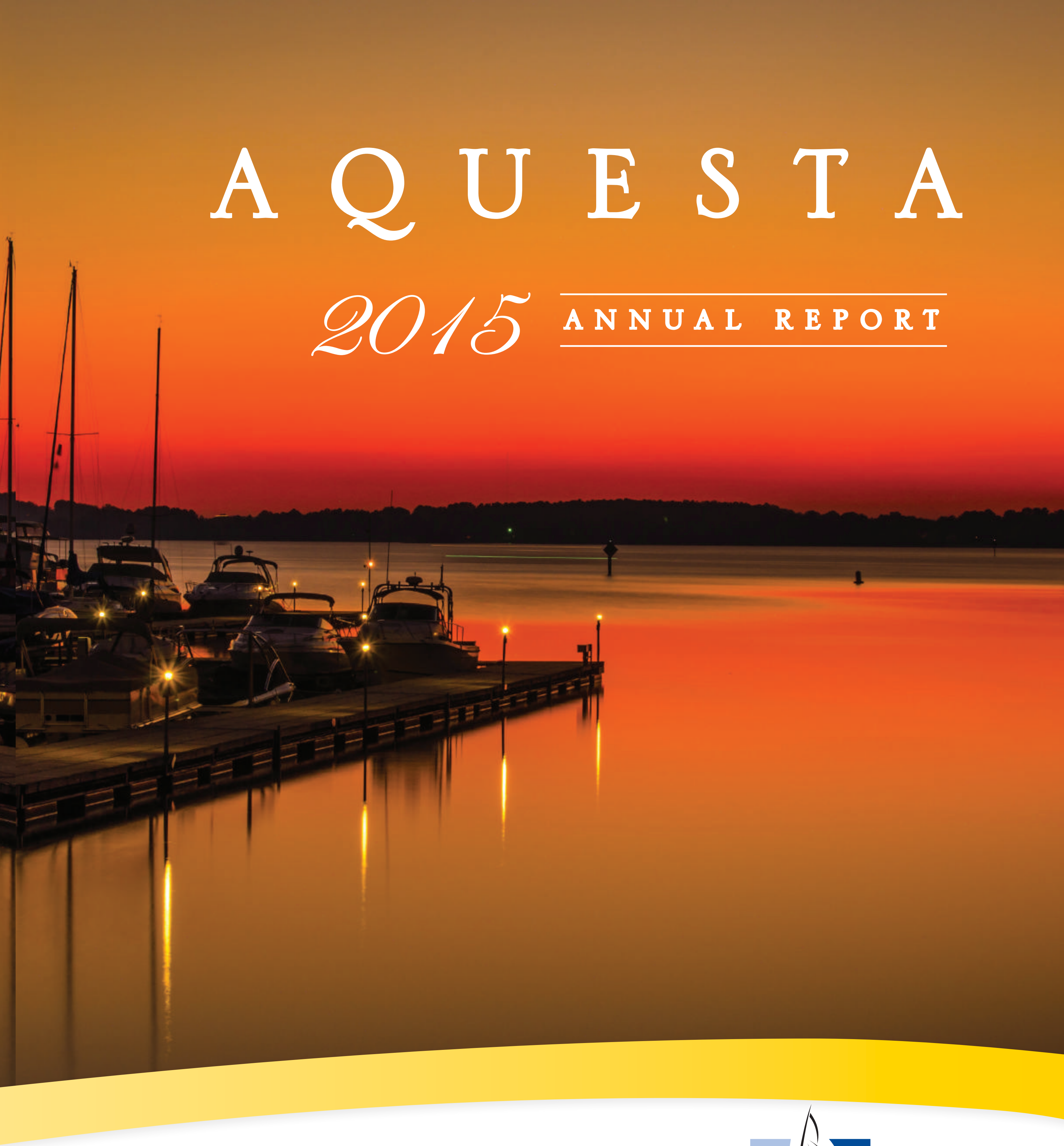
AQUESTA

2015 ANNUAL REPORT



AQUESTA

BANK NEAR. GO FAR.

AQUESTA
FINANCIAL HOLDINGS, INC.

Aquesta Financial Holdings, Inc. and Subsidiaries

Consolidated Financial Statements

For the Years Ended December 31, 2015 and 2014

AQUESTA
FINANCIAL HOLDINGS, INC.

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AQUESTA
FINANCIAL HOLDINGS, INC.

April 18, 2016

Dear Shareholders:

We are pleased to provide you with this 2015 annual report of Aquesta Financial Holdings and its subsidiaries and to thank each of you for the tremendous support Aquesta has received from its shareholders and community.

2015 was another good year. For 2015, Aquesta achieved record earnings with pre-tax income of $3.0 million resulting in income to shareholders of $0.64 per share. Most importantly, we achieved significant loan and deposit growth during the year. While total assets increased to $293.1 million as of December 31, 2015, total loans actually grew at a very respectable rate of 13.6 percent to end the year at $195.6 million. Core deposits grew by $28.0 million or 23.5 percent reflecting well on our branch personnel's efforts to build local relationships.

The Bank opened its primary Huntersville location at North Cross on Sam Fur Road in late 2014, a small branch in Cornelius Old Towne, and in October of 2015 our first branch in Charlotte across from the South Park Mall. All have been warmly received and are on plan for growth and profitability.

Late in 2015, we announced the acquisition of a branch in Wilmington. This branch should prove very cost effective as our Wilmington insurance agency operations will move in as first floor tenants while the second floor is being leased to a current tenant. This will allow us to begin providing full service banking to our current and future Wilmington customers.

We continue to focus on small to medium sized businesses and professionals. We know that each new Aquesta customer is a potential future ambassador for our bank. As shareholders, you too can help with the success of Aquesta and your investment by using our services, providing us feedback and telling your friends and family about your positive experiences. Please do not hesitate to call us about your banking or insurance needs. We are here to help.

Once again, thank you for your support. Aquesta is here for you.

Best regards,

Jim Engel
President & Chief Executive Officer

Craig Larsen
Chairman of the Board

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Aquesta Financial Holdings, Inc.
Cornelius, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aquesta Financial Holdings, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit 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 Aquesta Financial Holdings, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Company, as of and for the year ended December 31, 2014, were audited by other auditors whose report dated May 7, 2015 expressed an unmodified opinion on those statements.

Porter Keadle Moore, LLC

Atlanta, Georgia
April 18, 2016

AQUESTA FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Years Ended December 31, 2015 and 2014

Assets		**2015**		**2014**
Cash and due from banks, including reserve requirements of $1,084,000 and $670,000	$	8,571,374	$	5,503,244
Investment securities held to maturity, net (note C and O)		23,079,774		18,552,056
Investment securities available for sale, at fair value (note C and O)		42,194,660		44,375,538
Loans (note E)		195,637,917		172,249,557
Less: allowance for loan losses		(2,561,170)		(2,479,871)
Loans, net		193,076,747		169,769,686
Accrued interest receivable		969,697		1,006,444
Premises and equipment, net (note F)		10,722,927		10,562,262
Goodwill (note G)		686,533		686,533
Identifiable intangible assets (note G)		1,066,818		1,165,705
Other real estate owned		899,588		1,140,184
Federal Home Loan Bank stock (note J)		1,945,900		1,614,600
Bank owned life insurance		5,779,969		5,628,628
Other assets		4,071,393		3,560,985
Total assets	$	293,065,380	$	263,565,865
Liabilities and Stockholders' Equity				
Deposits:				
Demand noninterest-bearing	$	66,187,410	$	56,066,863
NOW		12,831,444		11,839,155
Money market and savings		68,416,717		51,502,856
Time deposits (note H)		64,457,922		86,604,480
Total deposits		211,893,493		206,013,354
Other borrowed funds (note I)		54,057,671		32,223,471
Accrued interest payable		25,148		42,342
Accrued expenses and other liabilities		3,628,443		2,539,024
Total liabilities		269,604,755		240,818,191
Commitments (notes M and N)				
Stockholders' equity:				
Common stock, $0.01 par value; 10,000,000 shares authorized; 3,048,170 and 3,074,370 shares issued and outstanding		30,482		30,744
Additional paid-in capital		23,562,108		23,679,047
Retained earnings		2,805,425		1,138,292
Accumulated other comprehensive loss		(2,937,390)		(2,100,409)
Total stockholders' equity		23,460,625		22,747,674
Total liabilities and stockholders' equity	$	293,065,380	$	263,565,865

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS

Years Ended December 31, 2015 and 2014

	Year Ended 12/31/15	Year Ended 12/31/14
Interest income:		
Loans, including fees	$ 8,910,837	$ 7,324,755
Investment securities	2,283,213	2,672,152
Deposits in other banks	63,903	55,024
Total interest income	11,257,953	10,051,931
Interest expense:		
Money market, NOW and savings deposits	137,715	85,698
Time deposits (note H)	686,478	786,543
Short-term borrowings (note I)	76,095	34,726
Other borrowed funds (note I)	557,737	382,932
Total interest expense	1,458,025	1,289,899
Net interest income	9,799,928	8,762,032
Provision for loan losses (note E)	271,000	429,300
Net interest income after provision for loan losses	9,528,928	8,332,732
Noninterest income:		
Service charges on deposit accounts	723,901	648,487
Insurance commissions	2,254,032	2,130,634
Investment securities gains, net (note C)	247,740	60,770
Other	840,362	628,311
Total noninterest income	4,066,035	3,468,202
Noninterest expense:		
Loss on sale of other real estate owned	127,965	152,781
Salaries and benefits	6,524,099	5,688,675
Net occupancy expense (note M)	1,166,958	902,847
Advertising and promotion	161,555	133,588
Professional fees	461,988	467,136
Other	2,106,933	1,793,463
Total noninterest expense	10,549,498	9,138,490
Income before income taxes	3,045,465	2,662,444
Income tax expense (note K)	1,074,038	957,370
Net income	$ 1,971,427	$ 1,705,074
Earnings per share – basic	$ 0.64	$ 0.55
Earnings per share - diluted	0.63	0.55
Weighted average shares outstanding – basic	3,067,482	3,074,370
Weighted average shares outstanding – diluted	3,122,930	3,110,384

See accompanying notes to consolidated financial statements

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2015 and 2014

	Year Ended 12/31/15	Year Ended 12/31/14
Net income	$ 1,971,427	$ 1,705,074
Other comprehensive (loss)/income:		
Unrealized holding (loss)/gain on investment securities available for sale	(16,393)	2,566,987
Tax effect	6,557	(1,026,795)
Reclassification of gains recognized in net income	(247,740)	(60,770)
Tax effect	99,096	24,308
Reclassification of losses recognized in net income from transferred investment held to maturity securities		
Tax effect		
Unrealized holding loss on derivatives	(668,450)	(2,096,710)
Tax effect	267,380	838,684
Amount amortized from other comprehensive income related to available for sale securities previousl transferred to held to maturity	(277,431)	(65,513)
Total other comprehensive (loss)/income	(836,981)	180,191
Total comprehensive income	$ 1,134,446	$ 1,885,265

See accompanying notes to consolidated financial statements

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014

	Common stock		Additional paid-in capital	Retained earnings/ (Accumulated deficit)	Accumulated other comprehensive (loss)	Total
	Shares	**Amount**				
Balances at December 31, 2013	3,074,370	$ 10,680,124	$ 12,937,067	$ (284,966)	$ (2,280,600)	$ 21,051,625
Net income	—	—	—	1,705,074	—	1,705,074
Dividends on common stock - $0.11 per share	—	—	—	(281,816)	—	(281,816)
Other comprehensive income	—	—	—	—	180,191	180,191
Formation of holding company	—	(10,649,380)	10,649,380	—	—	—
Equity compensation expense	—	—	92,600	—	—	92,600
Balances at December 31, 2014	3,074,370	30,744	23,679,047	1,138,292	(2,100,409)	22,747,674
Net income	—	—	—	1,971,427	—	1,971,427
Dividends on common stock - $0.12 per share	—	—	—	(304,294)	—	(304,294)
Other comprehensive loss	—	—	—	—	(836,981)	(836,981)
Share repurchase	(26,200)	(262)	(219,319)	—	—	(219,581)
Equity compensation expense	—	—	102,380	—	—	102,380
Balances at December 31, 2015	3,048,170	$ 30,482	$ 23,562,108	$ 2,805,425	$ (2,937,390)	$ 23,460,625

See accompanying notes to consolidated financial statements

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

	Year Ended 12/31/15	Year Ended 12/31/14
Cash flows from operating activities:		
Net income	$ 1,971,427	$ 1,705,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	842,229	493,977
Amortization of intangible assets	153,085	150,331
Provision for loan losses	271,000	429,300
Deferred income taxes	1,836	957,370
Equity compensation expense	102,380	92,600
Investment securities gains, net	(247,740)	(60,770)
Loss on sale of other real estate owned	127,965	152,781
Change in assets and liabilities:		
Decrease/(increase) in accrued interest receivable	52,378	(31,683)
(Increase)/decrease in other assets	(210,801)	67,793
(Decrease)/increase in accrued interest payable	(17,194)	7,017
Increase in accrued expenses and other liabilities	475,468	126,869
Net cash provided by operating activities	3,522,033	4,090,659
Cash flows from investing activities (net of effect of business combination):		
Proceeds from maturities/calls/paydowns of investment securities available for sale	4,235,159	2,518,912
Proceeds from maturities/calls/paydowns of investment securities held to maturity	2,535,487	-
Proceeds from the sale of investment securities available for sale	12,000,030	14,725,699
Proceeds from the sale of investment securities held to maturity	544,500	-
Purchases of investment securities available for sale	(15,482,957)	(6,379,670)
Purchases of investment securities held to maturity	(6,925,754)	-
Increase in loans	(22,066,353)	(42,677,847)
Proceeds from the sale of other real estate owned	1,737,631	297,231
Purchases of premises and equipment	(240,841)	(1,848,166)
Purchase of Federal Home Loan Bank stock	(331,000)	-
Net decrease in federal funds sold	-	1,705,000
Cash received for bank branch acquisition	2,612,481	-
Net cash used in investing activities	(21,381,617)	(31,658,842)
Cash flows from financing activities (net of effect of busines combination):		
Dividends on common stock	(304,294)	(281,816)
Share repurchase	(219,581)	-
Net (decrease)/increase in deposits	(382,611)	22,566,268
Net increase/(decrease) in other borrowings	83,500	(86,429)
Net increase in federal funds purchased	12,750,700	814,200
Net increase in Federal Home Loan Bank advances	9,000,000	3,000,000
Net cash provided by financing activities	20,927,714	26,012,223
Net increase/(decrease) in cash and cash equivalents	3,068,130	(1,555,959)
Cash and cash equivalents at beginning of year	5,503,244	7,059,203
Cash and cash equivalents at end of year	$ 8,571,374	$ 5,503,244
Supplemental information on cash payments:		
Interest paid	$ 1,475,219	$ 1,282,882
Taxes paid	523,000	825,000
Supplemental information on noncash transactions:		
Change in unrealized loss on derivatives, net of tax	401,070	1,258,026
Change in unrealized loss on available for sale securities, net of tax	287,267	1,438,217
Loans transferred to other real estate owned	1,625,000	672,420

The following is a summary of the fair value of assets acquired and liabilities assumed in the business combination:

Fair value of assets acquired	$ 6,269,020
Fair value of liabilities assumed	6,269,020

See accompanying notes to consolidated financial statements

NOTE A - ORGANIZATION AND OPERATIONS

Aquesta Bank (the "Bank") was incorporated on June 12, 2006 and began banking operations on August 1, 2006. The Bank is engaged in commercial banking in the Charlotte region of North Carolina, principally Mecklenburg County and has seven banking branches. The Bank operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities. In addition, the Bank offers property, casualty and health insurance products through the Bank's wholly owned subsidiary, Aquesta Insurance Services, Inc. ("Aquesta Insurance Services"). Aquesta Insurance Services has three insurance agency branches in North Carolina. Aquesta Financial Holdings, Inc. (the "Company") was incorporated on August 8, 2013 and acquired the Bank on April 1, 2014.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash and due from banks.

Investment Securities

Available for sale securities are reported at fair value and consist of debt instruments that are not classified as trading securities nor as held to maturity securities. Trading securities are both debt and equity securities which an entity intends to sell in the short term for a profit. Trading securities are reported at fair value. Held to maturity securities are reported at amortized cost and consist of debt securities and are not available for sale or trading. Unrealized holding gains and losses, net of applicable deferred income tax, on available for sale securities are reported as a net amount in other comprehensive (loss)/income. Gains and losses on the sale of available for sale securities are determined using the specific-identification method. Declines in the fair value of individual available for sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed unless the collateral for the loan is sufficient to cover the accrued interest. Interest income is subsequently recognized only to the extent cash payments are received.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Troubled Debt Restructurings

The Company identifies loans for potential restructuring on a loan-by-loan basis using a variety of sources which may include, but are not limited to any one or a combination of the following: being approached or contacted by the borrower to modify loan terms; review of the borrower's financial statements indicates the borrower may be experiencing financial difficulties; past due payment reports; loans extending past their stated maturity dates; and nonaccrual loan reports. Not all loan modifications constitute troubled debt restructurings ("TDRs"). Identifying whether a loan restructuring is a TDR is based upon individual facts and circumstances and requires the use of judgment on a loan-by-loan basis. The Company must first determine if the borrower is experiencing financial difficulty. A restructuring constitutes a TDR if for economic or legal reasons related to an individual borrower's financial condition the Company grants a concession to the borrower that would not otherwise be considered. A restructuring that results in only a delay in payment that is insignificant is not a concession.

Allowance for Loan Losses

The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio. Loans are considered impaired when it is probable that all amounts due under the contractual terms of the loan will not be collected. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may require the Company to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Premises and Equipment

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 40 years for buildings, 5 to 10 years for furniture, fixtures and equipment, and 5 years for computers and related equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at the lower of the carrying amount of the loan plus accrued interest at the date of foreclosure or fair value of the property less estimated costs to sell at the date of foreclosure establishing a new cost basis. After foreclosure, management periodically performs valuations of the property and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Income Taxes

The Company does not anticipate any increase or decrease in unrecognized tax benefits during the next twelve months that would result in a material change to its financial position. The Company's income tax returns for years ended after December 31, 2011 remain open for examination. The Company includes interest and penalties in the consolidated financial statements as a component of income tax expense. No interest or penalties are included in the Company's income tax expense for the years ended December 31, 2015 and 2014.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes, continued

The Company has determined that it has no uncertain income tax positions as of December 31, 2015. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Derivative Instruments and Hedging Activities

The Company's interest rate risk management strategy incorporates the use of derivative instruments to minimize fluctuations in net income that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that net interest revenue is not, on a material basis, adversely affected by movements in interest rates. The Company views this strategy as a prudent management of interest rate risk, such that net income is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk management strategy, the Company uses interest rate derivative contracts. The primary type of derivative contract used by the Company to manage interest rate risk is interest rate swaps. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date. The Company also utilizes interest rate caps which limit the Company's interest expense exposure to a maximum rate on a notional principal amount.

The Company classifies its derivative financial instruments as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge"), (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge"), or (3) derivatives not designated as accounting hedges. Changes in the fair value of derivatives not designated as hedges are recognized in current period earnings. Derivatives are reflected as gross assets and liabilities on the consolidated balance sheet.

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 includes techniques such as regression analysis and hypothetical derivatives to demonstrate that the hedge has been, and is expected to be, highly effective in offsetting corresponding changes in the fair value or the cash flows of the hedged item. For a qualifying fair value hedge, changes in the value of 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 a qualifying cash flow hedge, the portion of changes in the fair value of the derivatives that have been highly effective are recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings.

For fair value hedges and cash flow hedges, ineffectiveness is recognized in the same income statement line as interest accruals on the hedged item to the extent that changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. 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 or cash flow hedge is terminated or the designation removed, the realized or then unrealized gain or loss is recognized into income over the life of the hedged item (fair value hedge) or over the time when the hedged item was forecasted to impact earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge) or if it is probable that the hedged cash flows will not occur (cash flow hedge).

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is represented by the fair value gain in a derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay the Company, and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company is obligated to pay the counterparty and, therefore, has no repayment risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Acquisition Activities

The Company accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the fair value of net assets purchased exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. Fair values are subject to refinement for a period not to exceed one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss; therefore, the related allowance for loan losses is not carried forward.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Deposit liabilities and the related depositor relationship intangible assets may be exchanged in observable exchange transactions. As a result, the depositor relationship intangible asset is considered identifiable, because the separability criterion has been met.

Goodwill and Intangible Assets

Goodwill is deemed to have an indefinite useful life. Identifiable intangible assets include core deposit premium, noncompete agreements and customer lists, which are being amortized on a straight-line basis over the estimated useful lives of the asset. The core deposit premium is being amortized over 10 years. The noncompete agreements and customer lists are being amortized over 2 to 15 years. Goodwill and intangible assets are reviewed annually for possible impairment, and if the assets are deemed impaired, an expense would be charged in the then current period.

Per Share Results

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the year. For the years ended December 31, 2015 and 2014, 55,448 options and warrants were dilutive and were included in the calculation of the diluted earnings per share.

Stock Compensation Plans

Accounting standards require recognition of the cost of employee services received in exchange for an award of equity instruments in the consolidated financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). These standards also require measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award.

Comprehensive Income

The Company reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only components of other comprehensive income are unrealized gains and losses on investment securities available for sale, unrealized losses on investments held to maturity prior to reclassification from available for sale and on derivatives, net of related income tax effects.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Comprehensive Income, continued

Following is a summary of the accumulated other comprehensive income ("AOCI") for the years ended December 31, 2015 and 2014:

	Unrealized loss on Held to Maturity Securities	Unrealized Holding Gain/(loss) on Investment Securities Available for Sale	Unrealized Holding Gain/(loss) on Cash flow hedging Activities	Total Accumulated Other Comprehensive Income/(loss)
Balance of December 31, 2013	$ (913,853)	$ (1,584,418)	$ 217,671	$ (2,280,600)
Other comprehensive income/(loss) before reclassifications	60,465	1,414,214	(1,258,026)	216,653
Amounts reclassified from AOCI	-	(36,462)	-	(36,462)
Net current period other comprehensive income/(loss)	60,465	1,377,752	(1,258,026)	180,191
Balance of December 31, 2014	(853,388)	(206,666)	(1,040,355)	(2,100,409)
Other comprehensive income/(loss) before reclassifications	377,658	(664,333)	(401,070)	(687,745)
Amounts reclassified from AOCI	-	(149,236)	-	(149,236)
Net current period other comprehensive income/(loss)	377,658	(813,569)	(401,070)	(836,981)
Balance of December 31, 2015	$ (475,730)	$ (1,020,235)	$ (1,442,017)	$ (2,937,390)

NOTE C – BUSINESS COMBINATION

On July 10, 2015, the Company completed its acquisition of a bank branch operation from another financial institution. The branch is located in Charlotte, North Carolina. Total assets acquired were approximately $6.3 million and total liabilities assumed were approximately $6.3 million. The Company recorded a fair value adjustment consisting of a Core Deposit Intangible ("CDI") asset of approximately $54 thousand. The only consideration was the assumption of liabilities which equaled the assets acquired, resulting in no goodwill or bargain purchase gain recorded. The acquisition was accounted for using the purchase method of accounting, and the results of operations of the acquired branch are included in the consolidated statements of income for the period since the acquisition date.

The following table provides the assets acquired, the liabilities assumed and the adjustments to fair value for the acquisition (in thousands):

	Acquisition Date	Fair Value Adjustment	Fair Value
Assets			
Cash	$ 2,612	$ -	$ 2,612
Loans	3,137	-	3,137
Premises and equipment	450	-	450
Core deposit intangible	-	54	54
Other assets	16	-	16
Total assets acquired	$ 6,215	$ 54	$ 6,269
Liabilities			
Deposits	$ 6,263	$ -	$ 6,263
Other liabilities	6	-	6
Total liabilities assumed	$ 6,269	$ -	$ 6,269
Net assets acquired			$ -

There were no loans acquired in the branch acquisition that had evidence of credit deterioration.

The CDI is being amortized over 10 years on a straight-line basis.

NOTE D - INVESTMENTS

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, at December 31, 2015 and 2014 are as follows:

		Recognized in AOCI*			Not recognized in AOCI		
December 31, 2015:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity							
U.S. government agency securities	$ 10,886,019	$ -	$ 565,174	$ 10,320,845	$ 329,557	$ 50,892	$ 10,599,510
Mortgage back securities	7,439,892		3,820	7,436,072	48,038	127,800	7,356,310
Preferred shares	516,857	-	51,210	465,647	41,953	-	507,600
Foreign debt securities	1,441,883	-	-	1,441,883	-	19,423	1,422,460
Corporate bonds	3,523,848	-	108,521	3,415,327	11,545	156,753	3,270,119
	$ 23,808,499	$ -	$ 728,725	$ 23,079,774	$ 431,093	$ 354,868	$ 23,155,999
Securities available for sale							
U.S. government agency securities	$ 11,234,228	$ 26,446	$ 43,469				$ 11,217,205
Mortgage back securities	9,700,618	30,291	96,184				9,634,725
Preferred shares	2,744,188	61,843	794				2,805,237
Corporate bonds	12,286,526	135,715	1,278,661				11,143,580
Foreign debt securities	3,929,831	20,586	578,875				3,371,542
Municipal bonds	3,998,674	64,316	40,619				4,022,371
	$ 43,894,065	$ 339,197	$ 2,038,602				$ 42,194,660
	$ 67,702,564	$ 339,197	$ 2,767,327				$ 65,350,659

		Recognized in AOCI*			Not recognized in AOCI		
December 31, 2014:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity							
U.S. government agency securities	$ 11,128,868	$ -	$ 1,125,461	$ 10,003,406	$ 753,204	$ -	$ 10,756,610
Mortgage back securities	1,809,267	-	9,184	1,800,084	68,383	-	1,868,467
Preferred shares	516,857	-	98,534	418,323	87,077	-	505,400
Corporate bonds	6,519,366	-	189,123	6,330,243	178,227	1,313	6,507,157
	$ 19,974,358	$ -	$ 1,422,302	$ 18,552,056	$ 1,086,891	$ 1,313	$ 19,637,634
Securities available for sale							
U.S. government agency securities	$ 5,389,930	$ 1,485	$ 72,029				$ 5,319,386
Mortgage back securities	2,830,691	46,867	19,000				2,858,558
Preferred shares	4,826,027	86,271	57,202				4,855,096
Corporate bonds	27,250,757	588,872	885,435				26,954,194
Municipal bonds	4,422,578	46,632	80,906				4,388,304
	$ 44,719,983	$ 770,127	$ 1,114,572				$ 44,375,538
	$ 64,694,341	$ 770,127	$ 2,536,874				$ 64,013,172

**The gross unrealized losses recognized in accumulated other comprehensive income (AOCI) on held to maturity (HTM) securities resulted from a previous transfer of available for sale (AFS) securities*

NOTE D – INVESTMENTS, continued

The amortized cost and fair value of investment securities at December 31, 2015, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Held-to-maturity		Available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	3,270,014	2,802,772
Due after five years through ten years	5,877,128	5,772,436	13,088,062	12,185,157
Due after ten years	9,300,927	9,519,653	17,586,518	17,307,805
Subtotal	15,178,055	15,292,089	33,944,594	32,295,734
Perpetual preferred shares	465,647	507,600	248,854	264,201
Mortgage backed securities	7,436,072	7,356,310	9,700,618	9,634,725
Total	$ 23,079,774	$ 23,155,999	$ 43,894,066	$ 42,194,660

The composition of the investment securities with an unrealized loss position at December 31, 2015 and 2014 is shown below.

	Unrealized Loss of Less than 12 months		Unrealized Loss of 12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2015:						
Held-to-maturity						
U.S. government agency securities	$ 3,982,695	$ 50,892	$ -	$ -	$ 3,982,695	$ 50,892
Mortgage back securities	5,709,310	127,800	-	-	5,709,310	127,800
Foreign debt securities	1,422,460	19,423	-	-	1,422,460	19,423
Corporate bonds	1,481,914	7,357	200,880	149,396	1,682,794	156,753
	$ 12,596,379	$ 205,472	$ 200,880	$ 149,396	$ 12,797,259	$ 354,868
Available-for-sale						
U.S. government agency securities	$ 4,617,498	$ 13,806	$ 2,458,135	$ 29,663	$ 7,075,633	$ 43,469
Mortgage back securities	7,922,668	84,035	346,569	12,149	8,269,237	96,184
Preferred shares	503,400	794	-	-	503,400	794
Corporate bonds	2,788,781	579,801	2,360,385	698,860	5,149,166	1,278,661
Foreign debt securities	645,973	213,370	1,678,766	365,505	2,324,739	578,875
Municipal bonds	241,683	2,806	899,725	37,813	1,141,408	40,619
	$ 16,720,003	$ 894,612	$ 7,743,580	$ 1,143,990	$ 24,463,583	$ 2,038,602
	$ 29,316,382	$ 1,100,084	$ 7,944,460	$ 1,293,386	$ 37,260,842	$ 2,393,470

NOTE D – INVESTMENTS, continued

	Investments With an Unrealized Loss of Less than 12 months		Investments With an Unrealized Loss of 12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2014:						
Held-to-maturity						
U.S. government agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Preferred shares	-	-	-	-	-	-
Corporate bonds	517,514	1,313	-	-	517,514	1,313
	$ 517,514	$ 1,313	$ -	$ -	$ 517,514	$ 1,313
Available-for-sale						
U.S. government agency securities	$ 1,362,207	$ 9,590	$ 3,053,102	$ 62,439	$ 4,415,309	$ 72,029
Mortgage back securities	-	-	1,267,640	19,000	1,267,640	19,000
Preferred shares	-	-	949,300	57,202	949,300	57,202
Corporate bonds	5,805,156	430,138	3,393,688	455,297	9,198,844	885,435
Municipal bonds	-	-	3,142,370	80,906	3,142,370	80,906
	$ 7,167,363	$ 439,728	$ 11,806,100	$ 674,844	$ 18,973,463	$ 1,114,572
	$ 7,684,877	$ 441,041	$ 11,806,100	$ 674,844	$ 19,490,977	$ 1,115,885

Management continuously evaluates unrealized losses in its investment securities portfolio. 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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The declines in fair value noted above were attributable to the increases in interest rates and not attributable to credit quality. Since the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these investments were not considered other-than-temporarily impaired.

Proceeds from the sales of investment securities totaled $12,544,530 and $14,725,699 in 2015 and 2014, respectively. The Company realized gross gains of $329,018 and $262,604 in 2015 and 2014, respectively. The Company realized gross losses of $81,548 and $201,834 in 2015 and 2014, respectively. As of December 31, 2015, the investment security portfolio had 53 securities that were in an unrealized loss position. There were no write downs in 2015 and 2014.

NOTE E - LOANS

Loans are primarily made in the Charlotte region of North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and industrial loans can be affected by the local economic conditions. Following is a summary of loans at December 31, 2015 and 2014:

	2015		2014	
	Amount	% of Total Loans	Amount	% of Total Loans
Real estate loans:				
One to four family residential	$ 14,360,581	7.3%	$ 12,900,420	7.5%
Multi-family residential and commercial	114,101,348	58.2%	94,132,792	54.6%
Construction	8,705,278	4.4%	11,806,851	6.8%
Home equity lines of credit	24,793,866	12.7%	21,822,484	12.6%
Total real estate loans	161,961,073	82.6%	140,662,547	81.5%
Other loans:				
Commercial and industrial	33,564,423	17.2%	31,411,423	18.2%
Loans to individuals	206,651	0.1%	336,474	0.2%
Overdrafts	284,519	0.1%	142,404	0.1%
Total other loans	34,055,593	17.4%	31,890,301	18.5%
Total loans	196,016,666	100.0%	172,552,848	100.0%
Allowance for loan losses	(2,561,170)		(2,479,871)	
Unamortized deferred fees	(378,749)		(303,291)	
Total loans, net	$ 193,076,747		$ 169,769,686	

Impaired Loans

Impaired loans as of December 31, 2015 and 2014, segregated by class of loans, were as follows:

December 31, 2015:	Unpaid Principal Balance (1)	Recorded Investment (2)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Real estate loans:					
Multi-family residential and commercial	$ 116,152	$ 116,152	$ -	$ 141,607	$ 8,248
Total real estate loans	116,152	116,152	-	141,607	8,248
Other loans:					
Commercial and industrial	162,904	162,904	-	861,668	50,227
Total other loans	162,904	162,904	-	861,668	50,227
Subtotal of impaired loans with no allowance recorded	$ 279,056	$ 279,056	$ -	$ 1,003,275	$ 58,475
With allowance recorded:					
Real estate loans:					
One to four family residential	$ 808,263	$ 808,263	$ 15,867	$ 818,559	$ 43,665
Construction	277,430	277,430	16,325	310,348	12,973
Total real estate loans	1,085,693	1,085,693	32,192	1,128,907	56,638
Subtotal of impaired loans with allowance recorded	1,085,693	1,085,693	32,192	1,128,907	56,638
Total impaired loans	$ 1,364,749	$ 1,364,749	$ 32,192	$ 2,132,182	$ 115,113

NOTE E – LOANS, continued

December 31, 2014:	Unpaid Principal Balance (1)	Recorded Investment (2)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Real estate loans:					
One to four family residential	$ 893,250	$ 893,250	$ -	$ 893,967	$ 28,966
Multi-family residential and commercial	169,708	169,708	-	193,266	10,080
Home equity lines of credit	760,976	676,651	-	676,351	14,358
Total real estate loans	1,823,934	1,739,609	-	1,763,584	53,404
With allowance recorded:					
Real estate loans:					
One to four family residential	829,035	829,035	16,890	837,360	44,040
Construction	342,209	342,209	27,226	370,066	14,344
Total real estate loans	1,171,244	1,171,244	44,116	1,207,426	58,384
Other loans:					
Commercial and industrial	1,467,252	1,467,252	228,195	1,490,369	77,658
Total other loans	1,467,252	1,467,252	228,195	1,490,369	77,658
Subtotal of impaired loans with allowance recorded	2,638,496	2,638,496	272,311	2,697,795	136,042
Total impaired loans	$ 4,462,430	$ 4,378,105	$ 272,311	$ 4,461,379	$ 189,446

(1) Unpaid principal balance represents the contractual obligation due from the customer.
(2) Recorded investment represents the unpaid principal balance less charge-offs and payments applied; it is shown before any related allowance for loan losses.

Troubled Debt Restructurings (TDRs)
Impaired loans also include TDRs. At December 31, 2015 and 2014, the Bank had impaired loans classified as TDRs of $1.4 million and $2.8 million, respectively. There were no new TDRs during 2015 or 2014.

There were no loans modified in a TDR during 2015 or 2014 for which there was subsequent payment default. Default is defined as 90 days or more past due or nonaccrual.

Internal Risk Rating Grades
The Company categorizes loans into different risk categories based on relevant information about a borrower's ability to service their debt. This is determined by various factors such as current financial information, historical payment experience, credit documentation and economic trends along with other factors. These categories are utilized to develop the associated allowance for loan losses using historical losses adjusted for current economic conditions and are defined as follows:

- Pass – loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral.

- Special Mention – loans that are still adequately protected by the borrower's capital adequacy and payment capability but have potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. If left unchecked or uncorrected, these potential weaknesses may result in deteriorated prospects of repayment and require management's close attention. These loans are not adversely classified.

- Substandard Accruing – loans that exhibit a well-defined weakness which presently jeopardizes debt repayment, even though the loan is currently performing. These loans are characterized by the distinct possibility that the Company may sustain a loss in the future if these weaknesses are not corrected.

- Nonaccrual – includes loans where management has determined that full payment of principal and interest per the contract terms is in doubt.

NOTE E – LOANS, continued

The loans categorized by different risk categories based on relevant information about a borrower's ability to service their debt at December 31, 2015 and 2014 are as follows:

	Pass	Special Mention	Substandard Accruing	Nonaccrual	Total Loans
December 31, 2015:					
Real estate loans:					
One to four family residential	$ 14,360,581	$ -	$ -	$ -	$ 14,360,581
Multi-family residential and commercial	107,885,695	1,848,081	4,367,572	-	114,101,348
Construction	6,586,184	2,119,094	-	-	8,705,278
Home equity lines of credit	24,788,795	5,071	-	-	24,793,866
Total real estate loans	153,621,255	3,972,246	4,367,572	-	161,961,073
Other loans:					
Commercial and industrial	32,384,073	-	1,180,350	-	33,564,423
Loans to individuals	206,651	-	-	-	206,651
Overdrafts	284,519	-	-	-	284,519
Total other loans	32,875,243	-	1,180,350	-	34,055,593
Total loans	$ 186,496,498	$ 3,972,246	$ 5,547,922	$ -	$ 196,016,666

	Pass	Special Mention	Substandard Accruing	Nonaccrual	Total Loans
December 31, 2014:					
Real estate loans:					
One to four family residential	$ 12,259,442	$ -	$ -	$ 640,978	$ 12,900,420
Multi-family residential and commercial	87,759,623	3,834,524	2,538,645	-	94,132,792
Construction	11,806,851	-	-	-	11,806,851
Home equity lines of credit	20,893,561	-	-	928,923	21,822,484
Total real estate loans	132,719,477	3,834,524	2,538,645	1,569,901	140,662,547
Other loans:					
Commercial and industrial	30,144,275	455,696	811,452	-	31,411,423
Loans to individuals	336,474	-	-	-	336,474
Overdrafts	142,404	-	-	-	142,404
Total other loans	30,623,153	455,696	811,452	-	31,890,301
Total loans	$ 163,342,630	$ 4,290,220	$ 3,350,097	$ 1,569,901	$ 172,552,848

All loans as of December 31, 2015 and 2014 are current and there are no accruing loans past due greater than 30 days.

Periodically, the Bank may engage in loan transactions with the Company and Bank's directors and executive officers. Such loans are made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time and do not involve more than the normal risk of collectability or present other unfavorable features. The following is a summary of activity for related party loans for 2015:

Prior year balance	$ 10,815,334
Advances	5,840,267
Repayments	(4,966,703)
Change in related parties	(1,459,391)
	$ 10,229,507

NOTE E – LOANS, continued

Allowance for Loan Losses

Following is a summary of the changes in the allowance for loan losses by portfolio class for the years ended December 31, 2015 and 2014:

	Beginning Balance	Chargeoffs	Recoveries	Provision	Ending Balance
December 31, 2015:					
Real estate loans:					
One to four family residential	$ 178,615	$ 297,548	$ 5,005	$ 229,188	$ 115,260
Multi-family residential and commercial	1,289,430	-	74,841	205,341	1,569,612
Construction	106,057	-	-	(38,815)	67,242
Home equity lines of credit	248,326	-	-	136,010	384,336
Total real estate loans	1,822,428	297,548	79,846	531,724	2,136,450
Other loans:					
Commercial and industrial	579,933	-	28,001	(416,246)	191,688
Loans to individuals	4,357	-	-	(1,529)	2,828
Overdrafts	-	-	-	-	-
Unallocated	73,153	-	-	157,051	230,204
Total other loans	657,443	-	28,001	(260,724)	424,720
Total loans	$ 2,479,871	$ 297,548	$ 107,847	$ 271,000	$ 2,561,170

	Beginning Balance	Chargeoffs	Recoveries	Provision	Ending balance
December 31, 2014:					
Real estate loans:					
One to four family residential	$ 161,458	$ -	$ -	$ 17,157	$ 178,615
Multi-family residential and commercial	724,068	25,000	9,426	580,936	1,289,430
Construction	120,529	-	-	(14,472)	106,057
Home equity lines of credit	173,324	84,325	-	159,327	248,326
Total real estate loans	1,179,379	109,325	9,426	742,948	1,822,428
Other loans:					
Commercial and industrial	871,305	14,394	14,039	(291,017)	579,933
Loans to individuals	2,473	-	-	1,884	4,357
Overdrafts	-	-	-	-	-
Unallocated	97,668	-	-	(24,515)	73,153
Total other loans	971,446	14,394	14,039	(313,648)	657,443
Total loans	$ 2,150,825	$ 123,719	$ 23,465	$ 429,300	$ 2,479,871

NOTE E – LOANS, continued

Allowance for Loan Losses, continued

The following table presents an analysis of the allowance for loan losses and recorded investment in loans by portfolio class and impairment methodology as of December 31, 2015 and 2014:

	Collectively Evaluated		Individually evaluated		Total	
	Allowance for Loan Losses	Recorded Investment in Loans	Allowance for Loan Losses	Recorded Investment in Loans	Allowance for Loan Losses	Recorded Investment in Loans
December 31, 2015:						
Real estate loans:						
One to four family residential	$ 99,393	$ 13,552,318	$ 15,867	$ 808,263	$ 115,260	$ 14,360,581
Multi-family residential and commercial	1,509,429	110,840,182	-	116,152	1,509,429	110,956,334
Construction	50,917	8,427,848	16,325	277,430	67,242	8,705,278
Home equity lines of credit	384,336	24,793,866	-	-	384,336	24,793,866
Total real estate loans	2,044,075	157,614,214	32,192	1,201,845	2,076,267	158,816,059
Other loans:						
Commercial and industrial	157,521	33,401,519	-	162,904	157,521	33,564,423
Small business assocation loans	94,350	3,145,014	-	-	94,350	3,145,014
Loans to individuals	2,828	206,651	-	-	2,828	206,651
Overdrafts	-	-	-	-	-	284,519
Unallocated	230,204	-	-	-	230,204	-
Total other loans	484,903	36,753,184	-	162,904	484,903	37,200,607
Total loans	$ 2,528,978	$ 194,367,398	$ 32,192	$ 1,364,749	$ 2,561,170	$ 196,016,666

	Collectively evaluated		Individually evaluated		Total	
	Allowance for Loan Losses	Recorded Investment in Loans	Allowance for Loan Losses	Recorded Investment in Loans	Allowance for Loan Losses	Recorded Investment in Loans
December 31, 2014:						
Real estate loans:						
One to four family residential	$ 161,725	$ 11,178,135	$ 16,890	$ 1,722,285	$ 178,615	$ 12,900,420
Multi-family residential and commercial	1,289,430	93,963,084	-	169,708	1,289,430	94,132,792
Construction	78,500	11,464,642	27,226	342,209	105,726	11,806,851
Home equity lines of credit	248,326	21,145,833	-	676,651	248,326	21,822,484
Total real estate loans	1,777,981	137,751,694	44,116	2,910,853	1,822,097	140,662,547
Other loans:						
Commercial and industrial	352,069	29,944,171	228,195	1,467,252	580,264	31,411,423
Loans to individuals	4,357	336,474	-	-	4,357	336,474
Overdrafts	-	142,404	-	-	-	142,404
Unallocated	73,153	-	-	-	73,153	-
Total other loans	429,579	30,423,049	228,195	1,467,252	657,774	31,890,301
Total loans	$ 2,207,560	$ 168,174,743	$ 272,311	$ 4,378,105	$ 2,479,871	$ 172,552,848

NOTE F - BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2015 and 2014:

	2015	**2014**
Land	$ 2,380,541	$ 2,380,541
Buildings	8,386,833	8,218,784
Construction in progress	5,600	-
Leasehold improvements	88,786	88,786
Furniture and equipment	3,141,961	2,624,769
	14,003,721	13,312,880
Accumulated depreciation	(3,280,794)	(2,750,618)
Total	$ 10,722,927	$ 10,562,262

Depreciation amounting to $530,176 and $457,529 for the years ended December 31, 2015 and 2014, respectively, is included in occupancy expense. Amortization of software of $43,150 and $36,448 for the years ended December 31, 2015 and 2014, respectively, is included in other noninterest expenses.

NOTE G – GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The Company recorded goodwill and intangible assets arising from the acquisition of Aquesta Insurance Services. The Company recorded a core deposit intangible from the purchase of a bank branch. The changes in the carrying amount of goodwill and other intangibles for the years ended December 31, 2015 and 2014 were as follows:

	Goodwill	Customer List Intangibles	Non-Compete Intangibles	Core Deposit Intangible	Total Identifiable Intangibles
At December 31, 2013	$ 686,533	$ 908,629	$ 407,406	$ -	$ 1,316,035
Amortization expense	-	(79,833)	(70,498)	-	(150,331)
At December 31, 2014	686,533	828,796	336,908	-	1,165,704
Purchase of bank branch	$ -	$ -	$ -	$ 54,199	$ 54,199
Amortization expense	-	(79,833)	(70,498)	(2,754)	(153,085)
At December 31, 2015	$ 686,533	$ 748,963	$ 266,410	$ 51,445	$ 1,066,818

Estimated annual amortization expense, years ended December 31:

2016	$ 155,857
2017	155,857
2018	155,857
2019	155,857
2020	155,857
Thereafter	287,533
	$ 1,066,818

NOTE G – GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS, continued

Identifiable intangible assets at December 31, 2015 and 2014 consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer list intangibles	$ 1,197,493	$ 448,530	$ 748,963
Non-compete intangibles	704,983	438,573	266,410
Core deposit premium	54,199	2,754	51,445
At December 31, 2015	$ 1,251,692	$ 451,284	$ 1,066,818
Customer list intangibles	$ 1,197,493	$ 368,697	$ 828,796
Non-compete intangibles	704,983	368,074	336,909
At December 31, 2014	$ 1,902,476	$ 736,771	$ 1,165,705

NOTE H – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2015 and 2014, was $7,860,900 and $10,719,368, respectively. As of December 31, 2015 and 2014, the Bank had $17,576,607 and $16,515,870 in public funds that were secured by marketable securities with a fair value of $18,506,739 and $18,090,116, respectively.

At December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

2016	$ 35,120,983
2017	18,463,852
2018	7,702,327
2019	1,721,760
2020	449,000
2021	1,000,000
Total	$ 64,457,922

NOTE I - OTHER BORROWED FUNDS

The Company has available lines of credit totaling $21,700,000 and $31,550,000 from correspondent banks excluding the Federal Home Loan Bank and the Federal Reserve Discount Window at December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Company had outstanding borrowings of $13,697,641 and $814,200, respectively, with the Company's correspondent banks.

As of December 31, 2015 and 2014, the Company's available line with the FHLB was 25% and 20%, respectively, of the Company's respective prior quarter's total assets, totaling $67,758,750 and $62,750,000, respectively. The Company's remaining available line was $27,558,750 and $31,550,000 at December 31, 2015 and 2014, respectively. Interest expense on FHLB advances was $557,737 and $382,932 in 2015 and 2014, respectively. At December 31, 2015 and 2014, the advances and line of credit are collateralized by the Company's investment in the stock of the FHLB and commercial real estate loans. The Company's total investment in stock of the FHLB was $1,945,900 and $1,614,600 as of December 31, 2015 and 2014, respectively. The Company's total commercial real estate loan lendable collateral was $62,676,890 and $49,061,599 as of December 31, 2015 and 2014, respectively.

The Company has a secured a line of credit through the Federal Reserve Discount Window Borrower-In-Custody Program. The Company's available line was $5,368,673 and $9,627,243 as of December 31, 2015 and 2014, respectively. If the line is drawn, the Company will pledge commercial loans as collateral for this line of credit. The interest rate is based on the federal funds rate plus 0.25%. There were no outstanding balances under this line of credit as of December 31, 2015 and 2014.

NOTE I - OTHER BORROWED FUNDS**, **continued

Other borrowed funds consisted of FHLB advances, overnight borrowings, current and estimated future debt obligations assumed from the purchase of Aquesta Insurance Services. Other borrowed funds at December 31, 2015 and 2014 consisted of the following:

	Maturity Dates	Weighted Average Interest Rate	2015	2014
Federal Home Loan Bank borrowings:				
Fixed rate	2016-2022	0.67%	$ 40,200,000	$ 31,200,000
Estimate of future insurance debt:				
Fixed rate	2016-2019	1.00%	160,030	209,271
Other borrowed funds	overnight	0.67%	13,697,641	814,200
			$ 54,057,671	$ 32,223,471

Required annual principal payments on other borrowed funds for years subsequent to December 31, 2015 are as follows:

	FHLB Advances	Other Borrowings	Total
2016	$ 20,300,000	$ 13,746,881	$ 34,046,881
2017	4,400,000	49,240	4,449,240
2018	2,500,000	49,240	2,549,240
2019	-	12,310	12,310
2020	4,000,000	-	4,000,000
Thereafter	9,000,000	-	9,000,000
Total	$ 40,200,000	$ 13,857,671	$ 54,057,671

NOTE J – FEDERAL HOME LOAN BANK

As a member of the Federal Home Loan Bank ("FHLB") of Atlanta, the Bank is required to invest in Class B capital stock, par value $100, of the FHLB. The FHLB capital stock requirement is based on the sum of a membership stock component totaling 25% and 20% as of December 31, 2015 and 2014, respectively, of the Company's total assets plus an activity based stock component of 4.5% of outstanding FHLB advances. At December 31, 2015 and 2014, the Company owned 19,459 and 16,146 shares of the FHLB's capital stock, respectively. The Company carries this investment at cost. Due to the redemption provision of the FHLB, the Bank estimated that the fair value equals the cost and that this investment was not impaired at December 31, 2015.

NOTE K - INCOME TAXES

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

	2015	2014
Current	$ 1,072,202	$ 56,292
Deferred	1,836	901,078
Total income tax expense	1,074,038	957,370

The difference between income tax expense and the amount computed by applying the statutory federal income tax rate of 34% to income before income taxes for the years ended December 31, 2015 and 2014 is summarized below:

	2015	2014
Pretax income at statutory rate	$ 1,035,458	$ 904,916
Increase/(decrease) resulting from:		
State income taxes, net of federal tax benefit	70,817	121,206
Other	(32,237)	(68,752)
Provision for income taxes	$ 1,074,038	$ 957,370

NOTE K - INCOME TAXES, continued

The following summarizes the components of deferred taxes, which is included as a component of other assets at December 31, 2015 and 2014:

	2015	2014
Deferred income tax assets:		
Unrealized loss on securities	$ 1,110,246	$ 797,206
Unrealized loss on derivatives	848,014	603,067
Allowance for loan losses	478,019	475,545
Net operating loss carryforward	27,802	72,275
Pre-opening costs and expenses	97,474	163,968
Other real estate	171,365	-
Stock-based compensation	247,070	163,209
Tax credit carryforward	25,740	84,500
Deferred compensation	51,826	-
Other	70,832	43,149
Total deferred income tax assets	3,128,388	2,402,919
Deferred income tax liabilities:		
Premises and equipment	307,115	312,448
Goodwill	123,743	-
SBA servicing agent	50,908	-
Total deferred income tax liabilities	481,766	312,448
Net deferred income tax assets	$ 2,646,622	$ 2,090,471

The Company has a state net operating loss carryforward of approximately $1,054,000, which begins to expire in 2029 if not previously utilized.

NOTE L - REGULATORY MATTERS

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of the Bank.

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

In July 2013, the Federal bank regulatory agencies issued a final rule that revises their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. The rule establishes a new common equity Tier 1 minimum capital requirement, increases the minimum capital ratios and assigns a higher risk weight to certain assets based on the risk associated with these assets. The final rule includes transition periods that generally implement the new regulations over a five year period. These changes were phased in beginning in January 2015. Management continues to evaluate this final rule and its potential impact on the Bank. Preliminary assessments indicate that the Bank will continue to exceed all regulatory capital requirements under the phased in requirements of the new rule.

NOTE L - REGULATORY MATTERS, continued

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total common equity Tier 1, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2015 and 2014, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015 and 2014, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 risk-based, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios as of December 31, 2015 and 2014 are also presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015:			(Dollars in Thousands)			
Common Equity Tier 1 to Risk-Weighted Assets	$ 25,151	10.29%	$ 11,001	4.5%	$ 15,891	6.5%
Total Capital to Risk-Weighted Assets	$ 27,712	11.34%	$ 19,558	8.0%	$ 24,447	10.0%
Tier I Capital to Risk-Weighted Assets	$ 25,151	10.29%	$ 14,668	6.0%	$ 19,558	8.0%
Tier I Capital to Average Assets	$ 25,151	9.03%	$ 11,138	4.0%	$ 13,922	5.0%
December 31, 2014:						
Total Capital to Risk-Weighted Assets	$ 25,351	10.99%	$ 18,455	8.0%	$ 23,069	10.0%
Tier I Capital to Risk-Weighted Assets	$ 22,871	9.91%	$ 9,228	4.0%	$ 13,842	6.0%
Tier I Capital to Average Assets	$ 22,871	8.90%	$ 10,280	4.0%	$ 12,850	5.0%

NOTE M - LEASES

The Company leases buildings for several of its branches. The Davidson branch, located in Davidson, North Carolina is in the Davidson Commons shopping center and is leased until October 31, 2017. The Downtown Cornelius branch, located in the Cornelius Town Center, is leased until March 31, 2017. The Northcross branch is located in the Northcross Shopping Center in Huntersville, North Carolina. The building for Northcross is owned by the Company; however, the land is leased until April 30, 2034. The Company's newest branch, South Park, is located across from SouthPark Mall in Charlotte, North Carolina. The building is leased until March 31, 2028. However, the landlord has the option to terminate the lease on September 30, 2021 due to the potential development plans in the business park. The Company believes the landlord will not exercise its option to terminate the lease at this time.

The Company has two leased office facilities for its three insurance agencies located in Cornelius and Wilmington, North Carolina. The Cornelius office is leased for an indefinite time period directly from the Company. The Wilmington office is leased until May 23, 2018.

The Company leases out the third floor of its headquarters building to a third party. The lease began March 1, 2009 and expires on May 31, 2017. The Company received $87,264 and $72,720 in rental income during 2015 and 2014, respectively, and is recorded in other noninterest income. The Company anticipates using this space for the Company's future growth. As of December 31, 2015, the accumulated depreciation was $1,021,618 for a carrying value of $4,069,943.

NOTE M – LEASES, continued

Minimum future rental income under the headquarters' lease is as follows:

2016	$	95,402
2017		49,137
	$	144,539

Minimum future rental payments under the Company's office facility leases are as follows:

2016	$	369,121
2017		313,892
2018		242,854
2019		229,604
2020		235,519
Thereafter		2,601,630
	$	3,992,620

Rental expense amounting to $250,912 and $157,769 during the years ended December 31, 2015 and 2014, respectively, is included in net occupancy expense on the accompanying consolidated statements of operations.

NOTE N - 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 sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions 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 borrower. Collateral obtained varies but may include real estate, inventory, stocks, bonds, and certificates of deposit. In management's opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2015 and 2014 as follows:

Financial instruments whose contract amounts represent credit risk:		2015	2014
Commitments to extend credit	$	12,088,670	13,166,605
Undisbursed lines of credit		6,200,201	5,678,831
Letters of credit		139,020	319,000

NOTE N - OFF-BALANCE SHEET RISK, continued

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to net interest income and to manage its exposure to interest rate movements. To accomplish this objective, The Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. As of December 31, 2015, the Company has $33.9 million in notional amount designated as a cash flow hedge on variable rate borrowings. The Company's management has determined the hedges to be effective cash flow hedges. These interest rate swaps were purchased to add protection to the Company against a potential rise in interest rates by converting variable rate liabilities into fixed rate instruments. These interest rate swaps are based on the three-month LIBOR rate and were in a loss position at December 31, 2015 and December 31, 2014 totaling $2.4 million and $1.8 million, respectively. At December, 31, 2015, the Company also has an interest rate cap with a notational amount of $4 million designated as a cash flow hedge on variable rate money market deposit accounts. The Company's management has determined the hedges to be effective cash flow hedges. This interest rate cap was purchased to add protection to the Company against the potential rise in interest rates. The interest rate cap is based on the one-month LIBOR rate and was in a gain position at December 31, 2015 and December 31, 2014 totaling $94 thousand and $121 thousand, respectively. The derivative fair values are included in other assets and other liabilities on the Company's consolidated balance sheet.

NOTE O – FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities. Securities available for sale, as well as derivative financial instruments, are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve the application of the lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Inputs to the valuation methodology are quoted prices for identical assets in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets and significant other observable inputs.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Investments Securities Available for Sale – Fair values for investment securities available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. For these items, a fair value hierarchy of Level 2 or Level 3 has been assigned.

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 a specific allocation is established within the allowance for loan losses. Loans for which it is probably 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 using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans in which an allowance is established based on one of the three impairment methods require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is utilized 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.

NOTE O – FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued

Other Real Estate Owned – Other real estate properties are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Subsequently, other real estate properties are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral of management's estimation of the value of the collateral. When the fair value is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value, or when an appraised value is not available, the Company records the other real estate asset as nonrecurring Level 3.

Derivative Financial Instruments – For derivative financial instruments, fair value is estimated at the amount the Company would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gain or loss on the open contracts. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2015, the Company had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014 were as follows:

December 31, 2015:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. government agency securities	$ 11,217,205	$ -	$ 11,217,205	$ -
Mortgage back securities	9,634,725	-	9,634,725	-
Preferred shares	2,805,237	-	2,805,237	-
Corporate bonds	11,143,580	-	11,143,580	-
Municipal bonds	4,022,371	-	4,022,371	-
Foreign debit securities	3,371,542	-	3,371,542	-
	$ 42,194,660	$ -	$ 42,194,660	$ -
Fair value of derivatives:				
Derivative assets	$ 94,212	$ -	$ 94,212	$ -
Derivative liabilities	(2,408,662)	-	(2,408,662)	-
	$ (2,314,450)	$ -	$ (2,314,450)	$ -

December 31, 2014:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. government agency securities	$ 5,319,386	$ -	$ 5,319,386	$ -
Mortgage back securities	2,858,558	-	2,858,558	-
Preferred shares	4,855,096	-	4,855,096	-
Corporate bonds	26,954,194	-	26,954,194	-
Municipal bonds	4,388,304	-	4,388,304	-
	$ 44,375,538	$ -	$ 44,375,538	$ -
Fair value of derivatives:				
Derivative assets	$ 121,133	$ -	$ 121,133	$ -
Derivative liabilities	(1,767,058)	-	(1,767,058)	-
	$ (1,645,925)	$ -	$ (1,645,925)	$ -

NOTE O – FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued

Assets valued at fair value on a nonrecurring basis at December 31, 2015 and 2014 were as follows:

December 31, 2015:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets valued at fair value on a nonrecurring basis:				
Other real estate owned	$ 899,588	$ -	$ -	$ 899,588
Impaired loans, net of specific allowance	1,332,737	-	-	1,332,737
	$ 2,232,325	$ -	$ -	$ 2,232,325

December 31, 2014:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets valued at fair value on a nonrecurring basis:				
Other real estate owned	$ 1,140,184	$ -	$ -	$ 1,140,184
Impaired loans, net of specific allowance	4,105,794	-	-	4,105,794
	$ 5,245,978	$ -	$ -	$ 5,245,978

NOTE P - EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Plan

The Company has a 401(k) Plan in which full-time employees are eligible to participate. The Company makes matching contributions of up to 4 percent of an employee’s compensation contributed to the Plan. Matching contributions vest to the employee immediately. For the years ended December 31, 2015 and 2014, expense attributable to the Plan amounted to $143,266 and $135,442, respectively.

Employment Contracts

The Company has entered into employment agreements with three of its executive officers to ensure a stable and competent management base. The agreements provide for terms of three years, with automatic extensions. The agreements provide for benefits as spelled out in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers’ rights to receive certain vested rights, including compensation. In the event of a change in control of the Company and in certain other events, as defined in the agreements, the Company or any successor to the Company will be bound to the terms of the contracts.

Stock Option Plans

In October 2006, the Bank's stockholders approved a Non-statutory Stock Option Plan ("the Director Plan") and an Incentive Stock Option Plan ("Employee Plan"). The maximum numbers of shares available for grant under the Director Plan and the Employee Plan are 253,198 each. Exercise prices for both plans are established at market value on the grant date.

Options granted become exercisable in accordance with the vesting schedule specified by the Board of Directors in the Plan agreements. A portion of the options granted under the Director Plan vest immediately and the balance vests over a three-year period with none vesting at the time of grant. The options granted under the Employee Plan vest over a five-year period with none vesting at the time of grant. All unexercised options expire 10 years after the date of grant.

Option related compensation costs recorded during the years ended December 31, 2015 and 2014 totaled $102,380 and $92,600, respectively. At December 31, 2015, there was $170,217 of total unrecognized compensation cost related to outstanding stock options. This cost is expected to be recognized over a weighted average period of 1.58 years.

NOTE P - EMPLOYEE AND DIRECTOR BENEFIT PLANS, continued

Stock Option Plans

A summary of the changes in the Company's option plans for the years ended December 31, 2015 and 2014 is as follows:

	Shares Available for Future Grants	Outstanding Options: Number Outstanding	Outstanding Options: Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
At December 31, 2013	148,651	357,747	$ 8.45	3.59 years
Options granted	(54,820)	54,820	7.47	8.89 years
Options forfeited	14,883	(14,883)	7.03	8.27 years
At December 31, 2014	108,714	397,684	7.10	8.31 years
Options granted	(40,000)	40,000	8.52	9.25 years
Options forfeited	13,413	(13,413)	7.37	7.66 years
At December 31, 2015	82,127	424,271	$ 7.22	7.47 years
Exercisable				
At December 31, 2015		201,628	$ 7.06	7.26 years
At December 31, 2014		106,152	7.03	8.22 years

Options granted under the Employee Plan in 2015 had a fair value of $1.34; determined as of the date of grant using the Black-Scholes option pricing model, assuming no dividends; expected volatility of 10.79%; risk-free interest rate of 1.31%; and expected lives of 7 years.

Options granted under the Employee Plan in 2014 had a fair value of $1.25; determined as of the date of grant using the Black-Scholes option pricing model, assuming no dividends; expected volatility of 10.79%; risk-free interest rate of 1.50%; and expected lives of 7 years. Options granted under the Director Plan in 2014 had a fair value of $1.10; determined as of the date of grant using the Black-Scholes option pricing model, assuming no dividends; expected volatility of 10.79%; risk-free interest rate of 0.97%; and expected lives of 6 years.

Warrants

Organizers who personally guaranteed a portion of the Company's organizational line of credit were granted warrants to purchase shares of the Company's common stock. As part of the stock option and warrant exchange program, the Company's issued warrants are now exercisable for a period of ten years at an exercise price of $8.50 per share and were granted on a pro rata basis, based upon the dollar amount of a personal guarantee assumed by each organizer during the Company's organization. All organizers currently serve as directors of the Company. These warrants vested immediately. There were no new warrants granted or exercised in 2015 or 2014. As of December 31, 2015 and 2014 there were 120,000 warrants outstanding. The warrants have a 10 year term from the date of grant and expire in 2023.

Restricted Stock Plan

In 2015, the Company's stockholders approved a Restricted Stock Plan. The Company has reserved 120,000 shares of its authorized but unissued common stock to be issued under the Plan. No restricted shares have been granted under the plan as of December 31, 2015.

NOTE Q – RECLASSIFICATION

Certain items in the December 31, 2014 consolidated financial statements have been routinely reclassified to make the statements comparable to the December 31, 2015 consolidated financial statement presentation.

NOTE R – SUBSEQUENT EVENTS

On January 15, 2016, Aquesta Insurance Services acquired a book of business from an insurance agency in Wilmington, North Carolina. The total assets acquired were approximately $391,000, consisting of a book of business identified intangible asset to be amortized on a straight line basis over 15 years. No liabilities were assumed. Total consideration paid was approximately $275,000, resulting in a bargain purchase gain of approximately $116,000. In addition to the acquisition, Aquesta Insurance Services entered into non-compete agreements totaling $650,000 with certain individuals for a period of three years. Approximately, $298,000 was paid upon closing the transaction and approximately $352,000 will be paid on May 1, 2016. The cost of the non-compete agreements will be amortized ratably over the 3 year period on a straight line basis.

On January 28, 2016, the Company declared a 20 percent stock dividend in the form of a stock split for all shareholders on record as of February 24, 2016. All share and per share amounts have been restated to the earliest period presented in these consolidated financial statements, except for options and warrants due to the Plans' requirements. The Company issued 512,389 additional shares on February 24, 2016.

On January 7, 2016, the Company obtained approval from the Federal Reserve Bank to become a Financial Holding Company. On March 31, 2016, Aquesta Insurance Services was moved as a subsidiary of the Bank to a subsidiary of the Company.

The Company has evaluated all subsequent events through April 18, 2016, the date the consolidated financial statements were available to be issued.

Aquesta Financial Holdings, Inc. Board of Directors

James Borders, Jr.
AC Control Company, Inc., President

Paul Dougovito
Banking Consultant

Jim Engel
Aquesta Bank, President and CEO

Brian Fletcher
Private Investor

Ginger Griffin
Ginger Griffin Marketing and Design, Principal

Charles Knox, Jr.
The Knox Group,
Commercial Real Estate Broker and Developer

Craig Larsen (Chairman)
REVITA Anti-Aging Center
Owner/CEO

Aquesta Bank Board of Directors

Paul Dougovito
Banking Consultant

Jonathon Dressler
Dressler's Restaurant, Owner

Jim Engel
Aquesta Bank, President and CEO

J. David Goodrum
JD Goodrum Company Inc.,
President and General Manager

Paul Jaszewski
Anesthesiologist
Southeast Anesthesiology Consultants as CMC

Charles Knox, Jr. (Chairman)
The Knox Group,
Commercial Real Estate Broker and Developer

Craig Larsen
REVITA Anti-Aging Center
Owner/CEO

James Marsh (Vice Chairman)
Marsh Business Solutions, Principal

David Pickens
PSI Control Solutions, Inc.
CEO and Majority Owner

Nelda Wagner
Waterstone Realty,
Real Estate Broker and Owner/Partner

Executive Aquesta Bank Officers

Jim Engel
President and Chief Executive Officer

Tim Beck
Chief Credit Officer

Stephanie Cox
Chief Operating Officer

Kristin Couch
Chief Financial Officer

Trey Weir
Chief Banking Officer

Office Location
19510 Jetton Road
Cornelius, North Carolina 28031
Phone: (704) 439-4343
Fax: (704) 439-4344
Website: www.aquestabank.com

Regulatory and Securities Counsel
Wyrick Robbins Yates & Ponton L.L.P.
4101 Lake Boone Trail, Suite 300
Raleigh, North Carolina 27607

Stock Transfer Agent
Continental Stock Transfer & Trust Company.
17 Battery Place
New York, New York 10004

Independent Auditors
Porter Keadle Moore, LLC
235 Peachtree Street, NE
Suite 1800
Atlanta, Georgia 30303

Annual Shareholders Meeting

The Annual Meeting of the shareholders of Aquesta Financial Holdings, Inc. will be held at Aquesta Bank Headquarters Building on June 23, 2016 at 5:00 pm in Cornelius, North Carolina.

Common Stock and Related Matters

The Bank's outstanding common stock shares were held by approximately 450 holders of record (excluding shares held in street name) as of December 31, 2015. As of December 31, 2015, the Bank had 2,535,781 shares of common stock outstanding. On January 28, 2016, the Company declared a 20 percent stock dividend in the form of a stock split for all shareholders on record as of February 24, 2016. A cash dividend was paid out on December 22, 2015 and December 17, 2014.

Market for Common Stock

On April 1, 2014, Aquesta Bank successfully completed its reorganization into a bank holding company, Aquesta Financial Holdings, Inc. (AQFH) (the "Company"). There is public trading market for the Company's common stock under symbol AQFH. Shareholders received a letter dated April 7, 2014 along with a letter of transmittal that needs to be returned to the transfer agent in order to exchange shares. For more information, please contact investor relations by telephone or mail at the Bank's corporate headquarters.

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

AQUESTA BANK

Brawley School Road Branch
1078 Brawley School Rd., Mooresville
(704) 439-1450

Cornelius Branch & HQ
19510 Jetton Rd., Cornelius
(704) 439-4343

Davidson Branch
568 Jetton St., Suite 100, Davidson
(704) 439-4350

Downtown Cornelius Branch
20121 North Main St., Suite A, Cornelius
(704) 439-1420

Huntersville Branch
9906 Knockando Lane, Huntersville
(704) 439-1430

SouthPark Branch
4519 Sharon Rd., Charlotte,
(704) 804-7930

Williamson Road Branch
837 Williamson Rd., Mooresville
(704) 439-1440

Wilmington Branch Coming Soon!
901 Military Cutoff Road

AQUESTA
INSURANCE SERVICES, INC.

Cornelius Office
19510 Jetton Rd., Cornelius
(704) 892-6411

Mooresville Office
837 Williamson Rd., Mooresville
(704) 809-1285

Wilmington Office
700 Military Cutoff Rd., Wilmington
(910) 794-6100

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