SOUTHPOINT BANK AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Warren Averett
CPAs AND ADVISORS

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DECEMBER 31, 2015 AND 2014

Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
SouthPoint Bank and Subsidiary

We have audited the accompanying consolidated balance sheets of SouthPoint Bank and Subsidiary (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, 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 auditors consider 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 SouthPoint Bank and Subsidiary as of December 31, 2015 and 2014, 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.

Warren Averett, LLC

Birmingham, Alabama
April 11, 2016

SOUTHPOINT BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 6,346,404	$ 2,678,318
Interest bearing deposits in other banks	434,594	576,669
Federal funds sold	5,997	-
TOTAL CASH AND CASH EQUIVALENTS	6,786,995	3,254,987
Securities available-for-sale	40,173,328	29,989,547
Loans held-for-sale	6,872,743	8,979,798
Loans, net of allowance for loan losses	163,591,614	149,156,645
Premises and equipment, net	2,672,267	2,559,220
Other real estate	1,467,477	2,746,535
Bank-owned life insurance	3,258,783	3,166,680
Deferred tax assets	665,873	1,544,213
Other assets	2,270,658	2,245,322
TOTAL ASSETS	$ 227,759,738	$ 203,642,947

LIABILITIES AND STOCKHOLDERS' EQUITY

	2015	2014
DEPOSITS		
Interest bearing	$ 164,038,240	$ 142,310,523
Noninterest bearing	20,773,806	20,186,510
TOTAL DEPOSITS	184,812,046	162,497,033
FHLB advances	20,000,000	20,500,000
Accounts payable and accrued liabilities	791,831	669,872
TOTAL LIABILITIES	205,603,877	183,666,905
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 10,000,000 shares authorized, 2,101,001 shares issued and outstanding	2,101,001	2,101,001
Additional paid-in capital	19,923,169	19,923,169
Accumulated deficit	(277,816)	(2,313,946)
Accumulated other comprehensive income	409,507	265,818
TOTAL STOCKHOLDERS' EQUITY	22,155,861	19,976,042
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 227,759,738	$ 203,642,947

See notes to the consolidated financial statements.

SOUTHPOINT BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
INTEREST INCOME		
Interest and fees on loans	$ 8,446,646	$ 8,151,031
Interest on investment securities	1,062,989	842,197
Total interest income	9,509,635	8,993,228
INTEREST EXPENSE		
Interest on deposits	1,322,831	1,592,317
Interest on borrowed funds	412,480	404,532
Total interest expense	1,735,311	1,996,849
NET INTEREST INCOME	7,774,324	6,996,379
PROVISION FOR LOAN LOSSES	335,000	275,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,439,324	6,721,379
NONINTEREST INCOME		
Service charges, fees and commissions	431,381	363,917
Mortgage origination and servicing-release premium fees	3,913,854	3,197,739
Net gain (loss) on sale of available-for-sale securities	23,709	(54,176)
Other	317,537	167,819
Total noninterest income	4,686,481	3,675,299
NONINTEREST EXPENSES		
Salaries and employee benefits	5,433,555	4,797,500
Net occupancy expenses	728,810	607,066
Other real estate costs (recoveries)	(123,143)	77,281
Operating expenses	3,178,206	2,891,220
Total noninterest expenses	9,217,428	8,373,067
INCOME BEFORE INCOME TAXES	2,908,377	2,023,611
INCOME TAX (EXPENSE) BENEFIT	(872,247)	1,148,909
NET INCOME	$ 2,036,130	$ 3,172,520

See notes to the consolidated financial statements.

SOUTHPOINT BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
NET INCOME	$ 2,036,130	$ 3,172,520
Other comprehensive income:		
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	148,208	902,283
Reclassification adjustment for gains (losses) on securities available-for-sale realized in net income, net of taxes	(4,519)	(10,980)
	143,689	891,303
COMPREHENSIVE INCOME	$ 2,179,819	$ 4,063,823

See notes to the consolidated financial statements.

SOUTHPOINT BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT DECEMBER 31, 2013	$ 2,101,001	$ 19,923,169	$ (5,486,466)	$ (625,485)	$ 15,912,219
Net income	-	-	3,172,520	-	3,172,520
Other comprehensive income	-	-	-	891,303	891,303
BALANCE AT DECEMBER 31, 2014	2,101,001	19,923,169	(2,313,946)	265,818	19,976,042
Net income	-	-	2,036,130	-	2,036,130
Other comprehensive income	-	-	-	143,689	143,689
BALANCE AT DECEMBER 31, 2015	$ 2,101,001	$ 19,923,169	$ (277,816)	$ 409,507	$ 22,155,861

See notes to the consolidated financial statements.

SOUTHPOINT BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,036,130	$ 3,172,520
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	248,743	174,797
Proceeds from loans held-for-sale	92,253,050	94,422,649
Origination of loans held-for-sale	(90,145,995)	(96,506,000)
Provision for loan losses	335,000	275,000
Net realized loss (gain) on investments	(23,709)	54,176
Loss on disposal of property and equipment	131,722	-
Realized losses (gains) on disposition and write down of other real estate, net	(133,063)	47,179
Amortization of premiums and discounts on securities available-for-sale	209,086	274,961
Net change in deferred taxes	878,340	(721,994)
Increase in cash surrender value of life insurance	(92,103)	(98,654)
Change in other assets	(99,356)	(487,599)
Change in accounts payable and accrued liabilities	121,959	(202,430)
Net cash provided by operating activities	5,719,804	404,605
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of premises and equipment	(493,512)	(131,835)
Net change in loans	(15,241,150)	(5,222,290)
Pay downs, calls and maturities of available-for-sale securities	1,586,461	2,268,527
Purchase of available-for-sale securities	(26,674,798)	(18,158,030)
Sales of available-for-sale securities	14,936,888	15,079,660
Net proceeds from disposition of foreclosed real estate	1,883,302	377,310
Net cash used by investing activities	(24,002,809)	(5,786,658)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	22,315,013	(40,931,554)
Borrowings (payments) on FHLB advance line	(500,000)	8,500,000
Net cash provided (used) by financing activities	21,815,013	(32,431,554)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,532,008	(37,813,607)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,254,987	41,068,594
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,786,995	$ 3,254,987

See notes to the consolidated financial statements.

1. ORGANIZATION

SouthPoint Bank (the Bank) was formed and incorporated in 2005 as a state-chartered bank under the Code of Alabama 1975, as amended. The Bank provides full-service banking to customers primarily located in central Alabama. The Bank is subject to regulation by the State of Alabama Banking Department and the Federal Deposit Insurance Corporation (FDIC). The Bank operates from its four branch locations in and around Birmingham, Alabama and seven loan production offices located throughout the State of Alabama. During 2013, SPB Properties, LLC was formed to hold certain assets of the Bank and is a wholly-owned subsidiary of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of SouthPoint Bank and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated. Unless otherwise indicated herein, the financial results of the Company refer to the Bank and its subsidiary on a consolidated basis.

Cash and Cash Equivalents

For the purpose of cash flows, the Bank considers cash on hand and cash or cash equivalents on deposit with other banks, due from banks and federal funds sold to be cash equivalents. The Bank maintains various correspondent or other bank accounts, which may, at times, have balances that exceed the FDIC insurance coverage.

Securities Available-for-Sale

Securities available-for-sale represent those securities which the Bank has designated for sale. Such securities are carried at fair value with unrealized gains and losses reported as accumulated other comprehensive income (loss), net of any related deferred taxes, in a separate component of stockholders' equity until realized. Gains or losses realized on disposition are based on the net proceeds and the adjusted carrying amount on the securities sold, using the specific identification method and are included in noninterest income or expense in the accompanying consolidated financial statements. Estimated fair values are provided by security dealers who have obtained quoted prices (Note 16). Securities may be pledged as collateral for customer deposits (Note 3).

Loans

The Bank grants commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and real estate loans throughout Alabama. Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees.

Loan origination or commitment fees are deferred and accreted using the interest method over the life of the loan. Direct loan origination costs are capitalized and amortized over the life of the loan as a reduction of the loan yield as an offset to interest and fees on loans. Amortization of deferred loan fees is discontinued if a loan is placed on nonaccrual status.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectibility of a loan balance is remote. Subsequent recoveries, if any, are credited to the allowance.

As part of management’s assessment of the allowance for loan losses, management segregates the loan portfolio into the following segments: commercial, financial and agricultural; real estate – construction; real estate – mortgage; consumer and other. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available and as economic conditions change.

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance for losses is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors, which includes trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures and other influencing factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance for loan losses reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment is measured on a loan-by-loan basis for commercial and construction loans 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. Generally, impaired loans include loans on nonaccrual status, loans that have been assigned a specific allowance for credit losses, loans that have been partially charged off and loans designated as troubled debt restructurings.

While management believes that it has established the allowance for loan losses in accordance with GAAP and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance for losses.

Income Recognition on Impaired and Nonaccrual Loans
Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-collateralized and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual.

Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of principal and interest.

While a loan is classified as nonaccrual, and the future collectibility of the recorded loan balance is doubtful, collections of principal and interest are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest income may be recognized. In the case where a nonaccrual loan has been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Loans Held-for-Sale
Loans held-for-sale include originated residential mortgage loans, which are carried at the lower of aggregate cost or market. Aggregate cost is the note amount plus certain net origination costs less discounts and fees collected. Gains or losses on the sale of loans held-for-sale are included in mortgage origination and servicing-release premium fees.

Other Real Estate
Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for loan losses (approximately $149,000 for 2015 (none for 2014). Foreclosed residential real estate where physical possession of the property was obtained by the Bank totaled $582,000 at December 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

After foreclosure, valuations are periodically performed by management, and property held-for-sale is carried at the lower of the new cost basis or fair value less estimated costs to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized (up to fair value less estimated selling costs), whereas costs relating to holding property are expensed. Any subsequent write-downs of amounts recorded as other real estate 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 estimated costs to sell.

Bank-Owned Life Insurance

The Bank purchased life insurance policies on certain employees. These policies are recorded at their cash surrender value or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in noninterest income. The Bank is the named beneficiary for each policy.

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and improvements that extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are charged to expense when incurred. Assets which are disposed of are removed from the accounts, and the resulting gains or losses are recorded in other operating income or expenses. Depreciation is computed by the straight-line method based on the depreciable lives of individual assets, ranging from 3 to 30 years.

FHLB Stock and Borrowings (Advances)

The Bank is a member and has purchased stock in the Federal Home Loan Bank of Atlanta (FHLB). The stock consists of Subclass B1 membership stock and Subclass B2 activity (advance-based) stock, which is determined based on the amount of advances outstanding.

Borrowings represent advances under an advance and security agreement with the FHLB, as well as secured borrowings with the Federal Reserve Bank of Atlanta (FRB) Discount Window under a similar security agreement. Under the terms of the agreements, the Bank is required to maintain qualifying collateral, consisting primarily of investment securities and loans, which are based on collateral rates set by the FHLB and the FRB.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Bank files a consolidated federal income tax return and State of Alabama excise tax return. These returns are filed using the accrual basis of accounting. Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of nontaxable income, such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Such amounts are net of any valuation allowance recorded for deferred taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Stock Options

The Board of Directors approved the 2005 Stock Incentive Plan (Stock Plan) for key employees and directors of the Bank. The Stock Plan permitted the granting of nonstatutory, incentive and restricted stock option awards, to enhance stockholder investment by attracting, retaining and motivating key employees and directors of the Bank and to align the interests of management with those of stockholders. The maximum number of shares to be issued under the Stock Plan was equal to 15% of the shares purchased in the initial offering of Bank stock. The Stock Plan expired in October 2015.

The option price is determined by the Board of Directors or a committee appointed by the Board of Directors to administer the Stock Plan, who may use the latest stock trade information or an independent valuation. Options granted are generally subject to vesting in equal increments over a vesting period of at least three years.

The Bank used the minimum value method of measuring the equity share options issued through 2005; however, such options expired in 2015. The Bank uses a stock valuation model for stock awards issued subsequent to 2005, and any awards that were modified, repurchased or canceled after 2005, which results in share-based compensation expense. The Bank uses the Black-Scholes fair value model for determining option value and share-based payments, which includes such factors as expected term, interest rate, forfeiture estimates, volatility and dividend yield, to estimate compensation expense associated with the stock option awards.

Financial Instruments

The Company uses fair value methods and measurements to determine fair value for certain assets and liabilities for recording and disclosure purposes. 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 by quoted market prices. The fair value guidance established three categories within a fair value hierarchy, which are presented below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access.

Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Additional guidance is available for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, including guidance on circumstances that may indicate that a transaction is not orderly and requires additional disclosures about fair value measurements.

The Bank also reports fair value measurement of nonfinancial assets and liabilities. These measurements occur on a nonrecurring basis, and recognition at fair value occurs when nonfinancial assets and liabilities are deemed to be other-than-temporarily impaired.

Statements of Cash Flows

The following is supplemental disclosure to the consolidated statements of cash flows for the years ended December 31:

	2015	2014
Cash paid during the year for interest	$ 1,749,492	$ 2,017,016
Noncash disclosures:		
Loans transferred to foreclosed real estate during the year	710,687	614,951
Sales of foreclosed real estate financed through loans	239,506	1,594,288
Foreclosed real estate transferred to premises and equipment during the year	-	1,756,461
Net increase in unrealized gains and losses on securities available-for-sale, net of deferred taxes of $74,020 for 2015 and $459,158 for 2014	143,689	891,303

Use of Estimates

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

Investment in securities available-for-sale is exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and that the values of the Bank's investments are sensitive to changes in economic and regulatory conditions, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the value of those investments reported.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic and regulatory environment and local market conditions. The Bank's loans are generally secured by specific items of collateral, including real property, consumer and business assets. In connection with the determination of the estimated losses on loans, Management obtains independent appraisals for significant collateral.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Although the Bank has a diversified loan portfolio, and management uses available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in local economic conditions or other factors.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Subsequent Events
Management has evaluated subsequent events and their potential effects on these consolidated financial statements through April 11, 2016, the date that the consolidated financial statements were available to be issued.

Reclassifications
Certain reclassifications were made to the 2014 financial statement presentation to conform to the 2015 financial statement presentation. Such reclassifications did not impact stockholders' equity or net income.

Recently Adopted and Issued Accounting Pronouncements
In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors*: *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This ASU clarifies that a creditor receives physical possession of residential real estate property collateralizing a mortgage loan for an in substance repossession or foreclosure, upon either (1) the creditor obtaining legal title to the property upon completion of a foreclosure or (2) the borrower conveying all interest in the property to the creditor through a deed in lieu of foreclosure or similar legal agreement. The Bank adopted the ASU in 2015 and the adoption did not have a material impact to the financial statements of the Bank.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires all entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. For operating leases, a lessee is required to 1) recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments 2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term in the statement of income 3) classify all cash payments within operating activities in the statement of cash flows. The ASU requires a modified retrospective transition approach which includes certain options that entities may apply which will, in effect, allow the entity to continue to account for leases that commence before the effective date in accordance with current GAAP unless the lease is modified. However, lessees are required to recognize on the balance sheet lease assets and liabilities for operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under current GAAP. The ASU is effective for fiscal years beginning after December 15, 2018. The Bank will review the impact that the adoption of this ASU may have on its consolidated financial statements.

3. SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale consisted of the following at December 31, 2015 and 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2015:				
Mortgage-backed securities	$ 11,940,340	$ 55,683	$ (22,748)	$11,973,275
State, county and municipal securities	26,612,523	605,322	(17,792)	27,200,053
Trust preferred security	1,000,000	-	-	1,000,000
	$ 39,552,863	$ 661,005	$ (40,540)	$40,173,328

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2014:				
Mortgage-backed securities	$ 16,020,679	$ 54,627	$ (230,619)	$ 15,844,687
State, county and municipal securities	12,566,112	581,762	(3,014)	13,144,860
Trust preferred security	1,000,000	-	-	1,000,000
	$ 29,586,791	$ 636,389	$ (233,633)	$ 29,989,547

At December 31, 2015, the Bank had 13 investment securities in an unrealized loss position for less than 12 months with a fair value of $8,199,676 and unrealized losses totaling $40,540, and no investment securities in an unrealized loss position for 12 months or more.

At December 31, 2014, the Bank had one investment security in an unrealized loss position for less than 12 months with a fair value of $1,987,600 and an unrealized loss totaling $3,014, and two investment securities in an unrealized loss position for 12 months or more with a fair value of $6,823,584 and unrealized losses totaling $230,619.

The unrealized losses are considered by management to be temporary since the Bank does not have the intent to sell any of these securities prior to recovery and it is more likely than not that the Bank will not have to sell the debt securities prior to recovery of fair value at a minimum up to the cost of the investment.

The net unrealized gain of $409,507 is shown net of related deferred tax of $210,958 as of December 31, 2015 (gain of $265,818 is shown net of related deferred tax of $136,938 in 2014), and is reported as accumulated other comprehensive income (net of tax) in the accompanying consolidated financial statements.

There were no held-to-maturity or trading investments at December 31, 2015 or 2014.

3. SECURITIES AVAILABLE-FOR-SALE – CONTINUED

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2015, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing:		
After five years through 10 years	$ 908,983	$ 929,373
After 10 years through 15 years	8,585,460	8,700,496
After 15 years	30,058,420	30,543,459
	$ 39,552,863	$ 40,173,328

Expected maturities of mortgage-backed securities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment securities with an approximate fair value of $19,122,000 and $13,429,000 were pledged as collateral for deposits held under the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program as of December 31, 2015 and 2014, respectively. The Bank also pledged investments with fair values of approximately $15,747,000 and $15,000,000 for FHLB advances and $2,333,000 and $2,181,000 for Federal Fund lines of credit as of December 31, 2015 and 2014, respectively. The Bank also holds certain restrictive investments in FHLB stock (Note 7).

4. LOANS

The composition of loans by primary loan classification and by performing and impaired loan status as of December 31, 2015 and 2014 are as follows:

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate - Mortgage	Consumer and Other	Subtotal	Allowance for Loan Losses	Net Loans
2015							
Performing Loans	$ 37,479,747	$12,113,739	$107,919,422	$ 5,931,192	$163,444,100	$(2,526,369)	$160,917,731
Impaired Loans	484,329	206,495	2,552,779	-	3,243,603	(569,720)	2,673,883
	$ 37,964,076	$12,320,234	$110,472,201	$ 5,931,192	$166,687,703	$(3,096,089)	$163,591,614
2014							
Performing Loans	$ 31,087,538	$10,264,182	$100,988,919	$ 5,715,732	$148,056,371	$(2,113,036)	$145,943,335
Impaired Loans	299,671	526,247	3,073,525	-	3,899,443	(686,133)	3,213,310
	$ 31,387,209	$10,790,429	$104,062,444	$ 5,715,732	$151,955,814	$(2,799,169)	$149,156,645

4. LOANS – CONTINUED

Changes in the allowance for loan losses for the years ended December 31 were as follows:

	2015	2014
Balance at beginning of year	$ 2,799,169	$ 2,638,220
Charge-offs	(159,926)	(158,687)
Recoveries	121,846	44,636
Net charge-offs	(38,080)	(114,051)
Provision	335,000	275,000
Ending balance	$ 3,096,089	$ 2,799,169

At December 31, 2015 and 2014, there were no loans classified as nonaccrual that were not deemed to be impaired. At the date such loans were placed on nonaccrual status, the Bank reversed all previously accrued interest income against current year earnings. Had such nonaccrual loans been on accrual status, interest income would have been greater by approximately $88,000 for the year ended December 31, 2015 ($155,000 for the year ended December 31, 2014).

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2015 and 2014, are as follows:

	Commercial, Financial and Agricultural	Real Estate-Construction	Real Estate-Mortgage	Consumer and Other	Unallocated	Total
Balance at December 31, 2014	$ 619,329	$ 145,785	$ 1,895,875	$ 14,305	$ 123,875	$ 2,799,169
Charge-offs	-	-	(148,561)	(11,365)	-	(159,926)
Recoveries	-	104,557	13,325	3,964	-	121,846
Net charge-offs	-	104,557	(135,236)	(7,401)	-	(38,080)
Provision	(57,962)	(53,292)	52,069	32,537	361,648	335,000
Balance at December 31, 2015	$ 561,367	$ 197,050	$ 1,812,708	$ 39,441	$ 485,523	$ 3,096,089
Balance at December 31, 2013	$ 318,651	$ 651,601	$ 1,298,309	$ 11,012	$ 358,647	$ 2,638,220
Charge-offs	-	-	(148,366)	(10,321)	-	(158,687)
Recoveries	1,280	10,000	17,888	15,468	-	44,636
Net charge-offs	1,280	10,000	(130,478)	5,147	-	(114,051)
Provision	299,398	(515,816)	728,044	(1,854)	(234,772)	275,000
Balance at December 31, 2014	$ 619,329	$ 145,785	$ 1,895,875	$ 14,305	$ 123,875	$ 2,799,169

4. LOANS – CONTINUED

Risk ratings are categorized as pass, special mention, substandard, substandard-impaired or doubtful. Management believes that the categories follow those outlined by the Bank's primary regulator. Pass rated loans include all risk rated credits other than those included in special mention, substandard and doubtful, which are defined as follows:

- Special Mention loans have potential weaknesses that 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 Bank's credit position at some future date.

- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Substandard-impaired loans are substandard loans that may have been placed on nonaccrual, may have an associated allowance for loan losses and may have a partial charge off for the loan.

- Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Bank considers all doubtful loans to be impaired and places all such loans on nonaccrual status.

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2015 and 2014:

2015	**Commercial, Financial and Agricultural**	**Real Estate – Construction**	**Real Estate – Mortgage**	**Consumer and Other**	**Total**
Grade:					
Pass	$ 36,636,149	$ 12,113,739	$ 107,919,422	$ 5,931,192	$162,600,502
Special mention	843,598	-	-	-	843,598
Substandard	185,320	206,495	586,496	-	978,311
Substandard – impaired	299,009	-	1,966,283	-	2,265,292
Total	$ 37,964,076	$ 12,320,234	$ 110,472,201	$ 5,931,192	$166,687,703
2014					
Grade:					
Pass	$ 29,971,116	$ 9,998,243	$ 99,093,659	$ 5,715,732	$144,778,750
Special mention	1,116,422	265,939	1,895,260	-	3,277,621
Substandard	299,671	-	449,230	-	748,901
Substandard – impaired	-	526,247	2,624,295	-	3,150,542
Total	$ 31,387,209	$ 10,790,429	$ 104,062,444	$ 5,715,732	$151,955,814

4. LOANS – CONTINUED

Past due balances and loans on nonaccrual status at December 31, 2015 and 2014, by loan classification, are as follows:

2015	Past Due 30-89 Days and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial and agricultural	$ -	$ -	$ -	$ 37,964,076	$ 37,964,076
Real estate – construction	-	-	-	12,320,234	12,320,234
Real estate – mortgage	96,592	96,592	1,966,283	108,409,326	110,472,201
Consumer and other	-	-	-	5,931,192	5,931,192
	$ 96,592	$ 96,592	$ 1,966,283	$164,624,828	$166,687,703
2014					
Commercial, financial and agricultural	$ -	$ -	$ -	$ 31,387,209	$ 31,387,209
Real estate – construction	94,976	-	526,153	10,169,300	10,790,429
Real estate – mortgage	163,770	120,482	2,625,352	101,152,840	104,062,444
Consumer and other	43,000	-	128	5,672,604	5,715,732
	$ 301,746	$ 120,482	$ 3,151,633	$148,381,953	$151,955,814

There were no loans past due 90 days or more and still accruing at December 31, 2015 or 2014.

The following tables provide details on impaired loans as of December 31, 2015 and 2014, including the average recorded investment of impaired loans and interest income recognized for the years ended December 31, 2015 and 2014:

	At December 31, 2015			For the Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial, financial and agricultural	$ 185,320	$ 185,320	$ -	$ 191,133	$ 13,528
Real estate – construction	206,495	206,495	-	206,495	11,686
Real estate – mortgage	832,367	832,367	-	839,867	24,925
	1,224,182	1,224,182	-	1,237,495	50,139
Impaired loans with a recorded allowance:					
Commercial, financial and agricultural	299,009	299,009	299,009	299,396	19,785
Real estate – mortgage	1,720,412	1,740,412	270,711	1,757,122	-
	2,019,421	2,019,421	569,720	2,056,518	19,785
Total impaired loans	$ 3,243,603	$ 3,243,603	$ 569,720	$ 3,294,013	$ 69,924

4. LOANS – CONTINUED

	At December 31, 2014			For the Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Real estate – construction	$ 526,247	$ 526,247	$ -	$ 533,537	$ -
Real estate – mortgage	734,349	734,349	-	779,262	16,857
	1,260,596	1,260,596	-	1,312,799	16,857
Impaired loans with a recorded allowance:					
Real estate – construction	299,671	299,671	299,671	299,779	19,763
Real estate – mortgage	2,339,176	2,339,176	386,462	2,342,769	93,419
	2,638,847	2,638,847	686,133	2,642,548	113,182
Total impaired loans	$ 3,899,443	$ 3,899,443	$ 686,133	$ 3,955,347	$ 130,039

The following table details the number of troubled debt restructurings by loan classification as of December 31, 2015 and 2014:

2015 Troubled Debt Restructurings	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate – mortgage	1	$ 342,067	$ 244,843
	1	$ 342,067	$ 244,843

2014 Troubled Debt Restructurings	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate – construction	1	$ 772,270	$ 395,964
Real estate – mortgage	1	342,067	259,843
	2	$ 1,114,337	$ 655,807

There were no new troubled debt restructurings during 2015 or 2014. There were also no debt restructurings during 2014 that subsequently defaulted during 2015.

4. LOANS – CONTINUED

Impaired loans also include loans that the Bank may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses, if any, that the Bank may have to otherwise incur. These loans are classified as impaired loans and, if on nonaccrual status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above.

The Bank entered into the mortgage loan resale market during 2007 and executed investor agreements for the sale of certain mortgage loans originated and any related servicing. The agreements vary by investor but may include recourse provisions based on conditions specified in the agreements, such as early payment default or early payoff. All agreements are subject to breach of contract clauses. Total mortgage loans sold to investors subject to recourse provisions were approximately $39,209,000 and $29,548,000 as of December 31, 2015 and 2014, respectively. The Bank recorded an estimate of the potential recourse liability at December 31, 2015 and 2014.

The Bank has elected to hold certain mortgage loans originated by the mortgage division of the Bank, and contracts with a third-party service provider for servicing. Mortgage loans held by the Bank and serviced by a third-party were approximately $8,100,000 and $9,000,000 as of December 31, 2015 and 2014, respectively, and are reported in loans in the consolidated balance sheets.

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31 are summarized below:

	2015	2014
Land	$ 263,469	$ 263,469
Buildings and improvements	2,173,948	2,533,563
Equipment	1,622,293	1,261,684
Furniture and fixtures	301,198	274,320
Software	74,154	74,154
Vehicles	16,861	16,861
	4,451,923	4,424,051
Less accumulated depreciation	1,779,656	1,864,831
	$ 2,672,267	$ 2,559,220

6. DEPOSITS

The Bank has approximately $16,183,000 of time deposits greater than the FDIC insurance limit of $250,000 at December 31, 2015 ($24,824,000 greater than $100,000 at December 31, 2014). Interest expense on these time deposits was approximately $29,000 for the year ended December 31, 2015 ($294,000 for 2014). The maturity schedule for all outstanding time deposits as of December 31, 2015, is as follows:

2016	$ 60,695,889
2017	13,120,869
2018	1,969,505
2019	5,813,611
2020	3,219,304
	$ 84,819,178

7. FHLB STOCK AND BORROWINGS

During 2015, the Bank held Subclass B1 membership stock and Subclass B2 activity-based stock with the FHLB for a total cost of $1,075,900 ($1,131,600 in 2014). The Bank earns quarterly dividends on the stock. The stock is a restricted investment reported at cost and included in other assets. These investments were not evaluated for impairment as the Bank did not identify any events or changes in circumstances that may have a significant adverse effect on the fair value of these investments. The Bank estimated that the fair value was equal to cost and not impaired.

There were two advances under FHLB agreements totaling $20,000,000 as of December 31, 2015 (two for $20,500,000 as of December 31, 2014). One advance is for $12,000,000 with interest at a fixed rate of 3.24% which matures on November 7, 2017, and the other advance is for $8,000,000 with a variable daily rate credit interest rate (0.59% at December 31, 2015) which matures on July 5, 2016. The Bank also has a $15,000,000 FHLB letter of credit in favor of the State of Alabama to provide additional collateral for public deposits held by for customers under the SAFE Program. The letter of credit is subject to annual extension with a final maturity in January 2018.

Certain investment securities are held as collateral for the FHLB advances (Note 3). Additional qualifying collateral for the FHLB advances and letter of credit is determined using loan advance rates specified in the agreement and consisted of certain commercial and real estate loans totaling approximately $35,930,000 and $33,694,000 as of December 31, 2015 and 2014, respectively.

The Bank has several unsecured correspondent bank federal funds lines of credit and one secured repurchase agreement line of credit with total commitments of $29,600,000 and $25,500,000 as of December 31, 2015 and 2014, respectively, which are subject to renewal on various dates. The Bank also has access to borrow funds from the Federal Reserve Bank discount window of approximately $628,000 and $879,000, which is determined based on available bank collateral and secured by loans of $990,000 and $1,344,000 at December 31, 2015 and 2014, respectively (no borrowings outstanding for 2015 or 2014).

8. LEASES

The Bank leases certain office space and equipment under various operating leases. The Bank entered into a new 20 year lease for a branch in 2015 that is reflected below. The approximate future minimum values of lease payments under these leases are as follows as of December 31, 2015:

2016	$ 384,000
2017	300,000
2018	138,000
2019	141,000
2020	144,000
Thereafter	2,472,000
	$ 3,579,000

Total rent expense was approximately $480,000 and $432,000 for 2015 and 2014, respectively.

9. INCOME TAXES

Provisions for federal and state income taxes are based on amounts reported in the statements of income (after exclusion of nontaxable income items such as interest earned on tax-exempt municipal securities and bank-owned life insurance) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

The components of income tax expense for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Current:		
Federal	$ 67,927	$ 32,241
State	-	-
	67,927	32,241
Deferred:		
Federal	708,040	588,478
State	96,280	81,790
	804,320	670,268
Valuation allowance	-	(1,851,418)
Income tax expense	$ 872,247	$ (1,148,909)

9. INCOME TAXES – CONTINUED

The components of the net deferred tax asset (liability) included in other assets as of December 31, 2015 and 2014, are as follows:

	2015	2014
Deferred tax asset:		
Federal	$ 1,052,276	$ 863,221
State	119,856	104,573
	1,172,132	967,794
Deferred tax liability:		
Federal	490,044	318,311
State	35,215	22,885
	525,259	341,196
Net operating loss carryforward	19,000	917,615
Net deferred tax asset	$ 665,873	$ 1,544,213

The tax effects of each type of income and expense item that gave rise to deferred taxes as of December 31 were as follows:

	2015	2014
Allowance for loan losses	$ 591,404	$ 463,132
Net unrealized losses (gains) on securities available-for-sale	(210,958)	(136,938)
Deferred compensation	178,496	178,496
Depreciation	(208,017)	(112,173)
Deferred loan fees	108,266	61,646
Deferred loan costs	(105,659)	(90,207)
Net operating loss carryforwards	19,000	917,615
Other real estate owned reserve	142,275	185,340
Other	151,066	77,302
Net deferred tax asset	$ 665,873	$ 1,544,213

The primary deferred tax differences are a result of differing depreciation methods for book and tax, the current deductibility of the provision for loan losses and other real estate and net unrealized gains (losses) on securities available for sale. Based on the Bank's performance, the remaining balance of the valuation allowance for deferred tax assets was reversed in 2014.

9. INCOME TAXES – CONTINUED

The Bank measures and recognizes tax positions taken or expected to be taken in a tax return that directly or indirectly affects amounts reported in the Bank’s consolidated financial statements and reviews its income tax positions to determine if each position meets a "more likely than not" threshold of expectation of prevailing. As of December 31, 2015 and 2014, the Bank has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements under the current guidance. Under statute, the Bank is subject to Internal Revenue Service and state taxing authority review for tax years 2011 through 2014. The Bank has filed tax returns through 2014.

10. CONCENTRATION OF CREDIT RISK

Most of the Bank's deposit and lending activities are with customers located within Alabama. The Bank grants commercial, residential and consumer loans primarily to customers in Alabama. The concentrations of loans by type are set forth in Note 4.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Bank may require collateral or other security to support financial instruments with credit risk. The total collateral values, which consisted primarily of real estate, accounts receivable, inventory and equipment and may be cross-collateralized for loans, was greater than the secured letters of credit. There was no liability recorded for these guarantees at December 31, 2015 or 2014.

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 commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK – CONTINUED

Performance and financial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extended loan facilities to customers. The approximate outstanding notional amount of off-balance sheet risk at December 31 is as follows:

	2015	2014
Performance and financial letters of credit	$ 70,000	$ 895,000
Unused lines of credit	30,838,000	20,304,000
	$ 30,908,000	$ 21,199,000

12. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the 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 the consolidated 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 1 capital to risk-weighted assets (as defined in the regulations) and Tier 1 capital to adjusted total assets (as defined).

In July 2013, the banking regulators published Final Rules establishing a new comprehensive capital framework for U.S. banking organizations (the Final Rules). The Final Rules implement the Basel Committee of Banking Supervision's framework known as Basel III, as well as certain provisions of the Dodd-Frank Act. The Final Rules, which define the components of capital and also address risk weights, became effective on January 1, 2015. The Final Rules include a new capital ratio designated as Common Equity Tier 1 ratio, which is a tighter definition of tier 1 capital (banks must hold 4.5% by January 2015 and then a further 2.5% capital conservation buffer, totaling 7% that is implemented incrementally on an annual basis through January 2019); an increase in tier one capital ratio from 4% to 6%; a framework for countercyclical buffers; adjustments to prompt corrective action thresholds; short and medium term quantitative liquidity ratios and establishes criteria that instruments must meet in order to be considered regulatory capital.

12. REGULATORY CAPITAL - CONTINUED

The Bank's actual and required capital amounts and ratios under the new guidance are as follows (2014 was not affected) (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, 2015						
Common Equity Tier 1 Capital ratio (to risk-weighted assets)	$ 21,746	11.38%	$ 8,600	4.50%	$ 12,422	6.50%
Tier 1 Capital Ratio (to risk-weighted assets)	21,746	11.38%	11,466	6.00%	15,288	8.00%
Total Capital ratio (to risk-weighted assets)	24,144	12.63%	15,288	8.00%	19,111	10.00%
Tier 1 Leverage ratio (to adjusted total assets)	21,746	9.59%	9,072	4.00%	11,340	5.00%
As of December 31, 2014						
Total Risk Capital (to risk-weighted assets)	$ 21,117	12.67%	$ 13,334	8.00%	$ 16,667	10.00%
Tier 1 Capital (risk based) (to risk-weighted assets)	19,025	11.42%	6,664	4.00%	9,996	6.00%
Tier 1 Capital (leveraged) (to adjusted total assets)	19,025	9.27%	8,209	4.00%	10,262	5.00%

As of December 31, 2015, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as disclosed in the above table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

The Bank was previously under a Consent Order (the Order) dated August 2010 in connection with a bank regulatory examination conducted jointly in October 2009 by the FDIC and Alabama State Banking Department (the Supervisory Authorities), which included certain regulatory mandates and a proposed program of corrective actions for the Bank. The Bank complied with the regulatory mandates, and in May 2014, the Order was terminated by the Supervisory Authorities, and there are no further stipulations.

13. STOCK OPTIONS

The Bank established the 2005 Stock Incentive Plan (Stock Plan), which is an incentive stock plan for key employees and directors.

Organizers' Stock Options
The Bank issued options to the organizers to purchase up to 120,000 shares of Bank common stock. The option price was $10 per share, and the options vested in equal increments over a three-year period and were exercisable for a 10-year period. The organizers' stock options were issued and accounted for using the intrinsic value method. Because the exercise price of the stock options equaled the market value of the underlying stock on the date of grant, no compensation expense was recognized. There were 50,000 options exercisable at December 31, 2014 which expired in 2015.

Incentive Stock Options
The Board of Directors granted stock options under the employee stock incentive plan to certain employees and directors of the Bank in previous years, which are all fully vested. During 2015, stock options for 77,001 shares were issued to certain employees (none in 2014). The 2015 stock option awards vest annually over a 3 or 4 year period and have a 10 year term.

The Bank uses the Black-Scholes option pricing model to calculate the fair value of stock options issued. The Bank obtained an independent valuation to determine the 2015 stock option valuation. The option price for the 2015 stock options is equal to the estimated valuation of the Bank's stock at the date of grant. Total share-based compensation related to the 2015 stock options is approximately $99,000 will be recorded annually over the service or vesting period of the options. There was no share-based compensation recorded for 2015 or 2014.

The following table summarizes the weighted average assumptions and calculated value of the stock options using the Black-Scholes option pricing model:

Risk-free interest rate	1.4%
Expected dividend yield	0.1%
Expected volatility	15.0%
Expected life in years	5.00
Service period in years	10.00
Weighted average fair value of options granted	$1.71

13. STOCK OPTIONS – CONTINUED

The following table summarizes the activity related to options during 2015 and 2014:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding, December 31, 2013:	102,399	$10
Grants or exercises in 2014	-	
Cancellations and forfeitures in 2014	(13,400)	
Options outstanding, December 31, 2014:	88,999	$10
Grants or exercises in 2015	77,001	
Cancellations and forfeitures in 2015	(5,000)	
Options expired in 2015	(50,000)	
Options outstanding, December 31, 2015	111,000	$10

	2015	2014
Options exercisable, December 31	33,999	88,999
Weighted average remaining contractual life-		
Existing options	1.1 years	1.4 years
New options	9.6 years	n/a

14. RELATED PARTY AND PARTY-IN-INTEREST TRANSACTIONS

The Bank issued overdraft lines of credit for executive officers and directors of the Bank. As of December 31, 2015, loans outstanding to executive officers, directors, principal stockholders and their affiliates totaled approximately $2,366,000 ($4,279,000 in 2014) under loan commitments totaling $3,386,000 ($4,767,000 in 2014) (including the overdraft lines of credit).

The Bank holds interest-bearing and noninterest-bearing deposits from executive officers, directors, principal stockholders and their affiliates of approximately $1,782,000 and $1,457,000 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, no individual stockholder held greater than a 10% interest in the Bank.

15. OTHER EXPENSES

Other expenses that exceed 1% of the aggregate of total interest income and other income for the years ended December 31 are as follows:

	2015	2014
Professional fees	$ 643,466	$ 713,178
Supervisory assessments	193,174	279,786
Data processing	685,208	586,897
Communications	178,336	124,939
Insurance	114,540	131,679

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank reports fair value using the established categories within the fair value hierarchy (Note 2). The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of financial assets and financial liabilities based on quoted market prices, where available.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash Equivalents and Short-Term Investments – For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities – For securities available-for-sale, fair values are based on quoted market prices or dealer quotes. For other investments, fair value is estimated to be approximately the carrying amount.

Loans and Loans Held-for-Sale – For certain homogeneous categories of loans, such as some residential mortgage and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and maturities.

Bank-owned Life Insurance – Bank-owned life insurance is valued at the underlying cash surrender value of the policies, which represents the current value of the policies.

Deposits – The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The recorded value of fixed-maturity certificates of deposit approximates the fair value as interest rates approximate market rates.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Borrowings – Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value of existing borrowings.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written – The fair value of commitments, letters of credit and financial guarantees is estimated to be approximately the fees charged for these arrangements.

Impaired Loans – Nonrecurring fair value adjustments to impaired loans reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the underlying collateral.

Other Real Estate – Other real estate consists primarily of commercial or residential property or land. The fair values of other real estate are primarily based on independent appraisals of the underlying properties, net of any estimated selling costs. Nonrecurring fair value adjustments to other real estate reflect full or partial write-downs that are based on the real estate's observable market price or current appraised value of the underlying collateral.

Items Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurement at Report Date Using		
As of December 31, 2015	**Fair Value**	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Securities available-for-sale:				
Mortgage-backed securities	$ 11,973,275	$ -	$ 11,973,275	$ -
State, county and municipal securities	27,200,053	-	27,200,053	-
Trust preferred security	1,000,000	-	-	1,000,000
	40,173,328	-	39,173,328	1,000,000
Loans held-for-sale	6,872,743	-	6,872,743	-
Total assets	$ 47,046,071	$ -	$ 46,046,071	$ 1,000,000
As of December 31, 2014	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Securities available-for-sale:				
Mortgage-backed securities	$ 15,844,687	$ -	$ 15,844,687	$ -
State, county and municipal securities	13,144,860	-	13,144,860	-
Trust preferred security	1,000,000	-	-	1,000,000
	29,989,547	-	28,989,547	1,000,000
Loans held-for-sale	8,979,798	-	8,979,798	-
Total assets	$ 38,969,345	-	$ 37,969,345	$ 1,000,000

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The table below sets forth a summary of changes in the fair value of the Bank's Level 3 investment assets for the years ended December 31, 2015 and 2014:

	Trust Preferred Security
Beginning balance – December 31, 2013	$ 1,000,000
Total purchases, sales, issuances and settlements (net) or gains related to instruments still held	-
Ending balance – December 31, 2014	1,000,000
Total purchases, sales, issuances and settlements (net) or gains or losses (realized and unrealized)	-
Ending balance – December 31, 2015	$ 1,000,000

The Bank has one Level 3 investment in a trust preferred security that is reported at cost. Cost approximates fair value of this security at the reported date.

Items Measured at Fair Value on a Nonrecurring Basis

The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014:

		Fair Value Measurement at Report Date Using		
December 31, 2015	**Fair Value**	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	$ 3,243,603	$ -	$ -	$ 3,243,603
Other real estate	1,467,477	-	-	1,467,477
Total assets	$ 4,711,080	$ -	$ -	$ 4,711,080
December 31, 2014				
Impaired loans	$ 3,899,443	$ -	$ -	$ 3,899,443
Other real estate	2,746,535	-	-	2,746,535
Total assets	$ 6,645,978	$ -	$ -	$ 6,645,978

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The estimated fair values of the Bank's financial instruments as of December 31 are as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in Thousands)			
Financial assets:				
Cash and short-term investments	$ 6,787	$ 6,787	$ 3,255	$ 3,255
Bank-owned life insurance	3,259	3,259	3,167	3,167
Loans	166,688	166,203	151,956	151,257
Financial liabilities:				
Deposits	184,812	183,093	162,497	160,929
Long-term debt	20,000	20,382	20,500	21,114
Unrecognized financial instruments:				
Commitments to extend credit	30,908	309	21,199	212