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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, Charles R. Davis
Name of the Holding Company Director and Official

Chairman of the Board
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.

Chairman
Signature of Holding Company Director and Official

3/30/15
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 4262253
C.I.

Date of Report (top-tier holding company's fiscal year-end):
March 27, 2015
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address
Premara Financial, Inc.
Legal Title of Holding Company

13024 Ballantyne Corporate Place Suite 100
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Charlotte	NC	28277

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Kendall R. Stewart	Chief Financial Officer

704-697-5061
Area Code / Phone Number / Extension

Area Code / FAX Number

kstewart@carolinapremierbank.com
E-mail Address

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

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Form FR Y-6

Premara Financial, Inc.

Charlotte, NC

Fiscal Year Ending December 31, 2014

Report Item

1: The bank holding company does prepare an annual report for its securities holders. It is included herein as Report item #1.

2(a): Organization Chart

Premara Financial, Inc.
Charlotte, NC,USA
Incorporated North Carolina

|

100%

Carolina Premier Bank
Charlotte, NC,USA
Incorporated in North Carolina

Results: A list of branches for your depository institution: CAROLINA PREMIER BANK (ID_RSSD: 3551521).
This depository institution is held by PREMARA FINANCIAL, INC. (4262253) of WASHINGTON, DC.
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-10 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)	3551521	CAROLINA PREMIER BANK	13024 BALLANTYNE CORPORATION PLACE	CHARLOTTE	NC	28277	MECKLENBURG	UNITED STATES	455112	0	CAROLINA PREMIER BANK	3551521	
OK		Full Service	4542348	PREMARA BANK, A DIVISION OF CAROLINA PREMIER BANK	1299 PENNSYLVANIA AVENUE, NW	WASHINGTON	DC	20004	DISTRICT OF COLUMBIA	UNITED STATES	Not Required	Not Required	CAROLINA PREMIER BANK	3551521	
OK		Full Service	4443904	BANK OF THE URBAN LEAGUE OF THE CENTRAL CAROLINAS, THE, BRANCH, A DIVISION OF CAROLINA PREMIER BANK	740 WEST 5TH STREET	CHARLOTTE	NC	28202	MECKLENBURG	UNITED STATES	533913	4	CAROLINA PREMIER BANK	3551521	
OK		Full Service	4425704	BLAKENEY PARK BRANCH	6225 BLAKENEY PARK DRIVE	CHARLOTTE	NC	28277	MECKLENBURG	UNITED STATES	501281	1	CAROLINA PREMIER BANK	3551521	
OK		Full Service	522623	BLACKSBURG BRANCH	203 WEST CHEROKEE STREET	BLACKSBURG	SC	29702	CHEROKEE	UNITED STATES	245208	2	CAROLINA PREMIER BANK	3551521	
OK		Full Service	3937714	ROCK HILL BRANCH	201 OAKLAND DRIVE	ROCK HILL	SC	29730	YORK	UNITED STATES	493519	3	CAROLINA PREMIER BANK	3551521	
OK		Full Service	4630160	OUR BANK, A DIVISION OF CAROLINA PREMIER BANK	115 NORTH MAIN STREET	SIX MILE	SC	29682	PICKENS	UNITED STATES	Not Required	Not Required	CAROLINA PREMIER BANK	3551521	

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2013			Current securities holders 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 12/31/2013		
(1)(a) Name City, State, Country	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(2)(a)** Name City, State, Country	**(2)(b)** Country of Citizenship or Incorporation	**(2)(c)** Number and Percentage of Each Class of Voting Securities
Jamie Bennett Coulter Dallas, Texas	United States	149500 (Common) 7.68%	N/A	N/A	N/A
US Department Treasury Small Business Lending Fund Washington, DC	United States	6238 Senior Non-Cumlative Perptual Preferred Stock 100% -NON-VOTING	N/A	N/A	N/A
BancTenn Corporation Kingsport, Tennessee	United States	107,290 (Common) 5.51%	N/A	N/A	N/A
	United States		N/A	N/A	N/A
	United States		N/A	N/A	N/A
	United States		N/A	N/A	N/A
	United States		N/A	N/A	N/A
	United States		N/A	N/A	N/A

Form FR Y-6
Premara Financial, Inc.
December 31, 2014

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

(1) Name City, State, Country 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)
Kendall Stewart Charlotte, NC, USA	N/A	Chief Financial Officer	Carolina Premier Bank Chief Financial Officer	N/A	0	N/A	N/A
Melodi Ross Charlotte, NC, USA	Executive Administrative Assistant	Corporate Secretary	Carolina Premier Bank Corporate Secretary	Executive Admin Assistant CA Short Company	0.01%	N/A	N/A
Amy Macari Charlotte, NC, USA	N/A	Assistant Corporate Secretary	Carolina Premier Bank Chief Administrative Officer	N/A	0	N/A	N/A
Charles R. Davis Charlotte, NC, USA	Employee Incentive Programs Real Estate Development	Chairman - Director	Carolina Premier Bank Director	Chairman & CEO, CA Short Company Owner American Home Builders CEO Mid-States Development	3.72%	N/A	100% Owner American Home Builders
Robert J. Maccubbin, Jr. Charlotte, NC, USA	Sales and Marketing	Director	Carolina Premier Bank Director	Burdette, Beckman, Inc.	1.14%	N/A	N/A
F. Douglas Banks Charlotte,NC, USA	Attorney	Director	Carolina Premier Bank Director	Banks Law Firm	0.03%	N/A	N/A
	N/A		N/A			N/A	N/A

PREMARA
FINANCIAL, INC.

Notice of Annual Shareholders Meeting and Proxy Statement

APRIL 20, 2015

PREMARA
FINANCIAL, INC.

April 20, 2015

Dear Shareholders:

I am honored to serve you as the CEO of Carolina Premier Bank. Since I joined our Company in early February, my excitement about our possibilities continues to grow. We enjoy a very loyal group of banking professionals that are passionate about serving our clients. This fact, coupled with a refined Strategic Plan, will produce solid financial results for our shareholder base.

The Company did not conduct an annual shareholder meeting in 2014. Many events led to the decision to forego this meeting. The Company's previous CEO resigned, and the Board and Management spent a great deal of time considering several strategic alternatives on the future of the Bank. These alternatives included selling, continuing as an independent Bank, and merging with a like-sized organization. Ultimately, the Board decided on a new strategic plan which involved bringing in a new CEO, re-tooling the management team, and continuing a path of organic and inorganic growth in our market areas.

We will conduct an annual shareholder meeting this year. I included with this letter the notice for that meeting, information about the nominees for election as directors, Company financial statements for the fiscal year ended December 31, 2014, and a Proxy. Your vote is important, so if you are unable to attend the meeting, please either vote via the internet at the address included in the attached materials, by calling the toll free number included in the materials, or following the instruction with the Proxy and returning it to us.

Our aim going forward is to communicate more frequently about the progress of our Company as we set about this new strategic plan. Today, I want to highlight a few of the initiatives that are underway to better position the Bank. As you might expect, there are many moving parts on these initiatives; therefore, specific timelines are difficult to quantify. I can assure you, however, that our team of professionals operates with a sense of urgency on accomplishing these goals.

Core Values: Early in my tenure, our executive team established a set of Core Values that form the foundation of our culture and how we will do business at Carolina Premier Bank. We talk about these core values each day, and I ask that you embrace them as well.

- *Trust:* Trust is the foundation of all relationships. We will operate our Company in a way that builds trust with our shareholders, clients, communities, and banking professionals.

13024 Ballantyne Corporate Place, Suite 100 I Charlotte, NC 28277 I Office (704) 752-9292

- *Excellence:* In all that we do, we strive for excellence—not perfection, but excellence. In the commoditized world of banking, it will set us apart.
- *Focus:* We will establish our strategic purpose and then focus all of our efforts on that purpose. We will remain flexible while not getting distracted by the flavor of the day.
- *Collaboration:* Banking is a team sport. We will work collaboratively to arrive at the best solution for our clients' needs.
- *Balance:* In all that we do, we will strive for a sense of balance.

These values will serve us and our constituents very well for the future.

Strategic Purpose: Like most companies, we had a vision and mission. These statements served our Company well the past few years, but could also have applied to any community bank in the country. As we embark on this new chapter, however, the executive team spent time discussing our overall Purpose—***why*** do we do what we do? We also discussed our primary areas of focus—how can we most effectively grow our Company, produce solid earnings, and ultimately increase shareholder value. Going forward, our primary focus will be on small and midsize business owners, professionals, and the non-profit sector. Our infrastructure is equipped to serve this segment well, and our market areas are fertile with this client segment.

Banking Professionals: While technology and branches are certainly important, the right banking professionals are essential for success. With the retirement of Jim Mauney as Chief Risk and Lending Officer, we will split this into two roles: Chief Credit Officer and Chief Lending Officer. We are also adding to our commercial team at our Charlotte headquarters. These additions will better position us to grow in the attractive, growing greater Charlotte area. We will announce the new members of our team as soon as the hiring process concludes.

Branch Justification: We will continually evaluate the financial performance of our branch footprint to ensure effectiveness and efficiency. Client demographics change over time, and we must be nimble enough to shift our footprint accordingly.

Capital: Our Company continues to be well-capitalized. As we position ourselves to grow our balance sheet, we will continue to maintain this well-capitalized status. In all of our capital planning, we will balance adequate capital with preserving shareholder value. Our current capital structure consists of $6.2 million of monies from the Small Business Lending Fund ("SBLF"), and the coupon on this capital increases in 2016. The Board and management are currently exploring alternatives for retiring this SBLF.

Improved Processes: As a community bank serving the small and midsize business owner and professional community, we must ensure our processes and procedures allow us to efficiently meet our clients' needs while protecting the Bank against losses. Our new Chief Lending Officer and Chief Credit Officer will devote much of their time to streamlining how we assist our clients with their needs. A "premier" experience is what they expect, and a "premier" experience is what our team must deliver. This path to excellence is how we will compete in what we all know are very competitive markets.

There is much to do. However, our banking professionals are up to the task. With the strong foundation of our Core Values and a focused effort on the market segment that we can best serve (What can we be the best at accomplishing? What drives our economic engine? What are we passionate about?), our future is bright. The investments we are making today in our banking professionals, our capital position, our markets, and our technology are essential to increasing the value of our Company. We thank you for your continued interest in Carolina Premier Bank, and we look forward to seeing you at the annual meeting on June 16, 2015.

Sincerely,

David P. Barksdale
President and Chief Executive Officer

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PREMARA FINANCIAL, INC.

13024 Ballantyne Corporate Place, Suite 100
Charlotte, North Carolina 28277

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Premara Financial, Inc. will be held at 10:00 a.m. on Tuesday, June 16, 2015, at The Harris Building, located at 13024 Ballantyne Corporate Place, Charlotte, North Carolina. The purposes of the meeting are:

1. *Election of Directors.* To reelect three directors;

2. *Ratification of Appointment of Independent Accountants.* To consider and vote on a proposal to ratify the appointment of Elliott Davis LLC as our independent accountants for 2015; and

3. *Other Business.* To transact any other business properly presented for action at the Annual Meeting.

At the Annual Meeting, you may cast one vote for each share of our common stock you held of record on April 10, 2015, which is the record date for the meeting.

Our Board of Directors recommends that you vote "FOR" the reelection of each of the three nominees for director named in this Proxy Statement, and "FOR" ratification of appointment of Elliott Davis LLC as our independent accountants for 2015.

You are invited to attend the Annual Meeting in person. However, if you are the record holder of your shares of our common stock, we ask that you appoint the proxies named in the enclosed proxy statement to vote your shares for you by signing and returning the enclosed proxy card, even if you plan to attend the Annual Meeting. If your shares are held in "street name" by a broker or other nominee you should follow your broker's or nominee's directions and give it instructions as to how it should vote your shares. Doing that will help us ensure that your shares are represented and that a quorum is present at the Annual Meeting. Even if you sign a proxy card, you may still attend the Annual Meeting and vote in person.

This notice and the enclosed proxy statement and form of appointment of proxy are being mailed to our shareholders on or about April 20, 2015.

By Order of the Board of Directors

Charles R. Davis
Chairman of the Board

YOUR VOTE IS IMPORTANT
WHETHER YOU OWN ONE SHARE OR MANY, YOUR PROMPT COOPERATION IN VOTING YOUR PROXY CARD IS APPRECIATED

TABLE OF CONTENTS

PREMARA
FINANCIAL, INC.

13024 Ballantyne Corporate Place, Suite 100
Charlotte, North Carolina 28277

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

General

This proxy statement is dated April 20, 2015, and is being furnished to our shareholders by our Board of Directors in connection with our solicitation of appointments of proxy in the form of the enclosed proxy card for use at the Annual Meeting of our shareholders and at any adjournments of the Annual Meeting. The Annual Meeting will be held at The Harris Building located at 13024 Ballantyne Corporate Place, Charlotte, North Carolina, at 10:00 a.m. on Tuesday, June 16, 2015.

In this proxy statement, the terms "you," "your" and similar terms refer to the shareholder receiving it. The terms "we," "us," "our" and similar terms refer to Premara Financial, Inc.

Proposals to be voted on at the Annual Meeting

At the Annual Meeting, record holders of our common stock will consider and vote on proposals to:

- Reelect three directors (see "Proposal 1: Election of Directors" on page 5);
- Ratify the appointment of Elliott Davis LLC as our independent accountants for 2015 (see "Proposal 2: Ratification of Appointment of Independent Accountants" on page 6); and
- Transact any other business properly presented for action at the Annual Meeting.

Our Board of Directors recommends that you vote "FOR" the reelection of each of the three nominees for director named in this proxy statement, and "FOR" ratification of appointment of Elliott Davis LLC as our independent accountants for 2015.

How You Can Vote at the Annual Meeting

Record Holders. If your shares of our common stock are held of record in your name, you can vote at the Annual Meeting in any of the following ways:

- You can attend the Annual Meeting and vote in person; or
- You can sign and return the proxy card enclosed with this proxy statement to appoint the "Proxies" named below to vote your shares for you at the meeting, or you can validly appoint another person to vote your shares for you.
- You can also vote via toll free number or via the internet (See proxy card for instructions).

Shares Held in "Street Name." Only the record holders of shares of our common stock, or their appointed proxies, may vote those shares. As a result, if your shares of our common stock are held for you in "street name" by a broker or other nominee, then only your broker or nominee (*i.e.* the record holder) may vote them for you, or appoint the Proxies to vote them for you, unless you have made prior arrangements for your broker or nominee to assign its voting rights to you or for you to be recognized as the person entitled to vote your shares. You will need to follow the directions your broker or nominee provides you and give it instructions as to how it should vote your shares by completing and returning to it the voting instruction sheet you received with your copy of our proxy statement (or by following any directions you received for giving voting instructions electronically). Brokers and other nominees who hold shares in street name for their clients typically have the discretionary authority to vote those shares on "routine" matters when they have not received instructions from beneficial owners of the shares. However, they may not vote those shares on non-routine matters (including election of directors) unless their clients give them voting instructions. To ensure your shares are represented at the Annual Meeting and voted in the manner you desire, ***it is important that you instruct your broker or nominee as to how it should vote your shares.***

Solicitation and Voting of Proxy Cards

If you are the record holder of your shares of common stock, a proxy card is included with this proxy statement that provides for you to name three of our directors (Charles R. Davis, F. Douglas Banks and Robert J. Maccubbin, Jr.), or any substitutes appointed by them, individually or as a group, to act as your Proxies and vote your shares at the Annual Meeting. We ask that you sign and date your proxy card and return it in the enclosed envelope so that your shares will be represented at the meeting.

If you sign a proxy card and return it to us so that we receive it before the Annual Meeting, the Proxies will vote your share of our common stock you hold of record according to your instructions. If you sign and return a proxy card but do not give any voting instructions, the Proxies will vote your shares "***FOR***" the election of each of the three nominees for director named in Proposal 1 below and "***FOR***" Proposal 2 discussed in this proxy statement ratifying appointment of Elliott Davis LLC as our independent accountants for 2015. If, before the Annual Meeting, any nominee named in Proposal 1 becomes unable or unwilling to serve as a director for any reason, your proxy card will give the Proxies discretion to vote for a substitute nominee named by our Board of Directors. We are not aware of any other business that will be brought before the Annual Meeting other than the election of directors and ratification of independent accounts described in this proxy statement but, if any other matter is properly presented for action by our shareholders, your proxy card will authorize the Proxies to vote your shares according to their best judgment. The Proxies also will be authorized to vote your shares according to their best judgment on matters incident to the conduct of the meeting, including motions to adjourn the meeting.

Revocation of Proxy Cards; How You Can Change Your Voting Instructions

Record Holders. If you are the record holder of your shares and you sign and return a proxy card and later wish to change the voting instructions or revoke the authority you gave the Proxies, you can do so at any time before the Annual Meeting by taking the appropriate action described below.

To change the voting instructions you gave the Proxies, you can sign and submit a new proxy card dated after the date of your original proxy card and containing your new instructions. The Proxies will follow the last voting instructions they receive from you before the Annual Meeting.

To revoke your proxy card:

- You can give our Corporate Secretary a written notice before the voting takes place at the Annual Meeting, that you want to revoke your proxy card; or

- You can attend the Annual Meeting and notify our Corporate Secretary that you want to revoke your proxy card and vote your shares in person. Simply attending the Annual Meeting alone, without notifying our Corporate Secretary, will not revoke your proxy card.

Shares Held in "Street Name." If your shares are held in "street name" and you want to change voting instructions you have given your broker or other nominee, you must follow your broker's or nominee's directions.

Expenses and Method of Solicitation

We will pay all costs of our solicitation of Proxies for the Annual Meeting, including costs of preparing and mailing this proxy statement. We are requesting that banks, brokers and other custodians, nominees and fiduciaries forward copies of our proxy solicitation materials to their principals and request their voting instructions, and we will reimburse those persons for their expenses in doing so. In addition to using the mail, our directors, officers and employees may solicit proxy cards, either personally, by telephone or by other methods of communication, but they will not receive any additional compensation from us for doing so.

In connection with the solicitation of proxy cards for the Annual Meeting, we have not authorized anyone to give you any information, or make any representation, not contained in this proxy statement. If anyone gives you any other information or makes any other representation to you, you should not rely on it as having been authorized by us.

Record Date and Voting Securities

The close of business on April 10, 2015 is the "Record Date" we are using to determine which shareholders are entitled to receive notice of and to vote at the Annual Meeting and how many shares they are entitled to vote. Our voting securities are the 1,945,983 shares of our common stock that were outstanding on the Record Date. You must have been a record holder of our stock on the Record Date in order to vote at the Annual Meeting.

Quorum and Voting Procedures

A quorum must be present for business to be conducted at the Annual Meeting. For all matters to be voted on at the meeting, a quorum will consist of a majority of the outstanding shares of our common stock. Shares represented in person or by proxy at the meeting will be counted to determine whether a quorum exists. Once a share is represented for any purpose at the meeting, it will be treated as present for quorum purposes for the remainder of the meeting and for any adjournments. If you return a valid proxy card or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker "non-votes" also will be counted in determining whether there is a quorum. Broker "non-votes" will occur if your shares are held by a broker and are voted on one or more matters at the meeting but are not voted by the broker on a "non-routine" matter because you have not given the broker voting instructions on that matter. If your shares are represented at the meeting with respect to any matter voted on, they will be treated as present with respect to all matters voted on, even if they are not voted on all matters.

You may cast one vote for each share of our common stock you held of record on the Record Date on each director to be elected and on each other matter voted on by shareholders at the Annual Meeting. You may not cumulate your votes in the election of directors.

Vote Required for Approval

Our directors are elected by a plurality of the votes cast in elections. In the election of directors at the Annual Meeting, the three nominees receiving the highest numbers of votes will be elected. For Proposal 2 to be approved, the votes cast in favor must exceed the votes cast against it. So long as a quorum is present, abstentions and broker non-votes will have no effect in the voting for directors or on Proposal 2.

PROPOSAL 1: ELECTION OF DIRECTORS

General

Our Bylaws provide that the number of directors constituting our Board of Directors is the number fixed or changed from time to time by our Board. Our Board has set the number of directors constituting the Board of Directors at three. Each director holds office from the time of their election and qualification until the annual meeting of shareholders next succeeding their election and qualification and until their successor shall have been duly elected and shall have qualified, or until their death, resignation or removal.

Nominees

Our current directors named in the table below have been nominated by our Board of Directions for reelection at the Annual Meeting. There are no family relationships among our directors and executive officers. If any nominee is not available for election, in its discretion our Board of Directors may designate a substitute nominee. In that event the proxies will be voted for such substitute nominee. All of the nominees have indicated to us that they will be available to serve as directors and therefore we do not anticipate that any substitute nominee or nominees will be required. The proxies will not be voted for more than three nominees. The following table lists information about each nominee, including a description of his principal occupation and business experience.

Name and Age	Position(s) With Us	Year Elected	Principal Occupation and Business Experience
Charles R. Davis (53)	Chairman	2011	Chairman and Chief Executive Officer, C.A. Short Company (Charlotte, NC) owner, American Home Builders, Chief Executive Officer Mid-States Development (Columbus, Ohio)
Robert J. Maccubbin, Jr. (55)	Director	2011	General Manager, Burdette Beckman, Inc.
F. Douglas Banks (54)	Director	2011	Attorney, Banks Law Firm (Charlotte, NC)

Our Board of Directors recommends that you vote "FOR" each of the three nominees named above. The three nominees receiving the highest numbers of votes will be elected.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

Our Board of Directors has selected our current independent accounting firm, Elliott Davis LLC, to serve as our independent accountants again for 2015. Neither our Bylaws nor the law require that our shareholders approve the Board's selection. However, we are submitting this proposal to ratify the appointment of Elliott Davis LLC for 2015 to our shareholders at the Annual Meeting as a matter of good corporate practice. Representatives of Elliott Davis LLC are expected to attend the Annual Meeting and be available to respond to appropriate questions, and they will have the opportunity to make a statement if they desire to do so. If our shareholders do not ratify our Board of Directors' selection, our Board of Directors will reconsider its decision, but it could choose to reaffirm its appointment of Elliott Davis LLC. Even if our shareholders vote to ratify our Board of Directors' selection, during the year our Board of Directors could choose to appoint different independent accountants at any time if it determines that a change would be in our best interests.

Our Board of Directors recommends that you vote "FOR" Proposal 2.
To be approved, the number of votes cast in person and by proxy at the Annual Meeting in favor of the proposal must exceed the number of votes cast against it.

CORPORATE GOVERNANCE

Communications with Our Board

Our Board of Directors encourages our shareholders to communicate with it regarding their concerns and other matters related to our business. You may address and mail your communications to our Board of Directors or to one or more individual directors to our Corporate Secretary, Melodi Ross, at:

Premara Financial, Inc.
Attention: Melodi Ross
13024 Ballantyne Corporate Place, Suite 100
Charlotte, North Carolina 28277

You also may send them by email to *directors@premarafinancial.com*. You should indicate whether your communication is directed to the entire Board of Directors, to its Chairman, or to one or more individual directors. All communications will be reviewed by our Corporate Secretary and, with the exception of communications she considers to be unrelated to our business, forwarded to the intended recipients. Copies of communications from a customer relating to a deposit, loan or other financial relationship or transaction with Carolina Premier Bank will also be forwarded to the department or division of the bank that is most closely associated with the subject of the communication.

EXECUTIVE OFFICERS

We consider our officers listed below to be our Executive Officers.

David P. Barksdale, age 51, serves as our President and Chief Executive Officer. Mr. Barksdale has 27 years of banking experience. His most recent experience was as Senior Executive Vice President/Chief Strategy Officer of NewBridge Bank a 2.5 billion financial institution.

Kendall R. Stewart, age 48, serves as our Chief Financial Officer and Treasurer. He joined Carolina Premier Bank as Chief Financial Officer in 2007 and continues to serve in that roll to present. Mr. Stewart has 25 years of commercial banking experience including financial, risk management, operations and information technology.

BENEFICIAL OWNERSHIP OF OUR COMMON STOCK

Principal Shareholders, Directors and Officers

The following table lists the entities who we believe owned, beneficially or of record, 5% or more of our common stock on the Record Date for the Annual Meeting.

	Amount of Beneficial Ownership (1)			
Name of Beneficial Owner	**Shares Owned**	**Warrants (2)**	**Total Beneficial Ownership**	**Percent of Class (3)**
Jamie Bennett Coulter..	149,500	0	149,500	7.68%
BancTenn Corporation Kingsport, Tennessee	107,290	0	107,290	5.51%
	Shares Owned	**Warrants (2)**	**Total Beneficial Ownership**	
Charles R. Davis..	67,482	4,248	71,730	3.69 %
Robert J. Maccubbin, Jr....................................	17.250	4,248	21,498	1.11%
F. Douglas Banks	575	-	575	0.02%

(1) "Beneficial ownership" includes the number of our outstanding common shares owned, plus the number of additional shares that could be purchased under stock purchase warrants. Amounts include the numbers of shares and warrants each person holds individually, as well as shares and warrants held by, or jointly with, his or her family members or entities they may be considered to control.

(2) Each of our organizers received warrants to purchase 4,248 shares in consideration for the personal risk and liability they assumed for payment of our organizational expenses.

(3) Percentages are calculated based on 1,945,983 total outstanding common shares plus, in the case of each named individual and the group, the number of additional shares that could be purchased by that individual, or by persons included in the group, upon the exercise of stock purchase warrants they hold.

AUDITED FINANCIAL STATEMENTS

A copy of our audited financial statements as of, and for the periods ended, December 31, 2014 and 2013 accompany this proxy statement.

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PREMARA
FINANCIAL, INC.

Financial Statements

PREMARA FINANCIAL, INC.
AND SUBSIDIARY

Report on Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

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PREMARA
FINANCIAL, INC.

April 20, 2015

Dear Shareholders:

Premara Financial, Inc. (the "Company"), and its subsidiary Carolina Premier Bank, continued down the path of growth and development during 2014. As part of balance sheet strategy, excess short term liquidity was more effectively used to grow the loan portfolio. The interest margins for our Company remained strong despite the challenges of the extraordinarily low interest rate environment that persisted throughout the year.

The average consolidated assets of our Company for the year ended December 31, 2014 were $246,190,000 as compared to $236,602,000 for the same period in 2013, an increase of 4%. Total assets as of December 31, 2014 and 2013 were $242,137,000 and $249,503,000, respectively. Average loans outstanding in 2014 were $185,574,000 as compared to $165,673,000 in 2013, an increase of 12%. Loans outstanding as of December 31, 2014 and 2013 were $185,962,000 and $168,122,000, respectively. Average Deposit balances for the year ended December 31, 2014 were $203,420,000 as compared to $202,846,000 for the same period in 2013, basically unchanged. Deposit balances as of December 31, 2014 and 2013 were $204,189,000 and $215,956,000, respectively.

The Company realized net income of $602,000 for the year ended December 31, 2014, compared to net income of $664,000 for the same period in 2013. Net interest income before provision expense for 2014 increased $1,340,000 from 2013, an increase of 17%. In contrast, non-interest expenses increased by $720,571 from 2013, an increase of only 9%. The cash dividends paid on preferred stock for the years ended December 31, 2014 and 2013 were $62,000 and $127,000, respectively. Net income available per common share after payment of the preferred dividend was $0.28 in both 2014 and 2013. Book value per common share as of December 31, 2014 was $8.55, as compared to $8.02 for the same period in 2013. Tangible book value per common share as of December 31, 2014 and 2013 was $8.17 and $7.61, respectively.

During the fourth quarter of 2014 our Company made a $500,000 provision for loan losses related to a single loan. The overall asset quality of the bank, however, remains strong with non-performing loans of less than 1% as of December 31, 2014. It is important to note that core earnings before one-time events and income taxes for the Company for the year ended December 31, 2014 were approximately $1,000,000, doubling that for the same period in 2013.

Sincerely,

Kendall Stewart

Kendall Stewart
Chief Financial Officer

13024 Ballantyne Corporate Place, Suite 100 I Charlotte, NC 28277 I Office (704) 752-9292

Contents

elliott davis decosimo

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Premara Financial, Inc. and Subsidiary
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Premara Financial, Inc. and Subsidiary (the "Company") 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 stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Elliott Davis Decosimo, PLLC

Charlotte, North Carolina
March 25, 2015

Premara Financial, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 3,025,484	$ 4,137,086
Interest-bearing bank deposits	7,618,423	30,611,954
Total cash and cash equivalents	10,643,907	34,749,040
Securities portfolio available-for-sale	32,862,439	14,938,364
Securities portfolio held-to-maturity (fair value of $17,148,679 at December 31, 2013)	-	18,736,512
Nonmarketable equity securities	1,307,488	1,301,900
Loans held for sale	590,981	1,390,701
Loans	185,961,756	168,121,518
Allowance for loan and lease losses	(2,301,722)	(2,324,306)
Loans, net	183,659,984	165,797,212
Premises and equipment, net	3,452,925	2,878,781
Deferred tax asset	2,134,381	2,333,038
Other real estate owned	54,119	54,119
Intangible assets	735,535	807,923
Bank owned life insurance	5,308,900	5,154,222
Accrued interest receivable	961,230	935,171
Other assets	424,746	426,514
Total assets	**$ 242,136,635**	**$ 249,503,497**
Liabilities:		
Deposits:		
Demand:		
Noninterest-bearing	$ 41,978,142	$ 60,868,068
Interest-bearing	21,475,033	22,969,368
Savings and money market	78,159,006	85,336,614
Time deposits, $100,000 and over	16,882,205	16,582,135
Other time deposits	45,694,698	30,200,237
Total deposits	204,189,084	215,956,422
Federal Home Loan Bank advances	14,000,000	11,000,000
Accrued interest payable	44,355	61,342
Other liabilities	1,032,526	631,237
Total liabilities	219,265,965	227,649,001
Commitments and contingencies - Notes 18, 20 and 25		
Stockholders' equity:		
Preferred stock, $1,000 par value; authorized 1,000,000 shares; 6,238 shares issued and outstanding	6,238,000	6,238,000
Common stock, $0.01 par value; authorized 25,000,000 shares; 1,945,983 shares issued and outstanding	19,460	19,460
Additional paid in capital	15,538,348	15,538,348
Retained earnings	967,194	427,254
Accumulated other comprehensive income (loss)	107,668	(368,566)
Total stockholders' equity	22,870,670	21,854,496
Total liabilities and stockholders' equity	**$ 242,136,635**	**$ 249,503,497**

See notes to consolidated financial statements

Premara Financial, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2014 and 2013

	2014	2013
Interest income:		
Loans, including fees	$ 9,396,411	$ 8,269,687
Securities	1,083,719	1,130,469
Other interest and dividend income	244,809	189,222
Total interest income	10,724,939	9,589,378
Interest expense:		
Time deposits, $100,000 and over	170,957	363,080
Other deposits	938,719	1,004,778
Other borrowings	238,992	184,797
Total interest expense	1,348,668	1,552,655
Net interest income	9,376,271	8,036,723
Provision for loan losses	585,000	120,000
Net interest income after provision for loan losses	8,791,271	7,916,723
Noninterest income:		
Debit and ATM income	162,360	166,118
Bank owned life insurance	154,678	159,798
Mortgage broker fees	11,490	127,632
Mortgage banking income	334,592	79,042
Gain (loss) on sale of available-for-sale securities	(108,096)	147,266
Gain on sale of other real estate owned	-	132,932
Service charges and other income	237,962	242,288
Total noninterest income	792,986	1,055,076
Noninterest expense:		
Compensation and employee benefits	4,312,232	4,076,201
Occupancy	1,106,091	897,367
Furniture and equipment	458,579	408,266
Professional services	505,442	368,015
Data processing	558,833	498,227
Office supplies and printing	95,462	100,007
Software	178,870	148,446
Advertising and marketing	92,620	197,566
FDIC insurance premiums	187,794	164,374
Telecommunications	187,702	139,446
Debit and ATM fees	198,065	214,384
Other operating	1,160,401	1,109,221
Total noninterest expenses	9,042,091	8,321,520
Income before income taxes	542,166	650,279
Income tax benefit	60,154	13,569
Net income	**602,320**	**663,848**
Preferred stock dividends	(62,380)	(126,839)
Net income available to common stockholders	$ 539,940	$ 537,009
Net income available per common share		
Basic	$ 0.28	$ 0.28
Diluted	$ 0.28	$ 0.28
Average common shares outstanding		
Basic	1,945,983	1,945,983
Diluted	1,945,983	1,945,983

See notes to consolidated financial statements

Premara Financial, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2014 and 2013

	2014	2013
Net income	$ 602,320	$ 663,848
Other comprehensive income:		
Investment securities available-for-sale:		
Unrealized holding (losses) gains	884,489	(1,059,693)
Tax effect	(341,006)	408,554
Reclassification of gains (losses) recognized in net income	108,096	(147,266)
Tax effect	(41,675)	56,777
Net of tax amount	609,904	(741,628)
Hedging activities:		
Hedge effectiveness	(217,540)	-
Tax effect	83,870	-
Net of tax amount	(133,670)	-
Other comprehensive income (loss), net of tax	476,234	(741,628)
Comprehensive income (loss)	**$ 1,078,554**	**$ (77,780)**

See notes to consolidated financial statements

Premara Financial, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Additional paid-in	Retained	Accumulated other comprehensive	Total stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	income (loss)	equity
Balance at December 31, 2012	6,238	$ 6,238,000	1,945,983	$ 16,922	$ 14,360,748	$ 1,119,923	$ 373,062	$ 22,108,655
Stock dividend on common stock	-	-	-	2,538	1,177,600	(1,180,303)	-	(165)
Dividend on preferred stock	-	-	-	-	-	(176,214)	-	(176,214)
Net income	-	-	-	-	-	663,848	-	663,848
Other comprehensive loss	-	-	-	-	-	-	(741,628)	(741,628)
Balance at December 31, 2013	6,238	6,238,000	1,945,983	19,460	15,538,348	427,254	(368,566)	21,854,496
Dividend on preferred stock	-	-	-	-	-	(62,380)	-	(62,380)
Net income	-	-	-	-	-	602,320	-	602,320
Other comprehensive income	-	-	-	-	-	-	476,234	476,234
Balance at December 31, 2014	**6,238**	**$ 6,238,000**	**1,945,983**	**$ 19,460**	**$ 15,538,348**	**$ 967,194**	**$ 107,668**	**$ 22,870,670**

See notes to consolidated financial statements

Premara Financial, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 602,320	$ 663,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	585,000	120,000
Depreciation and amortization	847,682	836,613
Gain (loss) on sale of available-for-sale securities	108,096	(147,266)
Gain on sale of other real estate owned	-	(132,932)
Deferred income tax (benefit) expense	(100,154)	(24,540)
Intangible assets amortization	72,388	85,162
Increase in bank owned life insurance	(154,678)	(159,798)
Originations of loans held for sale	(14,459,003)	(5,397,500)
Proceeds from the sale of loans held for sale	15,593,315	4,085,841
Gain on sale of loans held for sale	(334,592)	(79,042)
(Increase) decrease in other assets	1,768	(56,371)
Decrease (increase) accrued interest receivable	(26,059)	56,309
Increase in other liabilities	183,749	296,364
Decrease in accrued interest payable	(16,987)	(50,667)
Net cash provided by operating activities	2,902,845	96,021
Cash flows from investing activities:		
Purchase of securities available-for-sale	(11,016,523)	(2,174,942)
Proceeds from sales, calls, prepayments and maturities of securities available-for-sale	12,567,397	7,701,432
Purchase of securities held-to-maturity	-	(2,700,000)
Proceeds from calls, prepayments and maturities of securities held-to-maturity	16,545	2,013,665
Purchase of nonmarketable equity securities	(850,000)	(154,700)
Sale of nonmarketable equity securities	844,412	180,000
Net change in loans	(18,447,772)	(9,391,700)
Purchase of premises and equipment	(1,292,319)	(791,132)
Proceeds from sale of other real estate owned	-	1,072,065
Redemption of bank owned life insurance	-	45,704
Net cash used in investing activities	(18,178,260)	(4,199,608)
Cash flows from financing activities:		
Net decrease in deposits	(11,767,338)	(12,759,708)
Federal Home Loan Bank advances (repayments), net	3,000,000	(4,000,000)
Cash in lieu of fractional shares	-	(165)
Dividend on preferred stock, net	(62,380)	(176,214)
Net cash used in financing activities	(8,829,718)	(16,936,087)
Net decrease in cash and cash equivalents	(24,105,133)	(21,039,674)
Cash and cash equivalents, beginning of year	34,749,040	55,788,714
Cash and cash equivalents, end of year	**$ 10,643,907**	**$ 34,749,040**

See notes to consolidated financial statements

Premara Financial, Inc. and Subsidiary

Consolidated Statements of Cash Flows, continued

For the years ended December 31, 2014 and 2013

	2014	2013
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 1,365,655	$ 1,603,322
Cash paid during the year for income taxes	$ 39,400	$ 14,300
Supplemental schedule of noncash investing and financing activity		
Change in unrealized loss on securities available-for-sale	$ 992,585	$ (1,206,959)
Change in hedge effectiveness	$ (217,540)	$ -
Reclassification of securities from held-to-maturity to available-for-sale	$ 18,671,060	$ -
Loans transferred to OREO	$ -	$ 455,837
Stock dividend on common stock	$ -	$ 1,180,138

See notes to consolidated financial statements

Note 1. Summary of Significant Accounting Policies

Organization:

Carolina Premier Bank (the "Bank") was incorporated in North Carolina to serve as a state chartered commercial bank to provide banking services to customers located primarily in Charlotte, North Carolina and the surrounding areas. Carolina Premier Bank commenced business on August 29, 2007, and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC). As a state chartered commercial bank, the Bank is subject to regulation by the Office of the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation.

On May 24, 2011, the shareholders of Carolina Premier Bank approved a plan of corporate reorganization under which the Bank became a wholly-owned subsidiary of Premara Financial, Inc. (the "Company"), which was organized for that purpose by the Bank's Board of Directors. The authorized common stock of Premara Financial, Inc. is 25,000,000 shares with $.01 par value. Pursuant to the reorganization, the Company issued all shares of its common stock in exchange for all of the outstanding common shares of the Bank on May 24, 2011. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

In the fourth quarter of 2012, the Company opened a branch under the trade name "Bank of the Urban League of the Central Carolinas." The branch is a full service location that focuses on meeting the needs of the under-banked and un-banked segments of the population.

On May 15, 2013, the Company received regulatory approval to open a branch in Washington DC. This branch is a full service facility, and utilizes the latest technology bringing forth a unique banking experience combined with exceptional service and personal attention.

On August 30, 2013, the Company received regulatory approval to open a branch in Six Mile, South Carolina. The community previously had a banking presence for almost one hundred years. The town lost their banking services when the large regional bank chose to close the branch. The prior institution was operating on minimal banking services and was not actively working to meet the credit needs of the community. Under the trade name of "Our Bank," this branch is a full service facility and is actively involved in the local community.

Management's 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 assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

A material estimate that is particularly susceptible to significant change is the determination of the allowance for losses on loans, including valuation allowances for impaired loans. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

Management uses available information to recognize losses on loans. 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 allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance 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 allowance for losses on loans 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.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily located in its North and South Carolina banking markets. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions. 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, etc), and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. 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 amortized (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 of obligations of the United States, its agencies or its corporations, municipalities and other revenue entities. 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. Generally however, excess balances are placed on deposit with the Federal Reserve, via a pass through relationship with the correspondent. Management believes credit risk associated with correspondent accounts is not significant.

Cash and Cash Equivalents:

For purposes of reporting cash flows in the consolidated financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest-bearing bank deposits, deposits held on behalf of the Federal Reserve, and federal funds sold. Generally, federal funds are sold for one-day periods.

Securities 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. Management does not actively trade securities classified as available-for-sale but intends to hold these securities for an indefinite period of time and may sell them prior to maturity to achieve certain objectives. 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 securities available-for-sale is determined by specific identification and is used in computing the gain or loss from a sales transaction.

Note 1. Summary of Significant Accounting Policies, Continued

Securities Held-to-Maturity:

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Premiums and discounts are amortized using the interest method over the securities' contractual lives.

Declines in the fair value of individual securities classified as either held-to-maturity or available-for-sale below their amortized cost that are determined to be other-than-temporary result in write-downs of the individual securities to their fair value with the resulting write-downs included in operations as realized losses. In estimating other-than-temporary impairment, 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 issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value.

Nonmarketable Equity Securities:

Nonmarketable equity securities consist of restricted securities, which are carried at cost. Management periodically evaluates these securities for impairment, with any appropriate downward valuation adjustments being made when necessary.

Derivatives and Financial Instruments:

A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. The Company uses derivatives primarily to manage interest rate risk in the investment portfolio as it relates to earnings and market value. The fair value of derivatives in a gain or loss position is included in other assets or liabilities, respectively, on the consolidated statements of income. The Company classifies its derivative financial instruments as a hedge of an exposure to changes in the fair value of a recorded asset or liability. The Company has master netting agreements with the derivatives dealers with which it does business, but reflects gross gains and losses on the consolidated statements of income and balance sheets.

The Company uses the long-haul method to assess hedge effectiveness. The Company documents, both at inception and over the life of the hedge, at least quarterly, its analysis of actual and expected hedge effectiveness. This analysis is performed using a regression analysis to demonstrate that the hedge has been, and is expected to be, highly effective in off-setting corresponding changes in the fair value of the hedged item. For a qualifying fair value hedge, changes in the value of the derivatives that have been highly effective as hedges are recognized in current period earnings along with the corresponding changes in the fair value of the designated hedged item attributable to the risk being hedged.

For fair value hedges, the ineffectiveness may be recognized in noninterest income to the extent that changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items attributable to the risk being hedged. If the hedge ceases to be highly effective, the Company discontinues hedge accounting and recognizes the changes in fair value in current period earnings. If a derivative that qualifies as a fair value hedge is terminated or the designation removed, the realized or then unrealized gain or loss is recognized into income over the original hedge period. Immediate recognition in earnings is required upon sale or extinguishment of the hedged item.

See Note 6 for additional information related to derivatives and financial instruments.

Note 1. Summary of Significant Accounting Policies, Continued

Loans Held for Sale:

The Bank originates certain single family, residential first mortgage loans for sale on a presold basis. Loans held for sale are carried at the lower of cost or estimated fair value in the aggregate as determined by outstanding commitments from investors. Upon closing, these loans, together with their servicing rights, are sold to other financial institutions under prearranged terms. The Bank recognizes certain origination and service fees at the time of sale, which are classified as mortgage origination income on the statements of operations.

Loans Receivable:

Loans are stated at their unpaid principal balance. Interest income is computed using the simple interest method and is recorded in the period earned. 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, or other conditions exist that warrant the continued accrual of interest. When interest accruals are discontinued, income earned but not collected is reversed and interest accrued in prior years is charged to the allowance for loan losses.

Impairment of a loan is measured either by the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral securing loan. If a loan is deemed to be collateral dependent, then the fair value of the collateral method is always used. When management determines that a loan is impaired, the difference between the Company's investment in the related loan and the present value of the expected future cash flows or the fair value of the collateral, is provisioned for in the allowance for loan losses. The accrual of interest is generally discontinued on an impaired loan when management determines that the borrower is unable to meet payments as they become due.

The Company identifies impaired loans through its normal internal loan review processes. Loans on the Company's classified loan list are considered potential problem loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. 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. Accrued interest through the date of impairment is reversed. Subsequent interest earned is recognized only to the point that cash payments are received. All payments are applied to principal if the entire amount of principal is not expected to be collected.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized as an adjustment of the related loan yields. Generally, these amounts are amortized over the contractual life of the related loans or commitments.

Allowance for Loan Losses:

An allowance for loan losses is maintained at a level deemed appropriate by management, and in accordance with generally accepted accounting principles (GAAP), to provide adequately for known and inherent losses in the loan portfolio. Loans or portions of loans that are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries of loans previously charged off are added to the allowance.

Loans are required to be presented at the lower of cost or market value if it is probable that the lender will be unable to collect all amounts due according to the terms of the loan agreement. Fair value may be determined based upon the present value of expected cash flows, market price of the loan, if available, or value of the underlying collateral. Expected cash flows are required to be discounted at the loan's effective interest rate.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses (continued):

When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, cash receipts are applied to principal. Once the reported principal balance has been reduced to the loan's estimated net realized value, future cash receipts may be applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income then to principal.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

Premises and Equipment:

Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 15 to 39 years, furniture and equipment of 3 to 10 years, and software of 3 years. Leasehold improvements are amortized over the life of the respective lease. 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. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Other Real Estate Owned:

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed.

Intangible Assets:

Intangible assets include goodwill and core deposit intangibles. Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Core deposit intangibles represent premiums paid for acquisitions of core deposits. Core deposit intangibles are being amortized over a 10 year period based on amortization schedules prepared by an outside consultant. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. No impairment losses have been recorded as a result of the Company's analysis during the year ended December 31, 2014.

Bank Owned Life Insurance:

Bank owned life insurance represents the cash surrender value of policies on certain officers and directors of the Company.

Note 1. Summary of Significant Accounting Policies, Continued

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 a 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.

The Company's accounting policy relative to uncertain tax positions is to recognize a liability when likelihood of an uncertain tax position being sustained upon examination by the taxing authorities is less than 50 percent.

Advertising Expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expended in the period in which the direct mailings are sent. Advertising and public relations costs of $92,620 and $197,566 were included in the Company's results of operations for 2014 and 2013, respectively.

Per Share Data:

Basic income per share is computed by dividing net income by the weighted-average number of shares outstanding for the period excluding the effects of any dilutive potential common shares. Diluted income per share is similar to the computation of basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

On April 9, 2013, the Board of Directors declared a 15 percent stock dividend, which was paid on May 22, 2013, to shareholders of record at the close of business on May 6, 2013. Share data has been restated to reflect that transaction.

Comprehensive Income:

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

Off-Balance-Sheet Financial Instruments:

In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the consolidated financial statements when they become payable by the customer.

Note 1. Summary of Significant Accounting Policies, Continued

Risks and Uncertainties:

In the normal course of its business, the Company 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 Company 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 Company'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 Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company 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.

Recent Accounting Pronouncements:

The following is a summary of recent authoritative pronouncements that may affect accounting, reporting, and 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.

Note 1. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements (continued):

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.

In January 2015, the FASB issued guidance that eliminated the concept of extraordinary items from 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.

Reclassifications:

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported net income or stockholders' equity.

Note 2. Accumulated Other Comprehensive Income

Comprehensive income includes net income and all other changes to the Company's equity, with the exception of transactions with stockholders. The Company's other comprehensive income and accumulated other comprehensive income are comprised of unrealized gains and losses on certain investments in debt securities and hedging activities. The accumulated balances related to each component of other comprehensive income (loss) are as follows:

	Unrealized Gain/(Loss) on available-for-sale securities	Hedging Activities	Total
Balance as of December 31, 2012	$ 373,062	$ -	$ 373,062
Other comprehensive income before reclassifications	(651,139)	-	(651,139)
Amounts reclassified from accumulated other comprehensive income	(90,489)	-	(90,489)
Net current period other comprehensive income	(741,628)	-	(741,628)
Balance as of December 31, 2013	**$ (368,566)**	**$ -**	**$ (368,566)**
Balance as of December 31, 2013	$ (368,566)	$ -	$ (368,566)
Other comprehensive income before reclassifications	543,483	(133,670)	409,813
Amounts reclassified from accumulated other comprehensive income	66,421	-	66,421
Net current period other comprehensive income	609,904	(133,670)	476,234
Balance as of December 31, 2014	**$ 241,338**	**$ (133,670)**	**$ 107,668**

Note 3. Restrictions on Cash and Due from Banks

The Company is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. The average amount of the required cash reserve balances at December 31, 2014 and 2013 was approximately $1,493,000 and $1,413,000, respectively.

Note 4. Securities

During the year, the Company transferred all held-to-maturity securities to available-for-sale. The carrying amount of the securities at the time of transfer was $18,671,060. The transfer was related to unforeseeable strategic considerations that necessitated a change in investment strategy.

The amortized cost and estimated fair values of securities available-for-sale at December 31, 2014 and 2013 were:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2014				
U.S. government agencies	$ 1,000,000	$ -	$ 17,779	$ 982,221
Collateralized mortgage obligations	899,828	-	10,409	889,419
Mortgage-backed securities	1,317,294	29,454	3,455	1,343,293
Municipal bonds - nontaxable	22,013,338	277,902	88,200	22,203,040
Municipal bonds - taxable	5,267,449	163,620	20,940	5,410,129
Other securities	1,971,766	66,814	4,243	2,034,337
	$ 32,469,675	**$ 537,790**	**$ 145,026**	**$ 32,862,439**
2013				
U.S. government agencies	$ 1,000,000	$ -	$ 118,006	$ 881,994
Collateralized mortgage obligations	1,948,641	16,796	42,582	1,922,855
Mortgage-backed securities	3,756,051	51,579	45,426	3,762,204
Municipal bonds - nontaxable	3,102,972	2,196	204,038	2,901,130
Municipal bonds - taxable	3,481,505	838	234,785	3,247,558
Other securities	2,249,016	-	26,393	2,222,623
	$ 15,538,185	**$ 71,409**	**$ 671,230**	**$ 14,938,364**

The amortized cost and estimated fair values of securities held-to-maturity at December 31, 2013 were:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2013				
U.S. government agencies	$ 5,037,073	$ -	$ 680,301	$ 4,356,772
Municipal bonds - nontaxable	11,183,463	19,094	738,425	10,464,132
Municipal bonds - taxable	2,515,976	-	188,201	2,327,775
	$ 18,736,512	**$ 19,094**	**$ 1,606,927**	**$ 17,148,679**

The amortized costs and fair values of investment securities available-for-sale at December 31, 2014, by contractual maturity, are shown in the following chart. 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	Fair Value
Due one year or less	$ 1,019,861	$ 1,024,256
Due after one year through five years	3,713,012	3,742,850
Due after five years through ten years	17,849,213	18,031,550
Due after ten years	9,887,589	10,063,783
Total available-for-sale securities	**$ 32,469,675**	**$ 32,862,439**

Note 4. Securities, Continued

Proceeds from the sale of securities available-for-sale during 2014 and 2013 were $11,184,479 and $3,214,012, respectively. In 2014, gross gains were $183,912 and gross losses were $292,008 and in 2013, gross gains were $147,266 and gross losses were $0.

The following table presents available-for-sale securities, gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2014 and 2013:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
U.S. government agencies	$ -	$ -	$ 982,221	$ 17,779	$ 982,221	$ 17,779
Collateralized mortgage obligations	-	-	889,419	10,409	889,419	10,409
Mortgage-backed securities	-	-	412,341	3,455	412,341	3,455
Municipal bonds-non-taxable	4,088,817	49,539	2,551,937	38,661	6,640,754	88,200
Municipal bonds-taxable	-	-	932,705	20,940	932,705	20,940
Other securities	-	-	223,063	4,243	223,063	4,243
Total	**$ 4,088,817**	**$ 49,539**	**$ 5,991,686**	**$ 95,487**	**$ 10,080,503**	**$ 145,026**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
U.S. government agencies	$ 881,994	$ 118,006	$ -	$ -	$ 881,994	$ 118,006
Collateralized mortgage obligations	946,768	42,582	-	-	946,768	42,582
Mortgage-backed securities	2,292,990	45,426	-	-	2,292,990	45,426
Municipal bonds-non-taxable	2,813,934	204,038	-	-	2,813,934	204,038
Municipal bonds-taxable	2,665,933	216,917	469,554	17,868	3,135,487	234,785
Other securities	2,222,623	26,393	-	-	2,222,623	26,393
Total	**$ 11,824,242**	**$ 653,362**	**$ 469,554**	**$ 17,868**	**$ 12,293,796**	**$ 671,230**

The following table presents held-to-maturity securities gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2013:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
U. S. government agencies	$ 4,356,772	$ 680,301	$ -	$ -	$ 4,356,772	$ 680,301
Municipal bonds-non-taxable	9,655,038	738,425	-	-	9,655,038	738,425
Municipal bonds-taxable	1,977,461	118,436	350,314	69,768	2,327,775	188,201
Total	**$ 15,989,271**	**$1,537,162**	**$ 350,314**	**$ 69,765**	**$ 16,339,585**	**$1,606,927**

Note 4. Securities, Continued

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses in the Company's investment portfolio relate principally to current interest rates for similar types of securities. 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 the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other-than-temporary.

The amortized cost of the investment securities pledged at December 31, 2014 and 2013 was $1,665,172 and $646,681, respectively, and fair values were $1,662,004 and $631,214, respectively.

Note 5. Nonmarketable Equity Securities

The Company, as a member of the Federal Home Loan Bank of Atlanta (FHLB), is required to own capital stock in this organization. The amount of FHLB stock owned is determined based on the Company's total assets and advances from the FHLB and totaled $854,400 and $814,400 at December 31, 2014 and 2013, respectively. No ready market exists for this stock and it has no quoted market value. However, redemption of this stock has historically been at par value, and as such the carrying amount is deemed to be a reasonable estimate of fair value.

The Company also had an investment in Plexus Fund II and Plexus Fund III; both are a Small Business Investment Company (SBIC), which had a combined investment total of $453,088 and $487,500 at December 31, 2014 and 2013, respectively. The purpose of the funds is to invest in small businesses to promote the growth, expansion and modernization of the sector, by working in partnership with the Small Business Administration (SBA) as a source of additional funding. This investment is carried at par, but is tested annually for impairment.

Note 6. Derivatives and Financial Instruments

The Company utilizes derivative financial instruments primarily to hedge its exposure to changes in interest rates. All derivative financial instruments are recorded on the balance sheet at their respective fair values. The Company does not use financial instruments or derivatives for any trading or other speculative purposes.

Accounting guidance requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet, and measure those instruments at fair value. Changes in the fair value of those derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting.

During 2014, the Company entered into interest rate swap agreements for a portion of the municipal bond portfolio. The notional amount of the transaction was $9,400,000, and the purpose was to mitigate the price volatility associated with carrying long term fixed rate investments.

Note 6. Derivatives and Financial Instruments, Continued

The tables below provide data about the fair value of the Company's derivatives included in the consolidated balance sheets:

	2014	2013
Interest rate swap liability	$ 215,791	$ -

	2014	2013
Effective portion recorded in Other Comprehensive Income, net of income taxes	$ (133,670)	$ -

Note 7. Loans Receivable

Major classifications of loans receivable are summarized as follows:

	December 31, 2014	December 31, 2013
Residential Real Estate	$ 55,220,865	$ 55,782,631
Commercial Real Estate	88,566,532	73,513,132
Construction and Land	12,984,909	15,825,834
Commercial and Industrial	28,910,498	22,589,806
Consumer and Other	341,027	411,984
Total gross loans	186,023,831	168,123,387
Less: Deferred loan fees (costs)	62,075	1,869
Less: Allowance for loan losses	2,301,772	2,324,306
Total loans, net	**$ 183,659,984**	**$ 165,797,212**

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

December 31, 2014	Residential Real Estate	Commercial Real Estate	Construction and Land	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 1,443,974	$ 547,527	$ 181,555	$ 143,806	$ 7,444	$ 2,324,306
Charge-offs	(6,377)	(628,990)	-	-	(2,958)	(638,325)
Recoveries	30,000	-	-	-	791	30,791
Provisions	(698,198)	1,230,327	(29,421)	80,291	2,001	585,000
Ending balance	$ 769,399	$ 1,148,864	$ 152,134	$ 224,097	$ 7,278	$ 2,301,772
Ending balances:						
Individually evaluated for impairment	$ 202,481	$ 300,587	$ -	$ 25,000	$ -	$ 528,068
Collectively evaluated for impairment	$ 566,918	$ 848,277	$ 152,134	$ 199,097	$ 7,278	$ 1,773,704
Loans receivable:						
Ending balance - total	$ 55,220,865	$ 88,566,532	$ 12,984,909	$ 28,910,498	$ 341,027	$ 186,023,831
Ending balances:						
Individually evaluated for impairment	$ 1,415,205	$ 1,182,746	$ 724,841	$ 628,931	$ -	$ 3,951,723
Collectively evaluated for impairment	$ 53,805,660	$ 87,383,786	$ 12,260,068	$ 28,281,567	$ 341,027	$ 182,072,108

Note 7. Loans Receivable, Continued

December 31, 2013	Residential Real Estate	Commercial Real Estate	Construction and Land	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 1,203,700	$ 359,949	$ 396,997	$ 95,175	$ 69,686	$ 2,125,507
Charge-offs	-	-	-	-	(21,554)	(21,554)
Recoveries	14,815	1,834	54,700	-	29,004	100,353
Provisions	225,459	185,744	(270,142)	48,631	(69,692)	120,000
Ending balance	$ 1,443,974	$ 547,527	$ 181,555	$ 143,806	$ 7,444	$ 2,324,306
Ending balances:						
Individually evaluated for impairment	$ 421,065	$ -	$ -	$ -	$ -	$ 421,065
Collectively evaluated for impairment	$ 1,022,909	$ 547,527	$ 181,555	$ 143,806	$ 7,444	$ 1,903,241
Loans receivable:						
Ending balance - total	$ 55,782,631	$ 73,513,132	$ 15,825,834	$ 22,589,806	$ 411,984	$ 168,123,387
Ending balances:						
Individually evaluated for impairment	$ 2,126,297	$ -	$ 739,009	$ -	$ -	$ 2,865,306
Collectively evaluated for impairment	$ 53,656,334	$ 73,513,132	$ 15,086,825	$ 22,589,806	$ 411,984	$ 165,258,081

The credit quality indicators presented for all classes within the loan portfolio is a widely-used and standard system representing the degree of risk of nonpayment. The risk-grade categories presented in the following table are:

Pass – These loans have a risk profile which range from superior quality with minimal credit risk, to loans requiring management attention, but still have an acceptable risk profile, and continue to perform primarily as contracted.

Special mention – These credit facilities have potential developing weaknesses that deserve extra attention from the loan officer, and other management personnel. If the loan officer cannot correct or mitigate the developing weakness, there may be deterioration in the ability of the borrower to repay the bank's debt in the future. Loan officers should not assign this grade to loans that bear certain peculiar risks normally associated with the types of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. Loan officers should generally grade loans where actual, not potential, weaknesses or problems are clearly evident and significant in one of the categories below.

Substandard – This category includes loans possessing weaknesses that jeopardize the ultimate collection of principal and interest outstanding. These loans are inadequately protected by the sound worth and paying capacity of the borrower or of the pledged collateral, if any. The weaknesses require close supervision by bank management. Loss may not be evident; however, current financials or pledged collateral inadequately protect the loan. Borrowers in this category have well-defined weaknesses that jeopardize the proper liquidation of the debt. They may also have adverse trends, unless improved, that will likely result in repayment over an excessive period of time, or possibly not at all. Weaknesses that exist may indicate the indebtedness may not be current or may not in the future be repaid according to previously agreed upon terms. If loans are current, future performance may be in question. All non-accrual loans shall be graded substandard or doubtful.

Note 7. Loans Receivable, Continued

Doubtful – Loans or portions of loans in this category have one or more weaknesses, which, on the basis of currently existing facts, conditions, and values, make ultimate collection of all principal highly questionable. The possibility of loss is extremely high, and management should make specific loan loss reserve allocations. However, management does not know the amount with certainty of eventual loss because of specific pending factors. Pending factors include: litigation, proposed merger or acquisition or liquidation in progress, injection of new capital in progress or refinancing plans in progress, and pending factors still pending after 18 months must be disregarded and the loan downgraded appropriately.

The following tables present loan balances by credit quality indicator as of December 31, 2014 and 2013:

December 31, 2014	Residential Real Estate	Commercial Real Estate	Construction and Land	Commercial and Industrial	Consumer and Other	Total
Grade:						
Pass	$ 53,808,635	$ 84,112,096	$ 11,567,606	$ 28,281,567	$ 341,027	$ 178,110,931
Special Mention	419,212	3,271,690	1,417,303	-	-	5,108,205
Substandard	993,018	1,182,746	-	628,931	-	2,804,695
Doubtful	-	-	-	-	-	-
Ending balance	$55,220,865	$88,566,532	$12,984,909	$ 28,910,498	$ 341,027	$ 186,023,831

December 31, 2013	Residential Real Estate	Commercial Real Estate	Construction and Land	Commercial and Industrial	Consumer and Other	Total
Grade:						
Pass	$53,393,619	$72,627,586	$12,062,048	$ 21,766,694	$ 411,984	$ 160,261,931
Special Mention	694,235	885,546	3,024,777	823,112	-	5,427,670
Substandard	1,694,777	-	739,009	-	-	2,433,786
Doubtful	-	-	-	-	-	-
Ending balance	$55,782,631	$73,513,132	$15,825,834	$ 22,589,806	$ 411,984	$ 168,123,387

The following tables present an aging analysis of loans as of December 31, 2014 and 2013:

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 Investments 90 Days and Accruing
Residential Real Estate	$ 1,306,105	$ 265,229	$ 20,145	$ 1,591,479	$ 53,629,386	$ 55,220,865	$ -
Commercial Real Estate	-	-	1,182,746	1,182,746	87,383,786	88,566,532	-
Construction and Land	-	-	-	-	12,984,909	12,984,909	-
Commercial and Industrial	40,543	-	25,000	65,543	28,844,955	28,910,498	-
Consumer and Other	-	-	-	-	341,027	341,027	-
Total	**$ 1,346,648**	**$ 265,229**	**$ 1,227,891**	**$ 2,839,768**	**$ 183,184,063**	**$ 186,023,831**	**$ -**

Note 7. Loans Receivable, Continued

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 Investments 90 Days and Accruing
Residential Real Estate	$ 435,430	$ 71,728	$ 85,662	$ 592,820	$ 55,189,811	$ 55,782,631	$ 85,662
Commercial Real Estate	-	-	-	-	73,513,132	73,513,132	-
Construction and Land	-	-	-	-	15,825,834	15,825,834	-
Commercial and Industrial	-	-	-	-	22,589,806	22,589,806	-
Consumer and Other	2,828	-	-	2,828	409,156	411,984	-
Total	**$ 438,258**	**$ 71,728**	**$ 85,662**	**$ 595,648**	**$167,527,739**	**$168,123,387**	**$ 85,662**

The following tables present information on impaired loans as of December 31, 2014 and 2013:

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Real Estate	$ 667,171	$ 982,755	$ -	$ 630,548	$ 25,805
Commercial Real Estate	-	-	-	-	-
Construction and Land	724,841	724,841	-	731,553	29,703
Commercial and Industrial	603,931	603,931	-	76,112	40,559
Consumer and Other	-	-	-	-	-
	1,995,943	2,311,527	-	1,438,213	96,067
With related allowance recorded:					
Residential Real Estate	748,034	748,034	202,481	1,211,421	29,877
Commercial Real Estate	1,182,746	1,811,736	300,587	1,059,890	-
Construction and Land	-	-	-	-	-
Commercial and Industrial	25,000	25,000	25,000	3,151	-
Consumer and Other	-	-	-	-	-
	1,955,780	2,584,770	528,068	2,274,462	29,877
Total:					
Residential Real Estate	1,415,205	1,730,789	202,481	1,841,969	55,682
Commercial Real Estate	1,182,746	1,811,736	300,587	1,059,890	-
Construction and Land	724,841	724,841	-	731,553	29,703
Commercial and Industrial	628,931	628,931	25,000	79,263	40,559
Consumer and Other	-	-	-	-	-
	$ 3,951,723	**$ 4,896,297**	**$ 528,068**	**$ 3,712,675**	**$ 125,944**

Note 7. Loans Receivable, Continued

December 31, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Real Estate	$ 431,521	$ 562,461	$ -	$ 456,545	$ 26,455
Commercial Real Estate	-	-	-	70,490	-
Construction and Land	739,009	739,009	-	746,985	30,297
Commercial and Industrial	-	-	-	435	-
Consumer and Other	-	-	-	-	-
	1,170,530	1,301,470	-	1,274,455	56,752
With related allowance recorded:					
Residential Real Estate	1,694,776	1,882,297	421,065	1,995,513	30,036
Commercial Real Estate	-	-	-	-	-
Construction and Land	-	-	-	213,399	-
Commercial and Industrial	-	-	-	-	-
Consumer and Other	-	-	-	-	-
	1,694,776	1,882,297	421,065	2,208,912	30,036
Total:					
Residential Real Estate	2,126,297	2,444,758	421,065	2,452,058	54,491
Commercial Real Estate	-	-	-	70,490	-
Construction and Land	739,009	739,009	-	960,384	30,297
Commercial and Industrial	-	-	-	435	-
Consumer and Other	-	-	-	-	-
	$ 2,865,306	**$ 3,183,767**	**$ 421,065**	**$ 3,483,367**	**$ 86,788**

The following table presents loans on nonaccrual status by loan class at December 31, 2014 and 2013:

	2014	2013
Residential Real Estate	$ 244,984	$ 933,438
Commercial Real Estate	1,182,746	-
Construction and Land	-	-
Commercial and Industrial	25,000	-
Consumer and Other	-	-
Total	**$ 1,452,730**	**$ 933,438**

Note 7. Loans Receivable, Continued

Troubled Debt Restructurings

The table below summarizes the activity associated with TDRs 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	$ 318,286	$ 253,408
Commercial Real Estate	-	-	-
Total	**1**	**$ 318,286**	**$ 253,408**

During the year ended December 31, 2014 there were no loans modified that were considered to be a troubled debt restructuring. During the year ending December 31, 2013 there was one loan modified that was considered to be a troubled debt restructuring. The term was extended and the rate was lowered on the loan. There were no loans that went into default during 2014 or 2013 which had previously been restructured.

In the determination of the allowance for loan losses, management considers troubled debt restructurings, and subsequent defaults in these restructurings by evaluating the potential for impairment under ASC 310, and if appropriate, a specific reserve is allocated.

Note 8. Property and Equipment

Property and equipment consisted of the following at December 31, 2014 and 2013:

	2014	2013
Leasehold improvements	$ 2,776,223	$ 1,821,399
Building	322,158	312,656
Land	91,221	91,221
Furniture and equipment	1,802,391	1,332,056
Computer equipment	1,160,156	897,510
Software	528,439	423,004
Vehicles	199,170	178,304
Construction in progress	13,500	544,789
Total	6,893,258	5,600,939
Less: accumulated depreciation	3,440,333	2,722,158
Premises and equipment, net	**$ 3,452,925**	**$ 2,878,781**

Depreciation expense totaled $718,175 and $645,769 in 2014 and 2013, respectively.

Note 9. Other Real Estate Owned

The following summarizes the activity in other real estate owned:

	2014	2013
Balance, beginning of year	$ 54,119	$ 537,415
Additions	-	455,837
Sales proceeds	-	(1,072,065)
Gain on sale	-	132,932
Write-downs	-	-
Balance, end of year	**$ 54,119**	**$ 54,119**

Note 10. Intangible Assets

The following table presents information about the Company's intangible assets at December 31, 2014 and 2013:

	Gross Carrying Amount	Accumulated Amortization
December 31, 2014		
Indefinite lived intangible asset: Goodwill	$ 325,335	$ -
Finite lived intangible asset: Core deposit intangibles	$ 613,784	$ 203,584

	Gross Carrying Amount	Accumulated Amortization
December 31, 2013		
Indefinite lived intangible asset: Goodwill	$ 325,335	$ -
Finite lived intangible asset: Core deposit intangibles	$ 613,784	$ 131,196

Based on the core deposit intangibles as of December 31, 2014, the following table presents the aggregate amortization expense for each of the five succeeding years ending December 31:

Year:	Amount
2015	$ 63,949
2016	61,378
2017	61,378
2018	61,378
2019 and thereafter	162,117
Total	**$ 410,200**

Amortization expense of $72,388 and $85,162 related to the core deposit intangibles was recognized in 2014 and 2013, respectively.

Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. As of December 31, 2014, management determined that no impairment existed on the goodwill.

Note 11. Deposits

The Company had brokered certificates of deposit of $27,998,000 and $17,458,797 at December 31, 2014 and 2013, respectively. Time deposits that met or exceeded the FDIC insurance limit of $250,000 at December 31, 2014 and 2013 were $4,140,592 and $3,942,345, respectively.

At December 31, 2014, the scheduled maturities of time deposits were as follows:

Maturing In:	Amount
2015	$ 21,507,188
2016	18,454,656
2017	21,098,862
2018	1,451,521
2019 and thereafter	64,676
Total	**$ 62,576,903**

Note 12. Federal Home Loan Bank Advances

FHLB advances represent borrowings from the FHLB of Atlanta by the Company pursuant to a line of credit collateralized by a blanket lien on qualifying loans secured by first mortgages on 1-4 family residences, home equity lines of credit, multi-family real estate, and commercial real estate. Advances may have various maturity dates, terms and repayment schedules with fixed or variable rates of interest, payable monthly on maturities of one year or less and payable quarterly on maturities over one year. In addition to qualified loans being used as collateral, certain securities including US government agencies and mortgage-backed securities may also be pledged.

At December 31, 2014 and 2013, the Company had advances from the FHLB as follows:

Maturity Date	Interest Rate	Tems	2014	2013
May 20, 2016	2.24%	Fixed	$ 3,000,000	$ 3,000,000
January 24, 2017	0.98%	Fixed	3,000,000	-
December 18, 2017	1.40%	Fixed	4,000,000	4,000,000
December 17, 2018	1.87%	Fixed	4,000,000	4,000,000
			$ 14,000,000	**$ 11,000,000**

At December 31, 2014, the Company had a total credit facility with the FHLB equal to 20 percent of the Company's total assets, limited to qualifying collateral. The total lendable value of qualifying loans and securities pledged by the Company to FHLB for advances at December 31, 2014 and 2013 were approximately $26,127,985 and $17,582,105, respectively.

Note 13. Unused Lines of Credit

At December 31, 2014, the Company had established unsecured lines of credit of approximately $9,400,000 with correspondent banks to provide additional liquidity if, and as needed. At December 31, 2014, the Company had no outstanding borrowings on these lines.

Note 13. Unused Lines of Credit, Continued

The Company also has a line of credit to borrow funds from the Federal Home Loan Bank for up to approximately $51,000,000, subject to the pledging of additional collateral, as of December 31, 2014. As of December 31, 2014, the Company had $14,000,000 in outstanding borrowings on this line.

The Company has access to short term funds through the Federal Reserve Discount Window, under which approximately $21,000,000 of additional liquidity was available as of December 31, 2014. Discount window advances are typically overnight and must be secured by collateral acceptable to the lending Federal Reserve Bank. As of December 31, 2014, the Company had no outstanding borrowings on this line.

Note 14. Preferred Stock

On September 22, 2011, the Company completed the sale of $6,238,000 of Series A preferred stock to the Secretary of the Treasury (the "Treasury") under the Small Business Lending Fund (SBLF). The fund was established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing capital to qualified community banks with total assets less than $10 billion.

Under the terms of the stock purchase agreement, the Treasury received 6,238 shares of $1,000 par value, non-cumulative perpetual preferred stock with a liquidation value of $1,000 per share in exchange for $6,238,000.

The Series A preferred stock qualifies as Tier 1 capital. The dividend rate can fluctuate on a quarterly basis during the first ten quarters the Series A preferred stock is outstanding, based upon changes in the level of qualified small business lending. The dividend rate is calculated based on the increase in the level of qualified small business lending over the baseline level calculated under the terms of the related purchase agreement and may range from 1 percent to 5 percent per annum for the first nine calendar quarters, beginning with the initial dividend period. The Company's calculated dividend rate as of the quarter ended December 31, 2014, was one percent (1%), and is fixed at that rate until December 31, 2015. Beginning in 2016, four and one half years after the issuance, the dividend rate will increase to nine percent (9%). Subject to regulatory approval, the Company is generally permitted to redeem the Series A preferred shares at par plus unpaid dividends.

Note 15. Stock Warrants

Each organizer of the Bank received stock warrants giving them the right to purchase up to 4,248 shares at a price of $11 per share. The warrants vested immediately and expire on August 29, 2017. There were no organizer warrants issued, exercised or canceled during 2014 or 2013. At December 31, 2014, all of the warrants were exercisable.

Note 16. Stock Compensation Plans

The Company has a Long-Term Incentive Plan (the "Plan"), where 1,250,000 shares of the Company's common stock have been reserved for issuance pursuant to awards granted. Options granted under the Plan expire no more than 10 years from the date of grant. Option exercise price under the Plan shall be set by the Board of Directors at the date of grant, but shall not be less than 100 percent of the fair market value of the related stock at the date of the grant. Vesting under the Plan is determined at the date of grant. The Company has not granted any options under this Plan through December 31, 2014.

Note 17. Income Taxes

The income tax effects of temporary differences in financial statement carrying values and the tax bases of assets and liabilities, as well as net operating loss carryforwards at December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	**2013**
Deferred tax assets		
Net operating loss carryforwards	$ 1,636,498	$ 1,436,792
Allowance for loan losses	684,243	702,765
Unrealized loss on securities available-for-sale	-	231,255
Non-qualified stock options/warrant expense	120,414	122,545
Amortization of intangibles	128,943	140,693
Deferred director compensation	96,639	39,170
Accrued expenses	16,640	37,232
Interest income on non-accrual loans	26,414	26,479
Lease up-fitting allowance	10,921	16,245
Alternative minimum tax carryforward	4,321	15,191
Other real estate owned	7,789	2,282
Other	210,039	122,519
Total deferred tax assets before valuation allowance	2,942,861	2,893,168
Less valuation allowance	17,575	18,682
Total deferred tax assets	2,925,286	2,874,486
Deferred tax liabilities		
Depreciation	456,520	296,749
Unrealized gain on securities available-for-sale	67,556	-
Prepaid expenses	42,139	31,743
Loan origination costs	192,331	195,223
Valuations on purchased loans	32,359	17,733
Total deferred tax liabilities	790,905	541,448
Net deferred tax asset	**$ 2,134,381**	**$ 2,333,038**

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. The Company and the Bank file a consolidated federal income tax return and separate North Carolina state income tax returns. The Bank also files separate South Carolina and Washington, DC state income tax returns. The Company has recorded a valuation allowance with respect to state deferred tax assets as management has concluded that those assets are not more likely than not to be realized. Management has determined that it is more likely than not that that all federal deferred tax assets and all Bank state deferred tax assets will be utilized in future years.

The Company has federal net operating losses for income tax purposes of $4,699,468 as of December 31, 2014. These net operating losses expire in the years 2028 through 2034. The Bank has North Carolina net economic losses for income tax purposes of $639,540 as of December 31, 2014. These net economic losses expire in years 2024 through 2025.

Note 17. Income Taxes, Continued

The income tax expense for the years ended December 31, 2014 and 2013 are summarized as follows:

	For the years ended December 31,	
	2014	**2013**
Current income tax expense (benefit) from current operations	$ 40,000	$ 10,972
Deferred income tax expense (benefit) from current operations	(99,047)	(24,589)
Change in valuation allowance from current operations	(1,107)	48
Income tax expense (benefit)	**$ (60,154)**	**$ (13,569)**

The income tax expense for the years ended December 31, 2014 and 2013 is reconciled to the amount of income tax computed at the federal statutory rate of 34 percent on income before income taxes as follows:

	For the years ended December 31,	
	2014	**2013**
Tax expense at statutory rate	$ 184,336	$ 221,095
State income tax expense, net of federal expense	45,941	43,366
Increase (decrease) in taxes resulting from:		
Tax-exempt income	(231,612)	(222,602)
Change in valuation allowance from current operations	(1,107)	48
Other, net	(57,712)	(55,476)
Income tax expense (benefit)	**$ (60,154)**	**$ (13,569)**

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740. With few exceptions, the Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2011.

Note 18. Leases

The Bank entered into a ten year lease agreement for its Blakeney Park Drive banking facility on November 10, 2006. The Bank began leasing the facility in March 2007. Lease payments are $9,375 per month and will increase by 3 percent per year beginning with the third year of the lease. The Bank has the option to renew the lease for two additional three-year periods at the conclusion of the original lease period in February, 2017.

The Bank entered into a lease agreement for its Ballantyne Corporate Place banking facility on April 30, 2009. The agreement provided for a rent commencement date of December 1, 2009 and a termination date of November 30, 2019. Lease payments are $22,900 per month for the first 12 months, and will increase by 4 percent each year thereafter. The Bank has the option to renew the lease for two additional five-year periods at the conclusion of the original lease period.

The Bank entered into a lease agreement for its Rock Hill banking facility on July 1, 2012. The agreement was part of the South Carolina branch acquisition and provides for a termination date of September 30, 2015. Lease payments are $3,239 per month.

The Bank entered into a lease agreement in 2012 for its Urban League location in uptown Charlotte. The agreement provided for a rent commencement date of November 1, 2012 and a termination date of October 31, 2015. Lease payments are $1,042 per month.

Note 18. Leases, Continued

The Bank entered into a lease agreement in 2013 for its Washington, DC branch located at 1299 Pennsylvania Avenue. The agreement provided for a rent commencement date of February 1, 2014 and a termination date of January 31, 2024. The lease payments were $12,345 per month for the first 12 months, and increase at an annual rate of $4 per square foot in the second and third years. The lease payment will increase by 2.5 percent each year thereafter.

The Bank entered into a lease agreement in 2013 for the branch located in Six Mile, South Carolina. The agreement provides for a variable monthly rent based on a percentage of branch profits at a rate of 10 percent of the monthly bank profits for the branch. The term of the lease is for five years.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year, for each of the next five years in the aggregate are:

2015	$	672,910
2016		663,760
2017		567,319
2018		565,375
2019		538,982
Thereafter		784,700
	$	**3,793,046**

Lease expense for the Company totaled $704,938 and $553,163 in 2014 and 2013, respectively.

Note 19. Related Party Transactions

Certain related parties (principally certain directors and executive officers of the Bank, and their related interests) were loan customers of, and had other transactions in the normal course of business with, the Bank. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The aggregate dollar amount of loans to related parties was $4,302,135 and $3,470,227 at December 31, 2014 and 2013, respectively. During 2014, new loans to related parties were $1,023,925 and repayments totaled $192,017.

Deposits received from executive officers and directors and their related interests totaled $3,148,100 and $2,456,580 at December 31, 2014 and 2013, respectively. These deposit accounts have substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other non-related depositors.

Note 20. Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2014, management is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, that would be material to the financial statements.

The Company has entered into employment agreements with certain of its key officers covering duties, salary, benefits, and provision for termination and Company obligations in the event of merger or acquisition.

Note 21. Employee Benefit Plan

Effective June 1, 2008, the Bank adopted a 401(k) plan which covers all eligible employees. Participants may contribute up to $15,500 per year, and the Bank matches contributions equal to 100 percent of employee contributions up to 4 percent of eligible compensation. The Company's contributions to the plan were approximately $92,000 and $74,000 for the years ended December 31, 2014 and 2013, respectively.

In 2013 the company added a supplemental executive retirement plan for certain officers. The benefits of the plan are funded primarily by life insurance policies on certain employees and directors with the Company designated as the beneficiary. Expenses related to the plan were $0 and $102,673 in 2014 and 2013, respectively. At December 31, 2014 other liabilities included $82,105 for this supplement retirement plan.

In 2013 the company added a deferred director compensation plan for certain directors. The benefits of the plan are funded primarily by life insurance policies on certain employees and directors with the Company designated as the beneficiary. Expenses related to the plan were $155,898 and $103,187 in 2014 and 2013, respectively. At December 31, 2014 other liabilities included $259,085 for this deferred compensation plan.

Note 22. Income per Share

Basic income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock warrants. Potentially dilutive shares were anti-dilutive in both periods; therefore, basic income per share and diluted income per share were the same.

	For the years ended December 31, 2014	2013
Net income per share – basic and diluted computation:		
Net income available to common stockholders	$ 539,940	$ 537,009
Average common shares outstanding – basic and diluted	1,945,983	1,945,983
Basic and diluted income per common share	**$ 0.28**	**$ 0.28**

On April 9, 2013, the Board of Directors declared a 15 percent stock dividend, which was paid on May 22, 2013, to shareholders of record at the close of business on May 6, 2013. Share data has been restated to reflect that transaction.

Note 23. Capital Requirements

All bank holding companies and banks 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 direct adverse material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, bank holding companies and banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 23. Capital Requirements, Continued

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios set forth in the table below of Total and Tier 1 Capital, as defined in the regulations, to risk-weighted assets, as defined, and of Tier 1 Capital, as defined, to average assets, as defined. Management believes, as of December 31, 2014 that the Company and the Bank exceeded all capital adequacy minimum requirements.

As of the most recent regulatory examination, the Bank was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain total risk-based, Tier 1 risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Bank's categories.

The following table summarizes the capital amounts (dollars in thousands) and ratios of the Company and the Bank and the regulatory minimum requirements at December 31, 2014 and 2013:

	Actual		Minimum Capital Required		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2014						
The Company						
Total capital (to risk-weighted assets)	$ 22,280	11.74%	$ 15,186	8.00%	n/a	n/a
Tier 1 capital (to risk-weighted assets)	19,978	10.53%	7,593	4.00%	n/a	n/a
Tier 1 capital (to average assets)	19,978	7.93%	10,069	4.00%	n/a	n/a
The Bank						
Total capital (to risk-weighted assets)	$ 22,243	11.72%	$ 15,186	8.00%	$ 18,983	10.00%
Tier 1 capital (to risk-weighted assets)	19,941	10.50%	7,593	4.00%	11,390	6.00%
Tier 1 capital (to average assets)	19,941	7.92%	10,069	4.00%	12,586	5.00%
December 31, 2013						
The Company						
Total capital (to risk-weighted assets)	$ 21,486	12.49%	$ 13,756	8.00%	n/a	n/a
Tier 1 capital (to risk-weighted assets)	19,334	11.24%	6,878	4.00%	n/a	n/a
Tier 1 capital (to average assets)	19,334	8.29%	9,322	4.00%	n/a	n/a
The Bank						
Total capital (to risk-weighted assets)	$ 21,480	12.49%	$ 13,756	8.00%	$ 17,195	10.00%
Tier 1 capital (to risk-weighted assets)	19,328	11.24%	6,878	4.00%	10,317	6.00%
Tier 1 capital (to average assets)	19,328	8.26%	9,322	4.00%	11,653	5.00%

In July 2013, the Federal Reserve and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called "Basel III," and addressed relevant provisions of the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

Note 23. Capital Requirements, Continued

The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank are: (i) a new common equity Tier 1 capital ratio of 4.5 percent; (ii) a Tier 1 capital ratio of 6.0 percent (increased from 4.0 percent); (iii) a total capital ratio of 8.0 percent (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4.0 percent for all institutions. The rules eliminate the inclusion of certain instruments, such as preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for companies with consolidated assets of $15 billion or less. The rules also establish a "capital conservation buffer" of 2.5 percent above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0 percent, (ii) a Tier 1 capital ratio of 8.5 percent, and (iii) a total capital ratio of 10.5 percent. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625 percent of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that may be utilized for such actions.

Note 24. Restrictions on Dividends, Loans, or Advances

The Bank, as a North Carolina banking corporation, may pay dividends pursuant to North Carolina General Statutes Section 53C-4-7. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure the financial soundness of the Bank.

Note 25. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Company is an investor in two private equity limited partnerships which were formed to invest in middle market companies throughout the United States. The partnerships have been licensed by the Small Business Administration (SBA) to operate as a Small Business Investment Company under the authority of the SBA. The bank's investment commitment is $1,000,000 of which $453,088 had been invested at December 31, 2014 and is included in nonmarketable equity securities. The Company's unfunded commitment at December 31, 2014 was $546,912.

Note 25. Financial Instruments with Off-Balance-Sheet Risk, Continued

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counter-party. Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

The following table summarizes the Company's off-balance-sheet financial instruments at December 31, 2014 and 2013 whose contract amounts represent credit risk:

	At December 31,	
	2014	**2013**
Unfunded lines of credit	$ 20,016,769	$ 24,672,575
Commitments to extend credit	1,400,000	1,986,000
Standby letters of credit	572,172	542,793
Other commitments	546,912	512,500

Note 26. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach are required. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, a fair value hierarchy is established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Note 26. Fair Value of Financial Instruments, Continued

Fair Value Hierarchy:

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the assets or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available-for-Sale
Investment securities classified as 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, U.S. 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 may include asset-backed securities in less liquid markets.

Derivative Assets and Liabilities:

The values of derivative instruments held or issued by the Company for risk management purposes are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the Company measures fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. The Company classifies derivative instruments as Level 2 valuation.

Loans:

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment by estimating the fair value of the impaired loan using one of several methods; including collateral value, market value of similar debt, enterprise value, liquidation value or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Note 26. Fair Value of Financial Instruments, Continued

Loans (continued):

For impaired loans that have an allowance established based on the fair value of collateral, a classification in the fair value hierarchy is required. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate Owned ("OREO"):
Foreclosed assets are adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO 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 Bank records the OREO 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 Bank records the OREO as nonrecurring Level 3.

Note 26. Fair Value of Financial Instruments, Continued

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

The tables below present the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Assets:				
Securities available for sale:				
U.S. government agencies	$ -	$ 982,221	$ -	$ 982,221
Collateralized mortgage obligations	-	889,419	-	889,419
Mortgage-backed securities	-	1,343,293	-	1,343,293
Municipal bonds - non-taxable	-	22,203,040	-	22,203,040
Municipal bonds - taxable	-	5,410,129	-	5,410,129
Other securities	-	2,034,337	-	2,034,337
Total Investments	$ -	$ 32,862,439	$ -	$ 32,862,439
Total assets measured at fair value on a recurring basis	**$ -**	**$ 32,862,439**	**$ -**	**$ 32,862,439**
Liabilities:				
Derivative instruments:				
Interest rate swaps	$ -	$ 215,791	$ -	$ 215,791
Total liabilities measured at fair value on a recurring basis	**$ -**	**$ 215,791**	**$ -**	**$ 215,791**

Note 26. Fair Value of Financial Instruments, Continued

Assets and Liabilities Measured at Fair Value on a Recurring Basis, continued:

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Assets:				
Securities available for sale:				
U.S. government agencies	$ -	$ 881,994	$ -	$ 881,994
Collateralized mortgage obligations	-	1,922,855	-	1,922,855
Mortgage-backed securities	-	3,762,204	-	3,762,204
Municipal bonds - non-taxable	-	2,901,130	-	2,901,130
Municipal bonds - taxable	-	3,247,558	-	3,247,558
Other securities	-	2,222,623	-	2,222,623
Total Investments	$ -	$ 14,938,364	$ -	$ 14,938,364
Total assets measured at fair value on a recurring basis	$ -	$ 14,938,364	$ -	$ 14,938,364

The Company had no liabilities measured at fair value on a recurring basis at December 31, 2013.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis:

The table below presents the Company's assets measured at fair value on a non-recurring basis as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Impaired loans	$ -	$ -	$ 3,423,655	$ 3,423,655
Loans held for sale	-	590,981	-	590,981
Other real estate owned	-	-	54,119	54,119
Total	$ -	$ 590,981	$ 3,477,774	$ 4,068,755

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Impaired loans	$ -	$ -	$ 2,444,241	$ 2,444,241
Loans held for sale	-	1,390,701	-	1,390,701
Other real estate owned	-	-	54,119	54,119
	$ -	$ 1,390,701	$ 2,498,360	$ 3,889,061

The Company had no liabilities measured at fair value on a non-recurring basis at December 31, 2014 or 2013.

Note 26. Fair Value of Financial Instruments, Continued

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis:

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2014 and 2013, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at December 31, 2014	Fair Value at December 31, 2013	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired Loans	$ 3,423,655	$ 2,444,241	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 10%
Other Real Estate Owned	$ 54,119	$ 54,119	Appraised Value/Comparable Sales/Other Estimates from Independent Sources	Discounts to reflect current market conditions and estimated costs to sell	6 – 10%

For assets and liabilities that are not presented on the balance sheet at fair value, the Company uses the following methods to determine fair value:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets or liabilities not considered financial instruments include deferred tax assets and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered.

The Company's fair value methods and assumptions for assets and liabilities that are not presented on the balance sheet at fair value are as follows:

- *Cash and due from banks, interest-bearing bank deposits, federal funds sold, nonmarketable equity securities, accrued interest receivable, and accrued interest payable* - the carrying value is a reasonable estimate of fair value.

- *Loans held for sale* - the carrying value is the lower of cost or market value. The fair value of loans held for sale is based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for loans held for sale are nonrecurring Level 2.

Note 26. Fair Value of Financial Instruments, Continued

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis (continued):

- *Loans, net* - the carrying value for variable rate loans is a reasonable estimate of fair value due to contractual interest rates based on prime. Fair value for fixed rate loans is estimated based upon discounted future cash flows using discount rates comparable to rates currently offered for such loans.

- *Deposit accounts* - the fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value of all other deposit account types is the amount payable on demand at year-end.

- *Federal Home Loan Bank advances* - the carrying value of variable rate borrowings is considered to approximate fair value. The fair values for fixed rate borrowings are estimated based upon discounted future cash flows using discount rates comparable to rates currently charged for such borrowings.

- *Commitments to extend credit and standby letters of credit* - the large majority of the Company's loan commitments are at variable rates and, therefore, are subject to minimal interest rate risk exposure. Therefore, the fair value for these financial instruments is considered to approximate the commitment amount.

Based on the limitations, methods, and assumptions noted, the estimated fair values of the Company's financial instruments at December 31, 2014 and 2013 are as follows:

	December 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and due from banks	$ 3,025,484	$ 3,025,484	$ 4,137,086	$ 4,137,086
Interest bearing bank deposits	7,618,423	7,618,423	30,611,954	30,611,954
Securities available-for-sale	32,862,439	32,862,439	14,938,364	14,938,364
Securities held-to-maturity	-	-	18,736,512	17,148,679
Nonmarketable equity securities	1,307,488	1,307,488	1,301,900	1,301,900
Loans held for sale	590,981	590,981	1,390,701	1,390,701
Loans, net	183,659,984	184,424,984	165,797,212	165,829,212
Bank owned life insurance	5,308,900	5,308,900	5,154,222	5,154,222
Accrued interest receivable	961,230	961,230	935,171	935,171
Financial Liabilities				
Deposits accounts	$204,189,084	$203,741,084	$215,956,422	$216,226,422
Federal Home Loan Bank advances	14,000,000	14,264,000	11,000,000	11,039,000
Accrued interest payable	44,355	44,355	61,342	61,342
Interest rate swaps	215,791	215,791	-	-

Note 27. 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 25, 2015, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

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FINANCIAL, INC.