NOBLEBANK
& TRUST

May 10, 2014

Dear Shareholder,

We view 2013 as a "start over" or at least a new beginning year for NobleBank & Trust. As previously communicated, the Formal Agreement with the OCC was officially terminated on January 30. On June 26, we successfully converted our bank charter and are proud to be a State, Fed Member bank. Given these two developments, we are now able to get back to the business of banking, and have changed our focus to one that is more external, including being aggressive with our business development efforts.

We had our first examination by the Federal Reserve since the charter conversion and it went extremely good. We have received the final Report of Examination; it contains very little criticism. We do have a couple of minor operational issues to address, but overall the Report was very positive.

We are pleased, but not satisfied, with the financial results of 2013. We did not focus on growing the Bank, but changing the asset mix, i.e., putting more of our liquidity to work. As you see below, we were successful in growing loans by 10+%; we also strategically increased our securities portfolio. While the growth in our loans and investments contributed to our net profit, there were other factors, such as: smaller loan loss provision, higher non-interest income and lower non-interest expense. The combination of these factors resulted in the Bank hitting the $1,000,000 mark, in net income, for the first time.

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Total Deposits	$146,995,071	$149,984,492	$143,532,236	$148,660,919	$149,674,018
Total Loans	$ 98,649,783	$ 95,635,907	$ 86,128,189	$ 85,546,893	$ 94,864,765
Total Assets	$166,248,992	$169,596,498	$165,987,420	$171,778,733	$171,904,651
Net Income (Loss)	$ 415,407	$ 446,853	$ 857,631	$ 724,791	$ 1,024,294

While we are now seeing our loans increase, we remain diligent in our efforts to ensure that the quality of our portfolio remains strong. Past due loans were (and are) consistently less than 1%, classified loans decreased from 29.3% of Capital in 2012 to 14.47% at December 31, 2013. Loans on non-accrual also decreased during the past year; however, we did see an increase in our OREO, which we are working hard to liquidate.

While there are certainly challenges remaining, for community banks, with regard to economic conditions and the regulatory and compliance arenas, we are excited about the future of NobleBank & Trust. We are looking at several opportunities that will enhance shareholder value. Among these opportunities are: the formation of a one bank holding company (you will hear more about this in the near future), loan production offices, acquisitions, and enhancements to our technology platform to better serve our customers.

We appreciate your support and remain committed to working diligently to ensure your investment in NobleBank & Trust is a sound and profitable one!

Sincerely,

Anthony Humphries
President & CEO

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PO Box 998, Anniston, AL 36202

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256-741-1800

OFFICE LOCATIONS
Alexandria - Oxford - Piedmont

NOBLE BANK AND TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOBLE BANK AND TRUST
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DECEMBER 31, 2013 AND 2012

415 East10th St
Anniston, AL 36207
256.241.0560
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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Noble Bank and Trust

We have audited the accompanying statements of financial condition of Noble Bank and Trust as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 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 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Noble Bank and Trust as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Warren Averett, LLC

Anniston, Alabama
March 10, 2014

NOBLE BANK AND TRUST
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 4,511,187	$ 4,560,173
Interest bearing deposits in banks	5,643,159	24,969,067
Federal funds sold	600,000	-
TOTAL CASH AND CASH EQUIVALENTS	10,754,346	29,529,240
SECURITIES AVAILABLE-FOR-SALE	51,727,166	44,640,299
SECURITIES RESTRICTIVE INVESTMENTS	1,414,750	1,457,650
INVESTMENT IN ANNUITIES	1,306,264	-
LOANS, NET OF ALLOWANCE FOR LOAN LOSSES	94,864,765	85,546,893
ACCRUED INTEREST RECEIVABLE	577,250	540,285
PREPAID EXPENSES	352,525	592,311
OTHER REAL ESTATE OWNED	967,947	156,000
PREMISES AND EQUIPMENT, NET	6,472,716	6,234,755
BANK OWNED LIFE INSURANCE	3,172,679	3,065,901
DEFERRED TAX	293,900	-
OTHER ASSETS	343	15,399
TOTAL ASSETS	$ 171,904,651	$ 171,778,733

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2013 AND 2012

LIABILITIES AND STOCKHOLDERS' EQUITY

	2013	2012
DEPOSITS		
Interest-bearing	$ 127,781,174	$ 126,813,712
Noninterest-bearing	21,892,844	21,847,207
TOTAL DEPOSITS	149,674,018	148,660,919
BORROWINGS	5,000,000	5,000,000
ACCRUED INTEREST PAYABLE	65,564	74,202
DEFERRED COMPENSATION	39,692	-
DEFERRED TAX	-	168,061
OTHER LIABILITIES	130,517	133,118
TOTAL LIABILITIES	154,909,791	154,036,300
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 5,000,000 shares authorized; 1,456,025 and 1,453,525 shares issued and outstanding for the years ended December 31, 2013 and 2012, respectively	1,456,025	1,453,525
Additional paid-in capital	14,093,431	14,068,567
Accumulated other comprehensive income (loss)	(577,440)	858,410
Retained earnings	2,022,844	1,361,931
TOTAL STOCKHOLDERS' EQUITY	16,994,860	17,742,433
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 171,904,651	$ 171,778,733

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
INTEREST INCOME		
Interest and fees on loans	$ 4,845,297	$ 5,041,300
Interest on investment securities	1,152,711	990,238
Interest on due from accounts	60,936	71,481
Total interest income	6,058,944	6,103,019
INTEREST EXPENSE		
Interest on money market and checking	252,537	320,088
Interest on savings	2,730	3,410
Interest on certificates of deposit	129,323	210,659
Interest on borrowed funds	143,019	143,345
Total interest expense	527,609	677,502
NET INTEREST INCOME	5,531,335	5,425,517
PROVISION FOR LOAN LOSSES	357,452	481,512
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,173,883	4,944,005

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
NONINTEREST INCOME		
Service charges, fees and commissions	$ 1,297,480	$ 1,198,111
Bank owned life insurance income	106,778	65,901
Realized gain on sale of securities	10	-
Miscellaneous noninterest income	5,234	1,313
Total noninterest income	1,409,502	1,265,325
NONINTEREST EXPENSES		
Salaries and employee benefits	2,602,177	2,597,643
Occupancy expense	476,835	481,917
Equipment expense	138,628	140,345
Business development expense	145,048	160,178
Communication expense	95,468	95,123
Data processing expense	722,094	686,177
Insurance expense	251,920	280,045
Professional fees	317,673	439,016
Teller outages and other losses	95,073	100,913
Supplies expense	119,830	107,162
Travel expense	36,550	33,846
Deferred compensation expense	39,692	-
Other expenses	253,277	291,147
Total noninterest expense	5,294,265	5,413,512
INCOME BEFORE INCOME TAXES	1,289,120	795,818
INCOME TAX PROVISION	264,826	71,027
NET INCOME	$ 1,024,294	$ 724,791

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
NET INCOME	$ 1,024,294	$ 724,791
Other Comprehensive Income:		
Net change in unrealized gain on available-for-sale securities, net of deferred tax of $404,984 and $75,607 as of December 31, 2013 and 2012, respectively	(1,435,850)	268,060
COMPREHENSIVE INCOME (LOSS)	$ (411,556)	$ 992,851

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Gain (Loss)	Total
BALANCE AT DECEMBER 31, 2011	$ 1,441,525	$ 14,078,203	$ 637,140	$ 590,350	$ 16,747,218
Net income	-	-	724,791	-	724,791
Other comprehensive income	-	-	-	268,060	268,060
Options/warrants expense	-	2,364	-	-	2,364
Issuance of restricted stock	12,000	(12,000)	-	-	-
BALANCE AT DECEMBER 31, 2012	1,453,525	14,068,567	1,361,931	858,410	17,742,433
Dividends declared and paid	-	-	(363,381)	-	(363,381)
Net income	-	-	1,024,294	-	1,024,294
Other comprehensive loss	-	-	-	(1,435,850)	(1,435,850)
Exercise of stock warrant	2,500	22,500	-	-	25,000
Options/warrants expense	-	2,364	-	-	2,364
BALANCE AT DECEMBER 31, 2013	$ 1,456,025	$ 14,093,431	$ 2,022,844	$ (577,440)	$ 16,994,860

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,024,294	$ 724,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	357,452	481,512
Net amortization of securities	270,697	267,122
Depreciation and amortization of premises and equipment	306,892	327,472
Write-down of other real estate	45,575	-
(Gain) loss on sale of other real estate	(10,532)	62,478
Realized gain on sale of securities, net	(10)	-
Change in deferred tax	(56,977)	(55,008)
Change in prepaid expenses	239,786	237,816
Change in accrued interest receivable	(36,965)	(44,505)
Change in other assets	15,056	(11,323)
Change in accrued interest payable	(8,638)	(49,566)
Change in deferred compensation	39,692	-
Change in other liabilities	(2,601)	(303,618)
Net cash provided by operating activities	2,183,721	1,637,171
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	(18,148,306)	(21,625,565)
Sales	3,005,796	-
Maturities, paydowns and calls	5,944,122	22,585,288
Purchases of securities restrictive investments	(1,800)	(250)
Proceeds from sales of other investment securities	44,700	5,400
Purchases of annuities	(1,306,264)	-
Net change in loans receivable	(10,762,349)	99,784
Proceeds from the sale of ORE	240,035	416,847
Purchases of premises and equipment	(544,853)	(38,884)
Change in bank owned life insurance	(106,778)	(3,065,901)
Net cash used in investing activities	(21,635,697)	(1,623,281)

See notes to the financial statements.

NOBLE BANK AND TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 1,013,099	$ 5,128,683
Exercise of stock warrant	25,000	-
Allocation from granting of warrants/options	2,364	2,364
Cash dividends	(363,381)	-
Net cash provided by financing activities	677,082	5,131,047
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,774,894)	5,144,937
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,529,240	24,384,303
CASH AND CASH EQUIVALENTS AT END OF YEAF	$ 10,754,346	$ 29,529,240
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 536,247	$ 727,068
NONCASH DISCLOSURES		
Loans transferred to other real estate owned	$ 1,271,525	$ -
Proceeds from sales of foreclosed real estate financed through loans	$ 184,500	$ -
Net change in unrealized gain (loss) on securities available-for-sale, net of taxes	$ (1,435,850)	$ 268,060

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Noble Bank and Trust (the Bank) was formed on October 5, 2005, by national charter and currently operates four branches in Alabama. The main branch is located in Anniston, and the other branches are located in Oxford, Piedmont, and Alexandria. On June 27, 2013, the Bank was permitted to change its charter from a national bank to a state bank. They will now be examined by the State of Alabama and/or the Federal Reserve.

Major Services and Principal Markets

The Bank's main line of business consists of providing banking services for its customers, most of whom are located in Calhoun County, Alabama.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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 and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Bank's loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management used available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The Bank considers cash and due from banks, federal funds sold, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. The Bank maintains cash and cash equivalents in various correspondent bank accounts and, at times, may exceed that which is federally insured.

Securities Available-for-Sale

Securities available-for-sale represent those securities intended to be held for an indefinite period of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital, or other similar factors. Securities available-for-sale are recorded at market value with unrealized gains and losses, net of any tax effect, and are reported as other comprehensive income (loss) in a separate component of stockholders' equity until realized. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount on the securities sold, using the specific identification method. The estimated values are provided by security dealers who have obtained quoted prices.

Purchase premiums and discounts are recognized in interest income using a method which approximates the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Securities Restrictive Investments

Securities restrictive investments represent those securities whose sale is restricted to approved other organizations or the issuing company. Those securities are carried at cost, and its value is determined by the ultimate recoverability of par value.

Annuities

The Company has purchased annuity contracts on certain key employees. These contracts are recorded at their cash surrender value or the amount that can be realized. Income from these contracts and changes in the cash surrender value are recorded in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future are reported at their outstanding principal balances net of any unearned income, charge-offs, and unamortized fees and costs. Loan origination and commitment fees, as well as certain origination costs, when material, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method or the straight-line method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Troubled Debt Restructurings (TDRs)

Modifications to a borrower's debt agreement are considered troubled debt restructurings (TDRs) if a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be considered. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may take the form of modifications made with the stated interest rate lower than the current market rate for new debt with similar risk, other modifications to the structure of the loan that fall outside of normal underwriting policies and procedures, or in certain limited circumstances forgiveness of principal or interest. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accruing status, depending on the individual facts and circumstances of the borrower.

Impaired and Nonaccrual Loans

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

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

While a loan is classified as nonaccrual, and the future collectability of the recorded loan balance is doubtful, collections of principal and interest are generally applied as a reduction to principal outstanding, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan has been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered. Interest income recognized on a cash basis was immaterial for the years ended December 31, 2013 and 2012.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable and reasonably estimable credit losses inherent in loans as of the balance sheet date. The estimate of the allowance is based on a variety of factors including an evaluation of the loan portfolio, past loss experience, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral, and current economic conditions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

For purposes of determining the allowance for loan losses, the Company has segmented loans into the following segments: commercial, financial and agricultural; real estate – construction, land development, and other land; real estate – mortgage; and consumer. Significant judgment is used to determine the estimation method that fits the credit risk characteristics of each portfolio segment. The Company uses internally developed models in this process. Management must use judgment in establishing input metrics for the modeling processes. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available and as economic conditions change.

Loans considered to be uncollectible are charged-off against the allowance. The amount and timing of charge-offs on loans includes consideration of the loan type, length of delinquency, insufficiency of collateral value, lien priority, and the overall financial condition of the borrower. Recoveries on loans previously charged-off are credited back to the allowance. Loans that have been charged-off against the allowance are periodically monitored to evaluate whether further adjustments to the allowance are necessary.

The allowance for loan losses consists of three components: general, specific, and unallocated as follows:

- The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors, which includes trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures, and other influencing factors.
- The specific component is determined for impaired loans, including TDRs, individually based on management’s evaluation of the borrower’s overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantors; and the realizable value of any collateral. Reserves are established for these loans based upon an estimate of probable losses for the individual loans deemed to be impaired. This estimate considers all available evidence using one of the methods provided by applicable authoritative guidance. Loans determined to be collateral dependent are measured at the fair value of collateral less disposal costs. Loans for which impaired reserves are provided are excluded from the general component reserve calculations described above to prevent duplicate reserves.
- The unallocated component is not allocated to any specific category of loans. This unallocated portion of the allowance reflects management’s best estimate of the elements of imprecision and estimation risk inherent in the calculation of the overall allowance. Due to the subjectivity involved in determining the overall allowance, including the unallocated portion, the portion considered unallocated may fluctuate from period to period based on management’s evaluation of the factors affecting the assumptions used in calculating the allowance, including historical loss experience, current economic conditions, industry or borrower concentrations, and the status of merged institutions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. If management determines that the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through a charge-off to the allowance. Interest income is recognized as earned unless the loan is placed on nonaccrual status.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Generally, impaired loans include loans on nonaccrual status, loans that have been assigned a specific allowance for credit losses, loans that have been partially charged off, and loans designated as troubled debt restructurings.

Based on facts and circumstances available, management believes that the allowance for loan losses is adequate to cover any probable losses in the Company’s loan portfolio. However, future adjustments to the allowance may be necessary, and the Company’s results of operations could be adversely affected if circumstances differ substantially from the assumptions used by management in determining the allowance for loan and lease losses. Management believes that it has established the allowance in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment. There can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance.

Asset Quality
Written underwriting standards established by management govern the lending activities of the Company. An established loan policy requires appropriate documentation including borrower financial data and credit reports. For loans secured by real property, the Company generally requires property appraisals, title insurance or a title opinion, hazard insurance and flood insurance, where appropriate. Loan payment performance is monitored and late charges are assessed on past due accounts. Legal proceedings are instituted, as necessary, to minimize loss. Commercial and residential loans of the Company are periodically reviewed through a loan review process. All other loans are also subject to loan review through a periodic sampling process.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Company uses an asset risk classification system consistent with guidelines established by the Uniform Financial Institution Ratings System (UFIRS) as part of its efforts to monitor asset quality. In connection with examinations of insured institutions, both federal and state examiners also have the authority to identify problem assets and, if appropriate, classify them. The Company has eight credit quality indicators for loans, as follows:

- Superior Quality (minimal risk) – Loans in this category are considered to be of the highest quality. The borrower is very liquid. Overall asset quality is very good. Leverage is very low and is stable or decreasing. For consumer loans, debt to income ratio should be very low and for business loans, cash flow is continually very high relative to all demands. Earnings are always very strong being stable or even increasing through economic swings. Multiple sources of financing exist and can be easily obtained by this borrower. This rating is equivalent to a UFIRS rating of “1”.
- High Quality (low risk) – Loans in this category are considered to be of above average quality. The borrower is very liquid. Overall, leverage is relatively low and is stable. Earnings are very strong and stable. For consumer loans, the debt to income ratio should be low and for business loans, cash flow is more than sufficient to meet total demands. Other sources of financing are available and are readily available to this borrower. This rating is equivalent to a UFIRS rating of “1”.
- Good Quality (normal risk) – Loans in this category are considered to be of good quality. These consumer borrowers have a history of successful credit performance and the business borrowers have successful financial performance, but could be susceptible to economic changes. Asset quality is good. The balance sheet shows decent liquidity. Overall leverage is at a normal level. Income and cash flow may fluctuate but are still sufficient to meet demands. Other sources of financing should be easily obtainable. This rating is equivalent to a UFIRS rating of “1”.
- Acceptable Quality (increased risk) – Loans in this grade are considered to be acceptable credit risk but may require more than the normal servicing. Loans should be in this category not because they are problem credits, but because they may be higher than normal risk and the Bank needs to follow their performance more closely than others. Asset quality is marginally acceptable. Overall, leverage may fluctuate and is frequently at the upper end of the range of what is considered normal. Income and cash flow may be marginal but continues to support demands. The outlook for continued improvement is good. Access to other financing sources is limited to a few banks. This rating is equivalent to a UFIRS rating of “1”.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- Special Mention (high risk) – A “Special Mention” loan has potential weaknesses that deserve management close attention. Such weaknesses could be that the borrower’s ability to repay from primary (intended) sources (i.e., income or cash flow) is marginal and is threatened by a potential weakness which, if not checked or corrected, could result in deterioration of the repayment prospects for the loan and/or the Bank being inadequately protected against the risk of principal or income loss at some future date. The borrower is highly susceptible to current economic or market conditions, which may adversely affect the borrower’s ability to repay the debt. A consumer borrower may have had a reduction of income or have an unusually high level of financial leverage. A business borrower may be experiencing adverse operating trends or operating with unusually high financial leverage, thereby increasing the risk of untimely payment. A loan classified as “Special Mention” should be transitional and temporary (6 months). This rating is equivalent to a UFIRS rating of “2”.
- Classified Substandard – Loans with a rating of “Substandard” show that the borrower’s ability to repay is threatened by a clearly defined weakness which jeopardizes liquidation of the loan. The distinct possibility exists that the Bank will sustain some principal or income loss if the deficiencies are not corrected. This rating is equivalent to a UFIRS rating of “3”.
- Classified Doubtful – Loans with a rating of “Doubtful” show that the borrower’s ability to repay in full, on the basis of currently existing facts, is highly questionable and improbable. Some loss of principal or income is likely; however, the total amount of such loss cannot be determined at the present time. A “Doubtful” risk grade should be temporary; therefore, when and if loss exposure is determined, the amount of loss will be charged off or the loan should be upgraded. Loans in this category shall be immediately placed on non-accrual with all payments applied to principal until such time as the potential loss exposure is eliminated. This rating is equivalent to a UFIRS rating of “4”.
- Classified Loss – Loans classified as “Loss” are considered partially or totally uncollectible, and, of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical, or desirable, to defer writing off this asset even though partial recovery may be affected in the future. This rating is equivalent to a UFIRS rating of “5”.

Loans Held-for-Sale
Loans held-for-sale consist of loans originated by the Bank’s loan department that are sold without recourse, normally within 10 working days. All of the loans are sold at face value plus any interest accrued from the date of origination. The loans are reflected at cost, which is also market value. The Bank had no loans held-for-sale as of December 31, 2013 and 2012**.**

Premises and Equipment
Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and major improvements that significantly extend the useful life of assets are capitalized. Expenditures for repairs and maintenance are charged against income when incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Depreciation is provided generally by straight-line method based on the estimated useful lives of the respective assets, which generally range from 3 to 39 years.

Other Real Estate
Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the Bank has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the fair value less estimated costs to sell, which becomes the property's new cost basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying value amount or fair value less cost to sell. Costs incurred in maintaining other real estate and subsequent adjustments to the carrying amount of the property are included in income (loss) on other real estate. Costs incurred to complete, repair/renovate, or make the property whole are capitalized.

Bank-Owned Life Insurance
The Company has purchased life insurance policies on certain key employees. These policies are recorded at their cash surrender value or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in other operating income.

Deposits
Customer deposits include public funds held on deposit under the Security for Alabama Funds Enhancement Act (SAFE) Program. The SAFE Program was established by the Alabama legislature to provide protection for public funds enrolled in the SAFE Program. Under this program, financial institutions are required to collateralize public fund deposits (Note 2).

The Bank participates in the Certificate of Deposit Account Registry Service (CDARS), which is a network of banks that offer certificates of deposit products to individual and corporate customers in such amounts that allow such deposits to qualify for Federal Deposit Insurance Corporation (FDIC) insurance coverage.

Other Borrowings
The Company records Federal Home Loan Bank advances and federal funds purchased at their principal amount. Interest expense is recognized based on the coupon rate of the obligations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Comprehensive Income

Comprehensive income or loss is generally defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) is comprised of items not recorded as components of net income. The accumulated balance of other comprehensive income (loss) is reported separately from retained earnings in the equity section of the statements of financial condition.

In the calculation of comprehensive income (loss), certain reclassification adjustments are made to avoid double counting items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income (loss) in that period or earlier periods. The disclosure of the reclassification amounts and other details of other comprehensive income (loss) are as follows:

	2013	2012
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	$(1,840,824)	$ 343,667
Reclassification adjustments for gains included in net income	(10)	-
Net unrealized gains (losses)	(1,840,834)	343,667
Income tax related to other comprehensive income	404,984	(75,607)
Other comprehensive income (loss)	$(1,435,850)	$ 268,060

Stock Based Compensation

Pursuant to the provisions of the Amended and Restated 2005 Incentive Stock Compensation Plan (the Plan), the stockholders and the Board of Directors approved 180,000 shares of common stock as reserved for stock options, warrants or restricted stock for various employees and directors. Note 13 summarizes the various grants of options, warrants and restricted stock.

Advertising

The Bank's policy is to expense advertising costs as incurred. Advertising expense was $31,147 and $8,768 for the years ended December 31, 2013 and 2012, respectively.

Employee Benefit Plans

The Bank has a qualified 401(k) profit sharing plan covering substantially all employees. Eligible participating employees may elect to contribute tax-deferred contributions. Company contributions include matching annual and discretionary amounts as determined by the Board of Directors. The 401(k) plan allows participants to invest in unrelated mutual funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Company has also provided a deferred compensation plan for certain key employees and directors. These plans are target benefit arrangements with defined contributions based on the key employee's earned salary. The amounts are unfunded and are included in other liabilities on the Company's books. As such, the beneficiaries are general creditors of the Company.

Company contributions to these benefit plans are included in salaries and employee benefits (see Note 14 and 15).

Income Taxes

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Bank, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded. See Note 9 for a further discussion of these financial instruments.

The Bank has available as a source of short-term financing the purchase of federal funds from other commercial banks from available lines totaling $6,300,000, all of which is available and unused.

The Bank also has a line of credit with the Federal Home Loan Bank of Atlanta (FHLB) of up to approximately $34,371,000, of which $29,371,000 is available and unused. The ability to utilize the remaining line is dependent on the amount of eligible collateral that is free to pledge to the FHLB. In addition, as part of the borrowing agreement, the Bank is required to purchase FHLB stock (see Note 2).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements

The Bank adopted authoritative guidance issued by the FASB on fair value measurements. This standard defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could execute a transaction. New fair value measurements are not required, but fair value disclosures are required for financial assets or liabilities where other accounting pronouncements require or permit fair value reporting.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. The Bank measures its assets and liabilities on a stand-alone basis then aggregates assets and liabilities with similar characteristics for disclosure purposes.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Bank. Unobservable inputs are inputs that reflect the Bank's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value guidance established three categories within a fair value hierarchy which are presented below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The adoption of this authoritative guidance had no impact on the financial statements of the Bank other than the additional disclosures included in Note 16.

Subsequent Events
Management has evaluated subsequent events and their potential effects on these financial statements through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Reclassifications
Certain reclassifications have been made to the 2012 financial statements included herein to conform to the 2013 presentation. These reclassifications had no effect on the financial position, results of operations, or cash flows of the Bank.

Recently Issued Accounting Standards

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The amendments in this ASU are presented in two sections – Technical Corrections and Improvements (Section A) and Conforming Amendments Related to Fair Value Measurements (Section B). The amendments categorized in Section A are source literature amendments, guidance clarification and reference corrections, and relocated guidance. The amendments categorized in Section B are intended to conform terminology and clarify certain guidance in various topics of the ASC to fully reflect the fair value measurement and disclosure requirements of Topic 820, *Fair Value Measurement.* The Bank will adopt the provisions of the ASU that do not have transition guidance as of October 1, 2013, and did not have a material impact to the Bank's financial statements. The Bank will adopt the provisions of the ASU that have transition guidance as of January 1, 2014. The adoption is not expected to have a material impact to the financial statements of the Bank.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements but require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. This ASU is effective for periods beginning after December 15, 2013. The Bank will adopt the provisions of this ASU on January 1, 2014. The adoption is not expected to have a material impact to the financial statements of the Bank.

2. SECURITIES

Securities Available-for-Sale

The amortized cost and fair value of available-for-sale securities, with gross unrealized gains and losses, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2013				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	$ 17,417,491	$ 699	$ 663,496	$ 16,754,694
State and municipal	21,026,389	393,740	445,219	20,974,910
Mortgage-backed securities:				
GSE residential	14,023,594	128,787	154,819	13,997,562
	$ 52,467,474	$ 523,226	$ 1,263,534	$ 51,727,166

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2012				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	$ 10,975,000	$ 24,550	$ 21,641	$ 10,977,909
State and municipal	20,987,254	809,511	89,867	21,706,898
Mortgage-backed securities:				
GSE residential	11,577,519	377,973	-	11,955,492
	$ 43,539,773	$ 1,212,034	$ 111,508	$ 44,640,299

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks.

The Bank did not classify any investments as held-to-maturity at December 31, 2013 and 2012.

Investment securities with a carrying amount of $11,233,504 and $11,903,220 were pledged to secure various public funds under the SAFE Program at December 31, 2013 and 2012, respectively.

2. SECURITIES – CONTINUED

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2013, were as follows:

	Amortized Cost	Fair Value
Within one year	$ 573,550	$ 578,489
After one year through five years	27,058,813	26,946,387
After five years through 10 years	13,981,031	13,523,520
Over 10 years	10,854,080	10,678,770
	$52,467,474	$51,727,166

Mortgage-backed securities have been included in the maturity tables based upon the guaranteed pay-off date of each security.

The actual maturities may differ from the contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For the year ended December 31, 2013, proceeds from sales of securities available for sale amounted to $3,005,796; gross realized gains were $10 and there were no gross realized losses. For the year ended December 31, 2012, there were no sales of securities available for sale.

2. SECURITIES – CONTINUED

The following table shows the gross unrealized losses and fair value of the entity's available-for-sale securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
As of December 31, 2013						
GSEs	$ 11,967,687	$ 474,804	$ 3,786,308	$ 188,692	$ 15,753,995	$ 663,496
State and municipal	7,417,502	244,487	2,724,791	200,732	10,142,293	445,219
Mortgage-backed securities:						
GSE residential	8,812,140	154,819	-	-	8,812,140	154,819
	$ 28,197,329	$ 874,110	$ 6,511,099	$ 389,424	$ 34,708,428	$ 1,263,534
As of December 31, 2012						
GSEs	$ 5,953,359	$ 21,641	$ -	$ -	$ 5,953,359	$ 21,641
State and municipal	4,519,734	89,867	-	-	4,519,734	89,867
	$ 10,473,093	$ 111,508	$ -	$ -	$ 10,473,093	$ 111,508

U.S. Government-Sponsored Enterprises (GSEs)

The Bank has 9 U.S. Government-sponsored enterprise securities with unrealized losses at December 31, 2013. The unrealized losses on these investments were caused by the general downturn in the economy and illiquid markets and reflected aggregate depreciation from amortized cost of 4.04%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

Because the decline in market value is attributable to the current economic environment and not credit quality, the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

2. SECURITIES – CONTINUED

State and Municipal
The Bank has 33 state and municipal securities with unrealized losses at December 31, 2013. The unrealized losses on these investments were caused by the general downturn in the economy and illiquid markets and reflected aggregate depreciation from amortized cost of 4.21%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

Because the decline in market value is attributable to the current economic environment and not credit quality, the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

Mortgage-Backed Securities: Residential GSEs
The Company had 10 mortgage-backed securities with unrealized losses at December 31, 2013. The unrealized losses on these investments were caused by the general downturn in the economy and illiquid markets and reflected aggregate depreciation from amortized cost of 1.72%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment.

Because the decline in market value is attributable to the current economic environment and not credit quality, the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

2. SECURITIES – CONTINUED

Other-than-Temporary Impairment
The Bank recognizes other-than-temporary impairment (OTTI) in accordance with ASC Topic 320, *Investments – Debt and Equity Securities*, which requires that the Bank assess whether it intends to sell or it is more likely than not that the Bank will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to anticipated recovery of the amortized cost basis, the amount of the impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as a loss in the statements of income but is recognized in other comprehensive income (loss). The Bank believes that it will fully collect the carrying value of securities on which it has recorded a noncredit related impairment in other comprehensive income (loss). The Bank held no investments with an other-than-temporary impairment at December 31, 2013 and 2012.

Securities, Restrictive Investment
The aggregate carrying value of the Bank's cost-method investments totaled $1,414,750 and $1,457,650 at December 31, 2013 and 2012, respectively. These investments were not evaluated for impairment because (1) the Bank did not estimate the fair value of these investments in accordance with ASC Topic 825, *Financial Instruments*, and (2) the Bank did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments. As of December 31, 2013, the Bank concluded that any impairments identified were temporary with no adjustments needed.

The carrying amount of securities restrictive investment at December 31 is as follows:

	2013	2012
First National Banker's Bank	$ 518,000	$ 518,000
Federal Home Loan Bank	431,100	474,000
Federal Reserve Bank	465,650	465,650
	$ 1,414,750	$ 1,457,650

3. LOANS

The composition of loans by primary loan classification and by performing and impaired loan status at December 31, 2013 and 2012, are as follows:

December 31, 2013	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 18,416,162	$ 533,333	$ 18,949,495
Real estate – construction, land development, and other land	8,700,205	743,701	9,443,906
Real estate – mortgage	63,765,378	472,903	64,238,281
Consumer	3,309,825	62,064	3,371,889
Subtotal	94,191,570	1,812,001	96,003,571
Allowance for loan losses	1,052,881	85,925	1,138,806
Net loans	$ 93,138,689	$ 1,726,076	$ 94,864,765

December 31, 2012	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 16,368,894	$ 640,413	$ 17,009,307
Real estate – construction, land development, and other land	8,264,904	195,693	8,460,597
Real estate – mortgage	56,766,157	1,158,151	57,924,308
Consumer	3,419,971	-	3,419,971
Subtotal	84,819,926	1,994,257	86,814,183
Allowance for loan losses	1,000,822	266,468	1,267,290
Net loans	$ 83,819,104	$ 1,727,789	$ 85,546,893

3. LOANS – CONTINUED

The changes in the allowance for loan losses for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Balance, beginning of year	$ 1,267,290	$ 1,346,373
Loans charged off	(503,476)	(633,462)
Recoveries on loans previously charged off	17,540	72,867
Net charge-offs	(485,936)	(560,595)
Provision charged to operating expenses	357,452	481,512
Balance, end of year	$ 1,138,806	$ 1,267,290

3. LOANS – CONTINUED

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2013 and 2012, is as follows:

December 31, 2013	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 341,320	$ 363,906	$ 516,677	$ 45,387	$ -	$1,267,290
Charge-offs	(44,663)	-	(415,396)	(43,417)	-	(503,476)
Recoveries	-	-	3,110	14,430	-	17,540
Net charge-offs	(44,663)	-	(412,286)	(28,987)	-	(485,936)
Provision	(51,811)	(213,334)	585,890	34,458	2,249	357,452
Ending balance	$ 244,846	$ 150,572	$ 690,281	$ 50,858	$ 2,249	$1,138,806

December 31, 2012	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 359,368	$ 198,293	$ 734,832	$ 53,880	$ -	$1,346,373
Charge-offs	-	(154,519)	(342,389)	(136,554)	-	(633,462)
Recoveries	43,050	-	2,317	27,500	-	72,867
Net charge-offs	43,050	(154,519)	(340,072)	(109,054)	-	(560,595)
Provision	(61,098)	320,132	121,917	100,561	-	481,512
Ending balance	$ 341,320	$ 363,906	$ 516,677	$ 45,387	$ -	$1,267,290

3. LOANS – CONTINUED

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2013 and 2012:

December 31, 2013	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Total
Grade:					
Pass*	$ 18,416,162	$ 8,483,913	$ 62,065,750	$ 3,309,825	$ 92,275,650
Special mention	-	-	907,215	-	907,215
Substandard	-	216,292	792,413	-	1,008,705
Substandard-impaired	533,333	743,701	472,903	-	1,749,937
Doubtful-impaired	-	-	-	62,064	62,064
Total	$ 18,949,495	$ 9,443,906	$ 64,238,281	$ 3,371,889	$ 96,003,571

* Loans graded as superior quality, high quality, good quality, and acceptable quality are classified as “Pass” grade for disclosure purposes.

December 31, 2012	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Total
Grade:					
Pass*	$ 16,215,859	$ 7,441,904	$ 54,389,038	$ 3,415,908	$ 81,462,709
Special mention	153,035	-	685,665	-	838,700
Substandard	-	823,000	1,691,455	4,063	2,518,518
Substandard-impaired	600,000	163,101	1,062,485	-	1,825,586
Doubtful-impaired	40,413	32,592	95,665	-	168,670
Total	$ 17,009,307	$ 8,460,597	$ 57,924,308	$ 3,419,971	$ 86,814,183

* Loans graded as superior quality, high quality, good quality, and acceptable quality are classified as “Pass” grade for disclosure purposes.

3. LOANS – CONTINUED

The following table details the recorded investments, unpaid principal balance and the related allowance of impaired loans as of December 31, 2013 and 2012, and the average recorded investment of impaired loans for the years ended December 31, 2013 and 2012:

	At December 31, 2013			For the Year Ended December 31, 2013
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no recorded allowance:				
Commercial, financial, and agricultural	$ -	$ -	$ -	$ 20,207
Real estate – construction, land development, and other land	715,648	715,648	-	357,824
Real estate – mortgage	389,238	389,238	-	725,862
Consumer	-	-	-	-
Other	-	-	-	-
	1,104,886	1,104,886	-	1,103,893
Impaired loans with a recorded allowance:				
Commercial, financial, and agricultural	480,000	533,333	53,333	465,000
Real estate – construction, land development, and other land	18,240	28,053	9,813	56,065
Real estate – mortgage	81,000	83,665	2,665	81,000
Consumer	41,950	62,064	20,114	20,975
Other	-	-	-	-
	621,190	707,115	85,925	623,040
Total impaired loans	$ 1,726,076	$ 1,812,001	$ 85,925	$ 1,726,933

3. LOANS – CONTINUED

	At December 31, 2012			For the Year Ended December 31, 2012
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no recorded allowance:				
Commercial, financial, and agricultural	$ 40,413	$ 40,413	$ -	$ 20,207
Real estate – construction, land development, and other land	-	-	-	102,301
Real estate – mortgage	1,062,486	1,062,486	-	531,242
Consumer	-	-	-	-
Other	-	-	-	-
	1,102,899	1,102,899	-	653,750
Impaired loans with a recorded allowance:				
Commercial, financial, and agricultural	450,000	600,000	150,000	404,243
Real estate – construction, land development, and other land	93,890	195,693	101,803	56,065
Real estate – mortgage	81,000	95,665	14,665	361,050
Consumer	-	-	-	-
Other	-	-	-	-
	624,890	891,358	266,468	821,358
Total impaired loans	$ 1,727,789	$ 1,994,257	$ 266,468	$ 1,475,108

For the years ended December 31, 2013 and 2012, the interest income recognized on impaired loans was immaterial.

3. LOANS – CONTINUED

Past due balances and loans on nonaccrual status at December 31, 2013 and 2012, by loan classification, are as follows:

December 31, 2013	Past Due 30-89 Days and Still Accruing	Past Due 90 Days or More and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial, and agricultural	$ -	$ -	$ -	$ -	$ 18,949,495	$ 18,949,495
Real estate – construction, land development, and other land	-	-	-	743,701	8,700,205	9,443,906
Real estate – mortgage	6,266	-	6,266	378,676	63,853,339	64,238,281
Consumer	-	-	-	62,064	3,309,825	3,371,889
Total	$ 6,266	$ -	$ 6,266	$ 1,184,441	$ 94,812,864	$ 96,003,571

December 31, 2012	Past Due 30-89 Days and Still Accruing	Past Due 90 Days or More and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial, and agricultural	$ 30,855	$ -	$ 30,855	$ 40,413	$16,938,039	$17,009,307
Real estate – construction, land development, and other land	-	-	-	195,693	8,264,904	8,460,597
Real estate – mortgage	160,811	61,210	222,021	243,869	57,458,418	57,924,308
Consumer	24,617	-	24,617	-	3,395,354	3,419,971
Total	$ 216,283	$ 61,210	$ 277,493	$ 479,975	$86,056,715	$86,814,183

At December 31, 2013 and 2012, there were no loans classified as nonaccrual that were not deemed to be impaired. At the date such loans were placed on nonaccrual status, the Bank reversed all previously accrued interest income against current year earnings. Had such nonaccrual loans been on accrual status, interest income would have been immaterial for the year ended December 31, 2013. Interest income is subsequently recognized to the extent cash payments are received while the loan is classified as nonaccrual but is reviewed on a loan-by-loan basis.

The Bank has no commitments to loan additional funds to the borrowers of impaired loans.

3. LOANS – CONTINUED

The following table details the number of troubled debt restructurings by loan classification as of December 31, 2013 and 2012:

	At December 31, 2013		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial, financial and agricultural	-	$ -	$ -
Real estate – construction, land development and other land	1	50,000	28,053
Real estate – mortgage	3	489,329	401,207
Consumer	1	30,054	20,182
Total	5	$ 569,383	$ 449,442

	At December 31, 2012		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial, financial and agricultural	-	$ -	$ -
Real estate – construction, land development and other land	-	-	-
Real estate – mortgage	3	369,191	369,191
Consumer	-	-	-
Total	3	$ 369,191	$ 369,191

Impaired loans also include loans that the Bank may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses, if any, that the Bank may have to otherwise incur. These loans are classified as impaired loans and, if on nonaccrual status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

The Bank has pledged all of its one to four family real estate mortgage loans and certain investments as collateral to the Federal Home Loan Bank of Atlanta to secure a line of credit in the amount of $34,371,000. At December 31, 2013 and 2012, the outstanding balance of the line of credit was $5,000,000. See Note 6.

3. LOANS – CONTINUED

Certain directors, executive officers and principal stockholders, including their immediate families and associates, were loan customers of the Bank during 2013 and 2012. A summary of activity and amounts outstanding as of December 31 are as follows:

	2013	2012
Balance, beginning of year	$ 1,355,657	$ 7,320,941
New loans or advances	-	50
Principal repayments	2,015,749	(4,382,462)
Participations sold	(1,074,176)	(1,582,872)
Balance, end of year	$ 2,297,230	$ 1,355,657

4. PREMISES AND EQUIPMENT

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

	2013	2012
Building and improvements	$ 5,679,673	$ 5,664,151
Equipment	1,061,133	982,875
Furniture and fixtures	406,327	403,906
Computer software	162,219	135,347
Leasehold improvements	66,542	66,542
	7,375,894	7,252,821
Less accumulated depreciation	2,271,555	1,964,663
	5,104,339	5,288,158
Land	1,368,377	946,597
Premises and equipment, net	$ 6,472,716	$ 6,234,755

The provision for depreciation charged to occupancy and equipment expense was $306,892 and $327,472 for the years ended December 31, 2013 and 2012, respectively.

5. DEPOSITS

The aggregate amount of deposits from executive officers, directors, and principal stockholders was approximately $13,632,053 and $12,645,754 at December 31, 2013 and 2012, respectively.

5. DEPOSITS – CONTINUED

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2013 and 2012, was $7,642,315 and $7,424,255, respectively.

Demand deposit overdrafts reclassified as loan balances amounted to $76,143 and $54,378 at December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Bank had CDARS time deposits of $84,000 and $249,209, respectively.

The maturity schedule for all time deposits as of December 31, 2013, over the next five years and in the aggregate is as follows:

2014	$ 13,464,827
2015	2,532,474
2016	921,064
2017	1,699,087
2018	1,371,783
	$ 19,989,235

6. BORROWINGS

The Bank has advances under a line of credit with Federal Home Loan Bank under a variable rate advance program with a total balance of $5,000,000 as of December 31, 2013 and 2012. These advances are collateralized by all one to four family real estate mortgage loans, which had a value of approximately $6,521,429 and $7,327,117 for the years ended December 31, 2013 and 2012, respectively. Borrowings at December 31 consist of the following:

	2013	2012
Advance dated April 8, 2008, with interest payable quarterly at 2.82%, matures April 10, 2015, secured by one to four family mortgage loans	$ 5,000,000	$ 5,000,000

On October 12, 2007, the Bank was granted a letter of credit through the Federal Home Loan Bank totaling $750,000. This letter of credit was obtained due to a regulator requirement to support a letter of credit granted to a customer. There were no amounts outstanding under this line of credit at December 31, 2013 and 2012, and the agreement expires on October 21, 2014.

7. OPERATING LEASES

Land

The Bank entered into a long-term, noncancelable operating lease agreement in 2009 for the Alexandria, Alabama branch. The lease expires in 2016 and provides for renewal options ranging from three to five years. Also, the lease requires the Bank to pay maintenance, insurance and property taxes.

The Bank renewed a one-year, noncancelable operating lease agreement in April 2013 for the Piedmont, Alabama branch. The lease expires in 2014 and provides a one-year renewal option, which the Bank plans to exercise. Also, the lease requires the Bank to pay maintenance and insurance.

Lease expense totaled $83,440 and $96,937 during 2013 and 2012, respectively.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

2014	$ 61,392
2015	52,842
2016	20,830
	$ 135,064

8. INCOME TAX PROVISION

The provision (benefit) for income tax consists of the following for the years ended December 31:

	2013	2012
Income tax expense:		
Current tax expense:		
Federal	$ 248,087	$ 145,082
State	30,234	-
Deferred tax benefit:		
Federal	(13,495)	(74,055)
	$ 264,826	$ 71,027

8. INCOME TAX PROVISION – CONTINUED

The provision for federal income taxes differs from that computed by applying the federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2013	2012
Federal statutory income tax at 34%	$ 438,301	$ 270,578
Effect of tax-exempt interest	(424,610)	(109,159)
Other temporary or permanent differences	251,135	(90,392)
	$ 264,826	$ 71,027

The components of the net deferred tax assets are as follows:

	2013	2012
Differences in accounting for loan losses, less valuation allowance	$ 96,799	$ 46,381
Differences in depreciation methods	(120,719)	(114,420)
Differences in unrealized gains and losses on investments	162,868	(242,116)
Differences in stock options and warrants	144,958	144,155
Difference in deferred compensation	13,495	-
Other differences	(3,501)	(2,061)
	$ 293,900	$ (168,061)
Deferred tax assets	$ 418,120	$ 190,536
Deferred tax liabilities	(124,220)	(358,597)
	$ 293,900	$ (168,061)

Temporary differences giving rise to the deferred tax asset consist primarily of differences in the bad debt deduction for tax purposes and financial reporting purposes, differences in depreciation for tax purposes and financial reporting purposes and the difference in unrealized gains and losses on investments.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition.

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

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The outstanding notional amount of off-balance sheet risks at December 31, 2013 and 2012, is as follows:

Financial Instruments Whose Contract Amounts Represent Credit Risk	**2013**	**2012**
Unused lines of credit	$ 15,277,000	$ 18,603,000
Standby letters of credit	358,000	269,000
	$ 15,635,000	$ 18,872,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Performance and financial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in loan facilities extended to customers.

10. CONCENTRATION OF CREDIT RISK

Most of the Bank's deposit and lending activities occur with customers located within Calhoun County, Alabama. The Bank grants commercial, residential and consumer loans primarily to customers in east Alabama. The concentrations of loans by type are set forth in Note 3.

11. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Office of the Comptroller of the Currency. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations) and Tier 1 capital to adjusted total assets (as defined). The Bank will have to maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth by the regulators to meet the regulatory capital requirements.

Management believes, as of December 31, 2013 and 2012, that the Bank met all the capital adequacy requirements to which it is subject.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013						
Total risk based capital	$ 18,710	16.61%	$ 9,011	8.00%	$ 11,264	10.00%
Tier 1 risk-based capital	17,571	15.60%	4,506	4.00%	6,758	5.00%
Tier 1 leverage	17,571	10.16%	6,920	4.00%	8,650	5.00%

	Actual		Individual Minimum Capital Ratios	
	Amount	Ratio	Amount	Ratio
As of December 31, 2012				
Total risk based capital	$ 18,150	17.92%	$ 12,153	12.00%
Tier 1 risk-based capital	16,884	16.67%	8,102	8.00%
Tier 1 leverage	16,884	9.70%	6,960	4.00%

11. REGULATORY CAPITAL – CONTINUED

On October 10, 2010, the Bank was notified by the Office of the Comptroller of Currency (OCC) that it had issued a Formal Agreement (Agreement). The Agreement included a number of requirements, including individual minimum capital ratio requirements, and restrictions on the Bank's operations primarily due to reduced capital levels and deteriorating asset quality.

On January 31, 2013, the OCC notified the Bank that the Agreement between the Bank and the OCC has been terminated effective January 31, 2013.

On June 27, 2013, the Bank was permitted to change its charter from a national bank to a State bank. They will now be examined by the State of Alabama and/or the Federal Reserve.

12. RESTRICTIONS ON DIVIDENDS

The State of Alabama bank regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agency to the Company's net profits (as defined) for that year combined with its retained net profits for the preceding two years, which was $1,178,000 at December 31, 2013.

13. STOCK BASED COMPENSATION

On April, 18, 2006, the stockholders and directors approved and adopted the Plan, a stock compensation plan for key employees and directors. The purpose of the Plan is to enhance stockholder investment by attracting, retaining and motivating key employees and directors of the Bank and to align the interests of management with those of stockholders.

The weighted-average estimated fair value of the warrants and options was determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments and the risk-free interest rate over the expected life of the option.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options and, since the Bank's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

Compensation expense recorded for the following plans totaled $2,364 and $2,364 for the years ended December 31, 2013 and 2012, respectively.

13. STOCK BASED COMPENSATION – CONTINUED

Warrant Agreements

In recognition of the efforts made and financial risks undertaken by the organizers in organizing the Bank, the Bank issued options during 2006 to the organizers to purchase up to 102,500 shares of Bank common stock. The option price is $10 per share, and they vest at the end of five years, and are exercisable for a 10-year period.

The weighted-average estimated fair value of stock warrants granted during 2006 was $3.06 per share. The assumptions used in the Black-Scholes model were as follows for stock options granted in 2006:

Risk-free interest rate	4.43%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	6.92 years

	Number of Shares	Weighted-Average Exercise Price
Options outstanding, December 31, 2012	12,500	$ 125,000
Granted	-	-
Exercised	2,500	25,000
Options outstanding, December 31, 2013	10,000	$ 100,000
Options exercisable, December 31, 2013	10,000	$ 100,000
Remaining contractual life		1.92 years

Stock Option Agreements

Stock options may be granted to certain Bank officers and employees. The maximum number of options that can be issued is 65,500. In 2006, 43,100 shares were granted, and 22,400 shares are available to grant in the future. The granted shares are $10 per share, vest in equal increments over five years, and are exercisable for a 10-year period.

The weighted-average estimated fair value of stock options granted during 2006 was $3.51 per share.

13. STOCK BASED COMPENSATION – CONTINUED

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2006:

Risk-free interest rate	4.45%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	8.42 years

	Number of Shares	Weighted-Average Exercise Price
Options outstanding, December 31, 2012	31,235	$ 312,350
Granted	-	-
Exercised	-	-
Withdrawn	6,700	67,000
Options outstanding, December 31, 2013	24,535	$ 245,350
Options exercisable, December 31, 2013	24,535	$ 245,350
Remaining contractual life		3.42 years

In October 2008, the Board of Directors approved the issuance of stock options for five Bank officers/managers. Each of the five employees would receive an option for 500 shares of stock at a strike price of $15. The Board of Directors ratified the granting of these options on February 17, 2009. The total expense over the five-year vesting period will be $11,804.

The weighted-average estimated fair value of stock options granted during 2008 was $4.7218 per share.

13. STOCK BASED COMPENSATION – CONTINUED

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2008:

Risk-free interest rate	2.82%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	10 years

	Number of Shares	Weighted-Average Exercise Price
Options outstanding, December 31, 2012	2,500	$ 37,500
Granted	-	-
Exercised	-	-
Options outstanding, December 31, 2013	2,500	$ 37,500
Options exercisable, December 31, 2013	2,000	$ 30,000
Remaining contractual life		7 years

Restrictive Stock Award Agreement

The Bank has a Restricted Stock Award Agreement covering 12,000 shares of common stock whose purpose is to permit grants of shares, subject to restrictions, to key employees of the Bank as a means of retaining and rewarding them for long-term performance and to increase their ownership in the Bank. Shares awarded under the plan entitle the stockholder to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of during the restriction period. The restriction period was determined by the Board of Directors, and the period shall not exceed eight years. During 2006, 12,000 shares were granted with a restriction period of eight years at par value of $1, and an exercise price of $10 per share.

The weighted-average estimated fair value of stock options granted during 2006 was $3.45 per share.

13. STOCK BASED COMPENSATION – CONTINUED

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2006:

Risk-free interest rate	4.45%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	8.21 years

	Number of Shares	Weighted-Average Exercise Price
Options outstanding, December 31, 2012	12,000	$ 120,000
Granted	-	-
Exercised	-	-
Options outstanding, December 31, 2013	12,000	$ 120,000
Options exercisable, December 31, 2013	-	$ -
Remaining contractual life		3.21 years

During 2012, these 12,000 shares were issued and are being held in safekeeping until the restriction period expires in 2014.

14. EMPLOYEE BENEFIT PLAN

On November 1, 2005, the Bank adopted the Noble Bank and Trust 401k Profit Sharing Plan to provide eligible participants with retirement benefits (401(k)). This 401(k) is a “safe harbor 401(k) plan.” The Bank will contribute a matching portion of employee contributions up to a maximum of 6.0% of compensation.

Profit sharing contributions to the 401(k) are made at the discretion of the employer. The 401(k) covers substantially all employees who meet certain age and length of service requirements. The employees are not required to contribute to participate in the profit sharing contributions. Contributions charged to operations for the years ended December 31, 2013 and 2012, were approximately $83,449 and $83,124, respectively.

15. POSTRETIREMENT BENEFITS

The Company has also entered into nonqualified deferred compensation agreements (the Agreements) covering certain executive officers. The Agreements provide for payments of scheduled benefits to the participants or their beneficiaries for a period between 7 to 13 years following specified retirement dates (Full Benefit Dates). The Full Benefit Dates range from year 2022 through 2036 and reflect the participant having reached age 65. The agreements provide for defined retirement benefits (Full Retirement Benefits) upon the fulfillment of certain conditions related primarily to continued length of service. Reduced retirement benefits (Limited Retirements Benefits) are also scheduled in the Agreements should separation of service occur prior to the Full Benefit Date, under certain conditions. The scheduled Limited Retirement Benefits reflect annual increases until reaching the Full Retirement Benefits on the Full Benefit Date. The Agreements provide that each annual increase is subject to annual approval by and at the discretion of the Company's Board of Directors, thereby potentially reducing the scheduled Full Retirement Benefits and the Limited Retirement Benefits. The Agreements also provide for acceleration of the length of service requirement to receive the Full Retirement Benefits upon change of control (as defined in the Agreements) and acceleration of both the Full Retirement Benefits and the Full Benefit Date as a result of death or disability (as defined). The present value of the estimated liability under the Agreements is being accrued over the expected remaining years of service.

The aggregate benefit cost expected to be accrued for the year ended December 31, 2014, is $101,950.

The measurement date for the plan is December 31 of each year. A weighted average assumed discount rate of 5.50% was used in calculating the accumulated benefit obligation. The plan is not considered a pay-related plan, and there are no plan assets on which to compute long-term rates of return. Since there are no plan assets, the Plan is underfunded by the total amount of the benefit obligation liability. Furthermore, the Company plans on funding the required payments through the continuing operations of the Bank.

The present value of the plan's accumulated benefit obligation amounted to $39,692 and at December 31, 2013. The expense of the plan was $39,692 in 2013.

15. POSTRETIREMENT BENEFITS – CONTINUED

Expected benefit payments for the deferred compensation plan for the 10-year period following December 31, 2013, are as follows:

Years Ending December 31,	
2014	$ -
2015	-
2016	-
2017	-
2018	-
2019-2024	155,000
	$ 155,000

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Accrued Interest Receivable and Payable – The carrying amount of accrued interest receivable and payable approximates its fair value.

Deposits – The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-Term Borrowings – The fair value of short-term borrowings, including federal funds purchased, is estimated to be approximately the same as the carrying value.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

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

The estimated fair values of the Bank's financial instruments as of December 31, 2013 and 2012, are as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	$ 10,754,346	$ 10,781,446	$ 29,529,240	$ 29,584,590
Securities available-for-sale	51,727,166	51,727,166	44,640,299	44,640,299
Restrictive equity securities	1,414,750	1,414,750	1,457,650	1,457,650
Investments in annuities	1,306,264	1,306,264	-	-
Loans	94,864,765	95,913,002	85,546,893	85,932,536
Accrued interest receivable	577,250	577,250	540,285	540,285
Financial liabilities:				
Deposits	149,674,018	124,184,384	148,660,919	148,865,717
Borrowing	5,000,000	5,137,068	5,000,000	5,240,306
Accrued interest payable	65,564	65,564	74,202	74,202
Unrecognized financial instruments:				
Commitments to extend credit	15,277,000	15,277	18,603,000	18,603
Standby letters of credit	358,000	358	269,000	269

The Bank’s assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC Topic 820. See Note 1.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Items Measured at Fair Value on a Recurring Basis

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

December 31, 2013

		Fair Value Measurement at Report Date Using		
	Fair Value	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Debt securities:				
U.S. Government-sponsored enterprises (GSEs)	$ 16,754,694	$ -	$ 16,754,694	$ -
State and municipal	20,974,910	-	20,974,910	-
Mortgage-backed securities: GSE residential	13,997,562	-	13,997,562	-
Total assets at fair value	$ 51,727,166	$ -	$ 51,727,166	$ -

December 31, 2012

		Fair Value Measurement at Report Date Using		
	Fair Value	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Debt securities:				
U.S. Government-sponsored enterprises (GSEs)	$ 10,977,909	$ -	$ 10,977,909	$ -
State and municipal	21,706,898	-	21,706,898	-
Mortgage-backed securities: GSE residential	11,955,492	-	11,955,492	-
Total assets at fair value	$ 44,640,299	$ -	$ 44,640,299	$ -

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The valuation techniques used to measure fair value for the items in the table above are as follows:

Securities available-for-sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors, such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the securities are classified in Level 3.

Items Measured at Fair Value on a Nonrecurring Basis

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

December 31, 2013

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired Loans	$ 1,812,001	$ -	$ -	$ 1,812,001
Other Real Estate Owned	967,947	-	967,947	-
Total assets at fair value	$ 2,779,948	$ -	$ 967,947	$ 1,812,001

December 31, 2012

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired Loans	$ 1,994,257	$ -	$ -	$ 1,994,257
Other Real Estate Owned	156,000	-	156,000	-
Total assets at fair value	$ 2,150,257	$ -	$ 156,000	$ 1,994,257

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The valuation techniques used to measure fair value for the items in the table above are as follows:

Impaired Loans – Nonrecurring fair value adjustments to loans reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the collateral in accordance with FASB ASC Section 310-10-35, *Receivables, Subsequent Measurement, Loan Impairment*. Loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral may be classified as Level 2 or Level 3 depending on the type of asset and the inputs to the valuation. When appraisals are used to determine impairment, and these appraisals require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows to measure fair value, the related loans subjected to nonrecurring fair value adjustments are typically classified as Level 3 due to the fact that Level 3 inputs are significant to the fair value measurement.

Foreclosed Real Estate – Nonrecurring fair value adjustments to foreclosed real estate reflect full or partial write-downs that are based on the real estate's observable market price or current appraised value of the collateral.