AQUESTA

2014 ANNUAL REPORT

AQUESTA

unexpected convenience.
unsurpassed service.

Aquesta Financial Holdings, Inc. and Subsidiaries

Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

AQUESTA
FINANCIAL HOLDINGS, INC.

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FINANCIAL HOLDINGS, INC.

May 7, 2015

Dear Shareholders:

We are pleased to provide you with this 2014 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.

2014 was a good year. For 2014, Aquesta achieved record earnings with pre-tax income of $2.7 million resulting in income to shareholders of $1.04 per share. Most importantly, we achieved significant loan and deposit growth during the year. While total assets increased to $263.6 million as of December 31, 2014, total loans actually grew at an amazing rate of 32 percent to end the year at $172.2 million. Core deposits grew by $21.7 million or 22 percent reflecting well on our branch personnel's efforts to build local relationships.

During 2014, the Bank completed its local branch expansion efforts with a new flagship branch in Huntersville and a small branch in downtown Cornelius. Other items of note include hiring an additional lender focused on SBA lending and another experienced lender for the Charlotte market.

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 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

Turlington and Company, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Aquesta Financial Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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INDEPENDENT AUDITOR'S REPORT

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, 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.

Turlington and Company, L.L.P.

Lexington, North Carolina
May 7, 2015

Assets		**2014**		**2013**
Cash and due from banks	$	5,503,244	$	7,059,203
Investment securities held to maturity, net (note C and P)		18,552,056		15,186,739
Investment securities available for sale, at fair value (note C and P)		44,375,538		56,147,998
Federal funds sold		-		1,705,000
Loans (note D)		172,249,557		130,344,384
Less: allowance for loan losses		(2,479,871)		(2,150,825)
Loans, net		169,769,686		128,193,559
Accrued interest receivable		1,006,444		974,761
Premises and equipment, net (note E)		10,562,262		9,171,625
Goodwill (note F)		686,533		686,533
Identifiable intangible assets (note F)		1,165,705		1,316,036
Other real estate owned		1,140,184		917,776
Federal Home Loan Bank stock (note I)		1,614,600		1,514,700
Bank owned life insurance		5,628,628		5,473,548
Other assets (note J)		3,560,985		5,600,144
Total assets	$	263,565,865	$	233,947,622
Liabilities and Stockholders' Equity				
Deposits:				
Demand noninterest-bearing	$	56,066,863	$	47,746,994
NOW		11,839,155		10,512,095
Money market and savings		51,502,856		39,405,543
Time deposits (note G)		86,604,480		85,782,454
Total deposits		206,013,354		183,447,086
Other borrowed funds (note H)		32,223,471		28,495,700
Accrued interest payable		42,342		35,325
Accrued expenses and other liabilities		2,539,024		917,886
Total liabilities		240,818,191		212,895,997
Stockholders' equity (note L):				
Common stock of $0.01 and $4.17 par value as of December 31, 2014 and 2013 respectively. Authorized 10,000,000 shares; issued 2,561,981 shares		25,620		10,675,000
Additional paid-in capital		23,684,171		12,942,191
Retained earnings/(accumulated deficit)		1,138,292		(284,966)
Accumulated other comprehensive loss		(2,100,409)		(2,280,600)
Total stockholders' equity		22,747,674		21,051,625
Total liabilities and stockholders' equity	$	263,565,865	$	233,947,622

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

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2014 and 2013

	Year Ended 12/31/14	Year Ended 12/31/13
Interest income:		
Loans, including fees	$ 7,324,755	$ 6,125,524
Investment securities	2,672,152	2,631,585
Federal funds sold and deposits in other banks	55,024	74,100
Total interest income	10,051,931	8,831,209
Interest expense:		
Money market, NOW and savings deposits	85,698	61,792
Time deposits (note G)	786,543	828,646
Short-term borrowings (note H)	34,726	30,768
Other borrowed funds (note H)	382,932	237,430
Total interest expense	1,289,899	1,158,636
Net interest income	8,762,032	7,672,573
Provision for loan losses (note D)	429,300	274,000
Net interest income after provision for loan losses	8,332,732	7,398,573
Noninterest income:		
Service charges on deposit accounts	648,487	548,619
Insurance commissions	2,130,634	1,755,591
Investment securities gains, net (note C)	60,770	362,476
Other	628,311	302,125
Total noninterest income	3,468,202	2,968,811
Noninterest expense:		
Loss on sale of other real estate owned	152,781	219,608
Salaries and benefits (note Q)	5,688,675	4,768,805
Net occupancy expense (notes E and M)	902,847	895,057
Advertising and promotion	133,588	92,028
Professional fees	467,136	392,398
Other (note K)	1,793,463	1,695,741
Total noninterest expense	9,138,490	8,063,637
Income before income taxes	2,662,444	2,303,747
Income tax expense (note J)	957,370	834,669
Net income	$ 1,705,074	$ 1,469,078
Earnings per share – basic	$ 0.67	$ 0.57
Earnings per share - diluted	0.66	0.57
Weighted average shares outstanding – basic	2,561,981	2,561,981
Weighted average shares outstanding – diluted	2,597,995	2,561,981

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

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2014 and 2013

	Year Ended 12/31/14	Year Ended 12/31/13
Net income	$ 1,705,074	$ 1,469,078
Investment securities:		
Unrealized holding gain/(loss) on investment securities available for sale	2,457,799	(4,856,129)
Tax effect	(983,120)	1,942,452
Unrealized holding (loss)/gain on derivatives	(2,096,710)	362,785
Tax effect	838,684	(145,114)
Reclassification of gains recognized in net income	(60,770)	(362,476)
Tax effect	24,308	144,990
Total other comprehensive income/(loss)	180,191	(2,913,492)
Total comprehensive income/(loss)	$ 1,885,265	$ (1,444,414)

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

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013

	Common stock *Shares	Common stock Amount	Additional paid-in capital	Retained earnings/ (Accumulated deficit)	Accumulated other comprehensive (loss)/income	Total
Balances at December 31, 2012	2,561,981	$ 10,675,000	$ 12,843,473	$ (1,497,849)	$ 632,892	$ 22,653,516
Net income	—	—	—	1,469,078	—	1,469,078
Dividends on common stock - $0.10 per share	—	—	—	(256,195)	—	(256,195)
Other comprehensive loss	—	—	—	—	(2,913,492)	(2,913,492)
Equity compensation expense	—	—	98,718	—	—	98,718
Balances at December 31, 2013	2,561,981	10,675,000	12,942,191	(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	2,561,981	$ 25,620	$ 23,684,171	$ 1,138,292	$ (2,100,409)	$ 22,747,674

**For the purpose of consistency, 2012 earnings per share data were adjusted to 2,561,981 shares after 20% stock dividend in May 2013.*

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

AQUESTA FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	Year Ended 12/31/14	Year Ended 12/31/13
Cash flows from operating activities:		
Net income	$ 1,705,074	$ 1,469,078
Depreciation and amortization	493,977	441,064
Amortization of intangible assets	150,331	147,036
Provision for loan losses	429,300	274,000
Deferred income taxes	957,370	834,669
Equity compensation expense	92,600	98,718
Gain on sales and calls of investment securities	(60,770)	(362,476)
Loss on sale of other real estate owned	152,781	219,608
Change in assets and liabilities:		
Increase in accrued interest receivable	(31,683)	(102,661)
Decrease/(increase) in other assets	67,793	(343,567)
Increase/(decrease) in accrued interest payable	7,017	(62,531)
Increase in accrued expenses and other liabilities	126,869	153,149
Net cash provided by operating activities	4,090,659	2,766,087
Cash flows from investing activities:		
Proceeds from maturities/calls/paydowns of investment securities available for sale	2,518,912	6,255,992
Proceeds from the sale of investment securities available for sale	14,725,699	15,894,737
Purchases of investment securities available for sale	(6,379,670)	(33,878,751)
Increase in loans	(42,677,847)	(21,214,467)
Proceeds from the sale of other real estate owned	297,231	454,802
Purchases of premises and equipment	(1,848,166)	(126,079)
Purchase of Federal Home Loan Bank stock	-	(230,500)
Net decrease/(increase) in federal funds sold	1,705,000	(1,705,000)
Net decrease in federal funds purchased	814,200	-
Cash paid for insurance book of business purchase	-	(140,033)
Net cash used in investing activities	(30,844,641)	(34,689,299)
Cash flows from financing activities:		
Dividends on common stock	(281,816)	(256,195)
Net increase in deposits	22,566,268	24,028,310
Net decrease in other borrowings	(86,429)	-
Net increase in Federal Home Loan Bank advances	3,000,000	6,300,000
Net cash provided by financing activities	25,198,023	30,072,115
Net decrease in cash and cash equivalents	(1,555,959)	(1,851,097)
Cash and cash equivalents at beginning of years	7,059,203	8,910,300
Cash and cash equivalents at end of years	$ 5,503,244	$ 7,059,203
Supplemental information on cash payments:		
Interest paid	$ 1,282,882	$ 1,617,803
Taxes paid	825,000	-
Supplemental information on noncash transactions:		
Change in unrealized gain on derivatives, net of tax	1,258,026	217,671
Change in unrealized gain/(loss) on available for sale securities, net of tax	1,438,217	(3,131,163)
Loans transferred to other real estate owned	672,420	-

The accompanying notes are an integral part of these 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 six 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 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 losses on loans.

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.

Purchase of Insurance Book of Business

In 2013, Aquesta Insurance Services, Inc. purchased a book of business consisting of commercial policies. The book of business was purchased for cash. The purchase was accounted for using the purchase method and resulted in an increase in customer list intangibles on the consolidated balance sheet. Below are the details of the sale:

Allocation of purchase price:		
Customer list intangibles	$	140,034

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.

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, 2010 remain open for examination. The Company includes interest and penalties in the 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, 2014 and 2013.

The Company has determined that it has no uncertain income tax positions as of December 31, 2014. 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.

Advertising
Advertising costs are expensed as incurred. Advertising costs were approximately $133,588 and $92,028, respectively, for the years ended December 31, 2014 and 2013.

Goodwill and Intangible Assets
Goodwill is deemed to have an indefinite useful life. Identifiable intangible assets include noncompete agreements and customer lists, which are being amortized on a straight-line basis over the estimated useful lives of the asset ranging from 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. A 20% stock dividend to all common shareholders was distributed on May 15, 2013. For the year ended December 31, 2014, 36,014 options were dilutive and were included in the calculation of the diluted earnings per share. For the year ended December 31, 2013, no options were dilutive. A cash dividend of $0.11 was declared on December 2, 2014 and paid on December 17, 2014. A $0.10 per share was declared on November 29, 2013 and paid on December 13, 2013.

Stock Compensation Plans
Accounting standards require recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). 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.

Following is a summary of the effect of stock based compensation on the statements of operations for the years ended December 31, 2014 and 2013:

	2014	2013
Income before income taxes	$ 92,600	$ 98,718
Net income/(loss)	(92,600)	(98,718)
Income/(loss) per share - basic	(0.04)	(0.04)
Income/(loss) per share - fully diluted	(0.04)	(0.04)

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 effect.

Following is a summary of the accumulated other comprehensive income for the years ended December 31, 2014 and 2013:

	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, 2012	$ -	$ 632,892	$ -	$ 632,892
Other comprehensive income/(loss) before reclassifications	(913,853)	(1,999,824)	217,671	(2,696,006)
Amounts reclassified from AOCI	-	(217,486)	-	(217,486)
Net current period other comprehensive income/(loss)	(913,853)	(2,217,310)	217,671	(2,913,492)
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)

Recent accounting pronouncements

In January 2014, the FASB issued Accounting Standards Update ("ASU") 2014-04, "*Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)*." This Update provides guidance on when an in-substance repossession or foreclosure is deemed to occur, which event requires the mortgage loan to be derecognized and the related real estate be recognized. The Update clarifies that an in-substance repossession or foreclosure is deemed to occur upon either (i) a creditor obtaining legal title to the residential real estate or (ii) the borrower conveying all interest in the residential real estate through a deed in lieu of foreclosure (or a similar legal agreement). Creditors must disclose the amount of foreclosed residential real estate held as well as the amount of collateralized loans for which foreclosure is in process. The Update is effective for nonpublic business entities for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. The Update can be adopted on either a modified retrospective or a prospective method, and early adoption is permitted. This Update will require additional disclosure by the Company but will not otherwise materially affect our financial statements.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." This Update sets new guidance to clarify principles for recognizing revenue and develops a common revenue standard with the International Accounting Standards Board. ASU 2014-09 is effective for nonpublic entities with annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as of the following: an annual reporting period beginning after December 15, 2016, including interim periods within that reporting period; an annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017; or annual reporting period beginning after December 15, 2017, including interm periods within that reporting period. The Company is currently evaluating the effect of adopting ASU 2014-09 on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, "*Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*." The amendments in this Update require two accounting changes. First, the amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Also, the amendments in this Update require disclosure for certain transactions accounted for as a sale and for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings. The accounting changes and the disclosure for certain transactions accounted for as a sale in this Update are effective for nonpublic business entities for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Any entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited; however, all other entities may elect to apply the requirements for interim periods beginning after December 15, 2014. This Update will require additional disclosure by the Company but will not otherwise materially affect our financial statements.

In August 2014, the FASB issued ASU 2014-14, "*Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)*." The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for nonpublic business entities for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. An entity should adopt the amendments in this Update using either a prospective transition method or a modified retrospective transition method. Early adoption, including adoption in an interim period, is permitted if the entity already has adopted ASU 2014-04. The Company does not anticipate that the adoption of ASU 2014-14 will have a material effect on its consolidated financial statements as the Company has not historically had a material amount of government-guaranteed mortgage loans.

NOTE C - INVESTMENTS

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, at December 31, 2014 and 2013 are as follows:

		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	$ 12,938,135	$ -	$ 1,134,645	$ 11,803,490	$ 821,587	$ -	$ 12,625,077
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	$ 8,220,621	$ 48,352	$ 91,029				$ 8,177,944
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.*

		Recognized in AOCI*			Not recognized in AOCI		
December 31, 2013:	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	$ 13,212,780	$ -	$ 1,307,203	$ 11,905,577	$ 160,899	$ 293,433	$ 11,773,043
Preferred shares	542,660	-	83,855	458,805	15,855	-	474,660
Corporate bonds	3,017,384	-	195,027	2,822,357	1,824	48,387	2,775,794
	$ 16,772,824	$ -	$ 1,586,085	$ 15,186,739	$ 178,578	$ 341,820	$ 15,023,497
Securities available for sale							
U.S. government agency securities	$ 10,747,228	$ 14,739	$ 530,659				$ 10,231,308
Preferred shares	5,852,329	40,847	452,501				5,440,675
Corporate bonds	35,458,180	350,737	1,541,628				34,267,289
Municipal bonds	6,653,681	770	543,038				6,111,413
Equity securities	75,000	22,313	-				97,313
	$ 58,786,418	$ 429,406	$ 3,067,826				$ 56,147,998
	$ 75,559,242	$ 429,406	$ 4,653,911				$ 71,171,495

The amortized cost and fair value of investment securities at December 31, 2014, 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	$ -	$ -	$ 351,554	$ 357,658
Due after one year through five years	-	-	2,088,721	2,118,862
Due after five years through ten years	5,358,000	5,505,890	20,800,144	20,364,668
Due after ten years	13,194,056	14,131,744	21,230,710	21,267,050
Subtotal	18,552,056	19,637,634	44,471,129	44,108,238
Perpetual preferred shares	-	-	248,854	267,300
Total	$ 18,552,056	$ 19,637,634	$ 44,719,983	$ 44,375,538

The composition of the investment securities with an unrealized loss position at December 31, 2014 and 2013 is shown below.

	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	$ -	$ 4,320,742	$ 81,439	$ 5,682,949	$ 81,439
Preferred shares	-	9,590	949,300	57,201	949,300	66,791
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	$ 674,843	$ 18,973,463	$ 1,114,571
	$ 7,684,877	$ 441,041	$ 11,806,100	$ 674,843	$ 19,490,977	$ 1,115,884

	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, 2013:						
Held-to-maturity						
U.S. government agency securities	$ 11,773,044	$ 293,433	$ -	$ -	$ 11,773,044	$ 293,433
Preferred shares	474,660	-	-	-	474,660	-
Corporate bonds	2,775,793	48,387	-	-	2,775,793	48,387
	$ 15,023,497	$ 341,820	$ -	$ -	$ 15,023,497	$ 341,820
Available-for-sale						
U.S. government agency securities	$ 7,786,448	$ 478,110	$ 447,451	$ 52,549	$ 8,233,899	$ 530,659
Preferred shares	4,111,780	452,501	-	-	4,111,780	452,501
Corporate bonds	16,407,145	1,065,810	4,393,117	475,820	20,800,262	1,541,628
Municipal bonds	3,625,453	334,588	1,847,445	208,450	5,472,898	543,038
Equity securities	-	-	-	-	-	-
	$ 31,930,826	$ 2,331,009	$ 6,688,013	$ 736,819	$ 38,618,839	$ 3,067,826
	$ 46,954,323	$ 2,672,829	$ 6,688,013	$ 736,819	$ 53,642,336	$ 3,409,646

Management continuously evaluates its investment security 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. There were no write downs in 2014 and 2013.

NOTE D - 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, 2014 and 2013:

	2014		2013	
	Amount	% of total loans	Amount	% of total loans
Real estate loans:				
One to four family residential	$ 12,900,420	7.5%	$ 6,845,520	5.2%
Multi-family residential and commercial	94,132,792	54.6%	69,553,671	53.3%
Construction	11,806,851	6.8%	8,533,257	6.5%
Home equity lines of credit	21,822,484	12.6%	16,048,481	12.3%
Total real estate loans	140,662,547	81.5%	100,980,929	77.4%
Other loans:				
Commercial and industrial	31,411,423	18.2%	29,197,916	22.4%
Loans to individuals	336,474	0.2%	305,052	0.2%
Overdrafts	142,404	0.1%	14,790	0.0%
Total other loans	31,890,301	18.5%	29,517,758	22.6%
Total loans	172,552,848	100.0%	130,498,687	100.0%
Allowance for loan losses	(2,479,871)		(2,150,825)	
Unamortized deferred fees	(303,291)		(154,303)	
Total loans, net	$ 169,769,686		$ 128,193,559	

Impaired Loans

Impaired loans as of December 31, 2014 and 2013, segregated by class of loans, were as follows:

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

December 31, 2013:	Unpaid principal balance (1)	Recorded investment (2)	Related allowance	Average recorded investment	Interest income recognized
With no allowance recorded:					
Real estate loans:					
Construction	$ 216,299	$ 216,299	$ -	$ 241,026	$ 13,536
Total real estate loans	216,299	216,299	-	241,026	13,536
With allowance recorded:					
Real estate loans:					
One to four family residential	847,105	847,105	18,842	857,002	39,856
Construction	402,462	402,462	37,569	428,289	14,527
Total real estate loans	1,249,567	1,249,567	56,411	1,285,291	54,383
Other loans:					
Commercial and industrial	1,612,747	1,612,747	224,321	1,646,008	73,731
Total other loans	1,612,747	1,612,747	224,321	1,646,008	73,731
Subtotal of impaired loans with allowance recorded	2,862,314	2,862,314	280,732	2,931,299	128,114
Total impaired loans	$ 3,078,613	$ 3,078,613	$ 280,732	$ 3,172,325	$ 141,650

(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.

Trouble Debt Restructurings (TDRs)
Impaired loans also include TDRs. At December 31, 2014 and 2013, the Bank had impaired loans classified as TDRs of $2.8 million and $3.1 million, respectively. The following table summarizes the recorded investment in loans modified in a TDR both before and after their modification during the years ended December 31, 2014 and 2013:

	2014			2013		
	Number of contracts	Pre-modification recorded investment	Post-modification recorded investment	Number of contracts	Pre-modification recorded investment	Post-modification recorded investment
Other loans:						
Commercial and industrial	-	$ -	$ -	1	$ 1,515,561	$ 1,515,561
Construction	-	-	-	1	402,462	402,462
Total other loans	-	$ -	$ -	2	$ 1,918,023	$ 1,918,023
Total loans	-	$ -	$ -	2	$ 1,918,023	$ 1,918,023

There were no loans modified in a TDR during 2014 or 2013 for which there was subsequent payment default. Default is defined as 90 days or more past due or nonaccrual.

The following is a summary of the current, accruing past due and nonaccrual loans by portfolio class as of December 31, 2014 and 2013:

	Current	Accruing 30-59 days past due	Accruing 60-89 days past due	Accruing greater than 90 days	Total accruing loans	Non-accrual	Total loans
December 31, 2014:							
Real estate loans:							
One to four family residential	$ 12,259,442	$ -	$ -	$ -	$ 12,259,442	$ 640,978	$ 12,900,420
Multi-family residential and commercial	94,132,792	-	-	-	94,132,792	-	94,132,792
Construction	11,806,851	-	-	-	11,806,851	-	11,806,851
Home equity lines of credit	20,893,561	-	-	-	20,893,561	928,923	21,822,484
Total real estate loans	139,092,646	-	-	-	139,092,646	1,569,901	140,662,547
Other loans:							
Commercial and industrial	31,411,423	-	-	-	31,411,423	-	31,411,423
Loans to individuals	336,474	-	-	-	336,474	-	336,474
Overdrafts	142,404	-	-	-	142,404	-	142,404
Total other loans	31,890,301	-	-	-	31,890,301	-	31,890,301
Total loans	$ 170,982,947	$ -	$ -	$ -	$ 170,982,947	$ 1,569,901	$ 172,552,848

	Current	Accruing 30-59 days past due	Accruing 60-89 days past due	Accruing greater than 90 days	Total accruing loans	Non-accrual	Total loans
December 31, 2013:							
Real estate loans:							
One to four family residential	$ 6,845,520	$ -	$ -	$ -	$ 6,845,520	$ -	$ 6,845,520
Multi-family residential and commercial	69,553,671	-	-	-	69,553,671	-	69,553,671
Construction	8,533,257	-	-	-	8,533,257	-	8,533,257
Home equity lines of credit	15,153,770	-	894,711	-	16,048,481	-	16,048,481
Total real estate loans	100,086,218	-	894,711	-	100,980,929	-	100,980,929
Other loans:							
Commercial and industrial	29,197,916	-	-	-	29,197,916	-	29,197,916
Loans to individuals	305,052	-	-	-	305,052	-	305,052
Overdrafts	14,790	-	-	-	14,790	-	14,790
Total other loans	29,517,758	-	-	-	29,517,758	-	29,517,758
Total loans	$ 129,603,976	$ -	$ 894,711	$ -	$ 130,498,687	$ -	$ 130,498,687

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, 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 Bank'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 Bank 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.

The loans categorized by different risk categories based on relevant information about a borrower's ability to service their debt at December 31, 2014 and 2013 are as follows:

	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

	Pass	Special mention	Substandard accruing	Nonaccrual	Total loans
December 31, 2013:					
Real estate loans:					
One to four family residential	$ 6,845,520	$ -	$ -	$ -	$ 6,845,520
Multi-family residential and commercial	64,416,347	4,014,755	1,122,569	-	69,553,671
Construction	8,533,257	-	-	-	8,533,257
Home equity lines of credit	16,048,481	-	-	-	16,048,481
Total real estate loans	95,843,605	4,014,755	1,122,569	-	100,980,929
Other loans:					
Commercial and industrial	26,870,880	-	2,327,036	-	29,197,916
Loans to individuals	305,052	-	-	-	305,052
Overdrafts	14,790	-	-	-	14,790
Total other loans	27,190,722	-	2,327,036	-	29,517,758
Total loans	$ 123,034,327	$ 4,014,755	$ 3,449,605	$ -	$ 130,498,687

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. During 2014, two new directors were added to the Bank's board of directors. The amounts reported for 2014 reflect the addition of the two members. Total loans outstanding to these persons at December 31, 2014 and 2013 amounted to $10,815,334 and $7,464,451, respectively. The change from 2013 to 2014 reflects payments of $4,091,269 and advances of $6,534,898. At December 31, 2014 and 2013, the Bank had pre-approved but unused lines of credit totaling $1,780,660 and $1,498,404, respectively, to executive officers, directors and their related interests.

Allowance for Loan Losses

Following is a summary of the changes in the allowance for loan losses by portfolio class for the year ended December 31, 2014 and 2013:

	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

	Beginning balance	Chargeoffs	Recoveries	Provision	Ending balance
December 31, 2013:					
Real estate loans:					
One to four family residential	$ 133,231	$ -	$ -	$ 28,227	$ 161,458
Multi-family residential and commercial	474,433	-	2,851	246,784	724,068
Construction	67,923	-	-	52,606	120,529
Home equity lines of credit	92,197	56,445	-	137,572	173,324
Total real estate loans	767,784	56,445	2,851	465,189	1,179,379
Other loans:					
Commercial and industrial	1,128,002	-	33,291	(289,988)	871,305
Loans to individuals	1,342	-	-	1,131	2,473
Overdrafts	-	-	-	-	-
Unallocated	-	-	-	97,668	97,668
Total other loans	1,129,344	-	33,291	(191,189)	971,446
Total loans	$ 1,897,128	$ 56,445	$ 36,142	$ 274,000	$ 2,150,825

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, 2014 and 2013:

	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

	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, 2013:						
Real estate loans:						
One to four family residential	$ 142,616	$ 5,998,415	$ 18,842	$ 847,105	$ 161,458	$ 6,845,520
Multi-family residential and commercial	724,068	69,337,372	-	216,299	724,068	69,553,671
Construction	82,960	8,130,795	37,569	402,462	120,529	8,533,257
Home equity lines of credit	173,324	16,048,481	-	-	173,324	16,048,481
Total real estate loans	1,122,968	99,515,063	56,411	1,465,866	1,179,379	100,980,929
Other loans:						
Commercial and industrial	646,984	27,585,169	224,321	1,612,747	871,305	29,197,916
Loans to individuals	2,473	305,052	-	-	2,473	305,052
Overdrafts	-	14,790	-	-	-	14,790
Unallocated	97,668	-	-	-	97,668	-
Total other loans	747,125	27,905,011	224,321	1,612,747	971,446	29,517,758
Total loans	$ 1,870,093	$ 127,420,074	$ 280,732	$ 3,078,613	$ 2,150,825	$ 130,498,687

NOTE E - BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2014 and 2013:

	2014	2013
Land	$ 2,380,541	$ 2,370,540
Buildings	8,218,784	6,890,211
Construction in progress	-	23,477
Leasehold improvements	88,786	416,712
Furniture and equipment	2,624,769	1,763,775
	13,312,880	11,464,715
Accumulated depreciation	(2,750,618)	(2,293,090)
Total	$ 10,562,262	$ 9,171,625

Depreciation amounting to $457,529 and $414,145 for the years ended December 31, 2014 and 2013, respectively, is included in occupancy expense. Amortization of software of $36,448 and $26,919 for the years ended December 31, 2014 and 2013, respectively, is included in other noninterest expenses.

NOTE F – GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The Company recorded goodwill and intangible assets arising from the acquisition of Aquesta Insurance Services. The changes in the carrying amount of goodwill and other intangibles for the years ended December 31, 2014 and 2013 were as follows:

	Goodwill	Customer list intangibles	Non-compete intangibles	Total identifiable intangibles
At December 31, 2012	$ 686,533	$ 843,169	$ 479,870	$ 1,323,039
Purchase of book of business	-	140,033	-	140,033
Amortization expense	-	(74,573)	(72,463)	(147,036)
At December 31, 2013	686,533	908,629	407,407	1,316,036
Purchase of book of business	-	-	-	-
Amortization expense	-	(79,833)	(70,498)	(150,331)
At December 31, 2014	$ 686,533	$ 828,796	$ 336,909	$ 1,165,705

Estimated annual amortization expense, years ended December 31:

2015	$ 150,331
2016	150,331
2017	150,331
2018	150,331
2019	150,331
Thereafter	414,050
	$ 1,165,705

Identifiable intangible assets at December 31, 2014 and 2013 consisted of the following:

	Gross carrying amount	Accumulated amortization	Net carrying amount
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
Customer list intangibles	$ 1,197,493	$ 288,864	$ 908,629
Non-compete intangibles	704,983	297,576	407,407
At December 31, 2013	$ 1,902,476	$ 586,440	$ 1,316,036

NOTE G – DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2014 and 2013, was $36,344,872 and $39,704,618, respectively. Interest expense on such deposits aggregated $385,465 and $363,356 in the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Bank had $16,515,870 and $9,152,827 in public funds that were secured by marketable securities with a fair value of $18,090,116 and $9,789,557, respectively.

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

2015	$	53,386,273
2016		18,235,429
2017		7,235,635
2018		4,975,613
2019		1,721,530
Thereafter		1,050,000
Total	$	86,604,480

NOTE H - OTHER BORROWED FUNDS

The Company has available lines of credit totaling $31,550,000 and $23,075,000 from correspondent banks excluding the Federal Home Loan Bank and the Federal Reserve Discount Window at December 31, 2014 and 2013, respectively. As of December 31, 2014, the Bank had outstanding borrowings of $814,200 and no borrowings as of December 31, 2013 with the Company's correspondent banks.

In addition, the Company's available line with the FHLB is 20% based on the Company's respective prior quarter's total assets, or $62,750,000 and $45,160,000 at December 31, 2014 and 2013, respectively. The Company's remaining available line was $31,550,000 and $16,960,000 at December 31, 2014 and 2013, respectively. Interest expense on FHLB advances was $382,932 and $237,430 in 2014 and 2013, respectively. At December 31, 2014 and 2013, 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 $1,614,600 and $1,514,700 as of December 31, 2014 and 2013, respectively. The Company's total commercial real estate loan lendable collateral was $49,061,599 and $33,453,716 as of December 31, 2014 and 2013, 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 $9,627,243 and $7,397,524 as of December 31, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013 consisted of the following:

	Maturity Dates	Weighted Average Interest Rate		2014		2013
Federal Home Loan Bank borrowings:						
Fixed rate	2015-2021	0.57%	$	31,200,000	$	28,200,000
Estimate of future insurance debt:						
Fixed rate	2015-2019	1.00%		209,271		295,700
Other borrowed funds	overnight	0.16%		814,200		-
			$	32,223,471	$	28,495,700

Required annual principal payments on other borrowed funds for years subsequent to December 31, 2014 are as follows:

	FHLB Advances	Other Borrowings	Total
2015	$ 11,300,000	$ 863,440	$ 12,163,440
2016	5,000,000	49,240	5,049,240
2017	4,400,000	49,240	4,449,240
2018	2,500,000	49,240	2,549,240
2019	-	12,310	12,310
Thereafter	8,000,000	-	8,000,000
Total	$ 31,200,000	$ 1,023,471	$ 32,223,471

NOTE I – 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 20% of the Company's total assets plus an activity based stock component of 4.5% of outstanding FHLB advances. At December 31, 2014 and 2013, the Company owned 16,146 and 15,147 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, 2014.

NOTE J - INCOME TAXES

The significant components of the provision for income taxes for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Current tax provision:		
Federal	$ -	$ -
State	56,292	-
Total current tax provision	56,292	-
Deferred tax expense		
Federal	854,974	730,089
State	46,104	104,580
Total deferred tax expense	901,078	834,669
Provision for income tax expense before adjustment to deferred tax asset valuation allowance	957,370	834,669
Net provision for income taxes	$ 957,370	$ 834,669

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes for the years ended December 31, 2014 and 2013 is summarized below:

	2014	2013
Tax expense computed at the statutory federal rate	$ 904,916	$ 783,274
Increase/(decrease) resulting from:		
State income taxes, net of federal tax benefit	121,206	104,913
Other	(68,752)	(53,518)
Provision for income taxes	$ 957,370	$ 834,669

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets relating to:		
Unrealized loss on securities	$ 1,400,273	$ 1,520,400
Allowance for loan losses	475,545	439,843
Net operating loss carryforward	72,275	144,742
Pre-opening costs and expenses	163,968	187,409
Permanent write down of investments	-	584,637
Tax credit carryforward	84,500	84,500
Other	206,358	205,556
Total deferred tax assets	2,402,919	3,167,087
Deferred tax liabilities relating to:		
Premises and equipment	(312,448)	(189,109)
Prepaid assets	-	(147,593)
Total deferred tax liabilities	(312,448)	(336,702)
Net recorded deferred tax asset	$ 2,090,471	$ 2,830,385

The Company has a state net operating loss carryover of approximately $41,000 which expires in 2029, and federal net operating loss carryover of approximately $200,000 which expires in 2030 through 2032.

NOTE K – SUPPLEMENTAL INFORMATION

Components of other noninterest expense exceeding 1% of revenues for any of the years in the two-year period ended December 31, 2014, include:

	2014	2013
Information technology expense	$ 665,811	$ 481,326
Loan related expense	103,813	157,706
FDIC and state bank assessments	183,262	199,969
Director fees	128,056	106,060

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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2014 and 2013, the Bank meets all capital adequacy requirements to which it is subject, as set forth in the following:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2014						
Total Capital (to Risk-Weighted Assets)	$ 25,351	8.90%	$ 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	10.99%	10,280	4.0%	12,850	5.0%
December 31, 2013						
Total Capital (to Risk-Weighted Assets)	$ 24,281	9.74%	$ 13,787	8.0%	$ 17,234	10.0%
Tier I Capital (to Risk-Weighted Assets)	22,130	11.08%	6,894	4.0%	10,341	6.0%
Tier I Capital (to Average Assets)	22,130	12.16%	8,103	4.0%	10,129	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 Company's newest branch, Northcross, 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 has three leased office facilities for its three insurance agencies located in Cornelius, Kannapolis and Wilmington, North Carolina.

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 anticipates using this space for the Company's future growth. The headquarters building was purchased for $5,091,261. As of December 31, 2014, the accumulated depreciation was $894,772 for a carrying value of $4,196,489.

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

2015	$ 91,697
2016	95,402
2017	49,137
	$ 236,236

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

2015	$	265,963
2016		270,038
2017		211,836
2018		137,737
2019		121,333
Thereafter		1,450,974
	$	2,457,881

Rental expense amounting to $157,769 and $167,303 during the years ended December 31, 2014 and 2013, 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 Bank's exposure to off-balance sheet risk as of December 31, 2014 is as follows:

Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$	13,166,605
Undisbursed lines of credit		5,678,831
Letters of credit		319,000

As of December 31, 2014, the Company had $33.9 million in notional amount of forward starting cash flow hedges. Company 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. The Company also had an interest rate cap of $4 million. This interest rate cap was purchased to add protection to the Company against the potential rise in interest rates. This interest rate cap is based on one month LIBOR rate.

NOTE O - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments include cash and due from banks, federal funds sold, investments, loans, and deposit accounts. Fair value estimates are made at a specific moment 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 active market readily 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.

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

Cash and Due from Banks, Federal Funds Sold and Federal Funds Purchased -The carrying amounts for cash and due from banks and federal funds sold approximate fair value because of the short maturities of those instruments. For these items, a fair value hierarchy of Level 1 has been assigned.

Investments - Fair values for investment securities 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- For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans are assigned a Level 2 fair value input level.

Federal Home Loan Bank Stock -The carrying amount is a reasonable estimate of fair value and is assigned a Level 2 fair value input level.

Accrued Interest Receivable -The carrying amount is a reasonable estimate of fair value and is assigned a Level 2 fair value input level.

Deposits - The fair value of demand deposits and savings, money market and NOW accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities and are assigned a Level 2 fair value input level.

Federal Home Loan Bank Advances -The fair value is based on quoted market prices of comparable instruments and are assigned a Level 2 fair value input level.

Other Borrowings - The carrying amount is a reasonable estimate of fair value and is assigned a Level 2 fair value input level.

Financial Instruments with Off-Balance Sheet Risk - With regard to financial instruments with off-balance sheet risk discussed in Note N, it is not practicable to estimate the fair value of future financing commitments**.**

The carrying amounts and estimated fair values of the Company's financial instruments, none of which are held for trading purposes are as follows at December 31, 2014 and 2013:

	Level in fair value hierarchy	2014 Carrying amount	2014 Estimated fair value	2013 Carrying amount	2013 Estimated fair value
		(Dollars in thousands)			
Financial assets:					
Cash and due from banks	Level 1	$ 5,503	$ 5,503	$ 7,059	$ 7,059
Investments held to maturity	Level 2	18,052	19,138	15,187	15,023
Investments held to maturity	Level 3	500	500	-	-
Investments available for sale	Level 2	44,376	44,376	55,073	55,073
Investments available for sale	Level 3	-	-	1,075	1,075
Loans, net	Level 2	169,770	168,877	128,194	128,283
Federal Home Loan Bank stock	Level 2	1,615	1,615	1,515	1,515
Accrued interest receivable	Level 2	1,006	1,006	975	975
Financial liabilities:					
Deposits	Level 2	$ 206,013	$ 203,006	$ 183,447	$ 182,398
Federal Home Loan Bank advances	Level 2	31,200	30,837	28,200	28,181
Other borrowed funds	Level 2	1,023	1,023	296	296
Accrued interest payable	Level 2	42	42	35	35

NOTE P – FAIR VALUE HIERARCHY

Accounting Standards established a fair value hierarchy to prioritize the inputs of valuation techniques used to measure fair value. Outlined below is the application of the fair value hierarchy established by accounting standards to the Bank's assets that are carried at fair value:

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.

Assets measured at fair value on a recurring basis at December 31, 2014 and 2013 were as follows:

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	$ 8,177,944	$ -	$ 8,177,944	$ -
Preferred shares	4,855,096	-	4,855,096	-
Corporate bonds	26,954,194	-	26,954,194	-
Municipal bonds	4,388,304	-	4,388,304	-
Equity securities	-	-	-	-
	$ 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)	$ -

December 31, 2013:	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	$ 10,231,308	$ -	$ 10,231,308	$ -
Preferred shares	5,440,675	-	5,440,675	-
Corporate bonds	34,267,289	-	33,191,957	1,075,333
Municipal bonds	6,111,413	-	6,111,413	-
Equity securities	97,313	-	97,313	-
	$ 56,147,998	$ -	$ 55,072,666	$ 1,075,333
Fair value of derivatives:				
Derivative assets	$ 602,441	$ -	$ 602,441	$ -
Derivative liabilities	(239,656)	-	(239,656)	-
	$ 362,785	$ -	$ 362,785	$ -

The Company's policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 as of the end of the reporting period. Transfers in and out of Level 3 are shown in the following table:

	2014	2013
Balance at beginning of the year	$ 1,075,333	$ -
Purchase of foreign debt securities	-	1,075,333
Transfered in to Level 2 pricing	(1,075,333)	-
Balance at the end of the year	$ -	$ 1,075,333

During 2014, the transfer out of Level 3 included $1,075,333 of available for sale debt securities. The transfer out of Level 3 available for sale debt securities was due to the increased availability of pricing data received by the Company's portfolio accounting managers.

Assets valued at fair value on a nonrecurring basis at December 31, 2014 and 2013 were as follows:

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

December 31, 2013:	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	$ 917,776	$ -	$ -	$ 917,776
Impaired loans, net of specific allowance	2,797,881	-	-	2,797,881
	$ 3,715,657	$ -	$ -	$ 3,715,657

Net unrealized gain/(loss) on available for sale securities are included net of tax in the accumulated other comprehensive loss component of the Stockholders' Equity section of the Consolidated Balanced Sheets.

The Company does not record loans at fair value on a recurring basis. However, when a loan is considered impaired, an allowance for loan losses is established based on the estimated fair value of the loan. The fair value of the impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value 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 where a specific allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on observable market price or a current appraised value, the Company records the impaired loan as a 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 classifies the impaired loan as nonrecurring Level 3.

Other real estate owned acquired through loan foreclosure is recorded at fair value upon transfer of the loans to foreclosed assets, based on the appraised market value of the property. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset 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 classifies the foreclosed asset as nonrecurring Level 3. Fair value adjustments of $152,574 and $214,588 were made to other real estate owned during the years ended December 31, 2014 and 2013, respectively. Loss on sale of other real estate owned realized and included in earnings for the year ended December 31, 2014 and 2013, respectively, were $152,781 and $219,608.

No liabilities were measured at fair value on a nonrecurring basis as of December 31, 2014 and 2013.

NOTE Q - 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, 2014 and 2013, expense attributable to the Plan amounted to $135,442 and $109,899, 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 and 253,198, respectively. Exercise prices for both plans are established at market value on the grant date. During 2014 and 2013, 49,820 and 28,080 options were granted, respectively, under the Employee Plan. The options granted in 2014 under the Employee Plan, were issued with an exercise price of $7.58. The options granted in 2013 under the Employee Plan, were issued with an exercise price of $7.08. In addition, 5,000 options were granted in 2014 under the Director Plan with an exercise price of 8.29. There were no options granted under the Director Plan in 2013.

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.

In March 2013, The Board authorized a stock option and warrant exchange program for all options and warrants granted during 2006 through March 2012. The program was voluntary and if accepted, stock options and warrants were exchanged for new stock options and warrants along with a one-time premium payment. The Bank paid $17,530 in premium payments in 2013. The options and warrants were reissued with an exercise price of $7.08 per share (post stock dividend). Option related compensation costs recorded during the years ended December 31, 2014 and 2013 totaled $92,600 and $98,718, respectively. At December 31, 2014, there was $248,958 of total unrecognized compensation cost related to outstanding stock options. This cost is expected to be recognized over a weighted average period of 2.32 years.

A summary of the changes in the Company's option plans for the years ended December 31, 2014 and 2013 is as follows:

	Shares Available for Future Grants	Outstanding Options		Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		Number Outstanding	Weighted Average Exercise Price		
At December 31, 2012	81,546	424,552	$ 11.12	6.00 years	$ -
Options granted	(28,080)	28,080	7.99	4.08 years	-
Options forfeited	94,885	(94,885)	11.00	n/a	-
At December 31, 2013	148,351	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	108,414	397,684	$ 7.10	8.31 years	$ -
Exercisable					
At December 31, 2014		106,152	$ 7.03	8.22 years	$ -
At December 31, 2013		-	-	n/a	-

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.

Options granted under the Employee Plan in 2013 had a fair value of $1.17; 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 0.76%; and expected lives of 7 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 Bank's organization. All organizers currently serve as directors of the Company. These warrants vested immediately. The warrants were part of the exchange program mentioned above. There were no new warrants granted or exercised in 2014 or 2013.

NOTE R – RECLASSIFICATION
Certain items in the December 31, 2013 consolidated financial statements have been routinely reclassified to make the statements more comparable to the December 31, 2014 consolidated financial statement presentation.

NOTE S – SUBSEQUENT EVENTS
The Company has evaluated all subsequent events through May 7, 2015, the date the 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

Kenneth Wrench
Augusta Homes, Principal

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

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Raleigh, North Carolina 27607

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Broadbridge Corporate Issuer Solutions, Inc.
Post Office Box 1342
Brentwood, New York 11717

Independent Auditors
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509 East Center Street
Post Office Box 1697
Lexington, North Carolina 27293-1697

Annual Shareholders Meeting

The Annual Meeting of the shareholders of Aquesta Financial Holdings, Inc. will be held at Aquesta Bank Headquarters Building on June 16, 2015 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, 2014. As of December 31, 2014, the Bank had 2,561,981 shares of common stock outstanding. A 20% stock dividend was paid out on May 15, 2013 and a cash dividend was paid out on December 17, 2014 and December 13, 2013.

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.

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

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

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

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

Downtown Cornelius Branch
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(704) 439-1420

AQUESTA
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