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Board of Governors of the Federal Reserve System

FRB RICHMOND

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, N. Richard Kalikow
Name of the Holding Company Director and Official

Managing Member
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

[signature]
Signature of Holding Company Director and Official

4/14/15
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☒ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 3878835
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2014
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address
Max Bancorp, LLC
Legal Title of Holding Company

1020 Highway 17 North
(Mailing Address of the Holding Company) Street / P.O. Box

North Myrtle Beach	SC	29582
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jim Smith	President & CEO (SHC)
Name	Title

843-663-1300
Area Code / Phone Number / Extension

843-280-9923
Area Code / FAX Number

jsmith@sandhillsbank.com
E-mail Address

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

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

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

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Sandhills Holding Company, Inc.
Legal Title of Subsidiary Holding Company

1020 Highway 17 North
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

North Myrtle Beach	SC	29582
City	State	Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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City State Zip Code

Physical Location (if different from mailing address)

Max Bancorp, LLC

Responses for Annual Report of Bank Holding Companies – FRY-6
Period Ending December 31, 2014

Report Item 1: No annual report is prepared for shareholders.

Report Item 2a: Organization Chart

Max Bancorp, LLC
North Myrtle Beach, SC USA
Incorporated in DE

Max Bancorp, LLC owns 95% of stock in the following:

Sandhills Holding Company, Inc.
North Myrtle Beach, SC USA
Incorporated in SC

Sandhills Holding Company, Inc. owns 100% of stock in the following:

Sandhills Bank
North Myrtle Beach, SC USA
Incorporated in SC

2b: Domestic Branch Listing – Confirmed and sent by email 3/20/2015 to Phyllis.Strum@rich.frb.org

Report Item 3: Shareholders - See attached spreadsheets for:
Max Bancorp, LLC
Sandhills Holding Company, Inc.

Report Item 4: Insiders – See attached spreadsheets for:
Max Bancorp, LLC
Sandhills Holding Company, Inc.

Results: A list of branches for your holding company: MAX BANCORP, LLC (3878835) of NORTH MYRTLE BEACH, SC.
The data are as of 12/31/2014. Data reflects information that was received and processed through 01/07/2015.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-1D Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	806220	SANDHILLS BANK	102D HIGHWAY 17 NORTH	NORTH MYRTLE BEACH	SC	29582	HORRY	UNITED STATES	11886	0	SANDHILLS BANK	806220	
OK		Full Service	3726329	BETHUNE BRANCH	300 KING STREET	BETHUNE	SC	29009	KERSHAW	UNITED STATES	357094	2	SANDHILLS BANK	806220	
OK		Limited Service	4470955	LONGS BRANCH	7050 HIGHWAY 90, SUITE C	LONGS	SC	29568	HORRY	UNITED STATES	535816	3	SANDHILLS BANK	806220	
OK		Limited Service	4664110	MYRTLE BEACH BRANCH - PROFESSIONAL DRIVE	1294 PROFESSIONAL DRIVE, SUITE B	MYRTLE BEACH	SC	29577	HORRY	UNITED STATES	Not Required	Not Required	SANDHILLS BANK	806220	

Form FR Y-6
Max Bancorp, LLC
Fiscal Year Ending December 31, 2014

Report Item 3: Shareholders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power of vote as of fiscal year ending 12-31-2014			Shareholders not listed in 3 (1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2014		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
N. Richard Kalikow New York, NY USA	USA	75% of the voting interests	None	N/A	N/A
Martin B. Greenberg Mill Neck, NY USA	USA	25% of the voting interests			

Form FR Y-6
Sandhills Holding Company, Inc.
Fiscal Year Ending December 31, 2014

Report Item 3: Shareholders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power of vote as of fiscal year ending 12-31-2014			Shareholders not listed in 3 (1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2014		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Max Bancorp, LLC North Myrtle Beach,SC USA	USA	900,082.28 shares 95.3195%	None	N/A	N/A

Form FR Y-6
Sandhills Holding Company, Inc.
Fiscal Year Ending December 31, 2014

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation, if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (includes names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Darra W. Cothran Columbia, SC USA	Attorney	Director	Director of Sandhills Bank	Limited partner of Heniford Farms Ltd. Ptsp.; Member & Manager of Sandhills Insurance, LLC; President & Chair of Board of Casey Corporation of Columbia; General partner of Woodward, Cothran & Herndon Member & Manager of Heniford House, LLC Member & Manager of DOH, LLC Trustee of the Heniford Trust B.	Total 0.1042%	None	Woodward, Cothran & Herndon (33.33%) The Heniford Trust B (33.3%)
Martin B. Greenberg Mill Neck, NY USA	Chairman, Sterling Commodities Corp.	Director & Vice-Chair	Director & Vice-Chair of Sandhills Bank	Member of Max Bancorp, LLC; Chairman of Sterling Commodities Corp.	Total 0.4448%	None	Sterling Commodities Corp. (100%); G. Martin Associates (50%); Max Bancorp, LLC (25%); Beta Capital, LLC (25%)
Max Bancorp, LLC North Myrtle Beach,SC USA	N/A	N/A	N/A	N/A	Total 95.3195%; ownership in this company is of Greenberg and Kalikow of this schedule	N/A	N/A
N. Richard Kalikow New York, NY USA	President, Manchester Real Estate & Construction, LLC	Director & Chair	Director & Chair of Sandhills Bank	President and Managing Member of Manchester Real Estate & Construction, LLC; Managing Member of Max Bancorp, LLC President of Kalikow Realty & Construction Corp.; General Partner of Kalikow Realty Company; Managing Member of Fortune Funding, LLC; Manager of Alpha Capital, LLC; Manager of Beta Capital, LLC; Manager of Alpha Manhattan, LLC; Chairman & CEO of Gamma Real Estate, LLC; Managing Member of Gamma Funding Special Limited Partner, LLC; Managing Member of Gamma Funding Management, LLC; Managing Member of Triton Real Estate Investments Holdco, LLC; Managing Member of Triton Real Estate Special Limited Partner, LLC; Managing Member of Gamma Development, LLC; Trustee of The Heisman Trophy Trust	Total 3.6642%	None	Manchester Real Estate & Construction, LLC (100%); Max Bancorp, LLC (75%) Kalikow Realty & Construction Corp. (100%); Fortune Funding, LLC (99.99%); Kalikow Realty Company (37.50%); Triton Real Estate Investments Holdco, LLC (50%); Triton Real Estate Special Limited Partner (95.4%); Gamma Real Estate, LLC (50%); Gamma Funding Management, LLC (50%); Gamma Development, LLC (50%); Gamma Funding Management, LP (49.9%) *The following entities are owned through Fortune Funding, LLC:* Beta Capital, LLC (75%); Alpha Manhattan, LLC (70.21%); Alpha Capital, LLC (67.50%)
James B. Smith Little River, SC USA	N/A	Director & President & CEO	Director, President and CEO of Sandhills Bank	Manager of A&K Futures, LLC	Total 0.1112%	None	A&K Futures, LLC (50%)

Form FR Y-6
Max Bancorp, LLC
Fiscal Year Ending December 31, 2014

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation, if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (includes names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Martin B. Greenberg Mill Neck, NY USA	Chairman, Sterling Commodities Corp.	Member	Director and Vice-Chair of Sandhills Holding Company, Inc.	Chairman of Sterling Commodities Corp.	25% of voting interests	**Sandhills Holding Company, Inc.** 0.4448%	Sterling Commodities Corp. (100%); G. Martin Associates (50%); Beta Capital, LLC (25%)
N. Richard Kalikow New York, NY USA	President, Manchester Real Estate & Construction, LLC	Managing Member	Director & Chair of Sandhills Holding Company, Inc.	President and Managing Member of Manchester Real Estate & Construction, LLC; President of Kalikow Realty & Construction Corp.; General Partner of Kalikow Realty Company; Managing Member of Fortune Funding, LLC; Manager of Alpha Capital, LLC; Manager of Beta Capital, LLC; Manager of Alpha Manhattan, LLC; Chairman & CEO of Gamma Real Estate, LLC; Managing Member of Gamma Funding Special Limited Partner, LLC; Managing Member of Gamma Funding Management, LLC; Managing Member of Triton Real Estate Investments Holdco, LLC; Managing Member of Triton Real Estate Special Limited Partner, LLC; Managing Member of Gamma Development, LLC; Trustee of The Heisman Trophy Trust	75% of voting interests	**Sandhills Holding Company, Inc.** 3.6642%	Manchester Real Estate & Construction, LLC (100%); Kalikow Realty & Construction Corp. (100%); Fortune Funding, LLC (99.99%); Kalikow Realty Company (37.50%); Triton Real Estate Investments Holdco, LLC (50%); Triton Real Estate Special Limited Partner (95.4%); Gamma Real Estate, LLC (50%); Gamma Funding Management, LLC (50%); Gamma Development, LLC (50%); Gamma Funding Management, LP (49.9%) *The following entities are owned through Fortune Funding, LLC:* Beta Capital, LLC (75%); Alpha Manhattan, LLC (70.21%); Alpha Capital, LLC (67.50%)

Sandhills Holding Company
and Subsidiaries

Report on Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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elliott davis decosimo

Independent Auditor's Report

The Board of Directors
Sandhills Holding Company and Subsidiaries
North Myrtle Beach, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sandhills Holding Company and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 Sandhills Holding Company and its subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
March 16, 2015

Sandhills Holding Company and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2014 and 2013

	2014	2013
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 1,143,311	$ 759,190
Interest bearing cash	100,000	100,000
Total cash and cash equivalents	1,243,311	859,190
Investment securities:		
Securities available-for-sale	26,509,088	22,083,311
Other investments	1,031,000	873,550
Total investment securities	27,540,088	22,956,861
Loans receivable, net	61,048,936	48,333,882
Premises and equipment, net	7,087,961	6,244,784
Accrued interest receivable	466,968	477,843
Other real estate owned	575,657	1,019,071
Intangible assets	244,729	331,104
Cash surrender value of life insurance	352,325	343,091
Deferred tax asset	5,451,601	370,045
Other assets	993,069	832,014
Total assets	$ 105,004,645	$ 81,767,885
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 4,378,839	$ 3,507,732
Interest-bearing transaction accounts	7,400,255	5,364,747
Money market and savings	22,482,921	23,460,514
Certificates of deposit	46,944,385	35,713,924
Total deposits	81,206,400	68,046,917
Note payable	1,312,500	1,462,500
Federal funds purchased	3,500,000	1,002,100
Advances from Federal Home Loan Bank	5,500,000	4,500,000
Accrued interest payable	49,976	40,232
Other liabilities	598,827	405,583
Total liabilities	92,167,703	75,457,332
Commitments and contingencies - Notes 6, 16 and 18		
Shareholders' equity:		
Preferred stock, $1.00 par value; 50,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $1.00 par value; 200,000,000 shares authorized; 944,279 and 922,279 issued and outstanding at December 31, 2014 and 2013, respectively	944,279	922,279
Additional paid in capital	17,074,237	16,886,237
Accumulated deficit	(5,658,990)	(11,099,884)
Accumulated other comprehensive income (loss)	183,365	(427,147)
Total controlling shareholders' equity	12,542,891	6,281,485
Non-controlling interest	294,051	29,068
Total shareholders' equity	12,836,942	6,310,553
Total liabilities and shareholders' equity	$ 105,004,645	$ 81,767,885

See Notes to Consolidated Financial Statements

Sandhills Holding Company and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2014 and 2013

	2014	2013
Interest income:		
Interest on loans receivable	$ 2,976,784	$ 2,366,038
Interest on investment securities	726,466	868,075
Other interest income	5,454	1,859
Total interest income	3,708,704	3,235,972
Interest expense:		
Interest on deposits	490,835	451,184
Interest on borrowings	100,390	150,343
Total interest expense	591,225	601,527
Net interest income	3,117,479	2,634,445
Provision for loan losses	170,000	125,000
Net interest income after provision for loan losses	2,947,479	2,509,445
Non-interest income:		
Monthly service charges	36,487	28,722
Non-sufficient funds service charges	47,123	44,190
Overdraft privilege fees	39,990	39,762
Other service charges and fees	71,538	94,027
Gain on sale of investment securities	245,309	65,091
Gain on sale of fixed assets	11,754	-
Gain on sale of loans	176,013	-
ATM income	15,639	51,116
Other	78,219	54,116
Total non-interest income	722,072	377,024
Non-interest expense:		
Salaries and employee benefits	1,382,501	1,077,555
Net occupancy	453,530	358,595
Insurance	106,083	99,664
Professional services	116,112	171,938
Amortization of intangibles	86,375	86,375
Net cost of operation of other real estate	114,886	48,508
Other operating expenses	909,136	788,347
Total non-interest expense	3,168,623	2,630,982
Income before income taxes	500,928	255,487
Income tax benefit	(5,251,154)	(108,051)
Net income	5,752,082	363,538
Less: net income attributable to non-controlling interest	264,983	8,749
Net income attributable to controlling shareholders	$ 5,487,099	$ 354,789
Basic and diluted income per share attributable to Controlling shareholders	$ 5.83	$ 0.38
Weighted average shares outstanding Basic	941,145	922,279

See Notes to Consolidated Financial Statements

Sandhills Holding Company and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2014 and 2013

	2014	2013
Net income	$ 5,752,082	$ 363,538
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the period	1,183,556	(1,595,056)
Tax effect	(418,499)	542,319
Reclassification adjustment for realized gains included in net income	(245,309)	(65,091)
Tax effect	90,764	22,131
Other comprehensive income (loss), net of tax	610,512	(1,095,697)
Comprehensive income (loss)	$ 6,362,594	$ (732,159)

See Notes to Consolidated Financial Statements

Sandhills Holding Company and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2014 and 2013

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	Shares	Amount					
Balance, December 31, 2012	922,279	$ 922,279	$ 16,886,237	$ (11,316,331)	$ 668,550	$ 20,319	$ 7,181,054
Net income				354,789		8,749	363,538
Other comprehensive loss, net of tax benefit of $564,450					(1,095,697)		(1,095,697)
Dividends paid ($0.15 per share)				(138,342)			(138,342)
Balance, December 31, 2013	922,279	922,279	16,886,237	(11,099,884)	(427,147)	29,068	6,310,553
Net income				5,487,099		264,983	5,752,082
Issuance of shares	22,000	22,000	188,000				210,000
Other comprehensive income, net of tax expense of $327,735					610,512		610,512
Dividends paid ($0.05 per share)				(46,205)			(46,205)
Balance, December 31, 2014	944,279	$ 944,279	$ 17,074,237	$ (5,658,990)	$ 183,365	$ 294,051	$ 12,836,942

See Notes to Consolidated Financial Statements

Sandhills Holding Company and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

	2014	2013
Operating activities:		
Net income	$ 5,752,082	$ 363,538
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	170,000	125,000
Depreciation	304,473	220,419
Amortization of intangibles	86,375	86,375
Net amortization/accretion	105,919	68,449
Gain on sale of investments	(245,309)	(65,091)
Gain on sale of fixed assets	(11,754)	-
Gain on sale of loans	(176,013)	-
Write down of other real estate owned	90,851	41,540
(Gain) loss on sale of other real estate owned	(13,483)	1,884
Increase in deferred income taxes	(5,409,290)	-
Decrease in accrued interest receivable	10,875	71,374
Increase (decrease) in accrued interest payable	9,744	(15,096)
(Increase) decrease in other assets	(170,289)	144,821
Increase (decrease) in other liabilities	193,244	(523,231)
Net cash provided by operating activities	697,425	519,982
Cash flows from investing activities:		
Proceeds from sales, maturities, calls, and paydowns of securities available-for-sale	11,276,335	6,598,015
Purchases of securities available-for-sale	(14,624,476)	(10,170,170)
Purchase of other investments	(157,450)	(205,900)
Net increase of loans receivable	(12,742,242)	(12,609,533)
Purchase of premises and equipment, net	(1,135,896)	(849,586)
Proceeds from sales of other real estate owned	399,247	51,311
Net cash used by investing activities	(16,984,482)	(17,185,863)
Cash flows from financing activities:		
Net increase in deposit accounts	13,159,483	5,896,017
Net change in federal funds purchased	2,497,900	1,002,100
Repayment of note payable	(150,000)	(37,500)
Proceeds from Federal Home Loan Bank advances	1,000,000	4,500,000
Proceeds from issuance of stock	210,000	-
Cash dividends paid	(46,205)	(138,342)
Net cash provided by financing activities	16,671,178	11,222,275
Net increase (decrease) in cash and cash equivalents	384,121	(5,443,606)
Cash and cash equivalents, beginning of year	859,190	6,302,796
Cash and cash equivalents, end of year	$ 1,243,311	$ 859,190
Noncash transactions		
Transfer of loans to other real estate owned	$ 33,201	$ 251,960
Supplemental information		
Cash paid during the year for interest	$ 581,481	$ 616,623
Cash paid during the year for income taxes	$ 33,000	$ 41,092

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Sandhills Holding Company (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiaries, Sandhills Bank (the "Bank") and South Investments, LLC (the "LLC"). The Bank operates under a state charter and provides full banking services. The LLC is used to hold certain real estate and loans. A controlling interest in the Company was acquired on November 9, 2009 by Max Bancorp with the purchase of 42,690 shares for $11,312,850 (see Note 11). In addition, Max Bancorp acquired additional shares in 2011 through a conversion of debt (See Note 11).

The accounting and reporting policies of Sandhills Holding Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Financial position and operating results are determined by use of the accrual method of accounting, which endeavors to recognize income in the period earned and to match income with all costs of earning it.

Principles of Consolidation:

The accompanying financial statements include the accounts of Sandhills Holding Company and its wholly owned subsidiaries, Sandhills Bank and South Investments, LLC. All significant intercompany balances and transactions between Sandhills Holding Company and its subsidiaries have been eliminated.

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 disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, including valuation allowances for impaired loans, the carrying amount of real estate acquired in connection with foreclosures or in satisfaction of loans, the fair value estimates for financial instruments, the valuation of deferred tax assets, and goodwill. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance 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 Company's allowances for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances 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 allowances for losses on loans and foreclosed real estate may change materially in the near term.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods) and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations, general obligation municipal securities, and corporate debt securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Cash and Cash Equivalents:

The Company considers all cash and amounts due from depository institutions, interest-bearing deposits in other banks, and federal funds sold to be cash equivalents for purposes of the statements of cash flows.

Investment Securities:

Debt securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at the amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in stockholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

Note 1. Summary of Significant Accounting Policies, Continued

Investment Securities (continued):

Declines in the fair value of individual held-to-maturity and available-for-sale debt securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers: (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 issuers, (3) the outlook for receiving the contractual cash flows of the investments, (4) the anticipated outlook for changes in the general level of the interest rates, and (5) the intent of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of contractual cash flows, and whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value.

Other Investments:

Other investments are nonmarketable equity securities that include the cost of the Bank's investment in the stock of the Federal Home Loan Bank and investments in two other community banker's banks. These stocks have no quoted market value and no ready market for them exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize the borrowings.

Loans:

The Company grants mortgage, commercial and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions of surrounding areas.

Loans are stated at their unpaid principal balance, net of any charge-offs. Interest income is computed using the simple interest method and is recorded in the period earned. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. The accretion and amortization of loan fees and origination costs are presented as a component of loan interest income on the statements of income.

Loans acquired in a business combination are recorded at estimated fair value on their purchase date; the purchaser cannot carry over the related allowance for loan losses. When the acquired loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying amount of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable, with a positive impact on interest income.

Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. For acquired performing loans, the fair value adjustments are being accreted into income based on contractual cash flows, using the effective interest rate method over the remaining maturities of the underlying loans.

Note 1. Summary of Significant Accounting Policies, Continued

Loans, continued:

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest and there is no doubt about the ultimate collectibility of principal.

The Bank identifies impaired loans through its normal internal loan review process. Loans on the Bank's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether the borrower will be able to perform in accordance with the loan agreement. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

Troubled Debt Restructurings ("TDRs"):

The Company designates loan modifications as TDRs when, for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of modification are initially classified as accruing TDRs at the date of modification, if the note is reasonably assured of repayment and performance is in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the modification date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accrual status when there is economic substance to the restructuring, there is well documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

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 uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability 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 more information becomes available.

The allowance consists of specific and general components. Specific reserves are established for loans that are classified as impaired, based on an evaluation of the discounted expected cash flows (or collateral value or observable market price) of the impaired loan. The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, continued:

A loan is considered impaired when, based on current information and events, it is probable that the Company 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. 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Off-Balance Sheet Credit Related Financial Instruments:

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they become payable by the customer.

Other Real Estate Owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at fair value less cost 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 fair value less cost to sell.

Any write-downs at the dates of acquisition are charged to the allowance for loan losses. Expenses to maintain such assets, subsequent write-downs, and gains and losses on disposal are included in net cost of operations of other real estate owned.

Premises and Equipment:

Premises and equipment are stated at cost less accumulated depreciation computed principally on the straight line method over the estimated useful lives of the assets. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the statement of operations when incurred. The costs of major renewals and improvements are capitalized.

Note 1. Summary of Significant Accounting Policies, Continued

Intangible Assets:

Business combinations are accounted for using the acquisition method of accounting. Identifiable intangible assets which consist solely of core deposit intangibles are recognized separately and are amortized over their estimated useful lives, which for the Company is approximately 8 years and on a straight line basis.

Advertising Costs:

Advertising costs are expensed as incurred. Advertising costs amounted to $119,190 and $72,030 for the years ended December 31, 2014 and 2013, respectively. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income Taxes:

Income taxes are the sum of amounts currently payable to taxing authorities and the net changes in income taxes payable or refundable in future years. Income taxes deferred to future years are determined utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities which are principally the allowance for loan losses, depreciable premises and equipment, and the net operating loss carryforward.

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. In 2013, Management determined that a partial valuation allowance was necessary. During 2014, Management concluded that positive evidence existed to overcome any and all negative evidence in order to meet the more than likely standard regarding the realization of the entire deferred tax asset balance. As a result, the valuation allowance was reduced by $5,629,516 during 2014.

Income Per Share:

Income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. The Company has no instruments which are considered common stock equivalents and therefore, diluted net income per share is not presented.

Comprehensive Income (Loss):

The Company reports comprehensive income (loss) in accordance with Accounting Standards Codification ("ASC") 220, "Comprehensive Income". The standard requires that all items that are required to be reported under accounting standards as comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other consolidated financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income (loss).

Statement of Cash Flow

For purposes of reporting cash flows, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts from banks, interest-bearing bank balances, and federal funds sold.

Note 1. Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements:

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In January 2014, the FASB amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company will apply the amendments prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for annual periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2014, the FASB issued guidance that is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements, management will need to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will be effective for the Company for annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2014, the FASB issued guidance that gives private companies an accounting alternative that will no longer require separate recognition of intangible assets associated with non-compete agreements or certain customer-related intangible assets in a business combination. Generally, the guidance requires the decision to adopt the accounting alternative to be made upon the occurrence of the first transaction within the scope of the guidance in fiscal years beginning after December 15, 2015. Early application is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Note 1. Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements (continued):

In January 2015, the FASB issued guidance that eliminated the concept of extraordinary items from generally accepted accounting principles ("U.S. GAAP"). Existing U.S. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. The amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, however, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied either prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and Uncertainties:

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Bank's loan portfolio that results from borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank.

The Bank is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Reclassifications:

Certain captions and amounts in the 2013 consolidated financial statements were reclassified to conform with the 2014 presentation.

Note 2. Investment Securities

The amortized cost and estimated fair values of securities are summarized below as of December 31:

Available-for-sale	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 14,841,543	$ 114,942	$ 39,122	$ 14,917,363
Obligations of state and local governments	7,274,701	306,690	10,873	7,570,518
Government-sponsored enterprises	4,101,788	-	80,581	4,021,207
Total investment securities	$ 26,218,032	$ 421,632	$ 130,576	$ 26,509,088

Available-for-sale	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 9,432,654	$ 350	$ 145,747	$ 9,287,257
Obligations of state and local governments	8,143,242	61,194	307,432	7,897,004
Government-sponsored enterprises	5,154,605	-	255,555	4,899,050
Total investment securities	$ 22,730,501	$ 61,544	$ 708,734	$ 22,083,311

Other investments at December 31, 2014 and 2013 included Federal Home Loan Bank stock of $478,500 and $299,800, respectively, and stock in two other community banker's banks totaling $552,500 and $573,750, respectively.

The amortized cost and market value of investment securities, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,030,918	$ 2,036,398
Due after one year but within five years	9,777,572	9,779,309
Due after five years but within ten years	9,299,108	9,421,025
Due after ten years	5,110,434	5,272,356
Total	$ 26,218,032	$ 26,509,088

Investment securities with an aggregate amortized cost of $11,775,570 and $5,932,457 and estimated fair value of $12,036,500 and $5,884,008 at December 31, 2014 and 2013, respectively, were pledged to secure deposits and other balances, including borrowings with the Federal Home Loan Bank, as required or permitted by law.

During the years ended December 31, 2014 and 2013, the Company sold available for sale investments for total proceeds of $9,372,810 and $4,585,790, respectively, resulting in gross gains of $273,718 and $80,566, respectively, and gross losses of $28,409 and $15,475, respectively.

Note 2. Investment Securities, Continued

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014.

	December 31, 2014					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities	$ 1,054,669	$ 3,094	$ 1,911,997	$ 36,028	$ 2,966,666	$ 39,122
Obligations of state and local governments	418,320	10,873	-	-	418,320	10,873
Government-sponsored enterprises	-	-	4,021,207	80,581	4,021,207	80,581
	$ 1,472,989	$ 13,967	$ 5,933,204	$ 116,609	$ 7,406,193	$ 130,576

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013.

	December 31, 2013					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities	$ 9,209,425	$ 145,747	$ -	$ -	$ 9,209,425	$ 145,747
Obligations of state and local governments	4,785,889	307,432	-	-	4,785,889	307,432
Government-sponsored enterprises	4,899,050	255,555	-	-	4,899,050	255,555
	$ 18,894,364	$ 708,734	$ -	$ -	$ 18,894,364	$ 708,734

Securities classified as available-for-sale are recorded at fair market value. The Company held three securities at December 31, 2014 in an unrealized loss position greater than twelve months. The Company has the ability and intent to hold these securities until such time as the value recovers or the security matures. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, the loss is not considered other-than-temporary. At December 31, 2013, the Company had no securities in a continuous loss position for greater than twelve months.

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.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 3. Loans Receivable

Following is a summary of loans by major classification as of December 31:

	2014	2013
Residential real estate	$ 20,240,235	$ 17,708,074
Commercial real estate	35,350,462	25,515,295
Commercial	1,853,813	460,661
Consumer [1]	4,482,667	5,383,477
Checking account reserve	14,623	16,013
	61,941,800	49,083,520
Less unearned interest and deferred loan fees	(85,079)	(78,258)
Less fair market value adjustment	-	(45,777)
Less allowance for loan losses	(807,785)	(625,603)
	(892,864)	(749,637)
Total loans, net	$ 61,048,936	$ 48,333,882

[1] Includes $4,403,709 and $5,356,026 in student loans at December 31, 2014 and 2013, respectively.

On April 27, 2012, the Bank purchased $7,832,750 in student loans. The loans are guaranteed 98% by the U.S. government.

In conjunction with the controlling interest acquired in Sandhills Holding Company and its subsidiary, Sandhills Bank by Max Bancorp on November 9, 2009, the Company marked its nonperforming and performing loans to fair value as of the acquisition date. For purchased performing loans, the remaining fair value adjustment for credit, interest rate and liquidity was $0 and $45,777 at December 31, 2014 and 2013, respectively. Accretion of this discount approximated $45,777 and $91,554 during 2014 and 2013, respectively.

The following is a summary of information pertaining to our allowance for loan losses as of and for the year ending December 31, 2014:

	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Checking Account Reserve	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 258,787	$ 187,371	$ 3,833	$ 36,643	$ -	$ 138,969	$ 625,603
Charge-offs	-	-	-	-	(2,845)	-	(2,845)
Recoveries	750	-	13,635	-	642	-	15,027
Provisions	(3,565)	92,223	(1,893)	108,183	2,203	(27,151)	170,000
Ending balance	$ 255,972	$ 279,594	$ 15,575	$ 144,826	$ -	$ 111,818	$ 807,785
Ending balances:							
Individually evaluated for impairment	$ 53,563	$ 100,585	$ -	$ -	$ -	$ -	$ 154,148
Collectively evaluated for impairment	$ 202,409	$ 179,009	$ 15,575	$ 144,826	$ -	$ 111,818	$ 653,637
Loans receivable:							
Ending balance - total	$ 20,240,235	$ 35,350,462	$ 1,853,813	$ 4,482,667	$ 14,623	$ -	$ 61,941,800
Ending balances:							
Individually evaluated for impairment	$ 584,022	$ 450,585	$ -	$ -	$ -	$ -	$ 1,034,607
Collectively evaluated for impairment	$ 19,656,213	$ 34,899,877	$ 1,853,813	$ 4,482,667	$ 14,623	$ -	$ 60,907,193

Note 3. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses as of and for the year ending December 31, 2013:

	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Checking Account Reserve	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 208,252	$ 112,721	$ 46,143	$ 8,585	$ -	$ 188,943	$ 564,644
Charge-offs	(71,443)	-	-	-	(4,148)	-	(75,591)
Recoveries	825	-	8,000	1,500	1,225	-	11,550
Provisions	121,153	74,650	(50,310)	26,558	2,923	(49,974)	125,000
Ending balance	$ 258,787	$ 187,371	$ 3,833	$ 36,643	$ -	$ 138,969	$ 625,603
Ending balances:							
Individually evaluated for impairment	$ 37,771	$ -	$ -	$ -	$ -	$ -	$ 37,771
Collectively evaluated for impairment	$ 221,016	$ 187,371	$ 3,833	$ 36,643	$ -	$ 138,969	$ 587,832
Loans receivable:							
Ending balance - total	$ 17,708,074	$ 25,515,295	$ 460,661	$ 5,383,477	$ 16,013	$ -	$ 49,083,520
Ending balances:							
Individually evaluated for impairment	$ 405,441	$ 381,406	$ -	$ -	$ -	$ -	$ 786,847
Collectively evaluated for impairment	$ 17,302,633	$ 25,133,889	$ 460,661	$ 5,383,477	$ 16,013	$ -	$ 48,296,673

Credit Quality Indicators

The Company uses a risk based approach based on the following credit quality measures when analyzing the loan portfolio: pass, weak pass, special mention, substandard, doubtful and classified loss. These indicators are used to rate the credit quality of loans for the purposes of determining the Company's allowance for loan losses.

Grades 1-3 are considered "Pass" - These grades are reserved for loans of sound quality. These loans have excellent sources of repayment, with no significant identifiable risk of collection, and conform in all respects to Bank policy, underwriting guidelines and Federal and State regulations (no exceptions of any kind).

Grades 4-5 are considered "Weak Pass" - These grades are given to acceptable loans with adequate sources of repayment, with little identifiable risk of collection. They may show signs of weakness in either adequate sources of repayment or collateral but have demonstrated mitigating factors that minimize the risk of delinquency or loss.

Grade 6 is considered "Special Mention" - These loans may include some or all of the following characteristics: numerous exceptions and insufficient mitigating factors; currently performing satisfactorily but with potential weaknesses that may, if not corrected, severely weaken the asset or inadequately protect the Bank's position at some future date; loans that have begun to exhibit some signs of delinquency or insufficient capacity to repay evidenced by default; or loans where the Bank has been forced to take special steps to protect the collateral.

Note 3. Loans Receivable, Continued

Grade 7 is considered "Substandard" - These loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any, and default is typically experienced. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Grade 8 is considered "Doubtful" - These loans have all the weaknesses inherent in loans classified Substandard, plus 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. However, these loans are not yet rated as loss because certain events may occur which would salvage some or all of the debt.

Grade 9 is considered "Classified Loss" - These loans are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be realized in the future.

The following table lists the loan grades used by the Company as credit quality indicators and the balance in each category.

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2014:

	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Checking Account Reserve	Total
Grade 1-3	$ 17,055,976	$ 18,639,090	$ 1,247,973	$ 4,452,536	$ 14,623	$ 41,410,198
Grade 4-5	2,496,899	14,923,139	572,254	30,131	-	18,022,423
Grade 6	524,206	287,261	33,586	-	-	845,053
Grade 7	163,154	1,500,972	-	-	-	1,664,126
Grade 8	-	-	-	-	-	-
Grade 9	-	-	-	-	-	-
	$ 20,240,235	$ 35,350,462	$ 1,853,813	$ 4,482,667	$ 14,623	$ 61,941,800

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2013:

	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Checking Account Reserve	Total
Grade 1-3	$ 14,193,111	$ 12,897,973	$ 225,101	$ 5,362,756	$ 16,013	$ 32,694,954
Grade 4-5	3,000,475	11,212,956	191,643	20,002	-	14,425,076
Grade 6	278,605	281,997	43,917	719	-	605,238
Grade 7	235,883	1,122,369	-	-	-	1,358,252
Grade 8	-	-	-	-	-	-
Grade 9	-	-	-	-	-	-
	$ 17,708,074	$ 25,515,295	$ 460,661	$ 5,383,477	$ 16,013	$ 49,083,520

Note 3. Loans Receivable, Continued

The following is an aging analysis of our loan portfolio at December 31, 2014:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days and Accruing
Residential real estate	$ 32,900	$ -	$ 92,655	$ 125,555	$ 20,114,680	$ 20,240,235	$ -
Commercial real estate	115,240	-	450,585	565,825	34,784,687	35,350,462	-
Commercial	-	-	-	-	1,853,813	1,853,813	-
Consumer	-	-	-	-	4,482,667	4,482,667	-
Checking account reserve	-	-	-	-	14,623	14,623	-
	$ 148,140	$ -	$ 543,240	$ 691,380	$ 61,250,420	$ 61,941,800	$ -

The following is an aging analysis of our loan portfolio at December 31, 2013:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days and Accruing
Residential real estate	$ 17,478	$ 8,450	$ 235,883	$ 261,811	$ 17,446,263	$ 17,708,074	$ -
Commercial real estate	453,884	84,324	474,026	1,012,234	24,503,061	25,515,295	-
Commercial	-	-	-	-	460,661	460,661	-
Consumer	-	-	-	-	5,383,477	5,383,477	-
Checking account reserve	-	-	-	-	16,013	16,013	-
	$ 471,362	$ 92,774	$ 709,909	$ 1,274,045	$ 47,809,475	$ 49,083,520	$ -

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Residential real estate	$ 351,140	$ 454,947	$ -	$ 381,898	$ -
Commercial real estate	-	-	-	-	-
	351,140	454,947	-	381,898	-
With an allowance recorded:					
Residential real estate	232,882	255,773	53,563	250,099	-
Commercial real estate	450,585	467,484	100,585	452,235	-
	683,467	723,257	154,148	702,334	-
Total:					
Residential real estate	584,022	710,720	53,563	631,997	-
Commercial real estate	450,585	467,484	100,585	452,235	-
	$ 1,034,607	$ 1,178,204	$ 154,148	$ 1,084,232	$ -

Note 3. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Residential real estate	$ 230,746	$ 183,248	$ -	$ 83,602	$ -
Commercial real estate	381,406	452,637	-	388,824	-
	612,152	635,885	-	472,426	-
With an allowance recorded:					
Residential real estate	174,695	181,232	37,771	176,559	-
	174,695	181,232	37,771	176,559	-
Total:					
Residential real estate	405,441	364,480	37,771	260,161	-
Commercial real estate	381,406	452,637	-	388,824	-
	$ 786,847	$ 817,117	$ 37,771	$ 648,985	$ -

The following is an analysis of our nonaccrual loan portfolio recorded at December 31, 2014 and 2013:

	2014	2013
Residential real estate	$ 163,154	$ 235,883
Commercial real estate	871,453	474,026
	$ 1,034,607	$ 709,909

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings ("TDRs") as of December 31, 2014 and 2013:

	2014	2013
Residential real estate	$ 163,154	$ 174,695
Commercial real estate	328,213	390,029
Total TDRs	$ 491,367	$ 564,724

There were no loans identified as a TDR during the year ended December 31, 2014. As a result, no loans that had previously been restructured within the last twelve months, subsequently defaulted during the year.

Note 3. Loans Receivable, Continued

The following is an analysis of TDRs identified during 2013:

	For the year ended December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential real estate	1	$ 174,695	$ 174,695
	1	$ 174,695	$ 174,695

During the year ended December 31, 2013, we modified one loan that was considered to be troubled debt restructuring. We extended the term for this loan.

During the year ended December 31, 2013, no loans that had previously been restructured subsequently defaulted during the year.

Note 4. Other Real Estate Owned

Activity in other real estate owned is summarized as follows for the years ended December 31:

	2014	2013
Balance, beginning of year	$ 1,019,071	$ 861,846
Additions	33,201	251,960
Sales	(385,764)	(53,195)
Writedowns	(90,851)	(41,540)
Balance, end of year	$ 575,657	$ 1,019,071

Note 5. Premises and Equipment

Premises, furniture and equipment is summarized as follows as of December 31:

	2014	2013
Buildings and land	$ 6,488,792	$ 6,334,409
Furniture equipment	1,514,352	1,266,292
Construction in progress	432,989	8,646
	8,436,133	7,609,347
Less accumulated depreciation	(1,348,172)	(1,364,563)
Premises and equipment, net	$ 7,087,961	$ 6,244,784

Depreciation expense for the years ended December 31, 2014 and 2013 was $304,473 and $220,419, respectively.

Construction in progress relates to the renovations of the corporate headquarters. Estimated costs remaining for completion as of December 31, 2014 are approximately $217,600.

Note 6. Lease

On October 1, 2012, the Company entered into a lease for a new banking branch facility in Longs, South Carolina. The initial terms of the lease began on October 1, 2012 for three years with two three-year renewal options. The landlord agreed to waive the first three month's lease payments, so the first monthly payment was due January 1, 2013. Periodic rent increases every year and is pre-scheduled for the initial term and the two three-year renewal terms. The Company entered into an additional lease agreement on November 4, 2013 for property in Myrtle Beach, South Carolina which expired on December 31, 2014 with two six month extensions available to exercise. The Company extended the lease term for the Myrtle Beach property for an additional six months through June 30, 2015. Rent expense for the leases for the years ended December 31, 2014 and 2013 was $34,530 and $12,720, respectively.

Future minimum lease payments are $30,738 for the year ended December 31, 2015. The Company has no lease commitments past December 31, 2015.

Note 7. Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortized intangible assets as of December 31, 2014 and 2013. As discussed in Note 1 and Note 11, the Company recorded a core deposit premium intangible in 2009 of $691,000 in connection with the acquisition of Sandhills Bank, which is being amortized on a straight line basis over the estimated life of the related deposits of 8 years.

	December 31, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit premiums	$ 691,000	$ 446,271	$ 691,000	$ 359,896

Amortization expense totaled $86,375 for each of the years ended December 31, 2014 and 2013.

The following table presents the estimated amortization expense for intangible assets for each of the remaining calendar years ending December 31, 2017. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

2015	$ 86,375
2016	86,375
2017	71,979
	$ 244,729

Note 8. Deposits

At December 31, 2014, the scheduled maturities of time deposit are as follows:

2015	$ 29,333,998
2016	12,169,969
2017	3,666,045
2018	1,225,642
2019 and thereafter	548,731
	$ 46,944,385

Time deposits with balances greater than $250,000 amounted to $3,327,003 and $1,973,093 at December 31, 2014 and 2013, respectively. Interest expense on time deposits with balances greater than $250,000 was $60,273 and $39,895 for the year ended December 31, 2014 and 2013, respectively.

Deposits for related parties at December 31, 2014 and 2013 amounted to $582,079 and $1,539,022, respectively.

The amount of overdrafts classified as loans at December 31, 2014 and 2013 was $4,858 and $5,596, respectively.

Note 9. Note Payable

On September 30, 2013, the Company entered into a note payable agreement with The Independent Bankers Bank in the amount of $1,500,000. The note payable requires quarterly principal payments of $37,500 with the remaining principal and accrued interest due at maturity on September 30, 2016. Accrued interest on this note is to be paid quarterly based on a variable rate of 4.00% as of December 31, 2014. The current balance of the note is $1,312,500 as of December 31, 2014.

Future principal payments are summarized as follows:

2015	$ 150,000
2016	1,162,500

Note 10. Advances from Federal Home Loan Bank

Advances from the Federal Home Loan Bank ("FHLB") consisted of the following at December 31, 2014:

Description	Current Interest Rate	2014 Balance
Fixed rate advances maturing		
August 19, 2015	0.35%	$ 1,500,000
August 26, 2015	0.62%	1,500,000
February 19, 2016	0.48%	1,000,000
August 26, 2016	1.13%	1,500,000
		$ 5,500,000

Note 10. Advances from Federal Home Loan Bank, Continued

Scheduled maturities of the advances are as follows:

2015	$ 3,000,000
2016	2,500,000
	$ 5,500,000

Each of the advances are subject to early termination options. The Federal Home Loan Bank reserves the right to terminate each agreement at an earlier date.

As collateral, the Bank has pledged securities aggregating $13,330,000 at December 31, 2014. In addition, the Company's Federal Home Loan Bank stock is pledged to secure the borrowings. Certain advances are subject to prepayment penalties.

Note 11. Controlling Interest

Effective November 9, 2009, a controlling interest was acquired in Sandhills Holding Company and its subsidiary, Sandhills Bank by Max Bancorp. The acquisition was accounted for under the acquisition method of accounting. As of the date of acquisition, the Company had $58.5 million in tangible assets, including $34.3 million in loans. Pursuant to the agreement, 42,690 shares of common stock were purchased at a price of $265 per share, or total cash consideration of $11,312,850. The remaining shares outstanding of 6,634 were also valued at $265 per share for a total acquisition date noncontrolling interest fair value of $1,758,010. In addition, since a greater than 80% interest in the Company was acquired, push down accounting was used and therefore the purchaser's cost was pushed down which established the new accounting basis in the purchased entity's financial statements.

In addition, on September 28, 2011, a total of 872,955 additional shares were issued to the controlling shareholder as a result of a debt conversion. As of December 31, 2014 and 2013, the controlling interest owns 900,082 shares in the Company, representing a 95.3% and 97.6% interest, respectively.

Note 12. Benefit Plans

The Company has a 401(k) plan covering substantially all employees. The plan provides for an employer match up to 50% of the employee's contribution up to 3% of compensation. The Company's expense related to the matching contributions of the 401(k) plan amounted to $40,356 and $14,882 for the years ended December 31, 2014 and 2013, respectively.

The Company has a deferred compensation plan for one current and one former director. The plan provides for set payments for a period of 10 years after the beneficiaries have reached the age of sixty-five. The individuals that participate in the plan are all fully vested in the plan. The liability recorded for the plan at December 31, 2014 and 2013 was $164,693 and $186,012, respectively.

Note 13. Other Expenses

A summary of the components of other non-interest expense is as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Loan expenses	$ 46,028	$ 81,944
FDIC insurance	72,216	56,066
Examination fees	24,317	21,603
Staff and directors expenses	132,454	117,954
Data processing and networking	223,670	200,545
Telephone, postage, and supplies	69,531	65,013
Custodial and landscaping services	31,257	29,589
Marketing and business development	119,190	72,030
Other operational expense	96,191	84,061
Other expenses	94,283	59,542
Total	$ 909,136	$ 788,347

Note 14. Unused Lines of Credit

At December 31, 2014 and 2013, the Bank had unused lines of credit with other financial institutions totaling approximately $5,800,000 and $4,798,000, respectively (which are withdrawable at the lender's option).

The Bank also has a line of credit to borrow funds from the Federal Home Loan Bank ("FHLB") for up to $14,960,000 as of December 31, 2014. As of December 31, 2014, the Bank had borrowings of $9,000,000 on this line, comprised of $3,500,000 in federal funds purchased and $5,500,000 in advances from FHLB.

Note 15. Income Taxes

Income tax expense is summarized as follows for the years ending December 31:

	2014	2013
Current income tax expense (benefit):		
Federal	$ -	$ 5,000
State	158,138	36,949
Total current	158,138	41,949
Deferred income tax expense (benefit)		
Federal	227,944	65,542
State	(7,720)	(7,261)
Total deferred	220,224	58,281
Change in valuation allowance	(5,629,516)	(208,281)
Total income tax expense (benefit)	$ (5,251,154)	$ (108,051)

Note 15. Income Taxes, Continued

The components of the net deferred tax asset (liability) are as follows as of December 31:

	2014	2013
Deferred tax assets:		
Other real estate owned	$ 81,545	$ 180,918
Net operating losses	7,085,099	6,960,016
Interest on nonaccrual loans	31,006	35,922
Deferred compensation	55,996	63,244
Capital losses on worthless equity securities	-	128,826
Market to market purchase accounting	-	15,564
Unrealized loss on available for sale securities	-	220,045
Other	37,096	26,267
Gross deferred tax assets	7,290,742	7,630,802
Less, valuation allowance	(267,463)	(5,896,979)
Net deferred tax assets	7,023,279	1,733,823
Deferred tax liabilities:		
Unrealized gains on available for sale securities	107,691	-
Accumulated depreciation	804,303	801,577
Mark-to-market purchase accounting	83,208	112,575
Allowance for loan losses	576,476	449,626
Total deferred tax liabilities	1,571,678	1,363,778
Net deferred tax asset	$ 5,451,601	$ 370,045

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the net deferred tax assets to net realizable value. As of December 31, 2014, management has determined that it is more likely than not that the majority of the deferred tax asset from continuing operations will be realized. In 2014, the valuation allowance decreased by $5,629,516. The remaining valuation allowance relates to the parent company's state operating loss carryforwards for which realizability is uncertain.

The Company has federal net operating losses of $20,066,002 as of December 31, 2014. These federal losses begin to expire in 2029. The Company has state net operating losses of $8,023,444 for the year ended December 31, 2014. These state losses begin to expire in 2029.

As of December 31, 2014, the Company had no material unrecognized tax benefits or accrued interest and penalties. It is the Company's policy to account for interest and penalties accrued relative to unrecognized tax benefits as a component of income tax expense.

Note 15. Income Taxes, Continued

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 34% to income before income taxes follows for the years ended December 31, 2014 and 2013:

	2014	2013
Tax expense at statutory rate	$ 170,316	$ 86,866
State income tax, net of federal benefit	99,276	24,386
Tax exempt interest	(1,529)	(2,518)
Valuation allowance	(5,629,516)	(208,281)
Cash surrender value of life insurance	(3,140)	(3,319)
Other	113,439	(5,185)
Income tax benefit	$ (5,251,154)	$ (108,051)

Tax returns for 2011 and subsequent years are subject to examination by taxing authorities.

Note 16. Financial Instruments With Off-Balance-Sheet Risk

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amount represents credit risk were as follows at December 31, 2014 and 2013:

	2014	2013
Commitments to extend credit	$ 1,620,000	$ 758,000
Standby letters of credit and other	50,000	-

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

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby 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 extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as involved in making commitments to extend credit.

Note 17. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss, current economic conditions, risk characteristics of various financial instruments, and other factors.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and Due from Banks - The carrying amount is a reasonable estimate of fair value.

Interest-Bearing Cash - The carrying amount is a reasonable estimate of fair value.

Investment Securities Available-for-Sale - Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, 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. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans Receivable - For certain categories of loans, such as variable rate loans, which are repriced frequently and have no significant change in credit risk, fair values are based on the carrying amounts. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits - The fair values of demand deposits, interest-bearing transaction, and savings accounts are the amounts payable on demand at the reporting date. The fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Note Payable - The carrying amount of the variable rate note is a reasonable estimate because it can be repriced frequently.

Federal Funds Sold and Purchased - Federal funds sold and purchased are for a term of one day, and the carrying amounts approximate the fair value.

Cash Surrender Value Life Insurance - The carrying amount is a reasonable estimate of fair value.

Advances from Federal Home Loan Bank - For disclosure purposes, the fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Note 17. Fair Value of Financial Instruments, Continued

Accrued Interest Receivable and Payable - The carrying values of these instruments are reasonable estimates of fair value.

Off-Balance-Sheet Financial Instruments - Fair values of off balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying values and estimated fair values of the Company's financial instruments are as follows:

	2014		2013	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial Assets:				
Cash and due from banks	$ 1,143,311	$ 1,143,311	$ 759,190	$ 759,190
Interest bearing cash and federal funds sold	100,000	100,000	100,000	100,000
Securities available for sale	26,509,088	26,509,088	22,083,311	22,083,311
Cash surrender value life insurance	352,325	352,325	343,091	343,091
Loans receivable, net	61,048,936	62,819,355	48,333,882	50,218,903
Accrued interest receivable	466,968	466,968	477,843	477,843
Financial Liabilities:				
Demand deposit, interest-bearing transaction, and savings accounts	34,262,015	34,262,015	32,332,993	32,332,993
Certificates of deposit and other time deposits	46,944,385	47,132,163	35,713,924	35,928,208
Federal funds purchased	3,500,000	3,500,000	1,002,100	1,002,100
Advances from Federal Home Loan Bank	5,500,000	5,516,500	4,500,000	4,527,000
Note payable	1,312,500	1,312,500	1,462,500	1,462,500
Accrued interest payable	49,976	49,976	40,232	40,232
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Off-Balance Sheet Financial Instruments:				
Commitments to extend credit	$ 1,620,000	$ -	$ 758,000	$ -
Standby letters of credit	50,000	-	-	-

Accounting standards require disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

The accounting standard defines fair value as the exchange price that would be received for 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. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted market 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 U.S. Treasuries, and money market funds.

Note 17. Fair Value of Financial Instruments, Continued

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, mortgage-backed securities, municipal bonds, corporate debt securities, 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.

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 on a recurring and nonrecurring basis:

Investment Securities Available-for-Sale: Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, 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. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans: Loans that are considered impaired are recorded at fair value on a non-recurring basis. Once a loan is considered impaired, the fair value is measured using one of several methods, including collateral liquidation value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loans 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.

Other Real Estate Owned (OREO): Other real estate owned is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, other real estate owned is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other 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 other real estate owned as nonrecurring Level 3.

Note 17. Fair Value of Financial Instruments, Continued

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Mortgage-backed securities	$ 14,917,363	$ -	$ 14,917,363	$ -
Obligations of state and local governments	7,570,518	-	7,570,518	-
Government-sponsored enterprises	4,021,207	-	4,021,207	-
Total	$ 26,509,088	$ -	$ 26,509,088	$ -

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Mortgage-backed securities	$ 9,287,257	$ -	$ 9,287,257	$ -
Obligations of state and local governments	7,897,004	-	7,897,004	-
Government-sponsored enterprises	4,899,050	-	4,899,050	-
Total	$ 22,083,311	$ -	$ 22,083,311	$ -

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of December 31, 2014 and 2013 for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2014 and 2013.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 575,657	$ -	$ 575,657	$ -
Impaired loans:				
Residential real estate	530,459	-	530,459	-
Commercial real estate	350,000	-	350,000	-
Total impaired loans	880,459	-	880,459	-
Total	$ 1,456,116	$ -	$ 1,456,116	$ -

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 1,019,071	$ -	$ 1,019,071	$ -
Impaired loans:				
Residential real estate	367,670	-	367,670	-
Commercial real estate	381,406	-	381,406	-
Total impaired loans	749,076	-	749,076	-
Total	$ 1,768,147	$ -	$ 1,768,147	$ -

Note 18. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings, which would have a material adverse effect on the financial position or operating results of the Company.

Note 19. Capital Requirements and Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications 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 Company and the Bank to maintain minimum ratios (set forth in the table below) of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Tier 1 Capital of the Company and the Bank consists of common shareholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. Tier 2 Capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Company and the Bank are also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

As of December 31, 2014 and 2013, the most recent notification from the FDIC, 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 table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

Note 19. Capital Requirements and Regulatory Matters, Continued

The following table summarizes the capital ratios and the regulatory minimum requirements of the Company and Bank.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
December 31, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Company						
Total capital (to risk-weighted assets)	$ 11,944	19.24%	$ 4,965	8.00%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	11,168	17.99	2,482	4.00	N/A	N/A
Tier 1 capital (to average assets)	11,168	11.42	3,912	4.00	N/A	N/A
The Bank						
Total capital (to risk-weighted assets)	$ 8,739	14.08%	$ 4,965	8.00%	$ 6,206	10.00%
Tier 1 capital (to risk-weighted assets)	7,963	12.83	2,482	4.00	3,724	6.00
Tier 1 capital (to average assets)	7,963	8.14	3,912	4.00	4,889	5.00
December 31, 2013						
The Company						
Total capital (to risk-weighted assets)	$ 6,975	15.35%	$ 3,636	8.00%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	6,406	14.09	1,818	4.00	N/A	N/A
Tier 1 capital (to average assets)	6,406	7.95	3,224	4.00	N/A	N/A
The Bank						
Total capital (to risk-weighted assets)	$ 8,160	17.95%	$ 3,636	8.00%	$ 4,546	10.00%
Tier 1 capital (to risk-weighted assets)	7,591	16.70	1,818	4.00	2,727	6.00
Tier 1 capital (to average assets)	7,591	9.42	3,224	4.00	4,030	5.00

Note 20. Sandhills Holding Company and Subsidiaries (Parent Company Only)

Following is condensed financial information of Sandhills Holding Company (Parent Company Only) as of and for the years ended December 31:

Condensed Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 100,354	$ 67,871
Investment in subsidiaries	12,352,408	7,680,171
Premises and equipment, net	174,898	-
Deferred tax asset	1,494,275	-
Other assets	27,507	25,011
Total assets	$ 14,149,442	$ 7,773,053
Liabilities and Shareholders' Equity		
Liabilities:		
Note payable	$ 1,312,500	$ 1,462,500
Total liabilities	1,312,500	1,462,500
Shareholders' equity:		
Controlling shareholders' equity	12,542,891	6,281,485
Non-controlling interest	294,051	29,068
Total liabilities and shareholders' equity	$ 14,149,442	$ 7,773,053

Note 20. Sandhills Holding Company and Subsidiaries (Parent Company Only), Continued

Condensed Statements of Income

	For the years ended December 31,	
	2014	**2013**
Income:		
Equity in undistributed earnings of subsidiaries	$ 4,438,502	$ 537,902
Expense:		
Interest expense	56,996	138,126
Other expense	123,699	36,238
	180,695	174,364
Income before income taxes	4,257,807	363,538
Income taxes (benefit)	(1,494,275)	-
Net income	5,752,082	363,538
Less: Net income attributable to non-controlling interest	264,983	8,749
Net income attributable to controlling shareholders	$ 5,487,099	$ 354,789

Condensed Statements of Cash Flows

	For the years ended December 31,	
	2014	**2013**
Operating activities		
Net income	$ 5,752,082	$ 363,538
Adjustments to reconcile net cash used by operating activities		
Depreciation	35,102	-
Equity in undistributed earnings of subsidiary	(4,438,502)	(537,902)
Increase in deferred tax asset	(1,494,275)	-
Other, net	(2,495)	(7,455)
Net cash used by operating activities	(148,088)	(181,819)
Investing activities:		
Dividends received from Sandhills Bank	250,000	250,000
Dividends received from South Investments, LLC	126,776	50,000
Purchase of premises and equipment	(210,000)	-
Net cash provided by investing activities	166,776	300,000
Financing activities:		
Cash dividends paid	(46,205)	(138,342)
Repayment of note payable	(150,000)	(37,500)
Proceeds from issuance of stock	210,000	-
Net cash provided (used) by financing activities	13,795	(175,842)
Increase (decrease) in cash	32,483	(57,661)
Cash and cash equivalents, beginning of year	67,871	125,532
Cash and cash equivalents, end of year	$ 100,354	$ 67,871

Note 21. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 16, 2015, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.