Annual Disclosure Statement

The attached annual report serves as Bank of Tennessee's 2014 Annual Disclosure Statement as required by the Federal Deposit Insurance Corporation ("FDIC"). The Annual Report has not been reviewed, or confirmed for accuracy or relevance, by the FDIC.

Please contact either Roy L. Harmon, Jr. (Chairman & CEO) or Darla M. Scott (EVP & CFO) for any additional information.

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Bank of Tennessee
EVP and CFO

BancTenn Corp

ANNUAL REPORT 2014

BANCTENN CORP.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2014

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
BancTenn Corp.
Kingsport, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of BancTenn Corp. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
March 19, 2015

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BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(amounts in thousands, except share data)

	2014	2013
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 16,176	$ 23,764
Interest-bearing	289	145
Total cash and due from banks	16,465	23,909
Federal funds sold	12,000	-
Certificates of deposit with other financial institutions	490	490
Securities available for sale	210,197	204,001
Securities held to maturity	1,668	218
Investment in Appalachian Fund for Growth II	-	2,351
Other equity investments, at cost	12,482	12,474
Restricted investments, at cost	4,120	3,742
Loans, net of allowance for loan losses	611,118	612,432
Premises and equipment	31,506	31,889
Accrued interest receivable	2,293	2,290
Cash surrender value of life insurance	23,662	22,815
Foreclosed real estate	590	1,138
Other assets	3,920	3,749
Total assets	$930,511	$921,498
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$192,849	$189,258
Interest-bearing	574,705	574,999
Total deposits	767,554	764,257
Securities sold under agreements to repurchase	21,530	23,669
Federal funds purchased	-	11
Federal Home Loan Bank advances	35,468	35,558
Subordinated debentures	15,465	15,465
Borrowings under line of credit	-	350
Accrued interest payable	244	260
Accrued expenses and other liabilities	8,207	7,479
Total liabilities	848,468	847,049
Stockholders' equity:		
Common stock, $8 par value, 6,000,000 shares authorized; 2,515,641 and 2,514,511 shares issued and outstanding in 2014 and 2013	20,125	20,116
Additional paid-in capital	7,860	7,827
Retained earnings	53,638	50,889
Accumulated other comprehensive income (loss)	1,357	(3,308)
Unallocated ESOP shares	(937)	(1,075)
Total stockholders' equity	82,043	74,449
Total liabilities and stockholders' equity	$930,511	$921,498

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014 and 2013
(amounts in thousands)

	2014	2013
INTEREST INCOME		
Loans, including fees	$ 29,432	$ 29,711
Securities	4,773	4,133
Federal funds sold and other	33	39
	34,238	33,883
INTEREST EXPENSE		
Interest on deposits	2,058	2,427
Interest on other borrowed funds	1,994	2,312
	4,052	4,739
Net interest income	30,186	29,144
Provision for loan losses	1,119	2,480
Net interest income after provision for loan losses	29,067	26,664
NONINTEREST INCOME		
Customer service fees	2,413	2,354
Service revenue	2,711	2,641
Loan origination and settlement fees	1,413	1,193
Other	3,470	2,959
	10,007	9,147
NONINTEREST EXPENSES		
Salaries and employee benefits	18,537	17,185
Occupancy expenses	2,472	2,188
Data processing	2,700	2,338
Other operating expenses	8,047	7,968
Losses on foreclosed real estate	-	1,427
	31,756	31,106
Income before income taxes	7,318	4,705
Income tax benefit	(149)	(320)
Net income	$ 7,467	$ 5,025

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2014 and 2013
(amounts in thousands)

	2014	2013
Net income	$ 7,467	$ 5,025
Other comprehensive income (loss) before tax:		
Unrealized gains and losses on securities -		
Unrealized holding gains (losses) arising during the year, net of tax expense (benefit) of $306 and $(539) in 2014 and 2013, respectively	4,406	(7,759)
Reclassification adjustment for gains included in net income, net of tax expense of $3 and $1 in 2014 and 2013, respectively	(44)	(21)
Unrealized gains on derivative contracts -		
Unrealized holding gains arising during the year, net of tax expense of $21 and $40 in 2014 and 2013, respectively	303	582
Total comprehensive income (loss)	4,665	(7,198)
Comprehensive income (loss)	$12,132	$(2,173)

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013
(amounts in thousands, except share data)

	Total Stockholders' Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unallocated ESOP Shares
BALANCE, January 1, 2013	$ 80,762	$ 20,116	$ 7,851	$ 49,845	$ 3,890	$ (940)
Net income	5,025	-	-	5,025	-	-
Other comprehensive loss, net of tax	(7,198)	-	-	-	(7,198)	-
Purchase of 9,800 common shares	(316)	(78)	(238)	-	-	-
Issuance of 9,800 common shares pursuant to stock option plan	291	78	213	-	-	-
Employee stock ownership plan:						
Security acquisition loan	(360)	-	-	-	-	(360)
Shares released to participants	225	-	-	-	-	225
Distributions to unallocated shares	43	-	-	43	-	-
Distributions to stockholders	(4,024)	-	-	(4,024)	-	-
Stock compensation expense, net of tax benefits	1	-	1	-	-	-
BALANCE, December 31, 2013	74,449	20,116	7,827	50,889	(3,308)	(1,075)
Net income	7,467	-	-	7,467	-	-
Other comprehensive income, net of tax	4,665	-	-	-	4,665	-
Purchase of 8,950 common shares	(329)	(72)	(257)	-	-	-
Issuance of 10,080 common shares pursuant to stock option plan	366	81	285	-	-	-
Employee stock ownership plan:						
Shares released to participants	143	-	5	-	-	138
Distributions to unallocated shares	60	-	-	60	-	-
Distributions to stockholders	(4,778)	-	-	(4,778)	-	-
BALANCE, December 31, 2014	$ 82,043	$ 20,125	$ 7,860	$ 53,638	$ 1,357	$ (937)

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013
(amounts in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,467	$ 5,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,130	1,871
Provision for loan losses	1,119	2,480
Deferred income taxes	12	(227)
Stock compensation expense	-	1
Net amortization on securities	931	1,288
Undistributed earnings of equity investments	-	(116)
Other (gains) losses, net	(209)	1,905
Change in operating assets and liabilities:		
Accrued interest receivable	(3)	211
Accrued interest payable	(16)	(64)
Other assets and liabilities	(311)	639
Net cash provided by operating activities	11,120	13,013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, maturities, prepayments and calls of securities	33,870	47,344
Purchase of securities	(37,743)	(59,035)
Distributions from equity investments	2,351	750
Purchase of restricted stock	(378)	-
(Increase) decrease in federal funds sold	(12,000)	6,668
Proceeds from sales of foreclosed real estate	1,125	4,857
Loan originations and principal collections, net	(235)	(2,998)
Purchase of premises and equipment	(1,723)	(1,583)
Net cash used in investing activities	(14,733)	(3,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits and NOW, money market, and savings accounts	30,440	23,536
Net decrease in time deposits	(27,143)	(11,216)
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(2,150)	(927)
Net decrease in Federal Home Loan Bank advances	(90)	(18,088)
Net increase (decrease) in borrowings under line of credit	(350)	350
Issuance of common stock	366	291
Purchase of common stock	(329)	(316)
Net ESOP transactions	203	(92)
Distributions to stockholders	(4,778)	(4,024)
Net cash used in financing activities	(3,831)	(10,486)
NET DECREASE IN CASH AND DUE FROM BANKS	(7,444)	(1,470)
CASH AND DUE FROM BANKS, beginning of year	23,909	25,379
CASH AND DUE FROM BANKS, end of year	$ 16,465	$ 23,909
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 4,068	$ 4,802
NONCASH INVESTING ACTIVITIES		
Real estate acquired in settlement of loans	$ 430	$ 1,808

The Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

BancTenn Corp. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned Subsidiary, Bank of Tennessee (the "Bank"). The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in eastern and middle Tennessee. The Bank's primary deposit products are transaction and savings accounts and certificates of deposit. Its primary lending products are commercial loans, residential real estate loans, and consumer loans. The Bank also provides data processing and other operating services to other financial institutions. Other operating services include deposit operations, item processing, and human resources.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany balances and transactions have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairments of securities, and the fair value of financial instruments.

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 Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions 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 Company 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.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 19, 2015, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Due from Banks and Cash Flows

For purposes of reporting consolidated cash flows, cash and due from banks includes cash on hand, cash items in process of collection, amounts due from banks, and interest-bearing deposits in banks. Cash flows from loans, federal funds sold, federal funds purchased and securities sold under agreements to repurchase, Federal Home Loan Bank advances, borrowings under line of credit, ESOP transactions and deposits are reported net.

The Bank is required to maintain average balances in cash or on deposit with the Federal Reserve Bank. The total of those reserve balances was approximately $1,230 and $1,097 at December 31, 2014 and 2013, respectively.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless a credit loss has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss).

Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financial transactions. These agreements are recorded at the amount at which the securities were acquired or sold plus accrued interest. It is the Company's policy to take possession of securities purchased under resale agreements. The market value of these securities is monitored, and additional securities are obtained when deemed appropriate to ensure such transactions are adequately collateralized. The Company also monitors its exposure with respect to securities sold under repurchase agreements, and a request for the return of excess securities held by the counterparty is made when deemed appropriate.

Restricted Investments

The Company is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

Equity Investments

The Company had an investment in Appalachian Fund for Growth II, a 25% owned affiliate. During 2014, the Company disposed of this investment. Prior to disposition, the Company accounted for this investment by the equity method of accounting whereby the Company's share of the net income or loss of the affiliate was recognized as income or loss in the Company's income statement and added to or deducted from the investment account. Distributions received were treated as a reduction of the investment account.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Investments (Continued)

The Company also maintains equity investments in various financial institutions for which it has no substantial influence, generally considered to be an investment of 20% or less. Further, these investments have no easily determinable fair value. These investments have been accounted for at the lower of historical cost, or fair market value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. The Company does not defer loan fees and related loan origination costs. Based on management's assessment, the difference between deferral and immediate recognition of such fees and related costs is not material.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis or cost recovery method, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due.

Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured 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. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's homogeneous loan pools include residential real estate loans, commercial real estate loans, construction and land development loans, commercial and industrial loans, and consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool.

Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings ("TDRs") when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings (Continued)

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation.

For asset/liability management purposes, the Company and Bank use interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company's and Bank's variable-rate debt and loans to a fixed rate.

The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income (loss) and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in current earnings.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a cash flow hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company and Bank to risk. Those derivative financial instruments that do not meet specified hedging criteria are recorded at fair value with changes in fair value recorded in income. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivative contracts would be closed out and settled, or classified as a trading activity.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - 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 Company 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and the declining balance methods based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in other operating expenses.

	Years
Buildings	15-39
Furniture, fixtures and equipment	3-10

Foreclosed Real Estate

Foreclosed real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer is 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 amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs related to holding foreclosed real estate and subsequent write-downs to value are expensed.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Earnings and losses are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Company does not incur federal income tax obligations, and the financial statements do not include a provision for federal income taxes.

The income tax accounting guidance results in two components of state income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method.

Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. The Company's deferred taxes relate primarily to differences between the tax and book basis of the allowance for loan losses and accumulated depreciation.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense charged to operations was $122 and $201 for the years ended December 31, 2014 and 2013, respectively.

Stock Compensation Plan

At December 31, 2014 and 2013, the Company had options outstanding under a stock-based compensation plan, which is described in more detail in Note 13. The plan has been accounted for under the accounting guidance (FASB ASC 718, *Compensation - Stock Compensation*) which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in ASC Topic 810, which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb the expected losses or receive the expected returns of the entity. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has a majority of the expected losses, expected residual returns, or both. The Company has two wholly-owned subsidiary grantor trusts which are deemed to be VIEs. These two VIEs have not been consolidated by the Company as BancTenn Corp. is not the primary beneficiary.

Employee Benefit Plan

Employee benefit plan costs are based on a percentage of individual employee's salary, not to exceed the amount that can be deducted for federal income tax purposes.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and cash flow hedges, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

(amounts in thousands, except share data)

NOTE 2. SECURITIES

The amortized cost and fair value of investment securities at December 31, 2014 and 2013, are as follows:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 43,425	$ 424	$ (390)	$ 43,459
Obligations of states and political subdivisions	83,779	1,994	(395)	85,378
Mortgage backed securities:				
Government National Mortgage Association guaranteed	9,671	326	(15)	9,982
GSE residential	71,214	607	(572)	71,249
Equity securities	237	46	(154)	129
	$208,326	$3,397	$(1,526)	$210,197
Debt securities held to maturity:				
Obligations of states and political subdivisions	$ 184	$ -	$ -	$ 184
Mortgage backed securities:				
GSE residential	1,484	41	-	1,525
	$ 1,668	$ 41	$ -	$ 1,709

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 41,566	$ 76	$(1,805)	$ 39,837
Obligations of states and political subdivisions	79,655	1,342	(1,448)	79,549
Mortgage backed securities:				
Government National Mortgage Association guaranteed	17,843	438	(29)	18,252
GSE residential	67,494	371	(1,625)	66,240
Equity securities	237	35	(149)	123
	$206,795	$2,262	$(5,056)	$204,001
Debt securities held to maturity:				
Obligations of states and political subdivisions	$ 218	$ -	$ -	$ 218

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

U.S. Government sponsored enterprises include entities such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks.

The scheduled maturities of securities available for sale and securities held to maturity at December 31, 2014, are as follows:

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 2,919	$ 2,944	$ -	$ -
Due from one to five years	27,497	27,993	-	-
Due from five to ten years	43,001	43,696	184	184
Due after ten years	53,787	54,204	-	-
Mortgage-backed securities	80,885	81,231	1,484	1,525
Securities with no stated maturity	237	129	-	-
	$208,326	$210,197	$1,668	$1,709

During the years ended December 31, 2014 and 2013, proceeds from sales of securities available for sale were $12,086 and $16,683, respectively. The Company recognized gross gains of $64 and gross losses of $17 for 2014, and gross gains of $105 and gross losses of $83 for 2013.

Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the Company's investments 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, 2014 and 2013.

	Less Than 12 Month		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2014:					
Available for sale securities:					
U.S. Government-sponsored enterprises (GSEs)	$ 5,835	$ (23)	$22,654	$(367)	$ (390)
Obligations of states and political subdivisions	13,698	(102)	11,902	(293)	(395)
Mortgage-backed securities- Government National Mortgage Association guaranteed	-	-	641	(15)	(15)
GSE residential	8,497	(32)	20,962	(540)	(572)
Equity securities	-	-	5	(154)	(154)
	$28,030	$(157)	$56,164	$(1,369)	$(1,526)

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

Temporarily Impaired Securities (Continued)

	Less Than 12 Month		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2013:					
Available for sale securities:					
U.S. Government-sponsored enterprises (GSEs)	$ 33,517	$(1,805)	$ -	$ -	$(1,805)
Obligations of states and political subdivisions	35,517	(1,375)	2,738	(73)	(1,448)
Mortgage-backed securities- Government National Mortgage Association guaranteed	6,461	-	1,404	(29)	(29)
GSE residential	32,605	(1,162)	6,715	(463)	(1,625)
Equity securities	-	-	10	(149)	(149)
	$108,100	$(4,342)	$10,867	$(714)	$(5,056)

For U.S. Government-sponsored enterprises and mortgage-backed securities, the unrealized losses on the securities shown above were caused by interest rate increases. For obligations of states and political subdivisions, the unrealized losses were caused by the interest rate environment and reduced desirability for long-duration obligations of states and political subdivisions. It is expected that the securities would not be settled at a price less than the amortized cost bases of the investments. Because 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 those investments to be other-than-temporarily impaired at December 31, 2014.

Securities with a carrying value of approximately $151,409 and $141,899 at December 31, 2014 and 2013, respectively, were pledged to secure various deposits and borrowings.

Restricted investments, at cost, consist of the following:

	2014	2013
Federal Home Loan Bank stock	$4,018	$3,640
Pacific Coast Bankers Bank stock	102	102
	$4,120	$3,742

NOTE 3. EQUITY INVESTMENTS

Other Equity Investments, at Cost

Other equity investments, at cost consist of the following:

	2014	2013
Paragon Commercial Corp.	$10,439	$10,439
Union Bank	652	652
Premara Financial, Inc.	496	496
SmartFinancial, Inc.	480	480
Great State Bank	200	200
Other	215	207
	$12,482	$12,474

(amounts in thousands, except share data)

NOTE 3. EQUITY INVESTMENTS (Continued)

Management reviews for impairment based on the ultimate recoverability of the cost basis of these investments. At December 31, 2014 and 2013, management has determined there is no impairment.

Investment in Appalachian Fund for Growth II

During 2006, the Company invested $3,000 for a 25% share of the Appalachian Fund for Growth II partnership (AFG), which was managed by the Southeast Local Development Corporation (General Partner). AFG used the investments received in formation to make below-market rate senior and subordinated debt products to businesses seeking to build, renovate, expand and equip their business facilities. AFG targeted high job creation and retention businesses and businesses providing important community services. The funds were deployed to help: (1) attract new businesses to its under-served service area by offering creative financing; (2) supply creative financing for businesses to rehabilitate existing distressed properties to facilitate community development; and (3) leverage other private investment into its targeted communities. In return for their investment, the Company and the other investors received new market tax credits through 2012. The Company disposed of this investment during 2014.

AFG meets the criteria of a VIE outlined in ASC Topic 810. AFG had not been consolidated by the Company as the Company was not the primary beneficiary.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segmentation

At December 31, 2014 and 2013, the Company's loans consist of the following:

	2014	2013
Commercial real estate	$182,364	$194,954
Residential real estate	304,271	301,627
Construction and land development	54,559	51,803
Commercial and industrial	51,027	43,776
Consumer and other	26,340	28,088
Total loans	618,561	620,248
Less - Allowance for loan losses	(7,443)	(7,816)
Net loans	$611,118	$612,432

For purposes of the disclosures required by ASC 310, the loan portfolio was disaggregated into segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are five loan portfolio segments that include commercial real estate, residential real estate, construction and land development, commercial and industrial, and consumer and other.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Portfolio Segmentation (Continued)

The following describe risk characteristics relevant to each of the portfolio segments:

Commercial Real Estate: Include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties. Loans within this segment are particularly sensitive to the valuation of real estate collateral.

Residential Real Estate: Include 1-4 family residential real estate loans, second liens, or open end real estate loans, such as home equity lines and up to four unit multifamily residential loans. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. These loans are sensitive to the valuation of real estate collateral, unemployment and other key economic measures.

Construction and Land Development: Loans for real estate construction and land development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral. These loans are particularly sensitive to the valuation of real estate.

Commercial and Industrial: Include commercial, financial and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Consumer and Other: The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans, and loans secured by farmland. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Credit Risk Management

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the residential real estate and consumer and other portfolio segments, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and industrial, commercial real estate and construction and land development portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios, including a third party review of the largest credits on an annual basis or more frequently as needed. To ensure problem credits are identified on a timely basis, several specific portfolio reviews occur periodically to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Senior Credit Officer and the Directors Loan Committee.

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management (Continued)

The allowance for loan losses is a valuation reserve allowance established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated monthly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends, and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include commercial real estate loans, residential real estate loans, construction and land development loans, commercial and industrial loans, and consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool.

The following tables detail activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2014						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance, beginning of year	$1,529	$ 2,193	$1,365	$ 133	$ 131	$2,465	$ 7,816
Provision for (reallocation of)	(256)	891	25	176	214	69	1,119
Recoveries of loans charged off	313	117	78	133	141	-	782
Loans charged off	(417)	(1,151)	(284)	(157)	(265)	-	(2,274)
Balance, end of year	$1,169	$ 2,050	$1,184	$ 285	$ 221	$2,534	$ 7,443

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management (Continued)

	Year Ended December 31, 2013						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance, beginning of year	$ 2,182	$ 2,622	$ 3,114	$ 337	$ 542	$ 1,225	$10,022
Provision for (reallocation of)	461	1,866	(606)	(64)	(417)	1,240	2,480
Recoveries of loans charged off	35	58	95	54	182	-	424
Loans charged off	(1,149)	(2,353)	(1,238)	(194)	(176)	-	(5,110)
Balance, end of year	$ 1,529	$ 2,193	$ 1,365	$ 133	$ 131	$ 2,465	$ 7,816

The composition of loans by primary loan classification as well as impaired and performing loan status at December 31, 2014 and 2013, is summarized in the tables below:

	December 31, 2014					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Performing loans	$174,773	$299,366	$ 52,266	$ 50,638	$ 24,901	$601,944
Impaired loans	7,591	4,905	2,293	389	1,439	16,617
Total loans	$182,364	$304,271	$ 54,559	$ 51,027	$ 26,340	$618,561

	December 31, 2013					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Performing loans	$183,102	$291,305	$48,022	$43,492	$26,485	$592,406
Impaired loans	11,852	10,322	3,781	284	1,603	27,842
Total loans	$194,954	$301,627	$51,803	$43,776	$28,088	$620,248

The following tables show the allowance for loan losses allocation by loan classification for impaired and performing loans as of December 31, 2014 and 2013:

	December 31, 2014						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Allowance related to:							
Performing loans	$ 881	$1,854	$1,184	$232	$217	$2,534	$6,902
Impaired loans	288	196	-	53	4	-	541
Total allowance	$1,169	$2,050	$1,184	$285	$221	$2,534	$7,443

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management (Continued)

	December 31, 2013						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Allowance related to:							
Performing loans	$ 831	$1,661	$1,311	$123	$111	$2,465	$6,502
Impaired loans	698	532	54	10	20	-	1,314
Total allowance	$1,529	$2,193	$1,365	$133	$131	$2,465	$7,816

A description of the general characteristics of the risk grades used by the Company is as follows:

Pass: Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

Special Mention: Loans in this risk grade are the equivalent of the regulatory definition of "Other Assets Especially Mentioned" classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in the Company's credit position.

Substandard: Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

Uncollectable: Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Company typically does not maintain a recorded investment in loans within this category.

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management (Continued)

The following tables outline the amount of each loan classification and the amount categorized into each risk rating as of December 31, 2014 and 2013:

	December 31, 2014					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	$173,929	$296,749	$51,698	$50,643	$25,408	$598,427
Special mention	-	47	-	-	-	47
Substandard	8,435	7,475	2,861	384	932	20,087
Doubtful	-	-	-	-	-	-
Total	$182,364	$304,271	$54,559	$51,027	$26,340	$618,561

	December 31, 2013					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	$188,097	$286,308	$48,782	$43,258	$26,542	$592,987
Special mention	877	47	-	-	-	924
Substandard	5,980	15,272	3,021	518	1,546	26,337
Doubtful	-	-	-	-	-	-
Total	$194,954	$301,627	$51,803	$43,776	$28,088	$620,248

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans and leases as of December 31, 2014 and 2013:

	December 31, 2014					
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due	Current Loans	Total Loans
Commercial real estate	$ -	$ -	$ 646	$ 646	$181,718	$182,364
Residential real estate	2,919	73	2,700	5,692	298,579	304,271
Construction and land development	140	-	636	776	53,783	54,559
Commercial and industrial	-	-	133	133	50,894	51,027
Consumer and other	146	-	503	649	25,691	26,340
Total	$3,205	$ 73	$4,618	$7,896	$610,665	$618,561

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due Loans (Continued)

	December 31, 2013					
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due	Current Loans	Total Loans
Commercial real estate	$ -	$ -	$1,489	$ 1,489	$193,465	$194,954
Residential real estate	3,847	-	3,466	7,313	294,314	301,627
Construction and land development	236	-	317	553	51,250	51,803
Commercial and industrial	124	-	286	410	43,366	43,776
Consumer and other	79	-	610	689	27,399	28,088
Total	$4,286	$ -	$6,168	$10,454	$609,794	$620,248

Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail impaired loans, by portfolio segment as of December 31, 2014 and 2013:

	As of December 31, 2014			For the Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Commercial real estate	$ 6,032	$ 6,032	$ -	$ 6,048	$ 480
Residential real estate	2,045	2,045	-	3,331	552
Construction and land development	2,293	2,293	-	1,972	122
Commercial and industrial	127	127	-	129	14
Consumer and other	1,403	1,403	-	1,003	91
Total	11,900	11,900	-	12,483	1,259
Impaired loans with a valuation allowance:					
Commercial real estate	1,559	1,559	288	3,674	76
Residential real estate	2,860	2,860	196	4,283	76
Construction and land development	-	-	-	1,065	-
Commercial and industrial	262	262	53	208	5
Consumer and other	36	36	4	517	46
Total	4,717	4,717	541	9,747	203
Total impaired loans	$16,617	$16,617	$541	$22,230	$1,462

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	As of December 31, 2013			For the Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Commercial real estate	$ 6,063	$ 6,063	$ -	$ 6,697	$ 565
Residential real estate	4,617	4,617	-	5,339	853
Construction and land development	1,651	1,651	-	826	117
Commercial and industrial	131	131	-	244	24
Consumer and other	606	606	-	406	119
Total	13,068	13,068	-	13,512	1,678
Impaired loans with a valuation allowance:					
Commercial real estate	5,789	5,789	698	5,350	267
Residential real estate	5,705	5,705	532	5,277	83
Construction and land development	2,130	2,130	54	3,511	41
Commercial and industrial	153	153	10	280	-
Consumer and other	997	997	20	1,067	-
Total	14,774	14,774	1,314	15,485	391
Total impaired loans	$27,842	$27,842	$1,314	$28,997	$2,069

Troubled Debt Restructurings

At December 31, 2014 and 2013, impaired loans included loans that were classified as Troubled Debt Restructurings "TDRs". The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2014 and 2013, management had $7,885 and $14,931, respectively, in loans considered restructured that are not already on nonaccrual. Of the nonaccrual loans at December 31, 2014 and 2013, $992 and $2,782, respectively met the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

(amounts in thousands, except share data)

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructurings (Continued)

The following tables present a summary of loans that were modified as troubled debt restructurings during the years ended December 31, 2014 and 2013:

	Year Ended December 31, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	1	$ 68	$ 68
Commercial and industrial	2	126	126

	Year Ended December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	2	$688	$688
Commercial and industrial	2	222	222

The following tables present a summary of loans that were modified as troubled debt restructurings during the years ended December 31, 2014 and 2013, and for which there was a subsequent payment default during the year:

	Year Ended December 31, 2014	
	Number of Contracts	Recorded Investment
Commercial and industrial	2	$126

	Year Ended December 31, 2013	
	Number of Contracts	Recorded Investment
Commercial and industrial	1	$89

Related Party Loans

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. The total of these loans was approximately $15,297 and $15,100 at December 31, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

NOTE 5. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2014 and 2013, is as follows:

	2014	2013
Land	$ 7,179	$ 7,179
Buildings and leasehold improvements	32,186	32,017
Furniture and equipment	15,943	14,813
Transportation equipment	1,221	2,208
Construction in progress	55	232
	56,584	56,449
Accumulated depreciation	(25,077)	(24,560)
	$ 31,506	$ 31,889

NOTE 6. FORECLOSED REAL ESTATE

Expenses applicable to foreclosed real estate during 2014 and 2013 include the following:

	2014	2013
Net losses on sales	$ -	$ 395
Provision for losses	-	1,032
Losses on foreclosed real estate	-	1,427
Property taxes	16	31
Maintenance and insurance	27	156
Other	18	34
	$61	$1,648

NOTE 7. DEPOSITS

The composition of deposits at December 31, 2014 and 2013, is as follows:

	2014	2013
Demand deposits, noninterest bearing	$192,849	$189,258
NOW accounts	172,420	158,166
Money market accounts	198,400	196,786
Savings accounts	91,345	86,357
Time deposits	112,540	133,690
	$767,554	$764,257

The aggregate amount of time deposits in denominations of $100 or more at December 31, 2014 and 2013, was approximately $50,180 and $58,579, respectively. At December 31, 2014 and 2013, the scheduled maturities of time deposits are as follows:

	2014	2013
Less than one year	$ 87,593	$100,849
One through three years	18,040	26,032
Three through five years	6,907	6,809
	$112,540	$133,690

(amounts in thousands, except share data)

NOTE 8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase represent the purchase of interest in securities by commercial checking customers. The Company may also enter into structured repurchase agreements with other financial institutions. Repurchase agreements with commercial checking customers generally settle the following business day, while structured repurchase agreements with other financial institutions will have varying terms.

At December 31, 2014 and 2013, the Company had securities sold under agreements to repurchase of $11,530 and $13,669, respectively, with commercial checking customers. The Company also had a structured repurchase agreement with a financial institution for $10,000 at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the structured repurchase agreement has a ten-year term with a fixed interest rate of 3.72%. This agreement matures in 2018. The Company has pledged securities with an amortized cost of $12,509 to secure this agreement.

NOTE 9. FEDERAL HOME LOAN BANK ADVANCES

The Bank has an agreement with the Federal Home Loan Bank (FHLB) that can provide short-term and long-term funding to the Bank in an amount up to $244,175. The Bank has pledged its loans secured by one to four single-family mortgages, second mortgages and home equity lines, multi-family, commercial real estate, and agricultural real estate properties. The collateral to loan ratio ranges from 119% to 153%.

At December 31, 2014, the Bank held a letter of credit from the Federal Home Loan Bank totaling $918. The letter of credit is issued for the benefit of a business customer.

At December 31, 2014 and 2013, FHLB advances consist of the following:

	2014	2013
Long-term advance requiring monthly interest payments, fixed at 2.86%, principal due December 2017	$10,000	$10,000
Long-term advance requiring monthly interest payments, fixed at 4.25%, principal due January 2017	5,000	5,000
Long-term advance requiring monthly interest payments, fixed at 4.04%, principal due August 2017	5,000	5,000
Long-term advance requiring monthly interest payments, fixed at 3.04%, principal due December 2017	5,000	5,000
Long-term advance requiring monthly interest payments, fixed at 2.82%, principal due January 2015	3,000	3,000
Long-term advance requiring monthly interest payments, fixed at 2.99%, principal due September 2018	5,000	5,000
Long-term amortizing advance requiring monthly principal and interest payments, fixed at 2.30%, matures February 2023	1,981	2,045
Long-term amortizing advance requiring monthly principal and interest payments, fixed at 2.00%, matures July 2030	487	513
	$35,468	$35,558

(amounts in thousands, except share data)

NOTE 9. FEDERAL HOME LOAN BANK ADVANCES (Continued)

The long-term advances may be prepaid subject to a prepayment penalty as defined in the agreements. The FHLB has the right to exercise a put on certain of these advances as defined in the agreements.

Aggregate principal payments required on FHLB borrowings at December 31, 2014, are as follows:

2015	$ 3,000
2016	-
2017	25,000
2018	5,000
2019	-
Thereafter	2,468
	$35,468

NOTE 10. SUBORDIANTED DEBENTURES

Effective June 22, 2004 and December 4, 2006, two wholly-owned subsidiary grantor trusts were established by the Company, BancTenn Capital Trust II and BancTenn Capital Trust III, respectively. These subsidiaries issued $6,000 and $9,000 of pooled Trust Preferred Securities ("trust preferred securities"), respectively. Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trust used the net proceeds from the offering to purchase a like amount of Junior Subordinated Debentures (the "Debentures") of the Company. The Debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole on or in part after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest to the redemption date. The trust preferred securities have a maturity of 30 years and are redeemable at the Company's option with certain exceptions. At December 31, 2014, the floating-rate securities in BancTenn Capital Trust II had a 2.88% interest rate which resets quarterly at the three-month LIBOR rate plus 2.65% and BancTenn Capital Trust III had a 1.88% interest rate which resets quarterly at the three-month LIBOR rate plus 1.65%.

For regulatory capital purposes, these trust-preferred securities qualify as a component of Tier I capital, subject to certain limitations.

ASC Topic 810 resulted in the Company's investment in the common equity of the trust being included in the consolidated balance sheets as other assets, totaling $465 at December 31, 2014 and 2013. The outstanding balance of the subordinated debentures was $15,465 at December 31, 2014 and 2013.

NOTE 11. BORROWINGS UNDER LINE OF CREDIT

The Company has a $5,000 line of credit with another financial institution. The line of credit bears interest at prime, subject to a 2.75% floor. Interest is due quarterly and principal is due at the maturity date of June 1, 2015, unless annually renewed thereafter. The line of credit is secured by 100% of the Bank's stock. Amounts outstanding at December 31, 2013, were $350. There were no amounts outstanding at December 31, 2014.

NOTE 11. BORROWINGS UNDER LINE OF CREDIT (Continued)

The line of credit requires the Company and the Bank to meet certain covenants, the more significant of which are as follows:

- The Bank's Texas ratio shall not exceed 35%.
- The Bank's liquidity ratio shall not be less than 10%.
- The Bank shall be well capitalized and not subject to any written agreement, order, capital directive or prompt corrective action directive.
- The Bank's ratio of non-performing assets shall not exceed 3.25%.
- The Company shall maintain a debt service coverage ratio of 1.25.

The Company and the Bank were in compliance with all of the debt covenants described above for the years ended December 31, 2014 and 2013.

NOTE 12. DERIVATIVE INSTRUMENTS – INTEREST RATE CONTRACTS

Cash Flow Hedges

The Company currently has two interest rate swap derivative instruments, used to minimize interest rate volatility on trust preferred securities, which are designated and qualify as cash flow hedges.

In March 2008, the Company, relating to the Company's subordinated debentures, entered into an interest rate swap agreement with Compass Bank to pay a fixed rate of 5.49% while receiving a variable rate of the three-month LIBOR plus 165 basis points. This swap has a $9 million notional value and the termination date is March 2015.

In December 2008, the Company, relating to the Company's subordinated debentures, entered into a second interest rate swap agreement with Compass Bank to pay a fixed rate of 5.48% while receiving a variable rate of the three-month LIBOR plus 265 basis points. This swap has a $6 million notional value and the termination date is January 2019.

At December 31, 2014 and 2013, the estimated fair value of the cash flow hedge derivative instruments recorded in other liabilities was $420 and $745, respectively. Changes in the fair value of the derivative instruments are reported in accumulated other comprehensive income (loss). These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the subordinated debentures affects earnings. Included in interest expense is $480 and $486 which resulted from the reclassification of accumulated other comprehensive income (loss) into earnings during 2014 and 2013, respectively. Hedge ineffectiveness recognized into income during 2014 and 2013 was insignificant.

NOTE 13. EMPLOYEE BENEFIT PLANS

Employee Retirement Plans

The Company has a salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code. All employees are eligible to participate immediately upon hire. The Plan provides for contributions by the Company in such amounts as determined by the Board of Directors not to exceed 6 percent of the participant's annual compensation. In addition, the Plan provides for the Company to match employee contributions to the Plan equal to 50 percent of the first 6 percent of the participant's annual compensation. The Company contributed $292 and $296 to the Plan for the years ended December 31, 2014 and 2013, respectively.

NOTE 13. EMPLOYEE BENEFIT PLANS (Continued)

Employee Retirement Plans (Continued)

The Company and the Bank provide deferred compensation agreements for the benefit of senior and executive officers. The Bank records the estimated amount of future payments to be made over the active service periods of the officers. Deferred compensation expense under these agreements was $586 and $608 for the years ended December 31, 2014 and 2013, respectively. Accrued deferred compensation of approximately $5,734 and $5,358 is included in other liabilities at December 31, 2014 and 2013, respectively.

Employee Stock Ownership Plan

Effective January 1, 2004, the Company established an Employee Stock Ownership Plan (the "Plan"), within the guidelines as defined by the Internal Revenue Code, for the purpose of enabling participants to acquire an ownership interest in the Company. All employees are eligible to participate in the Plan after completing one year of service with a minimum of 1,000 hours. Initial funding for the purchase of the Company's common stock was provided by Security Acquisition Loans from the Company to the Plan. The Security Acquisition Loans call for principal and interest to be repaid in ten equal annual installments of principal and interest. Shares obtained in connection with Security Acquisition Loans are held in a suspense account and are classified as unallocated shares.

Contributions are made to the Plan as determined by the Company's Board of Directors, generally commensurate with the debt service requirements set forth in the loan agreements. Unallocated shares held in suspense by the Plan are released based on the ratio of principal payments made in the current year to total required future principal payments. Shares of the Company's common stock owned by the Plan are allocated as of each year end to each participant based on the ratio of individual compensation to total covered compensation, as defined by the agreement. Contributions can be in the form of cash, shares of Company stock, or other property as determined by the Board.

S Corporation distributions related to unallocated shares are used to fund the debt service requirements defined in the Security Acquisition Loans. Any remaining distributions are allocated proportionately to the participant, as defined by the plan agreement. At the Board's discretion, S Corporation distributions related to allocated shares may be used to make payments on Securities Acquisition Loans or shall be allocated to the participants, in accordance with the plan agreement.

The Company recognizes compensation expense for contributions and for allocated shares that were previously unallocated. The fair value, as determined by an independent appraisal, is used to calculate the compensation expense. Compensation expense recognized in association with the Plan for 2014 and 2013 totaled $287 and $256, respectively.

When a participant retires or otherwise terminates from the Plan, the Company is required to offer the participant the fair value for any allocated, vested shares of company stock. If the participant declines this option, the Company retains the right of first refusal of such shares. At December 31, 2014 and 2013, there were no repurchase obligations outstanding.

The fair value of unallocated shares at December 31, 2014, was $34.10 per share as determined by the most recent stock valuation performed as of December 31, 2013. The number of shares allocated, unallocated and committed to be released totaled 52,725; 27,722 and zero, respectively, as of December 31, 2014.

(amounts in thousands, except share data)

NOTE 13. EMPLOYEE BENEFIT PLANS (Continued)

Stock Option Plan

The Company has a stock option plan, which is administered by the Board of Directors that provides for both incentive stock options and nonqualified stock options. The Company also grants non-qualified stock options to the Board of Directors. The maximum number of common shares that can be sold or optioned under the plan is 670,000 shares. Under the plan, the exercise price of each option shall not be less than 100 percent of the fair market value of the common stock on the date of grant, those options awards generally vest based on five years of continuous service and have a ten-year contractual term.

A summary of stock option activity for the years ended December 31, 2014 and 2013, is as follows:

	2014		2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	74,580	$46.72	95,880	$45.70
Options granted	-	-	-	-
Options exercised	(10,080)	36.25	(9,800)	29.71
Options forfeited	(3,500)	47.54	(11,500)	52.78
Outstanding at end of period	61,000	48.40	74,580	46.72

Information pertaining to options outstanding at December 31, 2014, is as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$46.20	4,000	4.3	$46.20	4,000	$46.20
$48.50	19,000	1.0	48.50	19,000	48.50
$48.55	36,000	3.3	48.55	36,000	48.55
$49.10	2,000	2.7	49.10	2,000	49.10
Outstanding at end of year	61,000	2.6	48.40	61,000	48.40

The Company recognized stock-based compensation expense of $1 for the year ended December 31, 2013. There were no options exercised and no stock-based compensation expense during 2014. Intrinsic value of options exercised during the year ended December 31, 2013, was $28. The total fair value of shares vested during the years ended December 31, 2014 and 2013, was $27 and $339, respectively. There were no income tax benefits recognized for the years ended December 31, 2014 and 2013.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2014 and 2013, was $366 and $291, respectively. There was no actual tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements for the years ended December 31, 2014 and 2013.

(amounts in thousands, except share data)

NOTE 13. EMPLOYEE BENEFIT PLANS (Continued)

Stock Option Plan (Continued)

Information related to non-vested options for the year ended December 31, 2014, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested options, December 31, 2013	800	$0.23
Granted	-	-
Vested	(800)	0.23
Forfeited	-	-
Non-vested options, December 31, 2014	-	

As of December 31, 2014, there was no unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Plan.

NOTE 14. INCOME TAXES

The Company files consolidated income tax returns with its subsidiary, Bank of Tennessee. Under the terms of a tax-sharing agreement, the subsidiary's allocated portion of the consolidated tax liability is computed as if it were reporting its income and expenses as a separate entity.

The income tax benefit in the consolidated statements of income for the years ended December 31, 2014 and 2013, includes the following:

	2014	2013
Current tax benefit:		
State	$(161)	$ (93)
Deferred income taxes related to:		
Provision for loan losses	24	143
Depreciation	4	(17)
Deferred compensation retirement plans	(25)	(24)
Cash method of accounting	(42)	(8)
Tennessee tax credit carryforward	95	(262)
Other	(44)	(59)
Income tax benefit	$(149)	$(320)

Deferred tax assets recognized for deductible temporary differences totaled $950 and $1,274 at December 31, 2014 and 2013, respectively. Deferred tax liabilities for taxable temporary differences totaled $583 and $417 at December 31, 2014 and 2013, respectively.

The income tax returns of the Company for 2013, 2012 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

(amounts in thousands, except share data)

NOTE 15. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	2014	2013
Commitments to extend credit	$101,637	$114,644
Financial standby letters of credit	1,855	1,356
	$103,492	$116,000

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary.

At December 31, 2014 and 2013, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company was required to perform on a standby letter of credit in the amount of $108 during 2014. The Company was not required to perform on any standby letters of credit during 2013. Losses under standby letters of credit were not significant for 2014 or 2013.

Contingencies

During the normal course of business, the Company is subject to various lawsuits and claims. As of December 31, 2014, management believes that there are no current proceedings that would materially impact the consolidated financial statements of the Company.

NOTE 16. CONCENTRATIONS OF CREDIT RISK

The Company originates primarily commercial, residential, and consumer loans to customers in eastern and middle Tennessee and western North Carolina. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

NOTE 16. CONCENTRATIONS OF CREDIT RISK (Continued)

Seventy-nine percent of the Company's loan portfolio is concentrated in loans secured by real estate, of which a substantial portion is secured by real estate in the Company's primary market area. Additionally, forty-nine percent of the Company's loan portfolio is concentrated in residential real estate loans. Accordingly, the ultimate collectability of the loan portfolio and recovery of the carrying amount of foreclosed real estate is susceptible to changes in real estate conditions in the Company's primary market area. The other concentrations of credit by type of loan are set forth in Note 4.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, or approximately $20,755.

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITES

Fair Value Hierarchy (Continued)

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Due From Banks: The carrying amounts of cash and due from banks approximate fair values based on the short-term nature of the assets.

Certificates of Deposit With Other Financial Institutions: The carrying amount of certificates of deposit with other financial institutions approximates fair value based on the short-term nature of these assets.

Securities: Where quoted prices are available in an active market, management classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include exchange-traded equities. If quoted market prices are not available, management estimates fair values 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 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, management classifies those securities in Level 3.

Restricted and Equity Investments: The carrying value of restricted and equity investments approximate fair value based on the stock redemption provisions of the respective entities.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair value for other loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Cash Surrender Value of Life Insurance: The carrying amounts of cash surrender value of life insurance approximate their fair value. The carrying amount is based on information received from the insurance carriers indicating the financial performance of the policies and the amount the Company would receive should the policies be surrendered.

Deposits: The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits and NOW, money market, and savings accounts, is equal to the amount payable on demand at the reporting date. The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

(amounts in thousands, except share data)

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITES (Continued)

Fair Value Hierarchy (Continued)

Securities Sold Under Agreements to Repurchase: For securities sold under agreements to repurchase with commercial checking customers, the estimated fair value approximates their carrying value. The fair value of structured repurchase agreements is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates.

Subordinated Debentures and Borrowings Under Line of Credit: The carrying amount of the subordinated debentures and borrowings under line of credit with floating interest rates is a reasonable estimate of fair value.

Interest Rate Swaps: Substantially all interest rate swaps held or issued by the Company for risk management are traded in over-the-counter markets where quoted market prices are not readily available. For these derivatives, the Company measures fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty risk. The Company classifies interest rate swaps held or issued for risk management activities as Level 2 inputs.

Federal Home Loan Bank Advances: Fair values of advances are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Federal Funds Sold and Federal Funds Purchased: The carrying amounts for federal funds sold and purchased approximate fair value.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	Balance as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 43,459	$ -	$ 43,459	$ -
Obligations of states and political subdivisions	85,378	-	85,378	-
Mortgage-backed securities:				
Government National Mortgage Association guaranteed	9,982	-	9,982	-
GSE residential	71,249	-	71,249	-
Equity securities	129	-	129	-
Total securities available for sale	$210,197	$ -	$210,197	$ -
Liabilities				
Interest rate swaps	$ 420	$ -	$ 420	$ -

(amounts in thousands, except share data)

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITES (Continued)

Fair Value Hierarchy (Continued)

	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 39,837	$ -	$ 39,837	$ -
Obligations of states and political subdivisions	79,549	-	79,549	-
Mortgage-backed securities:				
Government National Mortgage Association guaranteed	18,252	-	18,252	-
GSE residential	66,240	-	66,240	-
Equity securities	123	-	123	-
Total securities available for sale	$204,001	$ -	$204,001	$ -
Liabilities				
Interest rate swaps	$ 745	$ -	$ 745	$ -

The Company has no assets or liabilities whose fair values are measured on a recurring basis using Level 3 inputs.

Assets Measured at Fair Value on a Nonrecurring Basis: Under certain circumstances management makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following tables present the financial instruments carried on the balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded:

	Balance as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Impaired loans	$4,176	$ -	$ -	$4,176
Foreclosed real estate	590	-	396	194

	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Impaired loans	$13,460	$ -	$9,976	$3,484
Foreclosed real estate	1,138	-	854	284

(amounts in thousands, except share data)

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITES (Continued)

Fair Value Hierarchy (Continued)

Impaired Loans: Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Foreclosed real estate: Foreclosed real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is initially recorded at fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less costs to sell.

Fair values are generally based on third party appraisals of the property and if unadjusted, are classified within Level 2 of the fair value hierarchy. The appraisals are sometimes discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value and are classified within Level 3 of the fair value hierarchy. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Quantitative Disclosures for Level 3 Fair Value Measurements: The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2014 and 2013.

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2014, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$4,176	Appraisal	Appraisal discounts (6% - 19%)	9%
Foreclosed real estate	194	Appraisal	Appraisal discounts (10%)	10%

(amounts in thousands, except share data)

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITES (Continued)

The carrying amount and estimated fair value of the Company's financial instruments at December 31, 2014 and 2013, are as follows:

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and due from banks	$ 16,465	$ 16,465	$ 23,909	$ 23,909
Federal funds sold	12,000	12,000	-	-
Certificates of deposit with other financial institutions	490	490	490	490
Securities available for sale	210,197	210,197	204,001	204,001
Securities held to maturity	1,668	1,709	218	218
Investment in Appalachian Fund for Growth II	-	-	2,351	2,351
Other equity investments, at cost	12,482	12,482	12,474	12,474
Restricted investments, at cost	4,120	4,120	3,742	3,742
Net loans	611,118	611,335	612,432	614,918
Cash surrender value of life insurance	23,662	23,622	22,815	22,815
Accrued interest receivable	2,293	2,293	2,290	2,290
Liabilities:				
Noninterest-bearing demand deposits	192,849	192,849	189,258	189,258
NOW accounts	172,420	172,420	158,166	158,166
Savings and money market accounts	289,745	289,745	283,143	283,143
Time deposits	112,540	112,656	133,690	134,107
Securities sold under agreements to repurchase	21,530	22,373	23,669	24,760
Federal funds purchased	-	-	11	11
Subordinated debentures	15,465	15,465	15,465	15,465
Borrowings under line of credit	-	-	350	350
Interest rate swaps	420	420	765	765
Federal Home Loan Bank borrowings	35,468	37,058	35,558	38,115
Accrued interest payable	244	244	260	260

NOTE 18. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2014, approximately $4,558 of retained earnings was available for dividend declaration without regulatory approval.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

(amounts in thousands, except share data)

NOTE 18. REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, as defined, and of Tier I capital to average assets, as defined.

During 2013, the Federal Reserve released the final United States Basel III Regulatory capital rules implementing the global regulatory capital reforms of Basel III and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FDIC and OCC also approved the final rule during 2013. The rule applies to all banking organizations that are currently subject to regulatory capital requirements, as well as certain savings and loan holding companies. The rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and makes selected changes to the calculation of risk-weighted assets. The rule becomes effective January 1, 2015 for the Company and most banking organizations subject to a transition period for several aspects of the rule including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions.

Management believes, as of December 31, 2014 and 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the tables below.

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2014:						
Total capital						
(to risk-weighted assets):						
Consolidated	$103,028	15.9%	$51,720	8.0%	N/A	N/A
Bank	90,461	14.3%	50,681	8.0%	$63,352	10.0%
Tier I capital						
(to risk-weighted assets):						
Consolidated	95,585	14.8%	25,860	4.0%	N/A	N/A
Bank	83,018	13.1%	25,341	4.0%	38,011	6.0%
Tier I capital						
(to average assets):						
Consolidated	95,585	10.2%	37,361	4.0%	N/A	N/A
Bank	83,018	9.0%	36,824	4.0%	46,030	5.0%

(amounts in thousands, except share data)

NOTE 18. REGULATORY MATTERS (Continued)

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2013:						
Total capital						
(to risk-weighted assets):						
Consolidated	$100,466	15.4%	$52,240	8.0%	N/A	N/A
Bank	88,535	13.8%	51,302	8.0%	$64,128	10.0%
Tier I capital						
(to risk-weighted assets):						
Consolidated	92,650	14.2%	26,120	4.0%	N/A	N/A
Bank	80,719	12.6%	25,651	4.0%	38,477	6.0%
Tier I capital						
(to average assets):						
Consolidated	92,650	10.1%	36,847	4.0%	N/A	N/A
Bank	80,719	8.9%	36,364	4.0%	45,455	5.0%

NOTE 19. CONCENTRATIONS IN DEPOSITS

The Company had a concentration in its deposits to one customer totaling approximately $41,201 and $41,940 at December 31, 2014 and 2013, respectively.

MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT

ON THE SUPPLEMENTARY INFORMATION

To the Stockholders and Board of Directors
BancTenn Corp.
Kingsport, Tennessee

We have audited the consolidated financial statements of BancTenn Corp. and Subsidiary as of and for the year ended December 31, 2014, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See page 1.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
March 19, 2015

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BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2014
(amounts in thousands, except share data)

	Bank of Tennessee	BancTenn Corp.	Eliminations	Consolidated
ASSETS				
Cash and due from banks:				
Noninterest-bearing	$ 16,176	$ 266	$ 266	$ 16,176
Interest-bearing	289	-	-	289
Total cash and due from banks	16,465	266	266	16,465
Federal funds sold	12,000	-	-	12,000
Certificates of deposit with other financial institutions	490	-	-	490
Securities available for sale	210,068	129	-	210,197
Securities held to maturity	1,668	-	-	1,668
Other equity investments, at cost	-	12,482	-	12,482
Restricted investments, at cost	4,120	-	-	4,120
Loans, net of allowance for loan losses	611,118	-	-	611,118
Premises and equipment	30,763	743	-	31,506
Accrued interest receivable	2,293	-	-	2,293
Cash surrender value of life insurance	23,662	-	-	23,662
Foreclosed real estate	590	-	-	590
Other assets	3,822	1,528	1,430	3,920
Investment in subsidiary	-	84,869	84,869	-
Total assets	$ 917,059	$ 100,017	$ 86,565	$ 930,511
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing	$ 193,115	$ -	$ 266	$ 192,849
Interest-bearing	574,705	-	-	574,705
Total deposits	767,820	-	266	767,554
Securities sold under agreements to repurchase	21,530	-	-	21,530
Federal Home Loan Bank advances	35,468	-	-	35,468
Subordinated debentures	-	15,465	-	15,465
Borrowings under line of credit	-	937	937	-
Accrued interest payable	159	85	-	244
Accrued expenses and other liabilities	7,213	1,487	493	8,207
Total liabilities	832,190	17,974	1,696	848,468
Stockholders' equity:				
Common stock, no par value; 250,000 shares authorized; 209,148 shares outstanding	2,269	-	2,269	-
Common stock, $8 par value; 6,000,000 shares authorized; 2,515,641 shares issued and outstanding	-	20,125	-	20,125
Additional paid-in capital	16,142	7,860	16,142	7,860
Retained earnings	64,607	53,638	64,607	53,638
Accumulated other comprehensive loss	1,851	1,357	1,851	1,357
Unallocated ESOP shares	-	(937)	-	(937)
Total stockholders' equity	84,869	82,043	84,869	82,043
Total liabilities and stockholders' equity	$ 917,059	$ 100,017	$ 86,565	$ 930,511

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2014
(Amounts in thousands)

	Bank of Tennessee	BancTenn Corp.	Eliminations	Consolidated
INTEREST INCOME				
Loans, including fees	$ 29,432	$ -	$ -	$ 29,432
Securities	4,773	-	-	4,773
Federal funds sold and other	33	-	-	33
	34,238	-	-	34,238
INTEREST EXPENSE				
Interest on deposits	2,058	-	-	2,058
Interest on other borrowed funds	1,148	846	-	1,994
	3,206	846	-	4,052
Net interest income (expense)	31,032	(846)	-	30,186
Provision for loan losses	1,119	-	-	1,119
Net interest income (expense) after provision for loan losses	29,913	(846)	-	29,067
NONINTEREST INCOME				
Customer service fees	2,413	-	-	2,413
Service revenue	2,711	-	-	2,711
Loan origination and settlement fees	1,413	-	-	1,413
Other	3,456	107	93	3,470
Equity in subsidiary's earnings	-	10,000	10,000	-
	9,993	10,107	10,093	10,007
NONINTEREST EXPENSES				
Salaries and employee benefits	17,402	1,135	-	18,537
Occupancy expenses	2,472	-	-	2,472
Data processing	2,700	-	-	2,700
Other operating expenses	7,332	808	93	8,047
	29,906	1,943	93	31,756
Income before income taxes	10,000	7,318	10,000	7,318
Income tax benefit	-	(149)	-	(149)
Net income	$ 10,000	$ 7,467	$ 10,000	$ 7,467