MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

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December 31, 2014 and 2013

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

To the Board of Directors
Mountain Commerce Bancorp, Inc. and Subsidiary
Johnson City, Tennessee

We have audited the accompanying consolidated financial statements of Mountain Commerce Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain Commerce Bancorp, Inc. and Subsidiary as of December 31, 2014 and 2013, 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.

Dixon Hughes Goodman LLP

Asheville, North Carolina
February 27, 2015

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	December 31,	
	2014	**2013**
Assets		
Cash and due from banks	$ 3,731,644	$ 2,731,829
Interest-earning deposits	4,573,196	13,283,069
Cash and cash equivalents	8,304,840	16,014,898
Securities available for sale	45,666,485	23,631,359
Loans held for sale	373,540	53,885
Loans receivable	333,100,367	265,341,082
Allowance for loan losses	(4,513,572)	(5,166,168)
Net loans	328,586,795	260,174,914
Premises and equipment, net	10,869,391	9,312,895
Accrued interest receivable	1,183,102	872,501
Real estate owned	7,596,445	3,449,826
Bank owned life insurance	4,246,614	4,243,203
Restricted stock	1,128,900	998,400
Prepaid expenses and other assets	1,240,931	855,749
Deferred tax asset	3,032,310	4,487,493
Core deposit intangible	171,942	281,118
Total assets	$ 412,401,295	$324,376,241

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

	December 31,	
	2014	**2013**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 44,356,869	$ 42,013,117
Interest-bearing	305,783,616	238,420,090
Total deposits	350,140,485	280,433,207
Federal Home Loan Bank advances	16,336,998	9,237,074
Accrued interest payable	56,952	66,930
Mandatorily redeemable preferred stock	2,969,000	2,969,000
Senior note payable	10,000,000	-
Other liabilities	1,614,030	1,436,498
Total liabilities	381,117,465	294,142,709
Commitments and contingencies (Notes 5, 7, 11, 13 and 17)		
Stockholders' equity:		
Preferred stock; $0.01 par; 1,000,000 shares authorized; 2,969 issued and outstanding at December 31, 2014 and 2013 (Note 18)	-	-
Common stock; $0.01 par, 10,000,000 shares authorized; 3,955,360 and 4,191,110 issued and outstanding at December 31, 2014 and 2013	39,554	41,911
Additional paid-in capital	39,968,310	41,369,993
Accumulated deficit	(8,945,697)	(11,040,702)
Accumulated other comprehensive income (loss)	221,663	(137,670)
Total stockholders' equity	31,283,830	30,233,532
Total liabilities and stockholders' equity	$ 412,401,295	$324,376,241

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

	For the Years Ended December 31,	
	2014	**2013**
Interest income:		
Loans	$ 14,904,641	$ 12,911,551
Investment securities	689,110	568,609
Interest-earning deposits	33,412	33,184
Total interest income	15,627,163	13,513,344
Interest expense:		
Interest on deposits:		
Savings	582,410	108,026
Interest bearing transaction accounts	248,690	213,594
Time certificates of deposit of $100,000 or more	841,012	850,016
Other time deposits	254,818	376,844
Other borrowings	519,557	157,499
Total interest expense	2,446,487	1,705,979
Net interest income	13,180,676	11,807,365
Provision for loan losses	1,163,000	649,000
Net interest income after provision for loan losses	12,017,676	11,158,365
Noninterest income:		
Service charges and other fees on deposit accounts	1,139,924	1,000,171
Loss on sale of investment securities	-	(222,942)
Gain on sale of loans	131,255	107,476
Other operating income	334,946	37,045
Total noninterest income	1,606,125	921,750
Noninterest expenses:		
Compensation and employee benefits	5,305,999	4,881,526
Occupancy expenses	1,112,892	1,073,157
Furniture and equipment costs	175,136	481,806
Data processing fees	880,500	865,497
FDIC Insurance	388,167	372,288
Office expense	313,760	288,800
Advertising	95,006	58,498
Professional fees	496,646	533,624
Real estate owned	542,163	598,528
Other operating costs	772,315	565,457
Total noninterest expenses	10,082,584	9,719,181
Income before income taxes	3,541,217	2,360,934
Income tax benefit (expense)	(1,288,847)	3,972,968
Net income	$ 2,252,370	$ 6,333,902

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

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

	For the Years Ended December 31,	
	2014	**2013**
Comprehensive Income:		
Net income	$ 2,252,370	$ 6,333,902
Other comprehensive income (loss):		
Unrealized holdings gains (losses) on securities available for sale:		
Reclassification adjustment for realized losses on sale of securities available for sale	-	222,942
Deferred income tax benefit	-	(84,718)
Unrealized gains (losses) arising during the period	582,292	(1,038,311)
Deferred income tax (expense) benefit	(222,959)	396,922
Total other comprehensive income (loss)	359,333	(503,165)
Total comprehensive income	$ 2,611,703	$ 5,830,737

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

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$ 41,911	$ 41,229,354	$ (17,217,239)	$ 365,495	$ 24,419,521
Net income	-	-	6,333,902	-	6,333,902
Other comprehensive loss	-	-	-	(503,165)	(503,165)
Dividend on preferred stock	-	-	(148,450)	-	(148,450)
Amortization of stock issuance cost	-	-	(8,915)	-	(8,915)
Share-based compensation	-	140,639	-	-	140,639
Balance, December 31, 2013	$ 41,911	$ 41,369,993	$ (11,040,702)	$ (137,670)	$ 30,233,532
Net income	-	-	2,252,370	-	2,252,370
Other comprehensive income	-	-	-	359,333	359,333
Dividend on preferred stock	-	-	(148,450)	-	(148,450)
Amortization of stock issuance cost	-	-	(8,915)	-	(8,915)
Repurchase of common stock	(2,357)	(1,402,643)	-	-	(1,405,000)
Share-based compensation	-	960	-	-	960
Balance, December 31, 2014	$ 39,554	$ 39,968,310	$ (8,945,697)	$ 221,663	$ 31,283,830

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

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2014	**2013**
Operating activities:		
Net income	$ 2,252,370	$ 6,333,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	386,677	729,682
Amortization of core deposit intangible	109,176	113,928
Amortization of prepayment penalty	120,180	120,180
Amortization of discounts on investment securities, net	136,984	168,274
Provision for loan losses	1,163,000	649,000
Provision for and losses on sale of other real estate owned	445,525	578,417
Stock based compensation	960	140,639
Deferred income tax expense (benefit)	1,232,224	(4,056,575)
Loss on sale of securities	-	222,942
Increase in bank owned life insurance	(118,943)	(126,177)
Decrease in deferred loan costs	(325,213)	(99,463)
Secondary market activities:		
Loans originated	(6,261,005)	(6,495,222)
Loans sold	6,072,605	6,700,987
Gain on sale loans sold	(131,255)	(107,476)
Loss on disposal and transfer of premises and equipment	-	132,046
Net change in operating assets and liabilities:		
Interest receivable	(310,601)	24,492
Prepaid expenses	(385,182)	248,273
Other assets	115,532	226,782
Accrued interest payable	(9,978)	(14,676)
Other liabilities	177,532	271,174
Net cash provided by operating activities	4,670,588	5,761,129
Investing activities:		
Activity for investments available for sale:		
Purchases	(25,354,530)	(11,198,682)
Maturities, principal repayments, and proceeds from sales	3,764,712	11,142,686
Net decrease (increase) in loans	(73,984,497)	(16,688,278)
Proceeds from sale of real estate owned	142,685	321,727
Purchase of Federal Home Loan Bank stock	(130,500)	-
Purchase of premises and equipment	(1,943,173)	(219,375)
Net cash used by investing activities	(97,505,303)	(16,641,922)

MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued

	For the Years Ended December 31,	
	2014	**2013**
Financing activities:		
Net increase in deposits	$ 69,707,278	$ 11,251,189
Proceeds from new advances from FHLB	7,000,000	-
Repayment of advances from FHLB	(20,256)	(18,824)
Proceeds from senior note payable	10,000,000	-
Payment of preferred stock dividend	(148,450)	(148,450)
Amortization of stock issue costs	(8,915)	(8,915)
Repurchase of common stock	(1,405,000)	-
Net cash provided by financing activities	85,124,657	11,075,000
Increase (decrease) in cash and cash equivalents	(7,710,058)	194,207
Cash and cash equivalents, beginning of year	16,014,898	15,820,691
Cash and cash equivalents, end of year	$ 8,304,840	$ 16,014,898
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest on deposits and other borrowings	$ 2,456,465	$ 1,720,655
Noncash investing and financing activities:		
Real estate acquired in satisfaction of loans	$ 4,734,829	$ -
Origination of loans to facilitate sale of real estate owned	-	395,000
Other comprehensive income (loss), net of taxes	359,333	(503,165)

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

MOUNTAIN COMMERCE BANCORP, INC. AND SUSIDIARY

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

1. Nature of Operations

Nature of Operations - Mountain Commerce Bancorp, Inc. (the "Bancorp") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary Mountain Commerce Bank (the "Bank"). The Bank provides a variety of financial services to individuals and corporate customers located primarily in East Tennessee and the surrounding areas. The Bank's primary deposit products include checking, savings, certificates of deposit and IRA accounts. Its primary lending products are one-to-four family residential, commercial real estate, and consumer lending. The Bank operates under a state bank charter and provides full banking services. As a "state-chartered" bank, the Bank is subject to regulation by the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation.

Basis of Consolidation - The consolidated financial statements include the accounts of Mountain Commerce Bancorp, Inc. for the years ended December 31, 2014 and 2013 and its wholly-owned subsidiary, Mountain Commerce Bank (collectively also referred to as the "Company"). All material intercompany balances and transactions have been eliminated in consolidation.

2. Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows.

The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. The Company's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms. In connection with the determination of the estimated losses on impaired loans, management obtains independent appraisals for the significant underlying collateral.

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, the estimated losses on loans in the future could materially change.

Other real estate owned, acquired through or in lieu of loan foreclosure and excess land held for sale not acquired through foreclosure, is carried at the lower of cost or fair value less cost to sell. Cost includes the balance of the loan plus acquisition costs and improvements made thereafter to facilitate sale. Costs related to the holding of the real estate are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

The valuation allowance related to deferred tax assets is a significant estimate and is based upon realization criteria of more-likely-than not. The valuation allowance assessment is performed periodically by management and utilizes evidence such as recent credit trends, segmentation of problem loans, cumulative three year pretax earnings, recent earnings trends, taxable income trends, projected budgeted performance, projected noninterest expense savings, projected credit losses and other evidence to provide positive and negative evidence for consideration.

Cash and Cash Equivalents - The Company considers all cash and amounts due from depository institutions with maturities less than 90 days, interest-bearing deposits in other banks, and federal funds sold to be cash equivalents for purposes of the statements of cash flows. At various times during the year, the Company has deposits in excess of FDIC limits at correspondent institutions. The Company periodically evaluates the credit worthiness of its correspondent institutions to monitor its credit risk.

Investment Securities - The Company classifies all its investments as securities available-for-sale. Securities available-for-sale are carried at fair value, based on quoted market prices or other third party pricing services, with unrealized gains and losses reported in other comprehensive income. Realized losses on securities available-for-sale are included in noninterest expense and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Losses on sales of securities are determined on the specific-identification method. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method.

Restricted Stock - The restricted stock consists of Federal Home Loan Bank ("FHLB") stock. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The investment is carried at cost. No ready market exists for the stock, and it has no quoted market value. Because of the redemption provisions of the security, the Company estimates that fair value equals cost for these investments and that there was no impairment at December 31, 2014 or December 31, 2013.

Loans Held for Sale - Loans held for sale are residential mortgages carried at the lower of cost or market value. The market value for loans held for sale are based on what mortgage buyers are currently offering the Bank on a "best efforts" basis to buy the loans.

Loans - Loans are stated at unpaid principal plus deferred loan costs, less the allowance for loan losses. Loan fees and associated costs are deferred and amortized into interest income over the life of the loan.

Accrual of interest on loans is discontinued on a loan when management believes, after considering the economic and business conditions and collection efforts that the borrowers' financial condition is such that the collection of interest is doubtful. Loans are also placed on nonaccrual status when they become delinquent for more than 90 days. Past due status is based on contractual terms of the loan. Loans are charged off if collection of principal or interest is considered doubtful. Interest income on impaired loans is recognized only to the extent of interest payments received.

Premises and Equipment - Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Amortization of leasehold improvements is calculated using the straight-line method over the lesser of the useful life of the assets or the term of the lease based upon expected renewals. Depreciation, computed using the straight-line method for financial accounting purposes, is based on the estimated useful lives of three to thirty nine years.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Real Estate Owned - Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of cost or fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or net realizable value. Costs relating to development and improvement of properties are capitalized, whereas costs relating to the holding of property are expensed. Gains on sale of real estate are recognized when the sales proceeds are realized in cash, or if the sale is financed, the financing is in accordance with standard underwriting requirements, including required down payments. Losses are recognized immediately. Real estate owned also includes excess land held for sale not acquired through foreclosure.

Valuations are periodically performed by management, and an allowance for real estate losses is established by a charge to operations if the carrying value of a property exceeds its estimated net realizable value.

Advertising - Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2014 and 2013 was $95,006 and $58,498, respectively.

Income Taxes - Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investment securities, allowance for loan losses, accumulated depreciation, and net operating loss carryforwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established to reduce deferred tax assets if it is determined to be "more likely than not" that all or some portion of the potential deferred tax asset will not be realized.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company’s financial statements. Any penalties or interest relating to tax issues would be included as a component of income tax expense. Tax years 2011 and thereafter are considered open years for audit purposes.

Comprehensive Income - Comprehensive income is defined as the change in equity from transactions and other events from nonowner sources. It includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net income and certain elements of "other comprehensive income (loss)" such as foreign currency translations, accounting for futures contracts, employers' accounting for pensions; and accounting for certain investments in debt and equity securities. The only element of "other comprehensive income (loss)" that the Company has is the net unrealized gains (losses) on available-for-sale securities.

Stock-Based Compensation - The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services received in exchange for an award based on the grant date fair value of the award. Excess tax benefits are reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company uses a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured based on the fair value of the award as of the grant date and recognized over the vesting period.

Mandatorily Redeemable Preferred Stock - Mandatorily redeemable preferred stock consists of 5% cumulative convertible preferred stock that holders may tender for redemption after certain criteria are met within the private placement agreement. As required by accounting standards generally accepted in the United States, the Company classifies the mandatorily redeemable financial instrument as a liability, as the holder may tender for redemption at any time beginning on September 30, 2018. The preferred stock may also be converted to common stock at $9 per share at any time through March 31, 2015 rising to $12 per share thereafter. The conversion price is subject to change under certain conditions as outlined in the related private placement memorandum.

3. New Accounting Pronouncements

From time to time the Financial Accounting Standards Board ("FASB") issues exposure drafts of proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Company and monitors the status of changes to and proposed effective dates of exposure drafts. The following is the new accounting pronouncement adopted during 2014:

- In February 2013, the FASB issued ASU 2013-02: *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income ("AOCI"). The ASU is intended to help entities improve the transparency of changes in other comprehensive income ("OCI") and items reclassified out of ACOI in their financial statements. It does not amend any existing requirements for reporting net income or OCI in the financial statements. ASU 2013-02 is effective for nonpublic entities for fiscal years beginning after December 15, 2013. Other than the addition of the required disclosures included in the Statement of Changes in Stockholders' Equity, the adoption of the new pronouncement did not have an impact on the Company's consolidated financial statements.

4. Investment Securities

The amortized cost of securities and their approximate fair values are as follows:

	Investment Securities Available For Sale			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2014:				
Debt securities:				
Mortgage-backed securities --government sponsored entity	$ 34,299,317	$ 374,560	$ (7,282)	$ 34,666,595
Mutual fund	2,000,000	-	(82,218)	1,917,782
U.S. Treasury Notes	6,969,741	57,907	-	7,027,648
Municipal securities	2,038,225	16,235	-	2,054,460
Total securities	$ 45,307,283	$ 448,702	$ (89,500)	$ 45,666,485
December 31, 2013:				
Debt securities:				
Mortgage-backed securities --government sponsored entity	$ 21,854,449	$ 161,829	$ (267,758)	$ 21,748,520
Mutual fund	2,000,000	-	(117,161)	1,882,839
Total securities	$ 23,854,449	$ 161,829	$ (384,919)	$ 23,631,359

The amortized cost and estimated fair value of debt securities as of December 31, 2014, by contractual maturity, are shown below. Actual maturities and principal payments on mortgage-backed securities will differ from contractual maturities because of scheduled principal payments and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
December 31, 2014:		
Due in one year or less	$ -	$ -
Due after one year through five years	1,020,947	1,023,495
Due after 5 years through 30 years	42,286,336	42,725,208
Total securities	$ 43,307,283	$ 43,748,703

Investments with market values of approximately $18.7 million and $17.9 million as of December 31, 2014 and 2013, respectively, were pledged to secure public and private deposits.

The fair value of securities with temporary impairment at December 31, 2014 and 2013 is shown below:

	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of securities:				
December 31, 2014:				
Mortgage-backed securities --government sponsored entity	$ 1,970,257	$ (7,282)	$ -	$ -
Mutual fund	-	-	1,917,782	(82,218)
Total securities	$ 1,970,257	$ (7,282)	$ 1,917,782	$ (82,218)
Description of securities:				
December 31, 2013:				
Mortgage-backed securities --government sponsored entity	$ 10,134,901	$ (267,758)	$ -	$ -
Mutual fund	-	-	1,882,839	(117,161)
Total securities	$ 10,134,901	$ (267,758)	$ 1,882,839	$ (117,161)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The number of securities with unrealized losses was three and eleven at December 31, 2014 and 2013, respectively. Management believes that all of the unrealized losses as of December 31, 2014 and 2013 are recoverable based up review of the issuers and the nature of the securities. The impairment is due primarily to changes in the short and long term interest rate environment since the purchase of the securities and is not related to credit issues of the issuer. The Company has sufficient cash and investments showing unrealized gains and borrowing sources to provide sufficient liquidity to hold the securities until maturity or recovery of the impairment.

No sales occurred during the year ended December 31, 2014. During the year ended 2013, the Bank had proceeds from the sale of securities $5,483,051 and gross realized losses $222,942.

5. Loans

Loans, net of unearned income, consist of the following:

	December 31,	
	2014	2013
Secured by real estate:		
Construction/development/land	$ 27,764,320	$ 33,045,783
Farmland	4,027,064	2,656,750
Residential	102,533,465	84,053,137
Junior mortgage	1,237,250	1,171,174
Multifamily	13,031,672	8,268,052
Commercial–owner occupied	55,823,191	51,181,010
Commercial–nonowner occupied	78,439,115	52,498,325
Total commercial loans	282,856,077	232,874,231
Non-real estate loans:		
Commercial–other	43,721,611	27,933,400
Consumer loans	6,522,679	4,533,451
Total non-real estate loans	50,244,290	32,466,851
Total loans	$ 333,100,367	$ 265,341,082

Secured by real estate loan segment

The Company's secured by real estate loans are underwritten based primarily on the proposed borrower's credit history and financial capacity. The Company's loan officers work to obtain current financial statements and two years of tax returns on the borrower. Comparable information is obtained from any guarantors, as applicable. A detailed analysis of the borrower/guarantor's cash flow, liquidity and debt levels is also conducted. The Company's loan officers also perform a thorough analysis of the proposed real estate collateral. Risks that are common to the Company's loans secured by real estate include general economic conditions, the

personal or business circumstances of the borrowers, and reductions in collateral values. In addition to these common risks for the Company's secured by real estate loans, the various loan classes within the segment also have certain risks specific to them.

Construction/development/land loans are highly dependent on the supply and demand for real estate in the Company's markets. Prolonged deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for the Company's borrowers.

Farmland loans are to be made only to those borrowers who are strongly capitalized, have adequate management depth, demonstrate proven track records, display reliable cash flow, and have the ability to provide the bank with necessary financial reporting.

Residential loans are to individuals and are typically secured by previously built homes that conform to property requirements of secondary market investors or FHA or VA, as applicable. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Recent declines in value have led to unprecedented levels of foreclosures and losses within the banking industry.

Junior mortgage loans are typically secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render the Company's second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken collateral positions. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

Multifamily are primarily dependent on the ability of the Company's commercial loan customers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. The ability of that borrower to service the Company's loan on a basis consistent with the contractual terms may be at risk to the extent that a borrower's actual business results significantly underperform the original projections. While these loans and leases are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

Commercial-owner occupied loans are secured by owner-occupied nonfarm nonresidential properties for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party who owns the

property. These loans are highly dependent on the ongoing operations of the owner and their ability to service the debt in accordance with the contractual terms and conditions of loan agreement.

Commercial-non-owner occupied loans are secured by other nonfarm nonresidential properties where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent financing of the property. These loans are highly dependent on the supply and demand for commercial property within the Company's market.

Non-real estate loan segment

The Company underwrites its non-real estate loans using credit reports and analytical tools and is based primarily on the borrower's ability to generate the required cash flows to service the debt in accordance with the contractual terms and conditions of the loan agreement. Common risks to non-real estate loans include general economic conditions within the Company's markets, such as unemployment, the personal or business circumstances of the borrowers, reductions in collateral values and demand for borrower's products and services, as applicable. In addition to these common risks for the Company's non-real estate loans, various non-real estate loan classes may also have certain risks specific to them.

Other commercial loans are primarily for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises. These loans also include loans for purchasing or carrying securities and are primarily dependent on the ongoing operations of the borrower which can be significantly impacted by economic condition within the Company's market.

Consumer loans include loans secured by deposit accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt. The value of underlying collateral, if any, within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

Commitments to extend credit are agreements to lend to a customer as long as there is not a 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 Company evaluates each customer's creditworthiness on a case–by–case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparties. Collateral held varies but

may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit and written financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk are commitments to extend credit (including availability of lines of credit) of $40,092,891 and standby letters of credit and financial guarantees written of $1,079,494 at December 31, 2014. Additionally, the Company had no outstanding commitments to lend related to secondary market mortgage loans at December 31, 2014.

A troubled debt restructuring ("TDR") occurs when a borrower is experiencing financial difficulty and the Company grants a non-market concession to provide the borrower relief from one or more of the contractual loan conditions. Concessions that the Company might consider include the allowance of interest-only payments on a temporary basis, the reduction of interest rates, the extension of the loan term, the forgiveness of principal, or a combination of these. There were no new TDRs identified in 2014 or 2013.

There were no loans that were modified as troubled debt restructuring within the previous 12 months that had a payment default during the years ended December 31, 2014 and 2013.

As of December 31, 2014 and 2013, all loans identified as TDRs in prior periods are performing.

6. Allowance for Loan Losses and Credit Quality

The allowance for loan losses is maintained at a level that the Company believes is sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provision for loan losses and recoveries of prior loan charge-offs, and decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Management performs quarterly assessments to determine the appropriate level of allowance for loan losses. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by either increasing or decreasing the allowance based upon current measurement criteria. Real estate and non-real estate loan portfolios are evaluated separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual loans that have been deemed impaired. Management's general reserve allocations are based on judgment of qualitative and quantitative factors about both macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and nonaccruals. Historical weighted loss rates for each risk grade of loans are adjusted by qualitative factors to estimate the amount of reserve needed by segment. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

In the second quarter of 2014, the Bank modified its loan loss methodology for unimpaired residential construction and land development and its unimpaired commercial construction. This modification resulted in further sub-segmentation of these classes of loans and the related historical charge-off rates. This change in methodology resulted in a nonrecurring reduction of approximately $500 thousand in the Bank's reserves on loans not considered impaired in 2014. The Bank made no changes to its allowance methodology in 2013.

The following tables detail the Company's allowance for loan loss activity for the years ended December 31, 2014 and 2013.

	For the Year Ended December 31, 2014		
	Secured by Real Estate	Non-Real Estate	Total
Allowance for credit losses:			
Beginning balance	$ 4,475,051	$ 691,117	$ 5,166,168
Provision for (recovery of losses	1,131,312	31,688	1,163,000
Loans charged off	(1,939,371)	(21,955)	(1,961,326)
Recoveries credited to allowance	130,748	14,982	145,730
Net (charge-offs) recoveries	(1,808,623)	(6,973)	(1,815,596)
Ending balance	$ 3,797,740	$ 715,832	$ 4,513,572

(continued

	For the Year Ended December 31, 2013		
	Secured by Real Estate	Non-Real Estate	Total
Allowance for credit losses:			
Beginning balance	$ 4,602,506	$ 686,946	$ 5,289,452
Provision for (recovery of losses	664,135	(15,135)	649,000
Loans charged off	(811,176)	(20,633)	(831,809)
Recoveries credited to allowance	19,586	39,939	59,525
Net (charge-offs) recoveries	(791,590)	19,306	(772,284)
Ending balance	$ 4,475,051	$ 691,117	$ 5,166,168

Within the real estate segment, approximately $2.6 million and $3.0 million of the "Secured by Real Estate" segment reserve related to the construction/development/land class as of December 31, 2014 and 2013, respectively. This class incurred net charge offs of approximately $1.4 million and $750 thousand and provision expense of approximately $900 thousand and $600 thousand for the years ended December 31, 2014 and 2013, respectively.

The Company identifies loans for potential impairment through a variety of means including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. If it is determined that it is probable that the Company will not collect all principal and interest amounts contractually due, the loan is generally deemed to be impaired. Also, TDR loans are considered impaired.

The following table presents the Company's recorded investment in loans considered to be impaired and related information on those impaired loans for the years ended December 31, 2014 and 2013.

	December 31, 2014					
					Year-to-Date	
	Unpaid Principal Balance	*Cumulative Direct Charge-offs*	*Recorded Investment*	*Related Allowance*	*Average Recorded Investment*	*Interest Income Recognized*
Loans without a related allowance:						
Construction/development/land	$ 167,014	$ -	$ 167,014	$ -	$ 167,014	$ -
Multifamily	-	-	-	-	976,172	-
Commercial--owner occupied	-	-	-	-	522,828	-
	167,014	-	167,014	-	1,666,014	-
Loans with a related allowance:						
Construction/development/land	3,023,494	-	3,023,494	458,494	4,507,001	44,831
Residential	148,357	-	148,357	56,657	331,666	8,450
Commercial--other	334,800	-	334,800	40,057	690,894	-
	3,506,651	-	3,506,651	555,208	5,529,561	53,281
Impaired loans	$ 3,673,665	$ -	$ 3,673,665	$ 555,208	$ 7,195,575	$ 53,281

(continued)

	December 31, 2013					
					Year-to-Date	
	Unpaid Principal Balance	***Cumulative Direct Charge-offs***	***Recorded Investment***	***Related Allowance***	***Average Recorded Investment***	***Interest Income Recognized***
Loans without a related allowance:						
Construction/development/land	$ 167,014	$ -	$ 167,014	$ -	$ 187,010	$ 8,811
Residential	50,449	-	50,449	-	50,599	3,072
Multifamily	1,952,343	-	1,952,343	-	1,973,217	39,964
Commercial--owner occupied	1,045,656	-	1,045,656	-	1,056,419	21,431
	3,215,462	-	3,215,462	-	3,267,245	73,278
Loans with a related allowance:						
Construction/development/land	7,023,494	1,200,000	5,823,494	377,494	7,269,605	36,020
Residential	464,525	-	464,525	117,324	300,083	36,876
Commercial--other	1,046,987	-	1,046,987	354,687	960,062	1,791
	8,535,006	1,200,000	7,335,006	849,505	8,529,750	74,687
Impaired loans	$ 11,750,468	$ 1,200,000	$ 10,550,468	$ 849,505	$ 11,796,995	$ 147,965

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans and general economic conditions. The Company's loan review function generally reviews all commercial loan relationships greater than $250,000 on an annual basis and at various times through the year. Smaller commercial and retail loans are sampled for review throughout the year by our internal loan review department. Through the loan review process, loans are identified for upgrade or downgrade in risk rating and changed to reflect current information as part of the process.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

- Pass - This grade includes loans to borrowers of acceptable credit quality and risk. The Company further differentiates within this grade based upon borrower characteristics which include: capital strength, earnings stability, leverage, and industry.
- Special Mention - This grade includes loans that require more than a normal degree of supervision and attention. These loans have all the characteristics of an adequate asset, but due to being adversely affected by economic or financial conditions have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan.
- Substandard - This grade includes loans that have well defined weaknesses which make payment default or principal exposure possible, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business to meet the repayment terms.
- Doubtful - These loans have all the weaknesses inherent in a "substandard" loan with the added factor that the weaknesses are so severe that collection or liquidation in full, on the basis of current existing facts, conditions and values, is extremely

unlikely, but because of certain specific pending factors, the amount of loss cannot yet be determined.

- Loss - This grade includes loans that are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. “Loss” is not intended to imply that the asset has no recovery or salvage value, but simply that it is not practical or desirable to defer writing off all or some portion of the loan, even though partial recovery may be affected in the future.

The following tables present the Company’s investment in loans by internal credit grade indicator at December 31, 2014 and 2013.

	December 31, 2014					
	Pass	Special Mention	Sub-standard	Doubtful	Loss	Total
Construction/development/land	$ 24,566,105	$ -	$ 3,198,215	$ -	$ -	$ 27,764,320
Farmland	4,027,064	-	-	-	-	4,027,064
Residential	102,374,117	-	159,348	-	-	102,533,465
Junior mortgage	1,237,250	-	-	-	-	1,237,250
Multifamily	13,031,672	-	-	-	-	13,031,672
Commercial--owner occupied	55,823,191	-	-	-	-	55,823,191
Commercial--nonowner occupied	78,439,115	-	-	-	-	78,439,115
Commercial--other	43,386,811	-	334,800	-	-	43,721,611
Consumer loans	6,520,944	-	1,735	-	-	6,522,679
Total loans	$ 329,406,269	$ -	$ 3,694,098	$ -	$ -	$ 333,100,367

	December 31, 2013					
	Pass	Special Mention	Sub-standard	Doubtful	Loss	Total
Construction/development/land	$ 27,045,678	$ -	$ 6,000,105	$ -	$ -	$ 33,045,783
Farmland	2,656,750	-	-	-	-	2,656,750
Residential	83,525,312	-	527,825	-	-	84,053,137
Junior mortgage	1,171,174	-	-	-	-	1,171,174
Multifamily	6,315,709	-	1,952,343	-	-	8,268,052
Commercial--owner occupied	50,003,970	131,384	1,045,656	-	-	51,181,010
Commercial--nonowner occupied	52,498,325	-	-	-	-	52,498,325
Commercial--other	26,884,202	-	1,049,198	-	-	27,933,400
Consumer loans	4,529,460	3,991	-	-	-	4,533,451
Total loans	$ 254,630,580	$ 135,375	$10,575,127	$ -	$ -	$ 265,341,082

The following tables detail the Company's recorded investment in loans related to each segment in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology at December 31, 2014 and 2013.

	December 31, 2014				
	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Cash Secured Loans Excluded from Collectively Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Secured by real estate:					
Construction/development/land	$ 3,190,508	$ 458,494	$ -	$ 24,573,812	$ 2,582,724
Farmland	-	-	-	4,027,064	-
Residential	148,357	56,657	-	102,385,108	241,228
Junior mortgage	-	-	-	1,237,250	2,940
Multifamily	-	-	-	13,031,672	16,674
Commercial--owner occupied	-	-	-	55,823,191	143,657
Commercial--nonowner occupied	-	-	-	78,439,115	295,366
Total	3,338,865	515,151	-	279,517,212	3,282,589
Non-real estate loans:					
Commercial--other	334,800	40,057	735,753	42,651,058	602,149
Consumer loans	-	-	1,004,030	5,518,649	73,626
Total	334,800	40,057	1,739,783	48,169,707	675,775
Total loans	$ 3,673,665	$ 555,208	$ 1,739,783	$ 327,686,919	$ 3,958,364

	December 31, 2013				
	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Cash Secured Loans Excluded from Collectively Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Secured by real estate:					
Construction/development/land	$ 5,990,508	$ 377,494	$ -	$ 27,055,275	$ 3,044,349
Farmland	-	-	-	2,656,750	-
Residential	514,974	117,324	-	83,538,163	341,140
Junior mortgage	-	-	-	1,171,174	3,620
Multifamily	1,952,343	-	-	6,315,709	34,558
Commercial--owner occupied	1,045,656	-	-	50,135,354	251,116
Commercial--nonowner occupied	-	-	-	52,498,325	305,450
Total	9,503,481	494,818	-	223,370,750	3,980,233
Non-real estate loans:					
Commercial--other	1,046,987	354,687	344,552	26,541,861	276,990
Consumer loans	-	-	466,416	4,067,035	59,440
Total	1,046,987	354,687	810,968	30,608,896	336,430
Total loans	$ 10,550,468	$ 849,505	$ 810,968	$ 253,979,646	$ 4,316,663

Nonaccrual and Past Due Loans - The following tables present the aging of the recorded investment in past due and nonaccrual loans, by loan class, as of December 31, 2014 and 2013. All nonaccrual loans are loans that have been delinquent for 90 days or more. There were no loans past due 90 days and still accruing interest at December 31, 2014 and 2013.

	December 31, 2014						
	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current Loans	Total Loans	Non-Accrual Loans
Construction/development/land	$ -	$ -	$ 1,421,380	$ 1,421,380	$ 26,342,940	$ 27,764,320	$ 1,421,380
Farmland	65,558	-	-	65,558	3,961,506	4,027,064	-
Residential	107,842	-	-	107,842	102,425,623	102,533,465	-
Junior mortgage	-	-	-	-	1,237,250	1,237,250	-
Multifamily	-	-	-	-	13,031,672	13,031,672	-
Commercial--owner occupied	-	356,107	-	356,107	55,467,084	55,823,191	-
Commercial--nonowner occupied	-	-	-	-	78,439,115	78,439,115	-
Commercial--other	38,001	-	334,800	372,801	43,348,810	43,721,611	334,800
Consumer loans	3,611	871	-	4,482	6,518,197	6,522,679	-
Total loans	$ 215,012	$ 356,978	$ 1,756,180	$ 2,328,170	$ 330,772,197	$ 333,100,367	$ 1,756,180

	December 31, 2013						
	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current Loans	Total Loans	Non-Accrual Loans
Construction/development/land	$ -	$ -	$ 4,223,270	$ 4,223,270	$ 28,822,513	$ 33,045,783	$ 4,223,270
Farmland	-	-	-	-	2,656,750	2,656,750	-
Residential	249,462	-	288,156	537,618	83,515,519	84,053,137	288,156
Junior mortgage	33,116	-	-	33,116	1,138,058	1,171,174	-
Multifamily	-	-	-	-	8,268,052	8,268,052	-
Commercial--owner	-	-	-	-	51,181,010	51,181,010	-
occupied	-	-	-	-	-		-
Commercial--nonowner occupied	-	-	-	-	52,498,325	52,498,325	-
Commercial--other	-	-	1,049,198	1,049,198	26,884,202	27,933,400	1,049,198
Consumer loans	-	2,378	-	2,378	4,531,073	4,533,451	-
Total loans	$ 282,578	$ 2,378	$ 5,560,624	$ 5,845,580	$ 259,495,502	$ 265,341,082	$ 5,560,624

7. Premises and Equipment

Premises and equipment are summarized as follows:

	December 31,	
	2014	2013
Land and improvements	$ 5,434,053	$ 5,424,763
Computer software	662,897	574,858
Buildings and leasehold improvements	5,219,884	5,219,884
Parking lot improvements	26,286	26,286
Furniture, fixtures and equipment	3,510,807	3,462,370
Construction in progress	1,852,540	55,133
	16,706,467	14,763,294
Less accumulated depreciation	(5,837,076)	(5,450,399)
Total premises and equipment, net	$ 10,869,391	$ 9,312,895

As of December 31, 2014, the Company has committed to construct the remaining portion of the Bearden Financial Center in Knoxville, Tennessee for an approximate cost between $2,250,000-$2,500,000.

Depreciation expense for the years ended December 31, 2014 and 2013 was $386,677 and $729,682, respectively.

8. Real Estate Owned

Real estate owned ("OREO") is summarized as follows:

	December 31,	
	2014	**2013**
Foreclosed real estate	$ 8,335,687	$ 3,812,383
Land held for sale	1,625,000	1,625,000
Valuation allowance	(2,364,242)	(1,987,557)
	$ 7,596,445	$ 3,449,826

No sales of land held for sale occurred during the years ended December 31, 2014, and 2013. At December 31, 2014, land held for sale represented branch expansion property deemed to be surplus.

9. Bank Owned Life Insurance

The Company purchased a bank owned life insurance ("BOLI") as a financing tool for employee benefits. The earnings on the BOLI are recorded as other noninterest income. Since the Company intends to hold the BOLI until the death of the insured, the Company benefits from the tax-free nature of income generated from the life insurance policies.

The value of the life insurance to the Company is the tax preferred treatment of increases in life insurance cash values and death benefits and the cash flow generated at the death of the insured. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers.

The change in BOLI's cash surrender value for the years ended December 31, 2014 and 2013 was $118,943 and $126,177, respectively, and is included in "Other Operating Income" in the statements of operations.

10. Core Deposit Intangible

The balance of the core deposit intangible resulting from the acquisition of Erwin National Bank was $171,942 and $281,118 at December 31, 2014 and 2013, respectively. Amortization expense for the core deposit intangible was $109,176 and $113,928 in 2014 and 2013, respectively. Estimated amortization expense is as follows:

2015	$ 104,424
2016	67,518
	$ 171,942

11. Operating Leases

The Company leases certain branch properties and equipment under operating leases. Rent expense for 2014 and 2013 was approximately $477,000 and $451,000, respectively. Approximate rent commitments under noncancelable operating leases including renewal options that are reasonably assured of being exercised were as follows:

2015	$ 494,000
2016	494,000
2017	246,000
2018	79,000
	$ 1,313,000

12. Deposits

A summary of deposits is as follows:

	December 31,	
	2014	2013
Demand deposits:		
Noninterest-bearing accounts	$ 44,356,869	$ 42,013,117
NOW and MMDA accounts	54,869,175	72,572,886
Savings accounts	97,325,396	42,823,874
Total demand deposits	196,551,440	157,409,877
Time deposits:		
Less than $250,000	98,145,618	88,828,465
$250,000 or more	55,443,427	34,194,865
Total time deposits	153,589,045	123,023,330
Total deposits	$350,140,485	$280,433,207

Included in time deposits above are brokered deposits of $31.2 million and $14.5 million for the years ended December 31, 2014 and 2013, respectively.

The time deposits have terms of one to five years. The time deposits by contractual maturities are as follows:

2015	$111,893,119
2016	26,518,015
2017	13,503,591
2018	1,629,477
2019	44,843
	$153,589,045

13. Federal Home Loan Bank Advances

The Company has obtained advances from the Federal Home Loan Bank ("FHLB"). The advances carry a weighted average interest rate of 0.28% (an effective interest rate of 0.28%) and mature in one to three years. Maturities based upon contractual terms are as follows:

2015	$ 7,009,397
2016	7,694
2017	9,590,312
	$ 16,607,403

Interest rates are fixed and expense associated with the advances from the FHLB totaled $153,411 and $157,499 for the years ended December 31, 2014 and 2013, respectively. Pursuant to collateral agreement with the FHLB, advances are secured by a blanket pledge of 1 - 4 family residential mortgages and FHLB stock.

The Bank has a secured line of credit with the FHLB of approximately $44.9 million.

During 2012, the Company extinguished one advance and replaced it with a similar advance. Due to the transaction being treated as a modification of existing debt, the related prepayment penalty is netted against the advances outstanding and is being amortized over the maturity of the replacement advance. As of December 31, 2014 and 2013, the amount netted against the advances outstanding is $270,405 and $390,585, respectively.

14. Senior Note Payable

On June 25, 2014, the Company entered into a $10,000,000 senior note payable that matures in June 2019. The note has an interest rate of 7.125% and expense associated with the note totaled $366,146 for the year ended December 31, 2014.

The Company is required by the loan agreements to comply with certain financial and affirmative covenants. The Company was in compliance with the covenants at December 31, 2014.

15. Fair Value

Fair value is the price that would be received for an exchange of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value accounting standard describes three levels of inputs that may be used to measure fair value:

Level 1
Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government, and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2
Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, and corporate debt securities.

Level 3
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 the determination of fair value requires significant management judgment or estimation.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment Securities Available-for-Sale

Investment securities available-for-sale is recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Loans held for Sale

Loans held for sale, which represent current mortgage production not yet sold, are recorded at fair value at the lower of current market prices or cost. The Company treats the loans held for sale as nonrecurring Level 2.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2014 and 2013, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Real Estate Owned

The Company does not record real estate owned at fair value on a recurring basis. However, when the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the real estate owned as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the real estate owned as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets and liabilities measured at fair value:

	December 31, 2014 Fair Value Measurement Using			December 31, 2013 Fair Value Measurement Using		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Equity securities	$ 1,917,782	$ -	$ -	$ 1,882,839	$ -	$ -
U.S. Treasury Notes	-	7,027,648	-	-	-	-
Municipal securities	-	2,054,460	-	-	-	-
Mortgage-backed securities	-	34,666,595	-	-	21,748,520	-
Total securities available for sale	$ 1,917,782	$ 43,748,703	$ -	$ 1,882,839	$ 21,748,520	$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

	December 31, 2014 Fair Value Measurement Using			December 31, 2013 Fair Value Measurement Using		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Real estate owned	$ -	$ -	$ 7,596,445	$ -	$ -	$ 3,449,826
Impaired loans	$ -	$ -	$ 3,673,665	$ -	$ -	$ 6,485,501

There were no transfers between levels of fair value from 2013 to 2014.

The following table presents quantitative information about financial and nonfinancial assets measured at fair value on a nonrecurring basis using Level 3 valuation inputs as of December 31, 2014 and 2013:

2014	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Real estate owned	$ 7,596,445	Discounted appraisals (1)	Appraisal adjustments (2)	10% to 37% (23%)
Impaired loans	$ 3,673,665	Discounted appraisals (1)	Appraisal adjustments (2)	10% to 21% (11%)

(1) Fair value is generally based on appraisals of the underlying collateral
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

2013	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Real estate owned	$ 3,449,826	Discounted appraisals (1)	Appraisal adjustments (2)	20% to 26% (24%)
Impaired loans	$ 6,485,501	Discounted appraisals (1)	Appraisal adjustments (2)	2% to 39% (12%)

(1) Fair value is generally based on appraisals of the underlying collateral
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

16. Fair Value of Financial Instruments

FASB ASC Topic 820*, Fair Value Measurements and Disclosures,* requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. 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. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements.

The estimated fair values of the Company's financial instruments were as follows:

	Carrying Amount	Fair Value
December 31, 2014:		
Financial assets:		
Cash and cash equivalents	$ 8,304,840	$ 8,304,840
Securities available for sale	45,666,485	45,666,485
Loans held for sale	373,540	373,540
Loans receivable	328,586,795	336,764,549
Accrued interest receivable	1,183,102	1,183,102
Bank owned life insurance	4,246,614	4,246,614
Restricted stock	1,128,900	1,128,900
Financial liabilities:		
Deposits	350,140,485	351,325,772
FHLB advances, net	16,336,998	16,239,934
Senior note payable	10,000,000	10,100,000
Accrued interest payable	56,952	56,952
Mandatorily redeemable preferred stock	2,969,000	2,969,000

(continued)

	Carrying Amount	Fair Value
December 31, 2013:		
Financial assets:		
Cash and cash equivalents	$ 16,014,898	$ 16,014,898
Securities available for sale	23,631,359	23,631,359
Loans held for sale	53,885	53,885
Loans receivable	260,174,914	266,091,931
Accrued interest receivable	872,501	872,501
Bank owned life insurance	4,243,203	4,243,203
Restricted stock	998,400	998,400
Financial liabilities:		
Deposits	280,433,207	276,322,601
FHLB advances, net	9,237,074	9,013,266
Accrued interest payable	66,930	66,930
Mandatorily redeemable preferred stock	2,969,000	2,969,000

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

- *Cash and Cash Equivalents:* The carrying amounts reported in the consolidated balance sheets approximate their fair value.
- *Securities Available for Sale*: See Footnote 15.
- *Loans held for Sale*: Loans held for sale, which represent current mortgage production not yet sold, are valued based on current market prices.
- *Loans Receivable*: For variable-rate loans that re-price frequently, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. No adjustment for illiquidity has been provided due to the impracticality to estimate.
- *Restricted Stock*: Due to the redemption provisions of the FHLB, the carrying amount of the stock approximates fair value.
- *Deposits*: The fair values disclosed for demand deposits (for example, interest-bearing checking, money market, and passbook accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit are estimated by discounting the amounts payable at the certificate rates using the rates currently offered for deposits of similar remaining maturities. No customer intangibles have been determined in the fair value computation.

- *FHLB Advances*: The advances are fixed rate advances and fair values are estimated using discounted cash flow analysis based upon interest rates currently offered for similar debt. Fair value also takes into consideration any prepayment penalties.
- *Accrued Interest Receivable and Payable*: The carrying amount of accrued interest receivable and payable approximates the fair values.
- *Bank Owned Life Insurance*: BOLI is stated at the net surrender value which approximates the fair value.
- *Mandatorily Redeemable Preferred Stock*: The carrying amount of mandatorily redeemable preferred stock is the cost per share plus accrued dividends. The Company believes that the carrying amount approximates fair value as the Company has sole discretion to redeem the stock until 2018, the holders of the preferred stock have the right to put the stock back to the Company, and conversion features of the preferred stock prevents the practical determination of credit risk. As a result, the cost is presumed to approximate fair value.
- *Senior Note Payable*: The payable is fixed rate debt and the fair value is estimated using discounted cash flow analysis is based upon interest rates currently offered for similar debt. Fair value also takes into consideration any prepayment penalties.

17. Lines of Credit

The Bank has various secured and unsecured lines of credit available with financial institutions that approximate $33.3 million.

18. Mandatorily Redeemable Preferred Stock

The Company issued 5% cumulative convertible redeemable preferred stock in order to provide additional capital to support the Bank's operations. Shares were issued at a cost of $1,000 per share and have a par value of $.01 per share. The Company issued 2,969 shares, which raised total capital of $2,969,000. The preferred stock is mandatorily redeemable at the discretion of the stock holder beginning September 30, 2018. The preferred stock may also be converted to common stock at $9 per share at any time through March 31, 2015 rising to $12 per share thereafter. The conversion price is subject to change under certain conditions as outlined in the related private placement memorandum. Dividends are paid quarterly in arrears and began on September 30, 2012 and are paid semi-annually thereafter when declared. Dividends totaling $148,450 were paid during the years ended December 31, 2014 and 2013. Due to the option held by the holder to redeem the stock on demand after September 30, 2018, the preferred stock is presented as a liability.

19. Income Taxes

The components of income tax expense (benefit) are summarized as follows:

	December 31,	
	2014	2013
Current:		
Federal	$ 56,623	$ 83,607
State	-	-
Total current taxes	56,623	83,607
Deferred:		
Federal	1,013,538	1,015,199
State	218,686	153,902
Total deferred taxes	1,232,224	1,169,101
Reversal of valuation allowance	-	(5,225,676)
Income tax expense (benefit)	$ 1,288,847	$ (3,972,968)

A reconciliation of actual income tax expense (benefit) in the financial statements to the expected tax expense (benefit) (computed by applying the statutory federal income tax rate of 34% to income before income taxes) is as follows:

	December 31,	
	2014	2013
Federal statutory rate times financial statement pretax income	$ 1,204,016	$ 802,716
Effect of:		
Bank-owned life insurance	(85,530)	(41,210)
State income taxes, net of federal income effect	144,333	101,575
Valuation allowance	-	(5,225,676)
Incentive stock based compensation	326	38,347
Other, net	25,702	351,280
Income tax expense (benefit)	$ 1,288,847	$ (3,972,968)

The tax effect of each type of temporary difference that gives rise to net deferred tax assets and liabilities is as follows:

	December 31,	
	2014	2013
Deferred tax assets relating to:		
Allowance for loan losses	$ 1,728,246	$ 1,978,126
Net operating loss carry forward	322,092	1,293,013
Purchase accounting adjustments	13,515	64,864
AMT credit	157,657	112,204
Unrealized loss on AFS securities	-	85,421
Other	1,158,910	1,237,551
	3,380,420	4,771,179
Deferred tax liabilities relating to:		
Unrealized gain on AFS securities	(137,538)	-
Depreciation	(15,889)	(47,200)
Federal Home Loan Bank stock	(128,846)	(128,846)
Core deposit intangible	(65,837)	(107,640)
	(348,110)	(283,686)
Deferred tax asset, net	$ 3,032,310	$ 4,487,493

At December 31, 2014, the Company had approximate net operating loss carryforwards for federal purposes of approximately $832,000 expiring through 2031; and for state tax purposes of $915,000 expiring through 2026.

20. Employee Benefit Plan

The Company's 401(k) profit sharing plan covers substantially all employees of the Company. There is no limit on which eligible officers and employees may contribute from their annual compensation on a tax-deferred basis. The Company matches employee contributions of up to 4% of employee compensation through Safe Harbor Matching. The Company can make additional contributions at its discretion. Total plan expense for the years ended December 31, 2014 and 2013 was approximately $148,000 and $132,000, respectively.

21. Deferred Compensation Agreements

The Company accrued a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. The liability as of December 31, 2014 and 2013 was approximately $220,000 and $52,000, respectively.

The Company maintains supplemental executive retirement plans (“SERP”) to provide additional retirement benefits to certain executives. The liability as of December 31, 2014 and 2013 was approximately $360,000 and $196,000, respectively. Total SERP expenses for the years ended December 31, 2014 and 2013 was approximately $164,000 and $107,000, respectively.

22. Employment Agreements

The Company has entered into employment agreements with various employees of the Company and or subsidiary Bank. The employment agreements have a revolving one-year term. The Board of Directors or employee may give a non-renewal notice at any time. At such time the employment contract would terminate in one year. The employee agreements provide for severance payments in the event of involuntary termination of employment of (2) times salary and (2.9) times salary in the event of a change of control of the Company. The employment agreements also contain non-compete, non-solicitation of customers and non-solicitation of employees for a period of up to one year. The agreements also provide for normal and customary benefits for the subject individual based on the executive's position.

23. Regulatory Capital Requirements

Bancorp's principal source of funds for dividend payments are dividends received from its subsidiary bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. The Company paid $148,450 in dividends in 2014 and 2013.

The Bank is a federally-insured state-chartered bank and is subject to the rules and regulations of the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank and its financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines 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 risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to adjusted total assets (as defined). Management believes, as of December 31, 2014 and 2013, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent notification from 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 (Tier

I leverage, Tier I risk-based, total risk-based capital) 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. No deduction from capital for interest-rate risk was required.

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Total risk-based capital (to risk-weighted assets)	$ 41,346	12.8%	$ 25,922	8.0%	$ 32,402	10.0%
Tier 1 risk-based capital (to risk-weighted assets)	$ 37,290	11.5%	$ 12,961	4.0%	$ 19,441	6.0%
Tier 1 leverage capital (to adjusted total assets)	$ 37,290	9.3%	$ 16,014	4.0%	$ 20,017	5.0%
As of December 31, 2013:						
Total risk-based capital (to risk-weighted assets)	$ 33,012	13.0%	$ 20,354	8.0%	$ 25,442	10.0%
Tier 1 risk-based capital (to risk-weighted assets)	$ 29,808	11.7%	$ 10,177	4.0%	$ 15,265	6.0%
Tier 1 leverage capital (to adjusted total assets)	$ 29,808	9.2%	$ 13,027	4.0%	$ 16,284	5.0%

24. Stock Based Compensation

In organizing the Company, the Company issued to each of its directors and initial investors warrants to purchase additional shares of common stock. There are a total of 484,400 outstanding warrants to purchase one additional share of common stock. The warrants are fully vested and exercisable for a period of 10 years. The warrants are exercisable at an exercise price equal to $10 per share, subject to limitations. The warrants had no intrinsic value as of December 31, 2014.

The Bancorp's Stock Option Plan (the Plan), which is shareholder-approved, permits the granting of stock options and restricted stock equal to 15% of Bancorp's outstanding common stock. Option prices are granted with an exercise price equal to the market price of Bancorp's stock at the date of the grant; those option awards generally vest over five years and have ten year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control, or upon attainment of certain predetermined net income or total asset amounts (as defined in the Plan).

A summary of option transactions is shown below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life Outstanding
Outstanding at January 1, 2014	346,560	$ 7.96	3.6 years
Granted	60,000	6.00	5.0 years
Exercised	-		
Cancelled / expired	-		
Outstanding at December 31, 2014	406,560	7.23	3.0 years
Vested and exercisable at December 31, 2014	340,714	7.99	3.7 years

The aggregate intrinsic value of outstanding options was approximately $200,000 at December 31, 2014. The aggregate intrinsic value of exercisable options was $200,000 at December 31, 2014.

The options awarded in 2014 and 2013 were valued at fair value recognition using the Black-Scholes method to be $1.77 and $1.11 per share, respectively. Significant assumptions used in calculating the value of options issued are as follows:

	December 31,	
	2014	2013
Strike price	$ 6.00	$ 4.35
Expected dividend ratio	0.00%	0.00%
Risk free rate of interest	1.67%	1.55%
Expected life of options	5 years	5 years
Calculated volatility	30%	26%
Estimated fair value per share	$ 1.77	$ 1.11

For the years ended December 31, 2014 and 2013, expense recognized for the vesting of stock option grants was approximately $1,000 and $141,000, respectively. The Company has unvested stock based compensation of approximately $105,000 as of December 31, 2014.

Restricted stock is issued to certain officers on a discretionary basis. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date. The fair value of the stock was determined using the market price on the day of issuance. Restricted stock vests over a five year period. Vesting occurs ratably on the anniversary day of the issuance. The Company has no outstanding restricted stock awards as of December 31, 2014 and 2013, respectively.

The Company uses authorized but unissued shares to meet the Plan's needs.

25. Related Party Transactions

In the normal course of business, the Company entered into a lease agreement with a related party for property located on the Bristol Highway in Johnson City, Tennessee. The lease expires August 31, 2017 with two five year renewal options. Rental expense incurred for this property was approximately $43,000 and $43,000 for the years ended December, 31, 2014 and 2013, respectively.

The Company also entered into a lease agreement with a related party for property located on Boone Ridge Road in Johnson City, Tennessee. The lease has a 10 year term with one five year renewal option. The agreement was signed and began in May of 2007; the lease payments began in January 2008. Rental expense incurred for this property was approximately $387,000 and $379,000 for the years ended December 31, 2014 and 2013, respectively.

The Company has entered into lending transactions with certain directors and executive officers. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Loans to related parties were as follows:

Balance, January 1, 2013	$ 300,000
New loans	-
Repayments	(875)
Ending balance, December 31, 2013	299,125
New loans	1,039,125
Repayments	(299,125)
Ending balance, December 31, 2014	$ 1,039,125

Credit cards issued to related parties were as follows:

	Credit Limit	Balances
Issued in 2013	$ 10,000	
Balance, December 31, 2013	$ 217,500	$ 22,910
Repaid in 2014	$ 2,500	
Balance, December 31, 2014	$ 215,000	$ 34,491

Deposits from executive officers, directors, and their affiliates at December 31, 2014 and 2013 were approximately $2.2 million.

26. Condensed Financial Information of Mountain Commerce Bancorp, Inc. - Parent Company Only

The following are the condensed Parent Company Only financial statements:

Condensed Balance Sheets

	December 31,	
	2014	2013
Assets		
Cash and cash equivalents	$ 4,646,761	$ 332,564
Investment in subsidiary	39,292,307	32,827,094
Other assets	313,762	42,874
Total assets	$ 44,252,830	$ 33,202,532
Liabilities and Stockholders' Equity		
Mandatorily redeemable preferred stock	$ 2,969,000	$ 2,969,000
Senior Note Payable	10,000,000	-
Total liabilities	12,969,000	2,969,000
Stockholders' equity:		
Common stock	39,554	41,911
Additional paid-in capital	39,968,310	41,369,993
Accumulated deficit	(8,945,697)	(11,040,702)
Accumulated other comprehensive income (loss)	221,663	(137,670)
Total stockholders' equity	31,283,830	30,233,532
Total liabilities and stockholders' equity	$ 44,252,830	$ 33,202,532

Condensed Statements of Operations

	December 31, 2014	December 31, 2013
Interest income	$ 43	$ 60
Equity income of subsidiary	2,500,420	6,546,029
Total income	2,500,463	6,546,089
Interest expense	(366,146)	-
Other noninterest expense	(35,833)	(12,179)
Total expense	(401,979)	(12,179)
Income before income taxes	2,098,484	6,533,910
Income tax benefit (expense)	153,886	(200,008)
Net income	$ 2,252,370	$ 6,333,902

Condensed Statements of Cash Flows

	December 31, 2014	December 31, 2013
Operating activities:		
Net income	$ 2,252,370	$ 6,333,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiary	(2,500,420)	(6,546,029)
Stock based compensation	960	140,639
Net change in other operating assets and liabilities	(270,888)	208,923
Net cash provided by operating activities	(517,978)	137,435
Investing activities:		
Investment in bank subsidiary	(3,605,460)	(140,644)
Financing activities:		
Repurchase of common stock	(1,405,000)	-
Dividend of preferred stock dividend	(148,450)	(148,450)
Amortization of stock issue costs	(8,915)	(8,915)
Issuance of senior note payable	10,000,000	-
Net cash provided by financing activities	8,437,635	(157,365)
Increase (decrease) in cash and cash equivalents	4,314,197	(160,574)
Cash and cash equivalents, beginning	332,564	493,138
Cash and cash equivalents, ending	$ 4,646,761	$ 332,564

27. Subsequent Events

The Company has evaluated subsequent events through February 27, 2015, the date these consolidated financial statements were available to be issued.