | 4,998,996 |
| Total | $ 98,998,172 | $ 588,799 | $ 4,898,127 | $ - | $ 104,485,098 |

## NOTE 3. LOANS (Continued)

### Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans:

| | | Past Due Status (Accruing Loans) | | | | | |
|---|---|---|---|---|---|---|---|
| | Current | 30-59 Days | 60-89 Days | 90+ Days | Total Past Due | Non-accrual | Total |
| **December 31, 2012:** | | | | | | | |
| **Commercial real estate:** | | | | | | | |
| **Construction and land development** | **$ 3,094,792** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 22,847** | **$ 3,117,639** |
| **Owner occupied** | **22,705,168** | **-** | **-** | **-** | **-** | **3,126,698** | **25,831,866** |
| **Non-owner occupied** | **14,739,997** | **-** | **-** | **-** | **-** | **1,952,402** | **16,692,399** |
| **Residential real estate** | **31,132,244** | **-** | **-** | **-** | **-** | **134,984** | **31,267,228** |
| **Commercial** | **12,138,192** | **-** | **-** | **-** | **-** | **-** | **12,138,192** |
| **Consumer** | **4,850,738** | **5,947** | **-** | **-** | **5,947** | **-** | **4,856,685** |
| **Total** | **$ 88,661,131** | **$ 5,947** | **$ -** | **$ -** | **$ 5,947** | **$ 5,236,931** | **$ 93,904,009** |
| **December 31, 2011:** | | | | | | | |
| Commercial real estate: | | | | | | | |
| Construction and land development | $ 4,675,430 | $ - | $ - | $ - | $ - | $ 227,001 | $ 4,902,431 |
| Owner occupied | 26,681,649 | - | - | - | - | 1,939,092 | 28,620,741 |
| Non-owner occupied | 19,293,418 | - | - | - | - | - | 19,293,418 |
| Residential real estate | 35,080,298 | 10,615 | - | - | 10,615 | 285,284 | 35,376,197 |
| Commercial | 11,293,315 | - | - | - | - | - | 11,293,315 |
| Consumer | 4,996,982 | 1,007 | - | - | 1,007 | 1,007 | 4,998,996 |
| Total | $ 102,021,092 | $ 11,622 | $ - | $ - | $ 11,622 | $ 2,452,384 | $ 104,485,098 |

## NOTE 3. LOANS (Continued)

### Impaired Loans

A loan held for investment is considered impaired when, based on current information and events; it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail impaired loans, by portfolio class:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **December 31, 2012:** | | | | | |
| **With no related allowance recorded:** | | | | | |
| **Commercial real estate:** | | | | | |
| **Construction and land development** | $ 327,000 | $ 327,000 | $ - | $ 358,768 | $ 16,514 |
| **Owner occupied** | 3,452,879 | 3,846,123 | - | 3,591,005 | 15,059 |
| **Non-owner occupied** | 1,952,402 | 2,363,852 | - | 2,188,624 | 56,222 |
| **Residential real estate** | 774,647 | 1,076,297 | - | 831,747 | 27,844 |
| **Commercial** | - | - | - | - | - |
| **Consumer** | - | - | - | - | - |
| **Total with no related allowance recorded** | $ 6,506,928 | $ 7,613,272 | $ - | $ 6,970,144 | $ 115,639 |
| **With an allowance recorded:** | | | | | |
| **Commercial real estate:** | | | | | |
| **Construction and land development** | $ 295,945 | $ 295,945 | $ 3,491 | $ 312,582 | $ 10,586 |
| **Owner occupied** | 368,887 | 368,887 | 68,887 | 369,509 | 6,565 |
| **Non-owner occupied** | - | - | - | - | - |
| **Residential real estate** | 112,063 | 112,063 | 1,337 | 114,287 | 6,247 |
| **Commercial** | - | - | - | - | - |
| **Consumer** | - | - | - | - | - |
| **Total with an allowance recorded** | $ 776,895 | $ 776,895 | $ 73,715 | $ 796,378 | $ 23,398 |
| **Total impaired loans** | $ 7,283,823 | $ 8,390,167 | $ 73,715 | $ 7,766,522 | $ 139,037 |

## NOTE 3. LOANS (Continued)

### Impaired Loans (Continued)

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **December 31, 2011:** | | | | | |
| **With no related allowance recorded:** | | | | | |
| Commercial real estate: | | | | | |
| Construction and land development | $ 227,001 | $ 227,001 | $ - | $ 247,267 | $ 7,587 |
| Owner occupied | 2,309,224 | 2,726,205 | - | 2,466,693 | 63,979 |
| Non-owner occupied | - | - | - | - | - |
| Residential real estate | 242,137 | 242,137 | - | 256,092 | 3,852 |
| Commercial | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Total with no related allowance recorded | $ 2,778,362 | $ 3,195,343 | $ - | $ 2,970,052 | $ 75,418 |
| **With an allowance recorded:** | | | | | |
| Commercial real estate: | | | | | |
| Construction and land development | $ - | $ - | $ - | $ - | $ - |
| Owner occupied | - | - | - | - | - |
| Non-owner occupied | 1,030,807 | 1,030,807 | 14,977 | 1,031,073 | 69,472 |
| Residential real estate | 72,824 | 72,824 | 15,948 | 73,219 | 4,003 |
| Commercial | - | - | - | - | - |
| Consumer | 1,007 | 1,007 | 220 | 1,120 | 94 |
| Total with an allowance recorded | $ 1,104,638 | $ 1,104,638 | $ 31,145 | $ 1,105,412 | $ 73,569 |
| **Total impaired loans** | $ 3,883,000 | $ 4,299,981 | $ 31,145 | $ 4,075,464 | $ 148,987 |

### Troubled Debt Restructurings

At December 31, 2012 and 2011, impaired loans included loans that were classified as Troubled Debt Restructurings "TDRs". The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

## NOTE 3. LOANS (Continued)

### Troubled Debt Restructurings(Continued)

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2012, management had $2,046,949 in loans considered restructured that were not already on nonaccrual. As of December 31, 2011, management has no loans considered restructured that were not already on nonaccrual. Of the nonaccrual loans at December 31, 2012 and 2011, $3,923,387 and $1,359,906, respectively, met the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables summarize the loans that were modified as a TDR during the years ended December 31, 2012 and 2011:

| | Troubled-Debt Restructurings | | |
|---|---|---|---|
| | Number of Loans | Recorded Investment Prior to Modification | Recorded Investment After Modification |
| **December 31, 2012:** | | | |
| **Commercial real estate:** | | | |
| **Construction and land development** | **5** | **$ 781,920** | **$ 781,920** |
| **Owner occupied** | **3** | **2,865,051** | **2,865,051** |
| **Non-owner occupied** | **1** | **1,026,810** | **1,026,810** |
| **Residential real estate** | **14** | **770,168** | **725,786** |
| **Commercial** | **-** | **-** | **-** |
| **Consumer** | **-** | **-** | **-** |
| **Total** | **23** | **$ 5,443,949** | **$ 5,399,567** |
| **December 31, 2011:** | | | |
| Commercial real estate: | | | |
| Construction and land development | - | $ - | $ - |
| Owner occupied | 3 | 1,423,816 | 1,423,816 |
| Non-owner occupied | - | - | - |
| Residential real estate | 4 | 129,334 | 129,334 |
| Commercial | - | - | - |
| Consumer | - | - | - |
| Total | 7 | $ 1,553,150 | $ 1,553,150 |

## NOTE 3. LOANS (Continued)

### Troubled Debt Restructurings (Continued)

The $494,894 and $193,243 decreases in 2012 and 2011, respectively, in the post-restructuring recorded investments compared to the pre-restructuring recorded investments are due to charge-offs as we have not forgiven any principal on the above loans.

The following table presents those loans modified in a TDR over the last twelve months that subsequently defaulted (i.e. 90 days or more past due following a modification) during the year ended December 31, 2012. There were no restructured loans that subsequently defaulted for the year ended December 31, 2011.

| | Troubled-Debt Restructurings That Have Subsequently Defaulted | | |
|---|---|---|---|
| | Number of Loans | Recorded Investment | Impact on the Allowance for Loan Losses |
| **December 31, 2012:** | | | |
| Commercial real estate: | | | |
| Construction and land development | $ - | $ - | $ - |
| Owner occupied | 2 | 541,923 | - |
| Non-owner occupied | - | - | - |
| Residential real estate | - | - | - |
| Commercial | - | - | - |
| Consumer and other | - | - | - |
| Total | $ 2 | $ 541,923 | $ - |

The Company has no additional commitments to lend additional funds to any of the related debtors whose terms have been modified in a TDR. There were no TDRs that defaulted within twelve months of the modification date in 2011.

### Related Party Loans

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans are as follows:

| | December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Balance, beginning of year | **$ 3,698,121** | $ 2,320,766 |
| Advances | **2,491,730** | 4,050,993 |
| Repayments | **(3,555,747)** | (2,489,784) |
| Change in directors | **-** | (183,854) |
| Balance, end of year | $ **2,634,104** | $ 3,698,121 |

## NOTE 4. PREMISES AND EQUIPMENT HELD FOR SALE

Effective March 16, 2011, the Company closed its Dothan, Alabama branch and transferred these assets to premises and equipment held for sale. Management had updated valuations performed during 2012 and 2011 and these assets were determined to be impaired by $86,156 and $134,821 and these amounts were charged to expense during 2012 and 2011, respectively. The Company had these assets under contract with a realtor and recorded at $690,900 at December 31, 2012. The Company closed on the sale of these assets during the first quarter of 2013 with no additional loss on sale.

## NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

| | December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Land | **$ 830,718** | $ 1,594,419 |
| Buildings | **2,436,399** | 3,698,057 |
| Furniture and equipment | **1,212,169** | 2,066,314 |
| | **4,479,286** | 7,358,790 |
| Accumulated depreciation | **(1,585,887)** | (2,577,916) |
| | **$ 2,893,399** | $ 4,780,874 |

During 2012, the Company sold its Auburn, Alabama branch and recorded a net gain on the sale of these assets and liabilities of $119,904. This gain was comprised of a core deposit premium of $184,428 on sale of deposits, a gain of $43,244 on sale of premises and equipment and a discount of $107,768 on sale of loans. All other assets and liabilities were sold at book value.

### Leases

The Company is currently leasing a property for their Lee County Branch in Leesburg Georgia with Hand Properties, LLC. The lease has an initial term of five years with two successive options to extend the terms of this lease for a period of five years each.

The Company leased the operations center under a noncancelable operating lease from Carter Commercial Properties, LLP. The lease had an initial lease term of five years with one five year renewal option. The lease was renewed in September 2007 for a period of five years and expired in 2012. The Company did not renew this lease agreement in 2012.

The Company leases three ATM machines under a noncancelable operating lease from Diebold, Incorporated. The leases had an initial term of five years and commenced in October of 2007. During 2012, the Company renewed these leases for an additional three years and will expire in August of 2015.

The Company leases multi-function printers under a noncancelable operating lease from RICOH Business Solutions. The lease has an initial term of five years and commenced February 2011.

Rental expense under all operating leases amounted to $107,522 and $167,209 for the years ended December 31, 2012 and 2011, respectively.

Future minimum lease commitments on noncancelable operating leases, excluding any renewal options, are summarized as follows:

| | |
|---|---|
| 2013 | $ 91,139 |
| 2014 | 91,139 |
| 2015 | 76,670 |
| 2016 | 5,283 |
| | $ 264,231 |

## NOTE 6. OTHER REAL ESTATE OWNED

A summary of other real estate owned is presented as follows:

| | Years Ended December 31, 2012 | 2011 |
|---|---|---|
| Balance, beginning of year | **$ 1,539,887** | $ 1,256,917 |
| Additions | **-** | 883,694 |
| Disposals | **(414,645)** | (502,216) |
| Loss on sales and writedowns on other real estate owned | **(74,015)** | (98,508) |
| Balance, end of year | **$ 1,051,227** | $ 1,539,887 |

Expenses applicable to other real estate include the following:

| | December 31, 2012 | 2011 |
|---|---|---|
| Loss on sales and writedowns of other real estate owned | **$ 74,015** | $ 98,508 |
| Operating expenses, net of rental income | **97,647** | 74,087 |
| | **$ 171,662** | $ 172,595 |

## NOTE 7. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2012 and 2011 was $13,975,278 and $23,887,533, respectively. The scheduled maturities of time deposits at December 31, 2012 are as follows:

| | |
|---|---|
| 2013 | $ 20,487,508 |
| 2014 | 3,419,054 |
| 2015 | 929,339 |
| 2016 | 370,803 |
| 2017 and thereafter | 1,061,558 |
| | $ 26,268,262 |

At December 31, 2012 and 2011, overdraft demand deposits reclassified to loans totaled $22,551 and $13,526, respectively.

The Company had no brokered time deposits at December 31, 2012 or 2011.

## NOTE 8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase, which are secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis. Securities sold under agreements to repurchase at December 31, 2012 and 2011 were $10,787,305 and $7,720,050, respectively.

## NOTE 9. OTHER BORROWINGS

Other borrowings consist of the following:

| | December 31, 2012 | 2011 |
|---|---|---|
| Secured borrowings with Thomasville National Bank and First Port City Bank with principal and interest payments due at various maturity dates through October 21, 2015 with interest rates ranging from 5% to 6% at December 31, 2011. | **$ -** | $ 1,389,321 |
| Secured borrowings with Thomasville National Bank, First Port City Bank and Citizens Bank with principal and interest payments due at various maturity dates through February 22, 2017 with interest rates ranging from 5% to 5.01%. | **3,211,861** | - |
| Federal Home Loan Bank advance with interest payments due quarterly at a rate of 4.05% at December 31, 2011 with principal due on September 7, 2012. | **-** | 5,000,000 |
| | **$ 3,211,861** | $ 6,389,321 |

Contractual maturities of other borrowings as of December 31, 2012 are as follows:

| | |
|---|---|
| 2013 | $ 2,272,883 |
| 2014 | 272,969 |
| 2015 | - |
| 2016 and thereafter | 666,009 |
| | $ 3,211,861 |

The Company and subsidiary have available unused lines of credit with the Federal Home Loan Bank totaling approximately $7,717,000 at December 31, 2012. The unused lines are secured by certain qualifying loans and FHLB stock.

## NOTE 10. GUARANTEED PREFERRED BENEFICIAL INTERESTS IN JUNIOR SUBORDINATED DEBENTURES

In March 2003, the Company formed a wholly-owned Connecticut statutory business trust, Community Capital Statutory Trust I (“Statutory Trust I”) for the sole purpose of issuing trust preferred securities and investing the proceeds in floating rate junior subordinated deferrable interest debentures issued by the Company. These debentures qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of Statutory Trust I are owned by the Company. The proceeds from the issuance of the common securities and the trust preferred securities were used by Statutory Trust I to purchase $4,124,000 of junior subordinated debentures of the Company, which carry a floating rate based on a three-month LIBOR plus 315 basis points. The debentures represent the sole asset of Statutory Trust I. The trust preferred securities accrue and pay distributions at a floating rate of three-month LIBOR plus 315 basis points per annum (3.46% at December 31, 2012) of the stated liquidation value of $1,000 per capital security. The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the trust preferred securities; (ii) the redemption price with respect to any trust preferred securities called for redemption by Statutory Trust I and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of Statutory Trust I. The trust preferred securities are mandatorily redeemable upon maturity of the debentures in March 2033, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by Statutory Trust I in whole or in part, on or after March 26, 2008. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, plus any unpaid accrued interest.

Management exercised its deferment rights on the payment of interest on the debentures effective first quarter of 2012. At December 31, 2012, there was $154,154 of accrued interest payable related to these subordinated debentures included in accrued interest payable on the consolidated balance sheet.

## NOTE 11. EMPLOYEE BENEFIT PLANS

### Profit Sharing Plan

The Company has a 401(k) Employee Profit-Sharing Plan available to all eligible employees, subject to certain minimum age and service requirements. The contributions charged to expense were $95,623 for the year ended December 31, 2011. There were no contributions charged to expense during 2012 as management elected to suspend employer contributions until the Company returns to profitability.

### Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan enables eligible employees to purchase shares of the Company's common stock through payroll deductions. During 2005, the Company exhausted the shares reserved for issuance under this plan. As a result, the Employee Stock Purchase Plan was terminated effective September 30, 2005. Under the Employee Stock Purchase Plan, employee payroll deductions were combined with matching contributions made by the Company and used to purchase shares of the Company's common stock on behalf of the employee at the end of the quarter. The shares were purchased in the open market at prevailing prices at the time of the purchase or were purchased from the Company at fair market value. If an employee terminated employment with the Company or any affiliate or the employee no longer satisfied the eligibility requirements, the employee's payroll deductions made under the plan that had not been used to purchase shares of the Company's common stock were returned to that employee and any matching credits were forfeited. On May 15, 2006, the Stockholders approved a new stock purchase plan authorizing the issuance of up to 50,000 shares under this plan. Participation in the new plan commenced in the second quarter of 2006. On February 27, 2009, the Board of Directors approved a second amendment to the stock purchase plan which authorized an additional 100,000 shares available for issuance under the plan, increasing the total available from 50,000 to 150,000. On March 23, 2011, the Board of Directors approved a third amendment to the stock purchase plan which authorized an additional 100,000 shares available for issuance under the plan, increasing the total available from 150,000 to 250,000. At December 31, 2012, 191,412 shares had been purchased and 58,588 shares remained available for purchase under this plan.

During the first quarter of 2012, the Company elected to freeze the plan for future contributions until further notice.

## NOTE 12. STOCK OPTIONS AND WARRANTS

On September 24, 2009, the Company's shareholders approved the 2009 Long-Term Incentive Plan under which options to purchase 400,000 shares of its common stock may be granted to directors, officers and employees. Both incentive stock options and nonqualified stock options, stock appreciation rights, restricted stock and other stock-based awards may be granted under the plan. The exercise price of an incentive stock option may not be less than the fair market value of the Company's common stock on the date of the grant nor less than 110% of the fair market value if the participant owns more than 10% of the outstanding common stock. Nonqualified stock options may be made exercisable at a price no less than the fair market value of the Company's common stock on the date that the option is granted. The term of any incentive stock option may not exceed ten years from the date of grant; however, any incentive stock option granted to a participant who owns more than 10% of the Company's common stock will not be exercisable after the expiration of five years from the date the option is granted. Subject to any further limitations in a stock option agreement, in the event of a participant's termination of employment, the term of an incentive stock option will expire, terminate and become unexercisable no later than three months after the date of the termination of employment; provided, however, that if termination of employment is due to death or disability, a one-year period shall be substituted for the three-month period. On December 31, 2012, there were 90,300 shares available for grant under the 2009 Plan.

## NOTE 12. STOCK OPTIONS AND WARRANTS (Continued)

On March 11, 1999, the Company's shareholders approved the 1998 Stock Incentive Plan under which options to purchase 303,574 shares of its common stock may be granted to directors, officers and employees. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of an incentive stock option may not be less than the fair market value of the Company's common stock on the date of the grant nor less than 110% of the fair market value if the participant owns more than 10% of the outstanding common stock. Nonqualified stock options may be made exercisable at a price no less than 85% of the fair market value of the Company's common stock on the date that the option is granted. Additionally, the exercise price of any option granted to an individual who is, on the last day of the taxable year, the chief executive officer of the Company or one of the four other highest compensated officers of the Company may not be less than the fair market value of the Company's common stock on the date of grant. The term of any incentive stock option may not exceed ten years from the date of grant; however, any incentive stock option granted to a participant who owns more than 10% of the Company's common stock will not be exercisable after the expiration of five years from the date the option is granted. Subject to any further limitations in a stock option agreement, in the event of a participant's termination of employment, the term of an incentive stock option will expire, terminate and become unexercisable no later than three months after the date of the termination of employment; provided, however, that if termination of employment is due to death or disability, a one-year period shall be substituted for the three-month period. On December 31, 2012, there were no shares available for grant under the 1998 Plan.

On April 24, 2000, the Board of Directors adopted the 2000 Outside Directors Stock Option Plan under which nonqualified stock options to purchase up to 21,429 shares of the Company's common stock may be granted to directors who are not employees of the Company or any of its affiliates and to the Chairman of the Board of Directors, regardless of whether he is an employee of the Company. The plan provides for an annual grant of a nonqualified stock option to purchase 142 shares of the Company's common stock to each existing non-employee director and a nonqualified stock option to purchase 285 shares of the Company's common stock to the Chairman of the Board of Directors as of the date of each annual shareholders' meeting. Options granted pursuant to this plan are generally nontransferable except by will or the laws of descent and distribution unless otherwise permitted by the Board of Directors. These options are fully vested and exercisable immediately, subject to any restriction imposed by the primary federal regulator of the Company. The exercise price of these options must be equal to the fair market value of the common stock on the date the option is granted. The term of the options may not exceed ten years from the date of grant. If a participant ceases to be a director of the Company or any affiliate, the options expire, terminate and become unexercisable no later than 90 days after the date the participant ceases to provide services to the Company. On December 31, 2012, there were no shares available for grant under this Plan.

## NOTE 12. STOCK OPTIONS AND WARRANTS (Continued)

A summary of the status of the employee stock option plans as of December 31, 2012 and 2011 and activity during the periods is as follows:

| | **Year Ended December 31, 2012** | | | Year Ended December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | **Number** | **Weighted-Average Exercise Price** | **Aggregate Intrinsic Value** | Number | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
| Under option, beginning of the period | **273,244** | **$ 2.07** | **$ -** | 296,767 | $ 2.69 | $ - |
| Granted | **55,000** | **0.73** | **-** | - | - | - |
| Exercised | **-** | **-** | **-** | - | - | - |
| Forfeited | **(995)** | **8.15** | **-** | (23,523) | 9.96 | - |
| Under option, end of the period | **327,249** | **$ 1.83** | **$ -** | 273,244 | $ 2.07 | $ - |
| Unvested at the end of the period | **250,001** | **$ 1.20** | **$ -** | 205,001 | $ 1.33 | $ - |
| Vested and exercisable at the end of the period | **77,248** | **$ 3.85** | **$ -** | 68,243 | $ 4.29 | $ - |
| Weighted-average fair value per option of options granted during the year | | | **$ 0.57** | | | $ - |

Information pertaining to options outstanding at December 31, 2012 is as follows:

| | **Options Outstanding** | | | | **Options Exercisable** | | |
|---|---|---|---|---|---|---|---|
| **Range of Exercise Prices** | **Number** | **Weighted Average Contractual Life in Years** | **Weighted-Average Exercise Price** | **Aggregate Intrinsic Value** | **Number** | **Weighted-Average Exercise Price** | **Aggregate Intrinsic Value** |
| Below to $ 1.3970 | 305,000 | 7.41 | $ 1.21 | - | 54,999 | $ 1.28 | - |
| $ 1.3970 to $ 2.7940 | 1,279 | 6.73 | 1.75 | - | 1,279 | 1.75 | - |
| $ 2.7940 to $ 4.1910 | 995 | 5.73 | 3.05 | - | 995 | 3.05 | - |
| $ 9.779 to $11.176 | 16,990 | 2.92 | 10.87 | - | 16,990 | 10.87 | - |
| $11.1760 to $12.5730 | 1,990 | 1.82 | 11.95 | - | 1,990 | 11.95 | - |
| $12.5730 to $13.9700 | 995 | .37 | 13.97 | - | 995 | 13.97 | - |
| **Total** | 327,249 | 7.11 | $ 1.83 | - | 77,248 | $ 3.85 | - |

At December 31, 2012, there was approximately $202,714 of unrecognized compensation cost related to stock-based payments, which is expected to be recognized over a weighted-average period of 6.12 years.

## NOTE 12. STOCK OPTIONS AND WARRANTS (Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | Years Ended December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Dividend yield | **0%** | - |
| Expected life | **5.00 years** | - |
| Expected volatility | **104.25%** | - |
| Risk-free interest rate | **.69%** | - |

At December 31, 2012, the Company also had 2,000 restricted stock awards outstanding that were granted under the 2009 Long-Term Incentive Plan and will vest during the second quarter of 2013.

## NOTE 13. PREFERRED STOCK

The Company's Series A fixed rate cumulative convertible preferred remains outstanding at an annual rate of 8% per share per annum, payable semi-annually on June 30 and December 31 as and when declared by the Board of Directors. The Company's Series A preferred is senior to the Company's common stock. Accumulated undeclared dividends totaled $358,527 at December 31, 2012.

The Series A preferred is convertible at the election of the holder, or at the option of the Board of Directors in the event of a change in control into one share of common stock. On December 31, 2014, the shares will convert automatically into common stock at a ratio of one share of common for one share of preferred. Any unpaid dividends will be converted into common stock at that time.

The Company's Series B fixed rate cumulative convertible preferred remains outstanding at an annual rate of 8% per share per annum, payable semi-annually on June 30 and December 31 as and when declared by the Board of Directors. The Company's Series B preferred is junior to the Series A preferred but senior to the Company's common stock. Accumulated undeclared dividends totaled $843,252 at December 31, 2012.

The Series B preferred is convertible at the election of the holder, or at the option of the Board of Directors in the event of a change in control into four shares of common stock for each preferred share. On December 31, 2014, the shares will convert automatically into common stock at a ratio of four shares of common for one share of preferred. Any unpaid dividends will be converted to common stock at that time.

## NOTE 14. INCOME TAXES

The components of income tax benefit are as follows:

| | Years Ended December 31, | |
|---|---|---|
| | **2012** | 2011 |
| Current | **$ -** | $ - |
| Deferred | **(189,854)** | (285,582) |
| Change in valuation allowance for deferred taxes | **189,854** | 285,582 |
| | **$ -** | **$ -** |

## NOTE 14. INCOME TAXES (Continued)

The Company's income tax benefit differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

| | Years Ended December 31, 2012 | 2011 |
|---|---|---|
| Tax provision at statutory federal rate | **$ (187,124)** | $ (278,537) |
| Tax-exempt income, net | **(10,198)** | (9,970) |
| Incentive stock option expense | **4,179** | 6,908 |
| Other | **3,289** | (3,983) |
| Change in valuation allowance for deferred taxes | **189,854** | 285,582 |
| Income tax expense (benefit) | **$ -** | $ - |

The components of the net deferred tax asset included in other assets are as follows:

| | Years Ended December 31, 2012 | 2011 |
|---|---|---|
| Deferred tax assets: | | |
| Loan loss reserves | **$ -** | $ 38,561 |
| Securities impairments on available for sale securities | **679,966** | 679,966 |
| Securities impairments on restricted equity securities | **294,454** | 294,454 |
| Non-qualified stock option expense | **40,648** | 40,355 |
| Writedowns of other real estate owned | **491,017** | 831,017 |
| Nonaccrual loan interest | **192,417** | 130,229 |
| Contribution carryforward | **12,418** | 9,677 |
| Net operating loss carryforward | **6,261,710** | 5,717,101 |
| Valuation allowance for deferred taxes | **(7,665,952)** | (7,476,098) |
| | **306,678** | 265,262 |
| Deferred tax liabilities: | | |
| Loan loss reserves | **117,602** | - |
| Depreciation | **156,010** | 226,626 |
| Deferred loan costs, net | **33,066** | 38,636 |
| | **306,678** | 265,262 |
| Net deferred tax assets | **$ -** | $ - |

At December 31, 2012, the Company has available net operating loss carryforwards of approximately $18,417,000 for federal income tax purposes. If unused, the carryforwards will expire beginning in 2027.

The federal income tax returns of the Company for 2011, 2010 and 2009 are subject to examination by the IRS, generally for three years after they were filed.

## NOTE 15. COMMITMENTS AND CONTINGENCIES

**Loan Commitments**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets.

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

| | **2012** | 2011 |
|---|---|---|
| Commitments to extend credit | **$ 26,407,189** | $ 22,352,000 |
| Standby letters of credit | **30,000** | - |
| | **$ 26,437,189** | $ 22,352,000 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the customer. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2012 and 2011, the carrying amount of liabilities related to the Company’s obligation to perform under standby letters of credit was insignificant. The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on standby letters of credit for the years ended December 31, 2012 and 2011.

**Contingencies**

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

## NOTE 16. CONCENTRATIONS OF CREDIT

**Concentration by Geographic Location:**

The Company originates primarily commercial, commercial real estate, residential real estate and consumer loans to customers in Dougherty and Lee County, Georgia and surrounding counties. The ability of the majority of the Company's customers to honor their contractual obligations is dependent on the local and metropolitan economy of Albany, Georgia.

Eighty-two percent of the Company's loan portfolio is concentrated in loans secured by real estate. A substantial portion of these loans are secured by real estate located in the Company's primary market areas. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectability of the Company's loan portfolio and recovery of the carrying amount of other real estate owned are susceptible to changes in market conditions in the Company's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 15% of the Bank's adjusted capital, or approximately $1,844,500 as of December 31, 2012.

At various times throughout the year, the Bank maintains cash balances with financial institutions. The Bank monitors the adequacy of these financial institutions on a regular basis. At December 31, 2012, the Bank had a concentration of funds on deposit at the Federal Reserve Bank totaling $14,683,801.

## NOTE 17. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. No dividends are currently available to be paid by the Bank without prior regulatory approval.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, as defined and of Tier I capital to average assets.

## NOTE 17. REGULATORY MATTERS (Continued)

As of December 31, 2012, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. Prompt corrective action provisions are not applicable to bank holding companies.

The Banks' actual capital amounts and ratios are presented in the following table.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in Thousands) | | | |
| **December 31, 2012:** | | | | | | |
| **Total Capital to Risk Weighted Assets:** | | | | | | |
| **AB&T National Bank** | **$ 11,695** | **12.46%** | **$ 7,540** | **8.00%** | **$ 9,425** | **10.00%** |
| **Tier I Capital to Risk Weighted Assets:** | | | | | | |
| **AB&T National Bank** | **$ 10,509** | **11.20%** | **$ 3,770** | **4.00%** | **$ 5,655** | **6.00%** |
| **Tier I Capital to Average Assets:** | | | | | | |
| **AB&T National Bank** | **$ 10,509** | **8.43%** | **$ 4,985** | **4.00%** | **$ 6,231** | **5.00%** |
| December 31, 2011: | | | | | | |
| Total Capital to Risk Weighted Assets: | | | | | | |
| AB&T National Bank | $ 12,226 | 11.33% | $ 8,630 | 8.00% | $ 10,787 | 10.00% |
| Tier I Capital to Risk Weighted Assets: | | | | | | |
| AB&T National Bank | $ 10,868 | 10.07% | $ 4,315 | 4.00% | $ 6,472 | 6.00% |
| Tier I Capital to Average Assets: | | | | | | |
| AB&T National Bank | $ 10,868 | 7.57% | $ 5,744 | 4.00% | $ 7,180 | 5.00% |

## NOTE 18. FAIR VALUE OF ASSETS AND LIABILITIES

### Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

### Fair Value Hierarchy

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

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

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

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

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

## NOTE 18. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

**Assets Measured at Fair Value on a Recurring Basis**: Assets measured at fair value on a recurring basis are summarized below:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Carrying Value |
| **December 31, 2012** | | | | |
| **Securities available for sale** | **$ -** | **$ 16,670,138** | **$ -** | **$ 16,670,138** |
| **Total assets at fair value** | **$ -** | **$ 16,670,138** | **$ -** | **$ 16,670,138** |
| December 31, 2011 | | | | |
| Securities available for sale | $ - | $ 19,176,919 | $ - | $ 19,176,919 |
| Total assets at fair value | $ - | $ 19,176,919 | $ - | $ 19,176,919 |

**Assets Measured at Fair Value on a Nonrecurring Basis**: Under certain circumstances management makes adjustments to fair value for assets although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
| **December 31, 2012** | | | | |
| **Impaired loans** | **$ -** | **$ -** | **$ 1,324,864** | **$ (415,488)** |
| **Other real estate owned** | **-** | **-** | **30,937** | **(6,563)** |
| **Total** | **$ -** | **$ -** | **$ 1,355,801** | **$ (422,051)** |
| December 31, 2011 | | | | |
| Impaired loans | $ - | $ - | $ 740,020 | $ (213,411) |
| Other real estate owned | - | - | 136,500 | (67,070) |
| Total | $ - | $ - | $ 876,520 | $ (280,481) |

## NOTE 18. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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

**Cash, Due From Banks, Interest-Bearing Deposits in Other Banks:** The carrying amount of cash, due from banks, interest-bearing deposits in other banks approximates fair value.

**Securities:** Where quoted prices are available in an active market, management classifies the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, including GSE obligations, corporate bonds and other securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, management classifies those securities in level 3.

**Loans:** The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair value of fixed-rate loans is estimated based on discounted contractual cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is estimated based on discounted contractual cash flows or underlying collateral values, where applicable.

**Deposits:** The carrying amount of demand deposits, savings deposits and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

**Securities Sold Under Agreements to Repurchase, Other Borrowings and Subordinated Debentures:** The carrying amount of securities sold under agreements to repurchase and variable rate advances approximates fair value. The fair value of fixed rate advances is estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar type borrowing arrangements. The fair value of fixed-rate junior subordinated debentures is estimated based on discounted contractual cash flows using the current rates for similar type financial instruments. The carrying amount of variable-rate junior subordinated debentures approximates fair value.

**Accrued Interest:** The carrying amount of accrued interest approximates fair value.

**Off-Balance-Sheet Instruments:** The carrying amount of commitments to extend credit and standby letters of credit approximates fair value.

## NOTE 18. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash, due from banks, interest-bearing deposits in other banks and federal funds sold | **$ 16,362,644** | **$ 16,362,644** | $ 17,609,431 | $ 17,609,431 |
| Securities | **17,216,438** | **17,216,438** | 20,110,969 | 20,110,969 |
| Loans | **92,213,645** | **93,114,669** | 102,456,945 | 102,816,152 |
| Accrued interest receivable | **431,222** | **431,222** | 415,787 | 415,787 |
| Financial liabilities: | | | | |
| Deposits | **106,527,971** | **106,634,331** | 123,155,902 | 123,462,595 |
| Securities sold under agreements to repurchase | **10,787,305** | **10,787,305** | 7,720,050 | 7,720,050 |
| Other borrowings and subordinated debentures | **7,335,861** | **7,359,065** | 10,513,321 | 11,272,948 |
| Accrued interest payable | **163,395** | **163,395** | 94,461 | 94,461 |

## NOTE 19. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets as of December 31, 2012 and 2011 and statements of operations and cash flows of Community Capital Bancshares, Inc. for the years ended December 31, 2012 and 2011.

### CONDENSED BALANCE SHEETS

| | **2012** | 2011 |
|---|---|---|
| **Assets** | | |
| Cash | **$ 295,989** | $ 310,437 |
| Investment in subsidiary | **10,782,862** | 10,864,239 |
| Other assets | **125,787** | 125,788 |
| Total assets | **$ 11,204,638** | $ 11,300,464 |
| **Liabilities** | | |
| Guaranteed preferred beneficial interests in junior subordinated debentures | **$ 4,124,000** | $ 4,124,000 |
| Other liabilities | **1,380,073** | 827,254 |
| Total liabilities | **5,504,073** | 4,951,254 |
| **Stockholders' equity** | **5,700,565** | 6,349,210 |
| Total liabilities and stockholders' equity | **$ 11,204,638** | $ 11,300,464 |

## NOTE 19. PARENT COMPANY FINANCIAL INFORMATION (Continued)

### CONDENSED STATEMENTS OF OPERATIONS

| | 2012 | 2011 |
|---|---|---|
| **Expenses** | | |
| Interest expense | **$ 151,595** | $ 140,258 |
| Legal and professional | **3,868** | 13,353 |
| Equipment and occupancy expenses | **-** | 2,208 |
| Other operating expenses | **22,249** | 24,565 |
| | **177,712** | 180,384 |
| Loss before income tax benefit and equity in undistributed loss of subsidiary | **(177,712)** | (180,384) |
| **Income tax benefit** | **-** | - |
| Loss before equity in undistributed loss of subsidiary | **(177,712)** | (180,384) |
| **Equity in undistributed loss of subsidiary** | **(372,654)** | (638,842) |
| Net loss | $ **(550,366)** | $ (819,226) |

### CONDENSED STATEMENTS OF CASH FLOWS

| | 2012 | 2011 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss | **$ (550,366)** | $ (819,226) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation | **13,151** | 21,911 |
| Undistributed loss of subsidiary | **372,654** | 638,842 |
| Increase in interest payable | **151,592** | 2,562 |
| Other operating activities | **(13,148)** | (22,078) |
| Net cash used in operating activities | **(26,117)** | (177,989) |
| **FINANCING ACTIVITIES** | | |
| Treasury stock transactions, net | **11,669** | (26,043) |
| Net cash provided by (used in) financing activities | **11,669** | (26,043) |
| Net decrease in cash | **(14,448)** | (204,032) |
| Cash at beginning of year | **310,437** | 514,469 |
| Cash at end of year | **$ 295,989** | $ 310,437 |