turning the corner

FIRST RELIANCE®
BANCSHARES

2014 Annual Report

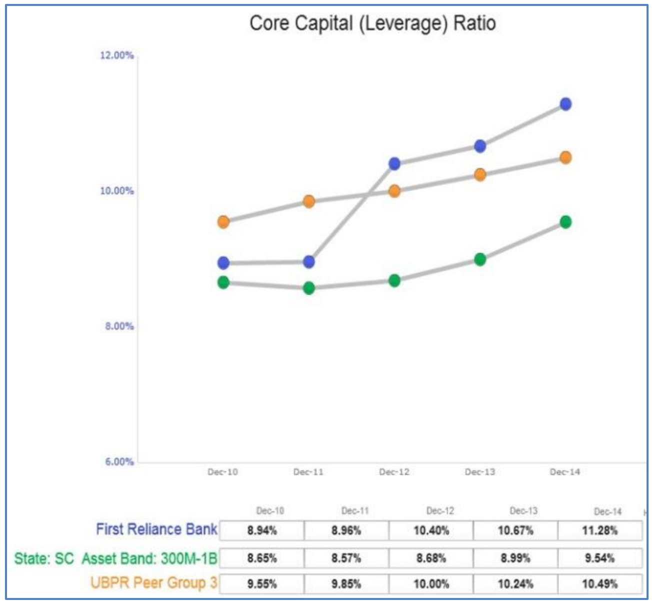
Dear Fellow Shareholders,

I am proud to say that we have made significant progress since we last spoke. The "Great Recession" certainly tested our will, but our amazing communities, customers, associates and owners never wavered and supported us through it all.

First Reliance Bank has become stronger and even more focused on its purpose, 'to make the lives of our customers better', through the crisis. Through it all, we have never stopped doing our job, and never strayed from the core essence of our business which is the importance of our culture. Culture is the reason behind every customer relationship and their financial success and in the end our ability to earn a profit as well.

As owners, we not only want financial excellence, but also a company that can deliver profits which are sustainable and scalable. This is the foundation that creates franchise value, that intangible value that can't be measured. There is no doubt in my mind that it was our culture that helped us through the past few years, and it is the catalyst propelling our company to higher levels as we move forward.

As you will see, there are a number of strategic areas critical to our growth, profitability and value that we continue to make great progress in.

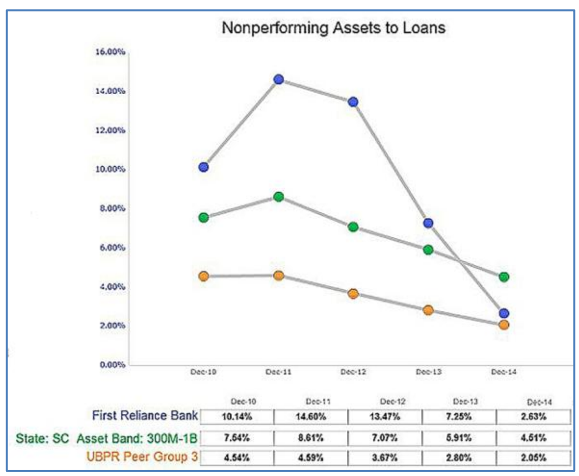


Solid Capital And Asset Quality

Over the last five years, we have focused our energy on creating a strong capital position and reducing our nonperforming assets. We have now reached a turning point with respect to the health of our company and believe that the next few years will yield positive results from these efforts.

Our share price, though rarely traded, continues to be valued below the tangible book value of the Company. Through 2014, we saw a nearly 22% increase in the net book value of our company and 2015 looks to be a good year as well.

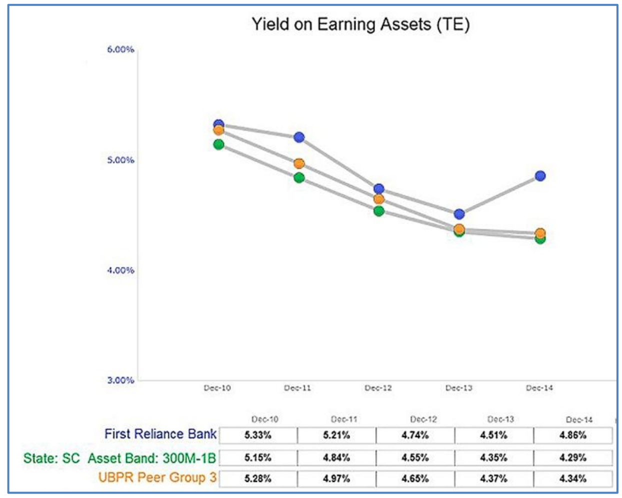
South Carolina banks have been rebounding more slowly than other areas across the nation as asset quality has been slow to improve for our region. This also contributes to market uncertainty and low confidence; therefore, creating a “lag” for our region. The good news is First Reliance’s asset quality, revenue and profitability is tracking to a faster recovery and we expect share price to soon follow.



Profitability and Creating Long Term Value

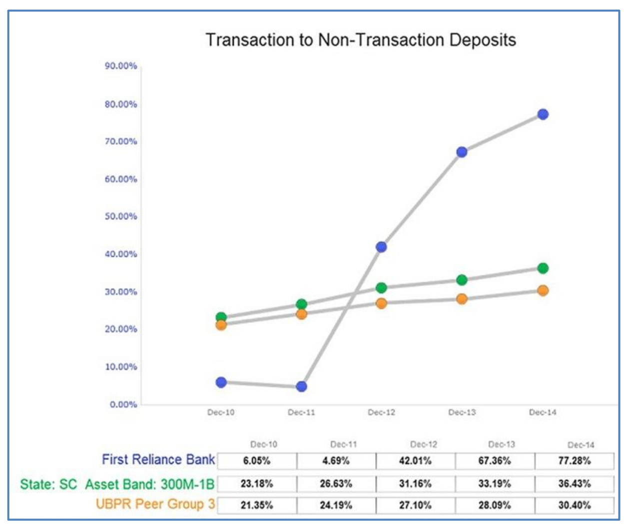
Shareholders are not looking for profits alone; they want profits that are sustainable and constructed from a business model that creates long term value. This recession has shifted the conversation for most banks from franchise value to survive and/or heal. While we have spent countless hours on the economic shift, we haven’t deviated from our daily drive to execute and deliver the basics that drive this long term value. We have a clearly defined business model that outlines our customer value proposition and keeps us focused on differentiating ourselves in the market place.

Through the recession, we changed our lending focus with an emphasis on smaller business lending, 1-4 family residential and consumer lending in an attempt to eliminate underwriting complexity, credit risk and pricing pressure. It is our belief that smaller borrowers are more concerned with service quality than product pricing. Additionally, the decision speed is significantly faster, taking the price shopper out of the equation and the banker cost to manage is materially less expensive. As you can see in the attached graph, our asset yields are proving this strategy is working.

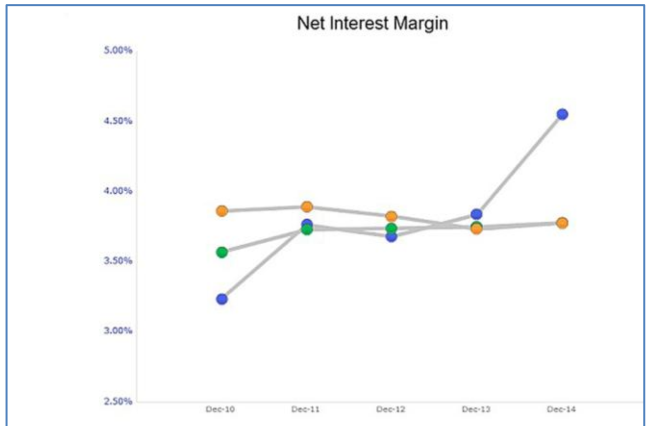


Overall, loan growth has increased $16.8 million or 7.08% over the previous year. The loan portfolio growth has primarily been in first mortgage 1-4 family 14.34% and consumer loan growth of 134.89% or $15.8 million over the previous 2013 year end.

We have also remained committed to growing our non-maturing, transaction based deposits which grew $13.2 million or 6.73% over year end. This deposit composition improves the stability of our deposits and allows us to better manage and predict our funding cost (our largest expense). This gives us a unique strategic advantage in how we structure and price our lending, which helps us attract more earning asset growth.



The continued emphasis on the types of loans we pursue and funding composition has allowed us to not only out-perform our peers, but we have also seen material continuous improvement in our net interest margin, while our peers have seen little.



	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
First Reliance Bank	3.23%	3.76%	3.68%	3.83%	4.55%
State: SC Asset Band: 300M-1B	3.57%	3.72%	3.74%	3.74%	3.77%
UBPR Peer Group 3	3.86%	3.89%	3.82%	3.73%	3.77%

The results of this strategy are beginning to become evident. First Reliance earned net income of $4.4 million in 2014 and bank total revenue of $18.7 million was an increase of 9.5% from the previous year end.

“Eliminating cost” is a popular phrase, and one we pay close attention to. However, we believe that you cannot cut expenses to profitability. Driving too much cost out of a company has negative implications on morale and market opportunity. We do, however, believe it is important that we spend money the right way and that these expenses are driving revenue. So while we are closely managing our expenses, revenue generation is more preferred. We have taken a disciplined and methodical approach to reducing expenses, balancing reduction in operating cost to revenue reduction. Areas we are focused on include technology expense, legal fees, consulting and professional, salary and benefits, and problem loan related expenses. Year over year non-interest expenses for 2014 were reduced 27.13%, or $6.1 million.

Growth and Expansion

The past few years have played to a defensive strategy and now it’s time to begin thinking about offense. Balance sheet, profits and market growth are things that most business owners understand and can get excited about.

We’ve already begun or offensive strategy to increase our revenue stream and market expansion efforts, with the launch of two new business lines, that include indirect auto finance and an expanded mortgage business platform.

Indirect auto finance is a great extension of our consumer lending focus. It gives us the ability to deliver expanded loan services within the markets we serve, allowing us to attract not only more loans, but customers we might not normally have access to. We’ve been waiting on talent and when the right team came, we made the move. The new business line is managed to a slow to moderate growth plan and has reached profitability in early 2015 with full anticipated profitability this year.

We've offered mortgage services for several years, but operated on a very small scale making us uncompetitive with no capacity to grow the business. We found the right leader and team so expansion or this line of business was an obvious choice to make. While we will have additional operating cost as we add additional staff, a profit benefit will soon follow as mortgage volume increases over the next several months.

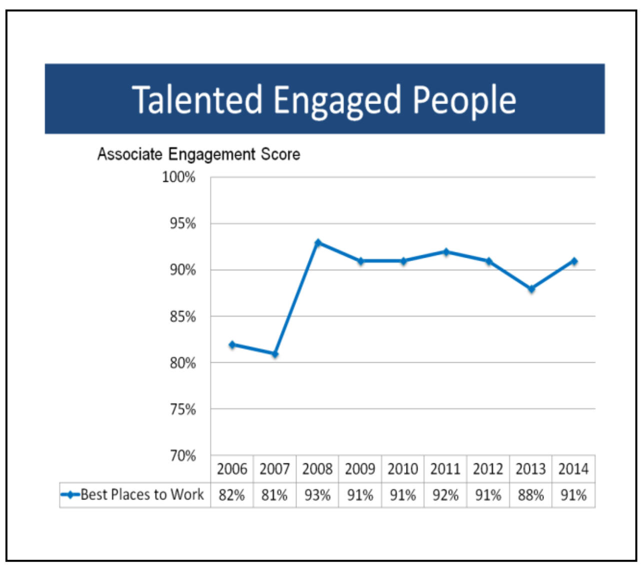
Strategically, we have been focused on growing our market presence in Charleston and Columbia regions, diversifying our revenue sources, targeting non-interest income revenue ranges from 30-40% of total revenue and efficiency goal targets below 70% within the next few years. The expansion of both business lines helps us reach those targets

We have a clearly defined business model that outlines our customer value proposition and keeps us focused on differentiating ourselves in the market place. Our plan is to accelerate actions that are value creators for our shareholders. These actions include:

- Continue to increase core deposits
- Recruit and retain talented people
- Increase market share in Columbia and Charleston markets through our two new business lines, indirect auto finance and expanded mortgage line
- Increase customer wallet share, starting with on-boarding customers
- Increase customer retention through loyalty and tenure

Our Culture

We deliver our brand of banking through a team of talented associates who are engaged, and committed to providing our customers with an incredible experience that generates sustainable income. Staff engagement score is 91% and turnover has not deteriorated during this recession. This is a testament to our model and a belief that our associates trust its leadership, believe that their work makes a difference and remain passionate to the purpose of our company 'to make the lives of our customer's better' and make a difference in our communities.



We continue to increase our services per household from the time we onboard a new customer to over the life of their relationship with the bank. We know that as a customer stays with us longer they buy more products and services from us. Customers stay with us longer because they are happy with us and like the brand of banking they experience. This is reflected in the strong 95% customer satisfaction score they give us. We believe our customer satisfaction rating stays high for multiple reasons which include error rate reduction, better products and services, responsiveness to our customers, exceptional friendly service, events in the branch and online, and enhancements to our online and mobile banking.

It is clear that we have demonstrated our ability to achieve our strategic plan and the power of our community banking franchise has shown through. We have made significant progress in improving our health and financial performance and the next few years should prove to be very interesting and exciting. We have a strong consistent management team that is committed to the success of our local bank. Thank you for being a valued owner and placing your confidence in us.

Thank you and best regards,

Rick Saunders
President and CEO

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SELECTED FINANCIAL DATA

The following selected financial data is derived from the consolidated financial statements and other data of First Reliance Bancshares, Inc. and Subsidiary (the "Company"). The selected financial data should be read in conjunction with the consolidated financial statements, including the accompanying notes, included elsewhere herein.

(Dollars in thousands, except per share data)	2014	2013	2012	2011	2010
Income Statement Data:					
Interest income	$ 15,074	$ 14,706	$ 18,812	$ 23,185	$ 27,947
Interest expense	1,160	2,448	4,481	6,513	11,656
Net interest income	13,914	12,258	14,331	16,672	16,291
Provision for loan losses	707	610	1,946	5,403	3,542
Net interest income after provision for loan losses	13,207	11,648	12,385	11,269	12,749
Noninterest income	4,437	4,405	6,537	4,847	4,896
Noninterest expense	16,318	22,393	18,639	20,362	19,234
Income (loss) before income taxes	1,326	(6,340)	283	(4,246)	(1,589)
Income tax expense (benefit)	(3,081)	1,397	7	5,135	(1,440)
Net income (loss)	4,407	(7,737)	276	(9,381)	(149)
Preferred stock dividends	1,251	1,140	1,176	1,175	1,131
Net loss available to common shareholders	$ 3,156	$ (8,877)	$ (900)	$ (10,556)	$ (1,280)
Balance Sheet Data:					
Assets	$ 367,756	$ 355,408	$ 418,277	$ 494,966	$ 530,095
Earning assets	321,275	306,242	362,518	435,214	468,618
Securities held-to-maturity (1)	31,384	36,952	-	-	-
Securities available-for-sale (2)	13,046	12,145	60,071	84,534	84,473
Loans (3)	257,351	240,750	265,879	306,262	355,514
Allowance for loan losses	3,003	2,894	4,167	7,743	6,271
Deposits	285,319	282,415	349,314	427,816	455,250
Shareholders' equity	36,368	39,093	41,198	41,118	48,592
Per Common Share Data:					
Basic income (loss)	$ 0.68	$ (2.07)	$ (0.22)	$ (2.57)	$ (0.32)
Diluted income (loss)	0.67	(2.07)	(0.22)	(2.57)	(0.32)
Common book value	4.34	3.56	5.64	5.67	7.49
Performance Ratios:					
Return on average assets (4)	1.23%	(2.02)%	0.06%	(1.82)%	(0.03)%
Return on average equity (5)	13.14%	(19.57)%	0.66%	(19.97)%	(0.31)%
Net interest margin (6)	4.47%	3.74%	3.54%	3.67%	3.04%
Efficiency (7)	88.95%	113.61%	97.79%	96.95%	94.27%
Capital and Liquidity Ratios:					
Average equity to average assets	9.37%	10.31%	9.08%	9.09%	8.19%
Leverage (4.00% required minimum)	12.20%	11.78%	11.48%	9.85%	9.99%
Risk-based capital					
Tier 1	15.07%	14.73%	15.91%	13.54%	13.34%
Total	16.09%	15.75%	17.16%	14.80%	14.59%
Average loans to average deposits	86.50%	78.21%	73.94%	75.99%	75.32%

(1) Securities held-to-maturity are stated at cost.
(2) Securities available-for-sale are stated at fair value.
(3) Loans are stated at gross amounts before allowance for loan losses and include loans held for sale.
(4) Net income (loss) before preferred stock dividends divided by average assets.
(5) Net income (loss) before preferred stock dividends divided by average equity.
(6) Net interest income divided by average earning assets.
(7) Noninterest expense, less provision for losses on other real estate owned ("OREO"), divided by the sum of net interest income and noninterest income, excluding gains and losses on sales of assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OFOPERATIONS

Basis of Presentation

The following discussion should be read in conjunction with the preceding "Selected Financial Data" and the Company's consolidated financial statements and the notes thereto and the other financial data included elsewhere herein. The financial information provided below has been rounded in order to simplify its presentation. However, the ratios and percentages provided below are calculated using the detailed financial information contained in the consolidated financial statements, the notes thereto and the other financial data included elsewhere herein. Except where otherwise indicated or the context requires, the "Company", "we", "us" and "our" refer to First Reliance Bancshares, Inc. and its wholly-owned subsidiary, First Reliance Bank.

General

First Reliance Bank (the "Bank") is a South Carolina-chartered bank headquartered in Florence, South Carolina. The Bank opened for business on August 16, 1999. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Florence County, Lexington County, and Charleston County, South Carolina. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC").

On June 7, 2001, the shareholders of the Bank approved a plan of corporate reorganization (the "Reorganization") under which the Bank would become a wholly owned subsidiary of First Reliance Bancshares, Inc. (the "Company"), a South Carolina corporation. The Reorganization was accomplished through a statutory share exchange between the Bank and the Company, whereby each outstanding share of common stock of the Bank was exchanged for one share of common stock of the Company. The Reorganization was completed on April 1, 2002, and the Bank became a wholly-owned subsidiary of the Company.

On June 30, 2005, First Reliance Capital Trust I issued $10,000,000 in trust preferred securities with a maturity of November 23, 2035 and may be redeemed by the Company after five years, and sooner in certain specific events. The rate was fixed at 5.93% until August 23, 2010, at which point the rate adjusts quarterly to the three-month LIBOR plus 1.83%, and can be called without penalty beginning on June 15, 2014. The trust has not been consolidated in these financial statements. The Company received from the trust the $10,000,000 proceeds from the issuance of the securities and the $310,000 initial proceeds from the capital investment in the trust, and accordingly has shown the funds due to the trust as $10,310,000 junior subordinated debentures. Current regulations allow the entire amount of junior subordinated debentures to be included in the calculation of regulatory capital. On December 28, 2008, the Company injected $3,000,000 of the proceeds into the Bank as permanent capital..

Results of Operations

Our operating results for the year ended December 31, 2014 improved significantly versus the prior year of 2013. Specifically, net income available to common shareholders was $3,156,188, or a basic and diluted income per common share of $0.68 and $0.67, respectively. For 2013 we incurred a net loss available to common shareholders of $8,876,633, or a basic and diluted loss per common share of $2.07. This improvement in operating results for 2014 is attributed primarily to the reversal of $3,261,451 of the valuation allowance related to our deferred tax assets, an increase of $1,656,687 in our net interest income, and a reduction of $6,075,398 in our noninterest expenses. See the following for a detailed discussion of each of these items.

Net Interest Income

The largest component of our net income is net interest income, which is the difference between the income earned on assets and interest paid on deposits and on the borrowings used to support such assets. Net interest income is determined by the yields earned on our interest-earning assets and the rates paid on interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities. The total interest-earning assets yield rate less the total interest-bearing liabilities rate represents our net interest rate spread.

Net interest income for 2014 was $13,914,475 compared to $12,257,788 for 2013, an increase of $1,656,687, or 13.52%. This increase is attributable to our interest-bearing liabilities having declined at a higher rate than our earning assets. Comparing the year 2014 that of 2013, the average volume of our interest-bearing liabilities declined 8.94%, while the average volume of our earning assets declined 4.94%. Additionally, for 2014 compared to the 2013, we reduced the average rate paid on our interest-bearing liabilities by 42 basis points, while we were able to increase the average rate earned on our earning assets by 35 basis points.

For 2014, average-earning assets totaled $311,480,378 with an annualized average yield of 4.84% compared to $327,654,497 and 4.49%, respectively, for 2013. Average interest-bearing liabilities totaled $253,948,909 with an annualized average cost of 0.46% for 2014 compared to $278,878,944 and 0.88% respectively, for 2013.

Our net interest margin and net interest spread were 4.47% and 4.38%, respectively, for 2014 compared to 3.74% and 3.61%, respectively, for 2013.

Because loans often provide a higher yield than other types of earning assets, one of our goals is to maintain our loan portfolio as the largest component of total earning assets. During 2014 and 2013, loans averaged $247,613,855 and $246,000,338, respectively, which represents an increase of $1,613,517, or 0.66%. Loans comprised 79.50% and 75.08% of average earning assets for the years ended December 31, 2014 and 2013, respectively. Interest income from loans for 2014 and 2013 was $13,758,531 and $13,330,556, respectively. The annualized average yield on loans was 5.56% and 5.42% for 2014 and 2013, respectively. Our loan interest income for 2014 was favorably impacted by the significant reduction of our non-performing loans. For 2014 and 2013, the average volume of our nonaccruing loans was $5,676,836 and $14,691,948, respectively, a decrease of $9,015,122, or 61.36%. Additional information may be found under the heading "Rate/Volume Analysis of Interest Income" below.

Available-for-sale and held-to-maturity-investment securities averaged $46,654,494, or 14.98% of average earning assets, for 2014, compared to $53,407,855, or 16.30% of average earning assets, for 2013. Interest earned on available-for-sale and held-to-maturity investment securities was $1,234,983 for 2014, compared to $1,286,317 for 2013. The annualized average yield on these securities was 2.65% and 2.41% for 2014 and 2013, respectively.

Our average interest-bearing deposits were $219,229,841 and $252,374,874 for 2014 and 2013, respectively. This represented a decrease of $33,145,033, or 13.13%. Total interest paid on deposits for 2014 and 2013 was $836,342 and $2,023,326, respectively. The annualized average cost of deposits was 0.38% and 0.80% for the years ended December 31, 2014 and 2013, respectively. As our loan demand declined, we concurrently lowered rates paid on deposits, especially for time deposits, which is the primary reason why the amounts of our average time deposits were 29.90% lower during 2014 than during 2013.

The average balance of other interest-bearing liabilities was $34,719,068 and $26,504,070 for the year ended December 31, 2014 and 2013, respectively, an increase of $8,214,998, or 31.00%. The increase is primarily attributable to the increase of $6,962,114 in our average volume of borrowing from the Federal Home Loan Bank of Atlanta (the "FHLB") during the 2014, which replaced our higher cost time deposits. For the year, 2014, the annualized average cost of borrowing from the FHLB was 0.38%, while the average rate paid on time deposits was 0.90%.

Average Balances, Income and Expenses, and Rates - The following table sets forth, for the years indicated, certain information related to our average balance sheet and its average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from the daily balances throughout the periods indicated.

Average Balances, Income and Expenses, and Rates

Year ended December 31,	**2014**			**2013**			**2012**		
(Dollars in thousands)	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**
Assets									
Earning assets:									
Loans (1)	$ 247,614	$ 13,758	5.56%	$ 246,000	$ 13,331	5.42%	$ 288,584	$ 16,420	5.69%
Securities, taxable	43,511	1,121	2.58	52,147	1,241	2.38	65,577	1,774	2.71
Securities, nontaxable	3,143	114	3.63	1,261	45	3.57	12,995	506	3.89
Other earning assets	17,212	81	0.47	28,246	89	0.32	37,476	112	0.30
Total earning assets	311,480	15,074	4.84	327,654	14,706	4.49	404,632	18,812	4.65
Non-earning assets	46,658			55,761			57,031		
Total assets	$ 358,138			$ 383,415			$ 461,663		

Average Balances, Income and Expenses, and Rates

Year ended December 31,	**2014**			**2013**			**2012**		
(Dollars in thousands)	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Transaction accounts	$ 54,579	$ 31	0.06%	$ 44,727	$ 47	0.11%	$ 42,148	$ 80	0.19%
Savings and money market accounts	85,711	98	0.11	95,043	161	0.17	113,568	351	0.31
Time deposits	78,940	707	0.90	112,605	1,815	1.61	176,896	3,545	2.00
Total interest-bearing deposits	219,230	836	0.38	252,375	2,023	0.80	332,612	3,976	1.20
Other interest-bearing liabilities:									
Federal Home Loan Bank borrowing	18,192	70	0.38	11,230	202	1.80	12,503	263	2.10
Junior subordinated debentures	10,310	247	2.40	10,310	218	2.12	10,310	239	2.32
Other Borrowings	6,217	7	0.11	4,964	5	0.10	3,566	3	0.08
Total other interest-bearing liabilities	34,719	324	0.93	26,504	425	1.60	26,379	505	1.91
Total interest-bearing liabilities	253,949	1,160	0.46	278,879	2,448	0.88	358,991	4,481	1.25
Noninterest-bearing deposits	67,045			62,174			57,675		
Other liabilities	3,591			2,823			3,065		
Shareholders' equity	33,553			39,539			41,932		
Total liabilities and equity	$ 358,138			$ 383,415			$ 461,663		
Net interest income/interest spread		$13,914	4.38%		$12,258	3.61%		$14,331	3.40%
Net yield on earning assets			4.47%			3.74%			3.54%

(1) Includes mortgage loans held for sale and nonaccruing loans

Rate/Volume Analysis of Interest Income

Analysis of Changes in Net Interest Income - Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following tables set forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

	2014 Compared to 2013 Due to increase (decrease) in			**2013 Compared to 2012 Due to increase (decrease) in**		
(Dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income:						
Loans	$ 86	$ 341	$ 427	$ (2,338)	$ (751)	$ (3,089)
Securities, taxable	(218)	98	(120)	(338)	(195)	(533)
Securities, tax exempt	-	69	69	(426)	(35)	(461)
Other earning assets	(42)	34	(8)	(30)	7	(23)
Total interest income	(174)	542	368	(3,132)	(974)	(4,106)
Interest expense:						
Interest-bearing deposits						
Interest-bearing transaction accounts	9	(25)	(16)	4	(37)	(33)
Savings and money market accounts	(14)	(49)	(63)	(50)	(140)	(190)
Time deposits	(448)	(660)	(1,108)	(1,126)	(604)	(1,730)
Total interest-bearing deposits	(453)	(734)	(1,187)	(1,172)	(781)	(1,953)
Other interest-bearing liabilities						
Federal Home Loan Bank borrowings	82	(214)	(132)	(25)	(36)	(61)
Junior subordinated debentures	-	29	29	-	(21)	(21)
Other	2	-	2	2	-	2
Total other interest-bearing liabilities	84	(185)	(101)	(23)	(57)	(80)
Total interest expense	(369)	(919)	(1,288)	(1,195)	(838)	(2,033)
Net interest income	$ 195	$ 1,461	$ 1,656	$ (1,937)	$ (136)	$ (2,073)

Interest Sensitivity - We monitor and manage the pricing and maturity of our assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on our net interest income. The principal monitoring technique we employ is the measurement of our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge interest sensitivity and minimize the impact on net interest income of rising or falling interest rates.

The following table sets forth our interest rate sensitivity at December 31, 2014.

(*Dollars in Thousands*)	**Within One Month**	**After One Through Three Months**	**After Three Through Twelve Months**	**Within One Year**	**Greater Than One Year or Non-Sensitive**	**Total**
Interest-Earning Assets						
Interest-bearing deposits in other banks	$ 17,891	$ -	$ -	$ 17,891	$ -	$ 17,891
Time deposits in other banks	-	101	-	101	-	101
Loans (1)	33,418	15,107	66,305	114,830	142,521	257,351
Securities, taxable	-	-	-	-	41,293	41,293
Securities nontaxable	-	-	-	-	3,137	3,137
Nonmarketable securities	1,502	-	-	1,502	-	1,502
Total earning assets	52,811	15,208	66,305	134,324	186,951	321,275
Interest-Bearing Liabilities						
Interest-bearing deposits:						
Demand deposits	$ 57,230	$ -	$ -	$ 57,230	$ -	$ 57,230
Savings deposits	88,822	-	-	88,822	-	88,822
Time deposits	6,056	16,325	42,281	64,662	9,159	73,821
Total interest-bearing deposits	152,108	16,325	42,281	210,714	9,159	219,873
Federal Home Loan Bank Advances	6,000	-	19,000	25,000	-	25,000
Junior subordinated debentures	-	-	-	-	10,310	10,310
Repurchase agreements	7,573	-	-	7,573	-	7,573
Total interest-bearing liabilities	165,681	16,325	61,281	243,287	19,469	262,756
Period gap	$ (112,870)	$ (1,117)	$ 5,024	$ (108,963)	$ 167,482	
Cumulative gap	$ (112,870)	$ (113,987)	$ (108,963)	$ (108,963)	$ 58,519	
Ratio of cumulative gap to total earning assets	(35.13%)	(35.48%)	(33.92%)	(33.92%)	18.21%	

(1) Including mortgage loans held for sale.

The above table reflects the balances of earning assets and interest-bearing liabilities at the earlier of their repricing or maturity dates. Interest-bearing deposits in other banks are reflected at the earliest pricing interval due to the immediate availability of the deposits. Securities are reflected at each instrument's ultimate maturity date. Scheduled payment amounts of fixed rate amortizing loans are reflected at each scheduled payment date. Scheduled payment amounts of variable rate amortizing loans are reflected at each scheduled payment date until the loan may be repriced contractually; the unamortized balance is reflected at that point. Interest-bearing liabilities with no contractual maturity, such as demand deposits and savings deposits, are reflected in the earliest repricing period due to contractual arrangements, which give us the opportunity to vary the rates paid on those deposits within one month or shorter period. However, we are not obligated to vary the rates paid on these deposits within any given period. Fixed rate time deposits, primarily certificates of deposit, are reflected at their contractual maturity dates. Securities sold under agreements to repurchase agreements mature on a daily basis and are reflected in the earliest pricing period. Advances from the FHLB and junior subordinated debentures are reflected at their contractual maturity date.

We are in a liability sensitive position (or a negative gap) of $109.0 million over the 12-month time frame. The gap is negative when interest-bearing liabilities exceed interest sensitive earning assets, as was the case at the end of 2014, with respect to the one-year time horizon. When interest-sensitive earning assets exceed interest-bearing liabilities for a specific repricing "horizon," a positive interest sensitivity gap is the result.

A positive gap generally has a favorable effect on net interest income during periods of rising rates. A positive one-year gap position occurs when the dollar amount of earning assets maturing or repricing within one year exceeds the dollar amount of interest-bearing liabilities maturing or repricing during that same period.

As a result, during periods of rising interest rates, the interest received on earning assets will increase faster than interest paid on interest-bearing liabilities, thus increasing interest income. The reverse is true in periods of declining interest rates resulting generally in a decrease in net interest income.

Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. We have an internal finance committee consisting of senior management that meets at various times during each quarter and a management finance committee that meets weekly as needed. The finance committees are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within a board-approved limit.

Our gap analysis is not a precise indicator of our interest rate sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without considering that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Net interest income may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities. We believe there would be minimal impact on interest income in a rising or falling rate environment.

Provision and Allowance for Loan Losses

We have developed policies and procedures for evaluating the overall quality of our credit portfolio and the timely identification of potential problem credits. On a quarterly basis, our Board of Directors reviews and approves the appropriate level for the allowance for loan losses based upon management's recommendations, the results of our internal monitoring and reporting system, and an analysis of economic conditions in our market. The objective of management has been to fund the allowance for loan losses at a level greater than or equal to our internal risk measurement system for loan risk.

Additions to the allowance for loan losses, which are expensed as the provision for loan losses on our statement of operations, are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during a given period, and current and anticipated economic conditions.

The allowance represents an amount which management believes will be adequate to absorb inherent losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on regular evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in our lending policies and procedures, changes in the local and national economy, changes in volume or type of credits, changes in the volume or severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons.

More specifically, in determining our allowance for loan losses, we regularly review loans for specific and impaired reserves based on the appropriate impairment assessment methodology. Pooled reserves are determined using historical loss trends measured over a four-quarter average applied to risk rated loans grouped by Federal Financial Institutions Examination Council ("FFIEC") call code and segmented by impairment status. The pooled reserves are calculated by applying the appropriate historical loss ratio to the loan categories. Impaired loans greater than a minimum threshold established by management are excluded from this analysis. The sum of all such amounts determines our pooled reserves. In line with our peer group, we review historical losses over four quarters, which results in a provision estimate responsive to current economic conditions. The historical loss factors utilized in our model have been updated as of December 31, 2014 to reflect losses realized through the end of third quarter 2014.

As noted above, we track our portfolio and analyze loans grouped by FFIEC call code categories. The first step in this process is to risk grade each loan in the portfolio based on one common set of parameters. These parameters include items like debt-to-worth ratio, liquidity of the borrower, net worth, experience in a particular field and other factors such as underwriting exceptions. Weight is also given to the relative strength of any guarantors on the loan.

After risk grading each loan, we then segment the portfolio by FFIEC call code groupings, separating out substandard and impaired loans. The remaining loans are grouped into "performing loan pools." The loss history for each performing loan pool is measured over a specific period of time to create a loss factor. The relevant look back period is determined by management, regulatory guidance, and current market events. The loss factor is then applied to the pool balance and the reserve per pool calculated. Loans deemed to be substandard but not impaired are segregated and a loss factor is applied to this pool as well. Loans are segmented based upon sizes as smaller impaired loans are pooled and a loss factor applied, while larger impaired loans are assessed individually using the appropriate impairment measuring methodology. Finally, five qualitative factors are utilized to assess economic and other trends not currently reflected in the loss history. These factors include concentration of credit across the portfolio, the experience level of management and staff, effects of changes in risk selection and underwriting practice, industry conditions and the current economic and business environment. A quantitative value is assigned to each of the five factors, which is then applied to the performing loan pools. Negative trends in the loan portfolio increase the quantitative values assigned to each of the qualitative factors and, therefore, increase the reserve. For example, as general economic and business conditions decline, this qualitative factor's quantitative value will increase, which will increase the reserve requirement for this factor. Similarly, positive trends in the loan portfolio, such as improvement in general economic and business conditions, will decrease the quantitative value assigned to this qualitative factor, thereby decreasing the reserve requirement for this factor. These factors are reviewed and updated by our management committee on a regular basis to arrive at a consensus for our qualitative adjustments.

Periodically, we adjust the amount of the allowance based on changing circumstances. We recognize loan losses to the allowance and add subsequent recoveries back to the allowance for loan losses. In addition, on a quarterly basis, we informally compare our allowance for loan losses to various peer institutions; however, we recognize that allowances will vary, as financial institutions are unique in the make-up of their loan portfolios and customers, which necessarily creates different risk profiles and risk weighting of qualitative factors for the institutions. We would only consider further adjustments to our allowance for loan losses based on this peer review if our allowance was significantly different from our peer group. To date, we have not made any such adjustment. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period, especially considering the overall economic weakness in many of our market areas due to a slow recovery from the recent economic downturn.

Various regulatory agencies review our allowance for loan losses through their periodic examinations, and they may require additions to the allowance for loan losses based on their judgment and assumptions about the economic condition of our market and the loan portfolio at the time of their examinations. Our losses will undoubtedly vary from our estimates, and it is possible that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time.

As of December 31, 2014 and 2013, the allowance for loan losses was $3,002,922 and $2,894,153, respectively. As a percentage of total loans, the allowance for loan losses was 1.18% and 1.21% at December 31, 2014 and 2013, respectively. The decrease in the allowance ratio is reflective of the significant reductions in practically all categories of our problem loans. See the discussion regarding the provision expense and "Activity in the Allowance for Loan Losses" below for additional information regarding our asset quality and loan portfolio.

Our provision for loan losses was $706,891 and $609,808 for the years ended December 31, 2014 and 2013, respectively, an increase of $97,803. Our analysis of the allowance for loan losses as of December 31, 2014, revealed that our overall loss rates have been stabilizing over the past several allowance calculations and that our credit exposure is phasing out in the Myrtle Beach and Charleston markets in coastal South Carolina, which were particularly hard-hit by the downturn in real estate markets. Additionally, the provision we recorded for the year ended December 31, 2014, is reflective of the reduction in our non-performing loans, declining delinquencies, and the reduction in the percentage of classified loans.

We believe the allowance for loan losses at December 31, 2014, is adequate to meet loan losses inherent in the loan portfolio and, as described earlier, we maintain the flexibility to adjust the allowance to respond to short-term and long-term trends in our local economy that are reflected in our loan portfolio.

The following table sets forth certain information with respect to the Company's allowance for loan losses and the composition of charge-offs and recoveries for the five years ended December 31, 2014.

Allowance for Loan Losses

(Dollars in thousands)	2014	2013	2012	2011	2010
Total loans outstanding at end of year	$ 255,381	$ 238,502	$ 260,257	$ 303,398	$ 354,328
Average loans outstanding	$ 247,614	$ 246,000	$ 288,584	$ 332,893	$ 380,019
Balance of allowance for loan losses at beginning of year	$ 2,894	$ 4,167	$ 7,743	$ 6,271	$ 9,801
Loans charged off:					
Real estate – construction	506	296	2,296	1,825	4,430
Real estate – residential	346	988	1,085	1,641	2,501
Real estate – nonresidential	223	918	1,825	538	1,879
Commercial and industrial	5	92	1,391	527	1,469
Consumer and other	37	44	29	39	116
Total loan charge-offs	1,117	2,338	6,626	4,570	10,395
Recoveries of previous loan charge-offs:					
Real estate – construction	165	138	298	356	1,311
Real estate – residential	27	177	129	88	286
Real estate – nonresidential	248	35	54	70	1,123
Commercial	68	89	613	113	438
Consumer and other	11	16	10	12	165
Total recoveries	519	455	1,104	639	3,323
Net charge-offs	598	1,883	5,522	3,931	7,072
Provision for loan losses	707	610	1,946	5,403	3,542
Balance of allowance for loan losses at end of year	$ 3,003	$ 2,894	$ 4,167	$ 7,743	$ 6,271
Ratios:					
Net charge-offs to average loans outstanding	0.24%	0.77%	1.91%	1.18%	1.86%
Net charge-offs to loans at end of year	0.23%	0.79%	2.12%	1.30%	2.00%
Allowance for loan losses to average loans	1.21%	1.18%	1.44%	2.33%	1.65%
Allowance for loan losses to loans at end of year	1.18%	1.21%	1.60%	2.55%	1.77%
Net charge-offs to allowance for loan losses	19.91%	65.07%	132.52%	50.77%	112.76%
Net charge-offs to provision for loan losses	84.58%	308.69%	283.76%	72.76%	199.69%

Risk Elements in the Loan Portfolio and Nonperforming Assets

Nonperforming Assets - The following table shows the nonperforming assets for the five years ended December 31, 2014.

(Dollars in thousands)	2014	2013	2012	2011	2010
Loans over 90 days past due and still accruing	$ 25	$ 135	$ 6	$ 328	$ 1,910
Loans on nonaccrual:					
Real estate construction	2,937	481	2,874	8,194	14,796
Real estate mortgage - residential	1,290	1,672	3,779	3,852	3,310
Real estate mortgage – nonresidential	106	5,006	12,354	9,437	1,001
Commercial	4	1,393	1,879	1,300	753
Consumer	46	74	88	2	6
Total nonaccrual loans	4,383	8,626	20,974	22,785	19,866
Total of nonperforming loans	4,408	8,761	20,980	23,113	21,776
Other nonperforming assets	2,444	8,933	15,290	22,136	14,669
Total nonperforming assets	$ 6,852	$ 17,694	$ 36,270	$ 45,249	$ 36,445
Percentage of nonperforming assets to total assets	1.86%	4.98%	8.67%	9.14%	6.88%
Percentage of nonperforming loans to total loans	1.73%	3.67%	8.06%	7.62%	6.15%
Allowance for loan losses as a percentage of non-performing loans	68.13%	33.03%	19.86%	33.50%	28.80%

The following table summarizes the allocation of the allowance for loan losses at December 31, 2014 and 2013.

(Dollars in thousands)	December 31, 2014	% of Total	December 31, 2013	% of Total
Real estate loans				
Construction	$ 226	7.53%	$ 303	10.47%
Residential	1,245	41.45	1,043	36.04
Nonresidential	1,247	41.53	1,382	47.75
Total real estate loans	2,718	90.51	2,728	94.26
Commercial and industrial	38	1.27	65	2.25
Consumer and other	247	8.22	101	3.49
Total loans	$ 3,003	100.00%	$ 2,894	100.00%

Loans over 90 days and still accruing – As of December 31, 2014 and 2013 we had loans totaling $24,810 and $135,408, respectively, that were past due 90 days and still accruing interest. All loans are secured and included in our impaired loan classification at December 31, 2014 and 2013.

Nonaccruing loans - At December 31, 2014 and 2013, loans totaling $4,381,725 and $8,626,439, respectively, were in nonaccrual status. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due and/or we deem the collectability of the principal and/or interest to be doubtful. Generally, once a loan is placed in nonaccrual status, all previously accrued and uncollected interest is reversed against interest income, unless collection of interest accrued to date is expected. Interest income on nonaccrual loans is recognized on a cash basis when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. During 2014 and 2013 interest income recognized on nonaccrual loans was $149,959 and $600,924, respectively. If the nonaccrual loans had been accruing interest at their original contracted rates, interest income related to these nonaccrual loans would have been $538,670 and $796,304 for 2014 and 2013, respectively. All nonaccruing loans at December 31, 2014 and 2013 were included in our classification of impaired loans at those dates.

Restructured loans - In situations where, for economic or legal reasons related to a borrower's financial difficulties, a concession to the borrower is granted that we would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). The restructuring of a loan may include the transfer of real estate collateral, either through the pledge of additional properties by the borrower or through a transfer to the Bank in lieu of foreclosures. Restructured loans may also include the borrower transferring to the Bank receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, a modification of the loan terms, or a combination of the above.

At December 31, 2014 there were 20 loans classified as a TDR totaling $3,621,486. Of the 20 loans, 12 loans totaling $3,125,057 were performing while eight loans totaling $496,429 were not performing. As of December 31, 2013, there were 30 loans classified as TDRs totaling $7,157,230. Of the 30 loans, 16 loans totaling $3,481,589 were performing while 14 loans totaling $3,675,641 were not performing. All of these restructured loans resulted in either extended maturity or lowered rates and were included in the impaired loan balance. From December 31, 2013 to December 31, 2014, TDR loans decreased by $3,535,744 due to charge offs, foreclosures and repayments.

Impaired loans - At December 31, 2014, we had impaired loans totaling $10,104,377 as compared to $18,160,915 at December 31, 2013. Impaired loans, as a percentage of total loans, were 3.96% and 7.61% at December 31, 2014 and 2013, respectively. Included in the impaired loans at December 31, 2014 and 2013 are performing TDRs loans totaling $3,125,057 and $3,481,589, respectively. At December 31, 2014, there were nine borrowers that accounted for 80.67% of the total amount of the impaired loans at that date. These loans were primarily commercial real estate loans located in the following South Carolina areas: 36% in the Coastal area, 28% in the Columbia area and 36% in the Florence area.

During 2014, the average investment in impaired loans was approximately $14,014,000 as compared to approximately $20,543,000 for 2013. Impaired loans with a specific allocation of the allowance for loan losses totaled $2,422,764 and $9,212,269 at December 31, 2014 and 2013, respectively. The amount of the specific allocation at December 31, 2014 and 2013 was $259,109 and $405,091, respectively.

On a quarterly basis, we analyze each loan that is classified as impaired during the period to determine the potential for possible loan losses. This analysis is focused upon determining the then current estimated value of the collateral, local market condition, and estimated costs to foreclose, repair and resell the property. The net realizable value of the property is then computed and compared to the loan balance to determine the appropriate amount of specific reserve for each loan.

Other nonperforming assets – Other nonperforming assets consist of OREO that was acquired through foreclosure. OREO is carried at fair market value minus estimated costs to sell. Current appraisals are obtained at time of foreclosure and write-downs, if any, charged to the allowance for loan losses as of the date of foreclosure. On a regular basis, we reevaluate our OREO properties for impairment. Along with gains and losses on disposal, expenses to maintain such assets and subsequent changes in the valuation allowance are included in other noninterest expense.

As of December 31, 2014, we had OREO properties totaling $2,444,253, geographically located in the following South Carolina areas – 17% in the Coastal area, 16% in the Columbia area and 67% in the Florence area. The combined nature of these properties is 61% commercial and 39% residential and other. We are diligently trying to dispose of our OREO properties; however, the relatively low demand in many of these market segments affects our ability to do so in a timely manner without experiencing additional losses. This is especially true for properties consisting of raw land.

From December 31, 2013 to December 31, 2014, OREO decreased $6,488,381, or 72.64%. During this period, sales and write downs were $7,619,950 and $65,874, respectively, while properties acquired through foreclosures totaled $1,197,443.

OREO expense for the years ended December 31, 2014 and 2013 was $539,897 and $6,710,229, respectively, which includes a net gain of $141,868 and a net loss of $191,006 on sales, respectively.

Noninterest Income and Expense

Noninterest Income - The following table sets forth the primary components of noninterest income for the years ended December 31, 2014 and 2013.

	2014	2013
Service charges on deposit accounts	$ 1,624,575	$ 1,665,059
Gain on sale of mortgage loans	1,108,799	1,029,641
Income from bank owned life insurance	336,872	345,906
Other service charges, commissions, and fees	1,076,560	1,000,118
Gain on sale of available-for-sale securities	5,321	33,917
Other	284,518	331,109
Total	$ 4,436,645	$ 4,405,750

For 2014 compared to 2013, our noninterest income increased only slightly by $30,895, or 0.70%.

Noninterest Expense - The following table sets forth the primary components of noninterest expense for the years ended December 31, 2014 and 2013.

	2014	2013
Salaries and employee benefits	$ 7,317,950	$ 7,731,822
Net occupancy	1,529,855	1,506,908
Furniture and equipment	1,553,289	1,360,631
Advertising	119,463	148,266
Office supplies and printing	119,019	90,255
Computer supplies and software amortization	137,548	141,949
Telephone	159,474	268,293
Professional fees and services	1,324,488	1,145,998
Supervisory fees and assessments	498,898	548,427
Debit and credit card expenses	776,275	767,488
Other real estate owned expenses	539,897	6,710,229
Mortgage loan expenses	177,156	262,602
Insurance expenses	288,463	356,904
Impairment loss on premises	399,812	-
Other	1,376,275	1,353,488
Total	$ 16,317,862	$ 22,393,260
Efficiency ratio	88.95%	113.61%

For the years ended December 31, 2014 and 2013, total noninterest expense totaled $16,317,862 and $22,393,260, respectively, equating to a decrease of $6,075,398, or 27.13%.
The expense for salaries and benefits was $7,317,950 and $7,731,822 for 2014 and 2013, respectively. By improving operating efficiencies, we reduced the expense for this category by $413,872, or 5.35%

Occupancy, furniture and equipment expense for 2014 and 2013 was $3,083,144 and $2,867,539, respectively, an increase of $215,605. The increase for the year ended December 31, 2014, is related to data processing insurance refunds received during 2013, for prior year service interruptions and lost income.

Other operating expenses for 2014 were $5,877,131, or 49.83% lower than they were for 2013. For 2014 and 2013, other operating expenses were $5,916,768 and $11,793,899, respectively. The following explains significant changes in this expense category.

1. A significant portion of the reduction in our other operating expenses is attributable to a $6,170,332 reduction in our OREO expenses. For 2014 and 2013, OREO expenses were $539,897 and $6,710,229, respectively. Included in our 2013 OREO expenses were write downs of $4,905,476 compared to $65,874 for 2014. Additionally, the reduction in OREO expenses was favorably impacted by the reduction in the volume of our OREO properties. From December 31, 2013 to December 31, 2014, primarily through sales, the volume of OREO properties declined $6,488,381, or 72.64%.

2. Professional fees were $178,490 higher for 2014 as a result of legal fees relating to litigation arising in the ordinary course of our business as well as defending a lawsuit filed by certain clients of the Schurlknight and Rivers Law Firm ("S&R"), a former customer of the Bank.

3. We recorded an impairment loss of $399,812, during 2014, on a parcel of land that was originally acquired for future facilities expansion. In August of 2014, after deciding not to expand on this parcel, we entered into a tentative contract to sell it for approximately $3,600,000. This contract expired on December 31, 2014, without being consummated. The subject parcel has a carrying value of approximately $4,000,000.

Income Tax Provision

The income tax benefit of $3,081,244 for 2014 consists of currently payable income taxes of $180,207, less the net increase of $3,261,451 in net deferred tax assets. The income tax benefit related to the pretax loss for 2013 has been offset by the increase of an equal amount in the valuation allowance related to net deferred tax assets. As of December 31, 2014, we have net deferred tax assets from continuing operations of $10,750,191 with a valuation allowance of $7,488,740. We have partially reversed the valuation allowance related to our deferred tax assets. The valuation allowance was established based on the analysis of continued losses incurred and the likelihood of our recovery of those assets. With the demonstration of positive earnings, and projections that reflect the likely recovery of a portion of these assets, a portion of the valuation allowance has been reversed. If we continue to generate positive earnings, additional portions of the valuation allowance will be reversed, thus positively impacting income in future periods.

Earning Assets

Loans - Loans, including loans held for sale, are the largest category of earning assets and typically provide higher yields than the other types of earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks which management attempts to control and counterbalance. Loans averaged $247,613,855 in 2014 compared to $246,000,338 in 2013, an increase of $1,613,517, or 0.66%. At December 31, 2014, total loans were $257,351,082 compared to $240,750,383 at December 31, 2013, an increase of $16,600,699, or 6.90%. Excluding loans held for sale, loans were $255,381,014 at December 31, 2014 compared to $238,502,131 at December 31, 2013, which equated to an increase of $16,878,883, or 7.08%. This increase is mainly attributable to the rise of $15,815,677 in our consumer loans. During the latter part of 2013, we implemented several new marketing programs designed to increase consumer borrowings, particularly with respect to automobile loans.

The following table sets forth the composition of the loan portfolio, excluding loans held for sale, by category at the dates indicated and highlights the Company's general emphasis on all types of lending.

Composition of Loan Portfolio

Expressed in dollars (*in thousands*)

December 31,	**2014**	**2013**	**2012**	**2011**	**2010**
Real estate:					
Construction	$ 26,548	$ 24,175	$ 31,985	$ 43,320	$ 62,635
Residential:					
Residential 1 – 4 family	40,985	35,873	35,092	42,838	50,085
Multifamily	4,338	4,312	5,563	8,630	9,337
Second mortgages	4,776	4,246	4,078	4,504	4,783
Equity lines of credit	20,197	21,270	22,502	24,998	27,990
Total residential	70,296	65,701	67,235	80,970	92,195
Nonresidential	99,450	104,379	122,310	133,603	152,178
Total real estate loans	196,294	194,255	221,530	257,893	307,008
Commercial and industrial	31,504	32,487	29,256	36,465	40,857
Consumer	27,541	11,725	9,305	8,650	6,057
Other	42	35	166	390	406
Total loans	255,381	238,502	260,257	303,398	354,328
Allowance for loan losses	(3,003)	(2,894)	(4,167)	(7,743)	(6,271)
Net loans	$ 252,378	$ 235,608	$ 256,090	$ 295,655	$ 348,057

Expressed in percentages

December 31,	**2014**	**2013**	**2012**	**2011**	**2010**
Real estate:					
Construction	10.40%	10.14%	12.29%	14.28%	17.68%
Residential:					
Residential 1 – 4 family	16.04	15.04	13.48	14.12	14.14
Mutifamily	1.70	1.81	2.14	2.84	2.64
Second mortgages	1.87	1.78	1.56	1.49	1.34
Equity lines of credit	7.91	8.92	8.65	8.24	7.90
Total residential	27.52	27.55	25.83	26.69	26.02
Nonresidential	38.94	43.76	47.00	44.03	42.95
Total real estate loans	76.86	81.45	85.12	85.00	86.65
Commercial and industrial	12.34	13.62	11.24	12.02	11.53
Consumer	10.78	4.92	3.58	2.85	1.71
Other	0.02	0.01	0.06	0.13	0.11
Total loans	100.00%	100.00%	100.00%	100.00%	100.00%
Allowance for loan losses	1.18%	1.21%	1.60%	2.55%	1.77%

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than a loan for construction purposes, secured by real estate, regardless of the purpose of the loan. It is common practice for financial institutions in our market area to obtain a mortgage on the borrower's real estate when possible, in addition to any other available collateral. This real estate collateral is taken as security to reinforce the likelihood of the ultimate repayment of the loan and tends to increase management's willingness to make real estate loans and, to that extent, also tends to increase the magnitude of the real estate loan portfolio component.

The largest component of our loan portfolio is real estate mortgage loans. At December 31, 2014, real estate mortgage loans totaled $196,294,083 and represented 76.86% of the total loan portfolio, compared to $194,254,829, or 81.45%, at December 31, 2013. This represents an increase of $2,039,254, or 1.05%, from the December 31, 2013 balance.

Residential mortgage loans totaled $70,295,788 at December 31, 2014, and represented 27.52% of the total loan portfolio, compared to $65,700,997 and 27.55%, respectively, at December 31, 2013. This represents an increase of $4,594,791, or 6.99%, from the December 31, 2013 balance. Residential real estate loans consist of first and second mortgages on single or multi-family residential dwellings.

Nonresidential mortgage loans, which include commercial loans and other loans secured by multi-family properties and farmland, totaled $99,450,427 at December 31, 2014, compared to $104,378,485 at December 31, 2013. This represents a decline of $4,928,058, or 4.72%, from the December 31, 2013 balance. These loans represented 38.94% and 43.76% of the total loans at December 31, 2014 and December 31, 2013, respectively.

Real estate construction loans were $26,547,868 and $24,175,347 at December 31, 2014 and 2013, respectively, and represented 10.40% and 10.14% of the total loan portfolio, respectively. From December 31, 2013 to December 31, 2014, these loans increased $2,372,521, or 9.81%.

Currently, the demand for real estate loans in our market area is still relatively weak, largely because of a slow recovery from the recent recession that affected many businesses and individuals in our market area. However, over the past several quarters we have experienced an increase in the demand for real estate loans.

Commercial and industrial loans decreased $983,249, or 3.03%, to $31,503,599 at December 31, 2014, from $32,486,848 at December 31, 2013. At December 31, 2014 and December 31, 2013, commercial and industrial loans represented 12.34% and 13.62%, respectively, of the total loan portfolio.

Our loan portfolio is also comprised of consumer loans that totaled $27,540,996 and $11,725,319 at December 31, 2014 and December 31, 2013, respectively, and represented 10.78% and 4.92%, respectively, of the total loan portfolio. From December 31, 2013 to December 31, 2014, our consumer loans have increased by $15,815,677 mainly related to the increase in automobile loans with the implementation of several marketing programs designed to increase consumer borrowings.

Our loan portfolio reflects the diversity of our markets. The economies of our markets contain elements of medium and light manufacturing, higher education, regional health care, and distribution facilities. We expect our local economy to remain stable; however, due to the slow economic recovery in some of our markets, we do not expect any material growth in our loan portfolio in the near future. We do not engage in foreign lending.

The repayment of loans in the loan portfolio as they mature is also a source of liquidity for the Company. The following table sets forth the Company's loans maturing within specified intervals at December 31, 2014.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

(Dollars in thousands)	**One Year or Less**	**Over One Year Through Five Years**	**Over Five Years**	**Total**
Real estate	$ 45,387	$ 115,770	$ 35,137	$ 196,294
Commercial and industrial	16,060	14,810	634	31,504
Consumer and other	2,591	11,004	13,988	27,583
	$ 64,038	$ 141,584	$ 49,759	$ 255,381
Loans maturing after one year with:				
Fixed interest rates				$ 142,521
Floating interest rates				48,822
				$ 191,343

The information presented in the table above is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval as well as modification of terms upon maturity. Consequently, we believe this treatment presents fairly the maturity and repricing structure of the loan portfolio.

Investment Securities - The investment securities portfolio is also a component of our total earning assets. Our investment securities portfolio consists of securities available-for-sale, securities held-to-maturity, and nonmarketable equity securities.

Available-for-Sale Securities

At December 31, 2014 and 2013, our investment in available-for-sale securities was $13,045,588 and $12,144,843, respectively, an increase of $900,745, or 7.42%. These securities are carried at their estimated fair value.

This portfolio is primarily utilized to provide liquidity sources, flexibility, and balanced yielding assets to our balance sheet.

Held-to-Maturity Securities

At December 31, 2014 and 2013, securities held-to-maturity were $31,384,418 and $36,951,934, respectively, a decrease of $5,567,516, or 15.07%. These securities are carried at amortized cost, including the net unrealized gain in available-for-sale-securities that were reclassified as held-to-maturity on December 31, 2013. The net unrealized gain is being amortized to other comprehensive income over the life of the underlying securities. The net unrealized gain included in the amortized cost at December 31, 2014 and 2013, was $164,436 and $237,797, respectively. We intend to hold these securities to maturity and have the ability to do so.

The amortized costs and the estimated fair value of our securities available-for-sale and held-to-maturities at December 31, 2014 and 2013 are shown in the following tables.

Available-for-Sale

	December 31, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Mortgage-backed securities	$ 10,207,150	$ 10,200,688	$ 9,277,577	$ 9,318,633
Corporate bonds	2,788,520	2,814,900	2,765,950	2,796,210
Equity security	30,000	30,000	30,000	30,000
Total	$ 13,025,670	$ 13,045,588	$ 12,073,527	$ 12,144,843

Held-to-Maturity

	December 31, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Government sponsored enterprises	$ 6,404,933	$ 6,588,279	$ 7,146,409	$ 7,070,985
Mortgage-backed securities	21,665,238	22,250,589	26,404,573	26,731,341
Municipals	3,149,811	3,403,149	3,163,155	3,149,608
Total	31,219,982	$ 32,242,017	36,714,137	$ 36,951,934
Capitalization of net unrealized gains on securities transferred from available-for-sale	164,436		237,797	
Total	$ 31,384,418		$ 36,951,934	

At December 31, 2014, one security classified as available-for-sale and two securities classified as held-to-maturity were in a loss position as detailed in the preceding tables. We do not intend to sell these securities in the near future and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost. We believe that, based on industry analyst reports and credit ratings, the deterioration in value of these securities is attributable to changes in market interest rates and, therefore, these losses are not considered other-than-temporary.

Distribution and Yields

Contractual maturities and yields on our securities available-for-sale and held-to-maturity at December 31, 2014 are shown in the following tables. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are presented separately, maturities of which are based on expected maturities since paydowns are expected to occur before contractual maturity dates.

Available-for-Sale (1)

	Corporate Bonds	
(Dollars in thousands)	Amount	Yield
Due after five years through ten years	$ 2,815	0.53%

(1) Excludes mortgage-backed securities totaling $10,200,688 with a yield of 2.72% and an equity security in the amount $30,000.

Held-to-Maturity (2)

(Dollars in thousands)	Government Sponsored Enterprises		Municipals		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
Due after ten years	$ 6,349	3.24%	$ 3,137	4.20%	$ 9,486	3.55%

(2) Excludes mortgage-backed securities totaling $21,898,635 with a yield of 3.18%.

Nonmarketable Equity Securities –

Nonmarketable equity securities are recorded at their original cost since no ready market exists for these securities. At December 31, 2014 and 2013, nonmarketable equity securities consisted of FHLB and Community Bankers Bank stock, which are recorded at their original cost of $1,444,300 and $58,100, respectively and $1,536,800 and $58,100, respectively. These securities are held primarily as a pre-requisite for accessing liquidity sources provided by the issuers of these securities.

Interest-Bearing Deposits with Other Banks – At December 31, 2014 and 2013, interest-bearing deposits with other banks totaled $17,891,077 and $14,698,851, respectively. For the years 2014 and 2013, the average balance of these deposits was $15,871,516 and $26,998,725, respectively.

Deposits and Other Interest-Bearing Liabilities

Average interest-bearing liabilities decreased $24,930,035, or 8.94%, to $253,948,909 in 2014, from $278,878,944 in 2013.

Deposits - Average total deposits decreased $28,273,865, or 8.99%, to $286,275,136 in 2014, from $314,549,001 in 2013. At December 31, 2014, total deposits were $285,318,618 compared to $282,415,023 a year earlier, an increase of $2,903,595, or 1.03%.

Average interest-bearing deposits decreased $33,145,033, or 13.13%, to $219,229,841 in 2014 from $252,374,874 in 2013. The average balance of non-interest bearing deposits increased $4,871,168, or 7.83%, to $67,045,295 in 2014, from $62,174,127 in 2013.

The following table sets forth the average balance amounts and the average rates paid by us for the years ended December 31, 2014 and 2013.

	2014		2013	
	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest bearing demand deposits	$ 67,045,295	0.00%	$ 62,174,127	0.00%
Interest bearing demand deposits	54,579,086	0.06	44,726,845	0.11
Savings accounts	85,710,683	0.11	95,043,244	0.17
Time deposits	78,940,072	0.90	112,604,785	1.61
Total	$ 286,275,136	0.29%	$ 314,549,001	0.64%

Core deposits, which exclude time deposits of $100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were $248,818,470 and $242,480,278 at December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, our core deposits were 87.21% and 85.86% of total deposits, respectively. Overall, we have placed a high priority on securing low-cost local deposits over other, more costly, funding sources in the current low-rate environment.

Included in time deposits $100,000 and over, at December 31, 2014 and 2013 are brokered time deposits of $22,719,000 and $23,005,000 respectively, equating to a decrease of $286,000. In accordance with our asset/liability management strategy, we do not intend to renew or replace the brokered deposits outstanding at December 31, 2014, when they mature.

Deposits, and particularly core deposits, have been our primary source of funding and have enabled us to meet successfully both our short-term and long-term liquidity needs. We anticipate that such deposits will continue to be our primary source of funding in the future. Our loan-to-deposit ratio was 89.51% and 84.45% on December 31, 2014 and 2013, respectively.

The maturity distribution of our time deposits of $100,000 or more at December 31, 2014, is set forth in the following table:

	December 31, 2014
Three months or less	$ 10,990,790
Over three through twelve months	22,786,119
Over one year through three years	2,383,936
Over three years	339,303
Total	$ 36,500,148

Approximately 92.54% of our time deposits of $100,000 or more had scheduled maturities within one year. Large certificate of deposit customers tend to be extremely sensitive to interest rate levels, making these deposits less reliable sources of funding for liquidity planning purposes than core deposits. We expect most certificates of deposits with maturities less than one year to be renewed upon maturity. However, there is the possibility that some certificates may not be renewed. We believe that, should these certificates of deposit not be renewed, the impact would be minimal on our operations and liquidity due to the availability of other funding sources.

Other Borrowings - Other borrowings at December 31, 2014 and 2013, consist of the following:

	December 31, 2014	December 31, 2013
Securities sold under agreements to repurchase	$ 7,573,403	$ 4,876,118
Advances from Federal Home Loan Bank	25,000,000	23,000,000
Junior subordinated debentures	10,310,000	10,310,000

Securities sold under agreements to repurchase mature on a one to seven day basis. These agreements are secured by U.S. government agency securities. Advances from the FHLB mature at different periods, as discussed in the footnotes to the financial statements, and are secured by our one to four family residential mortgage loans and our investment in FHLB stock. The junior subordinated debentures mature on November 23, 2035 and have an interest rate of LIBOR plus 1.83%. As of December 31, 2014, accrued and unpaid interest on these debentures totaled $784,086. See “Supervision and Regulation—Memoranda of Understanding” elsewhere in this report.

Capital

The Company 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 possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Currently, a Memorandum of Understanding entered into between the FDIC and the South Carolina State Board of Financial Institutions (the “Bank MOU”) requires that the Bank maintain a Tier 1 leverage ratio of 8%, and our other regulatory capital ratios at such levels so as to be considered well capitalized for regulatory purposes. We continue to be in full compliance with this requirement of the Bank MOU. See “Supervision and Regulation—Memoranda of Understanding” for additional information relating to the Company MOU.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Tier 1 capital of the Company consists of common shareholders’ equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets. The Company’s Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 capital and 8% for total risk-based capital; under the provisions of the Bank MOU the Bank will be required to maintain a Tier 1 leverage ratio of 8% and a total risk-based capital ratio of 10%. However, as the Company has less than $500 million in assets, its activities and regulatory capital structure are de-emphasized pursuant to the Federal Reserve’s Small Bank Holding Company Policy Statement, with all significant business activities attributed to the Bank by the Company’s regulators.

The Company and the Bank are also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to maintaining ratios 1% to 2% above the minimum.

The Company and the Bank were each considered to be "well capitalized" for regulatory purposes at December 31, 2014. The following table shows the regulatory capital ratios for the Company and the Bank at December 31, 2014.

Analysis of Capital and Capital Ratios

(Dollars in thousands)	**Holding Company**	**Bank**
Tier 1 capital	$ 44,561	$ 41,050
Tier 2 capital	3,006	3,006
Total qualifying capital	$ 47,567	$ 44,056
Risk-adjusted total assets (including off-balance sheet exposures)	$ 295,709	$ 294,740
Risk-based capital ratios:		
Total risk-based capital ratio	16.09%	14.95%
Tier 1 risk-based capital ratio	15.07	13.93
Tier 1 leverage ratio	12.20	11.28

In July 2013, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency each approved final rules to implement the Basel III regulatory capital reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules will apply to all national and state banks, such as the Bank, and savings associations and most bank holding companies and savings and loan holding companies, which we collectively refer to herein as "covered banking organizations." Bank holding companies with less than $500 million in total consolidated assets, such as the Company, are not subject to the final rules, nor are savings and loan holding companies substantially engaged in commercial activities or insurance underwriting. The framework requires covered banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. The approved rules include a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% as well as a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking institutions. In terms of quality of capital, the final rules emphasize common equity Tier 1 capital and implement strict eligibility criteria for regulatory capital instruments. The final rules also change the methodology for calculating risk-weighted assets to enhance risk sensitivity. The requirements in the rules began to phase in on January 1, 2015 for "standardized approach" banking organizations such as the Bank. The requirements in the rules will be fully phased in by January 1, 2019. The ultimate impact of the new capital standards on the Bank is currently being reviewed.

Impact of Off-Balance Sheet Instruments

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are legally binding agreements to lend to a customer at predetermined interest rates 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. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities. Standby letters of credit often expire without being used.

We use the same credit underwriting procedures for commitments to extend credit and standby letters of credit as we do for on-balance sheet instruments. The creditworthiness of each borrower is evaluated and the amount of collateral, if deemed necessary, is based on the credit evaluation. Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

We have not entered into off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments or that could significantly impact earnings.

At December 31, 2014 we had issued commitments to extend credit of $32,670,070 and standby letters of credit of $225,463 through various types of commercial lending arrangements. These commitments included $27,795,058 of credits with variable interest rates.

The following table sets forth the length of time until maturity for unused commitments to extend credit and standby letters of credit at December 31, 2014.

(*Dollars in Thousands*)	Within One Month	After One Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year	Total
Unused commitments to extend credit	$ 5,249	$ 1,551	$ 9,186	$ 15,986	$ 16,684	$ 32,670
Standby letters of credit	-	91	134	225	-	225
Totals	$ 5,249	$ 1,642	$ 9,320	$ 16,211	$ 16,684	$ 32,895

We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon the extension of credit, is based on its credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, premises, furniture and equipment, and commercial and residential real estate.

Liquidity Management and Capital Resources

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and use of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of securities in our investment portfolio is fairly predictable and is subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At December 31, 2014, our liquid assets, consisting of cash and cash equivalents amounted to $22.8 million, or 6.21% of total assets. Our investment securities, excluding nonmarketable securities, at December 31, 2014, amounted to $44.4 million, or 12.08% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, $17.8 million of these securities were pledged as collateral to secure public deposits and borrowings as of December 31, 2014. At December 31, 2013, our liquid assets, consisting of cash and cash equivalents amounted to $18.2 million, or 5.13% of total assets. Our investment securities, excluding nonmarketable securities, at December 31, 2013, amounted to $49.1 million, or 13.81% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, $17.2 million of these securities were pledged as collateral to secure public deposits and borrowings as of December 31, 2013.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. For the near future, it is our intention to reduce the use of wholesale funding to fund loan demand, instead relying on lower-cost funding sources, particularly core deposits. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. At December 31, 2014, we had a $5.1 million unused line of credit with the Federal Reserve and had sufficient unpledged securities that would have allowed us to borrow an additional $26.6 million from the Federal Reserve. Also, as member of the FHLB, we can make applications for borrowings that can be made for leverage purposes. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the Bank be pledged to secure any advances from them. We have an available line to borrow funds from the FHLB up to 30% of the Bank's total assets, which provide additional available funds of $110.1 million at December 31, 2014. At that date the Bank had drawn $25.0 million on this line. Finally, we had available at December 31, 2014 two unsecured lines of credit, which were unused, to purchase up to $17.5 million of federal funds from unrelated correspondent institutions. We believe that the sources described above will be sufficient to meet our future liquidity needs.

The Company is largely dependent upon dividends from the Bank as a source of cash. The Bank MOU restricts the ability of the Bank to declare and pay dividends to the Company. A memorandum of understanding entered into between the Federal Reserve and the Company (the "Company MOU") requires the Company to obtain approval of the Federal Reserve prior to declaring dividends. The Federal Reserve did not approve the Company's request to pay dividends and interest payments relating to its outstanding classes of preferred stock and trust preferred securities due and payable in the fourth quarter of 2011, and such consent has not been granted thereafter, largely out of deference to the Federal Reserve's policy statement on dividends. See

"Supervision and Regulation—Memoranda of Understanding" elsewhere in this report for additional information relating to the Company MOU.

Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. We have both an internal finance committee consisting of senior management that meets at various times during each quarter and a management finance committee that meets weekly as needed. The finance committees are responsible for maintaining the level of interest rate sensitivity of our interest-sensitive assets and liabilities within board-approved limits.

Contractual Obligations

The following table provides payments due by period for various contractual obligations as of December 31, 2014:

(*Dollars in Thousands*)	Within One Year	After One Within Two Years	After Two Within Three Years	After Three Within Five Years	After Five Years	Total
Certificate accounts [(1)]	$ 64,662	$ 6,187	$ 1,216	$ 1,756	$ -	$ 73,821
Securities sold under agreements to repurchase [(2)]	7,573	-	-	-	-	7,573
Long-term debt [(3)]	25,000	-	-	-	10,310	35,310
Purchases	-	-	-	-	-	-
Operating lease obligations [(4)]	409	429	431	775	3,954	5,998
Totals	$ 97,644	$ 6,616	$ 1,647	$ 2,531	$ 14,264	$ 122,702

(1) Certificates of deposit give customers rights to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal.
(2) We expect securities repurchase agreements to be re-issued and, as such, do not necessarily represent an immediate need for cash.
(3) Long term debt consists of Federal Home Loan Bank borrowings and junior subordinated debentures.
(4) Operating lease obligations include lease obligations for existing and future property and non-cancelable lease commitments for equipment.

During 2014, our primary sources of cash generated were $7.4 million from the maturity of investment securities, proceeds of $5.3 and $7.8 million from sales of available-for sale securities and from sales of OREO. Additionally, we generated $3.7 million from our operating activities and $7.6 million from our financing activities. The primary uses of our cash resources were to increase our loans by $18.7 million and to purchase $8.3 million of available-for-sale securities. We believe that our overall liquidity sources are adequate to meet our operating needs in the ordinary course of our business.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as our bank subsidiary are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the general rate of inflation and of goods and services. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously under the heading "Rate/Volume Analysis of Interest Income," we seek to manage the relationships between interest sensitive-assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Accounting and Financial Reporting Issues

We have adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States in the preparation of its consolidated financial statements. The significant accounting policies are described in the footnotes to our consolidated financial statements included in this report. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgments and assumptions used are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of operations.

Of these significant accounting policies, the Company considers its policies regarding the allowance for loan losses to be its most critical accounting policy due to the significant degree of management judgment involved in determining the amount of allowance. The Company has developed policies and procedures for assessing the adequacy of the allowance, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Company's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers that is not known to management at the time of the issuance of the consolidated financial statements. Refer to the discussion under the heading "Provision and Allowance for Loan Losses" for a detailed description of the Company's estimation process and methodology related to the allowance for loan losses.

Effect of Governmental Policies

We are affected by the policies of regulatory authorities, including the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" and the FDIC. An important function of the Federal Reserve Board is to regulate the national money supply. Among the instruments of monetary policy used by the Federal Reserve Board are: purchase and sale of U.S. Government securities in the market place; changes in the discount rate, which is the rate any depository institution must pay to from the Federal Reserve; and changes in the reserve requirements of depository institutions. These instruments are effective in influencing the economic and monetary growth, interest rate levels and inflation.

The monetary policies of the Federal Reserve Board and other governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Because of changing conditions in the national and international economy and in the money markets, as well as the result of actions by monetary and fiscal authorities, it is not possible to predict with certainty future changes in interest rates, deposit levels or loan demand or whether the changing economic conditions will have a positive or negative effect on operations and earnings.

Legislation from time to time is introduced into the United States Congress and the South Carolina Legislature and other state legislatures, and regulations are proposed by the regulatory agencies that could affect our business. It cannot be predicted whether or in what form any of these proposals will be adopted or the extent to which our business may be affected thereby.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission." Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the Board of Directors. Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2014.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ F. R. Saunders, Jr.
F.R. Saunders, Jr.
President and Chief Executive Officer
March 30, 2015

/s/ Jeffrey A. Paolucci
Jeffrey A. Paolucci
Executive Vice President, Chief Financial Officer and Secretary
March 30, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Reliance Bancshares, Inc. and Subsidiary
Florence, South Carolina

We have audited the accompanying consolidated balance sheets of First Reliance Bancshares, Inc. and Subsidiary (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Reliance Bancshares, Inc. and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Elliott Davis Decosimo, LLC

Columbia, South Carolina
March 30, 2015

FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 4,955,110	$ 3,548,974
Interest-bearing deposits with other banks	17,891,077	14,698,851
Total cash and cash equivalents	22,846,187	18,247,825
Time deposits in other banks	101,409	101,207
Securities available-for-sale	13,045,588	12,144,843
Securities held-to-maturity (Estimated fair value of $32,242,017 and $36,951,934 at December 31, 2014 and 2013, respectively)	31,384,418	36,951,934
Nonmarketable equity securities	1,502,400	1,594,900
Total investment securities	45,932,406	50,691,677
Mortgage loans held for sale	1,970,068	2,248,252
Loans receivable	255,381,014	238,502,131
Less allowance for loan losses	(3,002,922)	(2,894,153)
Loans, net	252,378,092	235,607,978
Premises, furniture and equipment, net	23,395,306	24,333,616
Accrued interest receivable	1,034,316	1,129,881
Other real estate owned	2,444,253	8,932,634
Cash surrender value life insurance	13,282,565	12,945,693
Net deferred tax assets	3,198,771	-
Other assets	1,172,948	1,169,368
Total assets	$ 367,756,321	$ 355,408,131
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	$ 65,445,513	$ 65,576,524
Interest-bearing transaction accounts	57,229,738	46,046,043
Savings	88,822,371	86,247,410
Time deposits $100,000 and over	36,500,148	39,934,745
Other time deposits	37,320,848	44,610,301
Total deposits	285,318,618	282,415,023
Securities sold under agreement to repurchase	7,573,403	4,876,118
Advances from Federal Home Loan Bank	25,000,000	23,000,000
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	806,079	587,649
Net deferred tax liabilities	-	105,099
Other liabilities	2,380,554	2,021,498
Total liabilities	331,388,654	323,315,387
Commitments and contingencies - Notes 4 and 15		
Shareholders' Equity		
Preferred stock		
Series A cumulative perpetual preferred stock - 15,349 shares issued and outstanding	15,179,709	15,145,597
Series B cumulative perpetual preferred stock - 767 shares issued and outstanding	767,000	769,894
Common stock, $0.01 par value; 20,000,000 shares authorized, 4,739,823 and 4,568,695 shares issued and outstanding at December 31, 2014 and 2013, respectively	47,398	45,687
Capital surplus	30,914,242	30,609,281
Treasury stock, at cost, 35,176 and 29,846 shares at December 31, 2014 and 2013, respectively	(205,512)	(201,686)
Nonvested restricted stock	(385,330)	(32,138)
Retained deficit	(10,071,514)	(14,447,907)
Accumulated other comprehensive income	121,674	204,016
Total shareholders' equity	36,367,667	32,092,744
Total liabilities and shareholders' equity	$ 367,756,321	$ 355,408,131

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

FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Operations

	For the years ended December 31, 2014	2013
Interest income:		
Loans, including fees	$ 13,758,531	$ 13,330,556
Investment securities:		
Taxable	1,120,902	1,240,743
Tax exempt	114,081	45,574
Other interest income	80,517	89,187
Total	15,074,031	14,706,060
Interest expense:		
Time deposits	706,565	1,814,922
Other deposits	129,677	208,404
Other interest expense	323,314	424,946
Total	1,159,556	2,448,272
Net interest income	13,914,475	12,257,788
Provision for loan losses	706,891	609,808
Net interest income after provision for loan losses	13,207,584	11,647,980
Noninterest income:		
Service charges on deposit accounts	1,624,575	1,665,059
Gain on sale of mortgage loans	1,108,799	1,029,641
Income from bank owned life insurance	336,872	345,906
Other service charges, commissions, and fees	1,076,560	1,000,118
Gain on sale of available-for-sale securities	5,321	33,917
Other	284,518	331,109
Total	4,436,645	4,405,750
Noninterest expenses:		
Salaries and benefits	7,317,950	7,731,822
Occupancy	1,529,855	1,506,908
Furniture and equipment related expenses	1,553,289	1,360,631
Other	5,916,768	11,793,899
Total	16,317,862	22,393,260
Income (loss) before income taxes	1,326,367	(6,339,530)
Income tax (benefit) expense	(3,081,244)	1,397,000
Net income (loss)	4,407,611	(7,736,530)
Preferred stock dividends accrued	1,220,205	962,064
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	31,218	178,039
Net income (loss) available to common shareholders	$ 3,156,188	$ (8,876,633)
Average common shares outstanding, basic	4,612,758	4,294,105
Average common shares outstanding, diluted	4,688,981	4,294,105
Income (loss) per common share:		
Basic income (loss) per share	$ 0.68	$ (2.07)
Diluted income (loss) per share	0.67	(2.07)

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

FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Loss)

	For the years ended December 31, 2014	2013
Net income (loss) from operations	$ 4,407,611	$ (7,736,530)
Other comprehensive loss, net of tax:		
Securities available-for-sale		
Unrealized holding losses arising during the period	(46,077)	(1,908,180)
Income tax benefit	(15,665)	(609,462)
Net of income taxes	(30,412)	(1,298,718)
Reclassification adjustment for gains realized in net income from operations	5,321	33,917
Income tax expense	1,809	11,532
Net of income taxes	3,512	22,385
Other-than-temporary impairment on available-for-sale securities	-	(70,000)
Income tax benefit	-	(23,800)
Net of income taxes	-	(46,200)
Other comprehensive loss attributable to securities available-for-sale	(33,924)	(1,274,903)
Securities held-to-maturity		
Amortization of net unrealized gains capitalized on securities transferred from available-for-sale	(73,361)	-
Income tax benefit	(24,943)	-
Net of income taxes	(48,418)	-
Other comprehensive loss	(82,342)	(1,274,903)
Comprehensive income (loss)	$ 4,325,269	$ (9,011,433)

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

FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity
For the years ended December 31, 2014 and 2013

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$ 18,199,743	$ 40,949	$ 27,991,132	$ (182,234)	$ (123,466)	$ (6,207,116)	$ 1,478,919	$ 41,197,927
Net loss						(7,736,530)		(7,736,530)
Changes in unrealized gains and losses on securities							(1,274,903)	(1,274,903)
Expense of auctioning Series A and Series B Preferred Stock	(169,291)							(169,291)
Accretion of Series A Preferred Stock discount	194,544					(194,544)		-
Amortization of Series B Preferred Stock premium	(16,505)					16,505		-
Conversion of Series C Preferred Stock to Common Stock	(2,293,000)	4,709	2,614,513			(326,222)		-
Issuance Common Stock		25	4,371					4,396
Net Change in Restricted Stock		4	(735)		91,328			90,597
Purchase of Treasury Stock				(19,452)				(19,452)
Balance, December 31, 2013	15,915,491	45,687	30,609,281	(201,686)	(32,138)	(14,447,907)	204,016	32,092,744
Net income						4,407,611		4,407,611
Changes in unrealized gains and losses on securities							(82,342)	(82,342)
Accretion of Series A Preferred Stock discount	34,112					(34,112)		-
Amortization of Series B Preferred Stock premium	(2,894)					2,894		-
Issuance Common Stock		26	6,618					6,644
Net Change in Restricted Stock		1,685	298,343		(353,192)			(53,164)
Purchase of Treasury Stock				(3,826)				(3,826)
Balance, December 31, 2014	$ 15,946,709	$ 47,398	$ 30,914,242	$ (205,512)	$ (385,330)	$(10,071,514)	$ 121,674	$36,367,667

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

FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	For the years ended December 31, 2014	2013
Cash flows from operating activities:		
Net income (loss)	$ 4,407,611	$ (7,736,530)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	706,891	609,808
Depreciation and amortization expense	968,159	935,393
Gain on sales of securities available-for-sale	(5,321)	(33,917)
Impairment loss on available-for-sale securities	-	70,000
Impairment loss on premises	399,812	-
Discount accretion and premium amortization	136,834	284,996
(Gain) loss on sale of other real estate owned	(141,868)	191,006
Write down of other real estate owned	65,873	4,905,476
Disbursements for mortgages held for sale	(26,647,034)	(30,691,361)
Proceeds from sales of mortgages held for sale	26,925,218	34,064,969
Deferred income tax (benefit) expense	(3,489,761)	1,397,000
Decrease in interest receivable	95,565	147,017
Increase in interest payable	218,430	122,240
Increase for cash surrender value of life insurance	(336,872)	(345,906)
(Decrease) increase in deferred compensation on restricted stock	(53,164)	90,597
Increase in other assets	155,343	1,243,280
Increase in other liabilities	296,376	409,736
Net cash provided by operating activities	3,702,092	5,663,804
Cash flows from investing activities:		
Purchases of securities available-for-sale	(8,315,697)	(6,954,183)
Maturities of securities available-for-sale	2,035,251	15,022,994
Maturities of securities held-to-maturity	5,395,415	-
Proceeds from sale of securities available-for-sale	5,295,529	712,248
Net decrease (increase) in nonmarketable equity securities	92,500	(297,500)
Net increase in time deposits in other banks	(202)	(254)
Net (increase) decrease in loans receivable	(18,674,448)	15,044,570
Purchases of premises, furniture and equipment	(297,595)	(509,810)
Proceeds from sale of other real estate owned	7,761,819	6,088,371
Net cash (used) provided by investing activities	(6,707,428)	29,106,436
Cash flows from financing activities:		
Net increase (decrease) in demand deposits, interest-bearing transaction accounts and savings accounts	13,627,645	(6,753,225)
Net decrease in certificates of deposit and other time deposits	(10,724,050)	(60,145,886)
Net increase in advances from Federal Home Loan Bank	2,000,000	12,000,000
Net increase in securities sold under agreements to repurchase	2,697,285	498,140
Expense of auctioning Series A and Series B Preferred stock	-	(169,291)
Net proceeds from issuance of common stock	6,644	4,396
Purchase of treasury stock	(3,826)	(19,452)
Net cash provided (used) by financing activities	7,603,698	(54,585,318)
Net increase (decrease) in cash and cash equivalents	4,598,362	(19,815,078)
Cash and cash equivalents, beginning of year	18,247,825	38,062,903
Cash and cash equivalents, end of year	$ 22,846,187	$ 18,247,825
Cash paid during the year for:		
Income taxes	$ 56,000	$ -
Interest	941,126	2,326,032
Supplemental noncash investing and financing activities:		
Foreclosures on loans	$ 1,197,443	$ 4,827,496
Net change in unrealized losses on available-for-sale securities	(82,342)	(1,274,903)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - First Reliance Bancshares, Inc. (the "Company") was incorporated to serve as a bank holding company for its subsidiary, First Reliance Bank (the "Bank"). First Reliance Bank was incorporated on August 9, 1999 and commenced business on August 16, 1999. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Florence, Lexington, and Charleston Counties in South Carolina. The Bank is a South Carolina chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions. In 2005, the Company formed First Reliance Capital Trust I (the "Trust") for the purpose of issuing trust preferred securities. In accordance with current accounting guidance, the Trust is not consolidated in these financial statements.

Management's Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and valuation of foreclosed real estate, management obtains independent appraisals in accordance with regulatory policy. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary, based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of Credit Risk - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Florence, Lexington, Charleston and Mount Pleasant, South Carolina. At December 31, 2014, the majority of the total loan portfolio was to borrowers from within these areas.

The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to groups of borrowers or industries that would also be affected by sector-specific economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Management has determined that there is minimal concentration of credit risk associated with its lending policies or practices.

There are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks and management believes that these particular practices do not subject the Company to unusual credit risk. The Company's investment portfolio consists principally of obligations of the United States and its agencies or its corporations and obligations of state and local governments. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Securities Available-for-Sale - Investment securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded as part of accumulated other comprehensive income in shareholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

Securities Held-to-Maturity - Investment securities held-to-maturity are stated at cost, adjusted for amortization of premium and accretion of discount computed by the straight-line method. The Company has the ability and management has the intent to hold designated investment securities to maturity. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security.

Nonmarketable Equity Securities - At December 31, 2014 and 2013, non-marketable equity securities consist of the following:

	December 31,	
	2014	2013
Federal Home Loan Bank stock	$ 1,444,300	$ 1,536,800
Community Bankers Bank stock	58,100	58,100
Total	$ 1,502,400	$ 1,594,900

Nonmarketable equity securities are carried at cost since no quoted market value and no ready market exists. Investment in the FHLB is a condition to borrowing from that bank, and the stock is pledged to collateralize such borrowings. Dividends received on nonmarketable equity securities are included as a separate component of interest income.

Mortgage Loans Held For Sale - The Company's mortgage activities are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgages and selling mortgages to investors under pre-existing commitments on a best efforts basis. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or market value. Gains or losses are recognized when control over these assets has been surrendered and are included in gain on sale of mortgage loans in the consolidated statements of operations.

Loans Receivable - Loans receivable are stated at their unpaid principal balance, net of charge offs. Interest income is computed using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectibility of a loan or when a loan becomes contractually ninety days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed.

Loan origination and commitment fees and certain direct loan origination costs (principally, salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using the straight-line method.

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 earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is 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 considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.
Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment

shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, a concession to the borrower is granted that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring. The restructuring of a loan may include the transfer from the borrower to the Company of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, modification of the loan terms, or a combination of the above.

Premises, Furniture and Equipment - Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 40 years and for furniture and equipment of 5 to 10 years. Leasehold improvements are amortized over the term of the lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized based upon the Company's policy.

Other Real Estate Owned - Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is carried at the lower of cost or the fair market value minus estimated costs to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses to maintain such assets and subsequent changes in the valuation allowance are included in other noninterest expense along with gains and losses on disposal.

Cash Surrender Value of Life Insurance - Cash surrender value of life insurance represents the cash value of policies on certain current and former officers of the Company.

Residential Mortgage Origination Fees - Residential mortgage origination fees include fees from residential mortgage loans originated by the Company and subsequently sold in the secondary market. These fees are recognized as income at the time of the sale to the investor.

Income Taxes - Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Interest and penalties related to income tax matters are recognized in income tax expense.

Advertising Expense - Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $119,463 and $148,266 were included in the Company's results of operations for 2014 and 2013, respectively.

Retirement Benefits - A trusteed retirement savings plan is sponsored by the Company and provides retirement benefits to substantially all officers and employees who meet certain age and service requirements. The plan includes a "salary reduction" feature pursuant to Section 401(k) of the Internal Revenue Code. In 2004, the Company converted the 401(k) plan to a 404(c) plan. The 404(c) plan changes investment alternatives to include the Company's stock. Under the plan and present policies, participants are permitted to make contributions up to 15% of their annual compensation. At its discretion, the Company can make matching contributions up to 6% of the participants' compensation. The Company charged $120,477 and $119,594 to earnings for the retirement savings plan in 2014 and 2013, respectively.
During 2006, the Board of Directors approved a supplemental retirement plan for the directors and certain officers. These benefits are not qualified under the Internal Revenue Code and they are not funded. For 2014 and 2013 the supplemental retirement expense was $189,041 and $162,583, respectively. The current accrued but unfunded amount is $1,465,532 and $1,297,661 at December 31, 2014 and 2013, respectively. However, certain funding is provided informally and indirectly by bank owned life

insurance policies. The cash surrender value of the life insurance policies is recorded as a separate line item in the accompanying consolidated balance sheets at $13,282,565 and $12,945,693 at December 31, 2014 and 2013, respectively.

The Company has split-dollar life insurance arrangements with certain of its officers. At December 31, 2014 and 2013, the split-dollar liability relating to these arrangements totaled $269,701 and $253,416, respectively. For 2014 and 2013, the Company recognized net expenses of $16,285 and $14,907, respectively, related to these arrangements.

Equity Incentive Plan - On January 19, 2006, the Company approved the 2006 Equity Incentive Plan. This plan provides for the granting of dividend equivalent rights, options, performance unit awards, phantom shares, stock appreciation rights and stock awards, each of which shall be subject to such conditions based upon continued employment, passage of time or satisfaction of performance criteria or other criteria as permitted by the plan. The plan allows granting up to 950,000 shares of stock to officers, employees, and directors, consultants and service providers of the Company or its affiliates. Awards may be granted for a term of up to ten years from the effective date of grant. Under this Plan, the Board of Directors has sole discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock options may not be less than the market value of a share of common stock on the date the option is granted. The related compensation cost for all stock-based awards is recognized over the service period for awards expected to vest. Any options that expire unexercised or are canceled become available for re-issuance. The Company's equity incentive plan is further described in Note 16.

Common Stock Owned by the Employee Stock Ownership Plan ("ESOP") - All shares held by the ESOP are treated as outstanding for purposes of computing earnings per share. Purchases and redemptions of the Company's common stock by the ESOP are at estimated fair value as determined by independent valuations. Dividends on shares held by the ESOP are charged to retained earnings. At December 31, 2014 and 2013, the ESOP owned 385,585 and 319,184 shares of the Company's common stock with an estimated value of $1,069,239 and $489,245, respectively. All of these shares were allocated to participants.

Income (Loss) Per Common Share - Basic earnings (loss) per common share represents income (loss) available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and similar share-based compensation instruments and are determined using the treasury stock method (see Note 17). For the year ended December 31, 2013, due to operating losses, common stock equivalents are antidilutive and therefore basic and diluted loss per share are equal.

Derivative Instruments - The Company has no material embedded derivative instruments requiring separate accounting treatment. The Company has freestanding derivative instruments consisting of fixed rate conforming loan commitments and commitments to sell fixed rate conforming loans. The Company does not currently engage in hedging activities.

Statements of Cash Flows - For purposes of reporting cash flows in the consolidated financial statements, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. Changes in the valuation account of securities available-for-sale, including the deferred tax effects, are considered noncash transactions for purposes of the statement of cash flows and are presented in detail in the notes to the consolidated financial statements.

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

Recently Issued Accounting Pronouncements - The following is a summary of recent authoritative pronouncements:

In January 2014, the Financial Accounting Standard Board ("FASB") amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company will apply the amendments prospectively. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2016. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In June 2014, the FASB issued guidance which makes limited amendments to the guidance on accounting for certain repurchase agreements. The new guidance (1) requires entities to account for repurchase-to-maturity transactions as secured borrowings (rather than as sales with forward repurchase agreements), (2) eliminates accounting guidance on linked repurchase financing transactions, and (3) expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The amendments will be effective for the Company for the first interim or annual period beginning after December 15, 2014. The Company will apply the guidance by making a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to all stock awards granted or modified after the amendments are effective. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In August 2014, the FASB issued guidance that is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements, management will need to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization’s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will be effective for the Company for annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In January 2015, the FASB issued guidance that eliminated the concept of extraordinary items from generally accepted accounting principles (“U. S. GAAP.”) Existing U.S. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. The amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, however, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied either prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operation or cash flow.

Risks and Uncertainties - In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies (regulatory risk). These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Reclassifications - Certain captions and amounts in the 2013 consolidated financial statements were reclassified to conform with the 2014 presentation. The reclassifications did not have an impact on net loss or shareholders’ equity.

NOTE 2 - CASH AND DUE FROM BANKS

The Company is required to maintain balances with the Federal Reserve computed as a percentage of deposits. At December 31, 2014 and 2013, this requirement was $3,464,000 and $1,603,000, respectively, net of vault cash and balances on deposit with the Federal Reserve.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities available-for-sale were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2014				
Mortgage-backed securities	$ 10,207,150	$ 49,894	$ 56,356	$ 10,200,688
Corporate bonds	2,788,520	26,380	-	2,814,900
Equity security	30,000	-	-	30,000
Total	$ 13,025,670	$ 76,274	$ 56,356	$ 13,045,588
December 31, 2013				
Mortgage-backed securities	$ 9,277,577	$ 87,635	$ 46,579	$ 9,318,633
Corporate bonds	2,765,950	30,260	-	2,796,210
Equity security	30,000	-	-	30,000
Total	$ 12,073,527	$ 117,895	$ 46,579	$ 12,144,843

The amortized cost and estimated fair values of securities held-to-maturity were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2014				
U.S. Government sponsored agencies	$ 6,404,933	$ 183,346	$ -	$ 6,588,279
Mortgage-backed securities	21,665,238	684,643	99,292	22,250,589
Municipals	3,149,811	253,338	-	3,403,149
	31,219,982	$ 1,121,327	$ 99,292	$ 32,242,017
Capitalization of net unrealized gains on securities transferred from available-for-sale in 2013	164,436			
Total	$ 31,384,418			
December 31, 2013				
U.S. Government sponsored agencies	$ 7,146,409	$ 80,707	$ 156,131	$ 7,070,985
Mortgage-backed securities	26,404,573	537,133	210,365	26,731,341
Municipals	3,163,155	17,569	31,116	3,149,608
	36,714,137	$ 635,409	$ 397,612	$ 36,951,934
Capitalization of net unrealized gains on securities transferred from available-for-sale	237,797			
Total	$ 36,951,934			

At December 31, 2013, the Company transferred certain securities to the held-to-maturity category from available-for-sale, since the Company has the ability and management intends to hold these securities to maturity. At the time of the reclassification, the securities were carried at their estimated fair value of $36,951,934, including net unrealized gains of $237,797. The net unrealized gains will be amortized to other comprehensive income over the life of the underlying securities.

The following is a summary of maturities of securities available-for-sale and held-to-maturity as of December 31, 2014. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty. Mortgage-backed securities are presented as a separate line, maturities of which are based on expected maturities since paydowns are expected to occur before contractual maturity dates.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	$ 16,300	$ 1,999,360	$ 46,579	
Due after five years through ten years	$ 2,788,520	$ 2,814,900	$ -	$ -
Due after ten years	-	-	9,485,783	9,991,428
	2,788,520	2,814,900	9,485,783	9,991,428
Mortgage-backed securities	10,207,150	10,200,688	21,898,635	22,250,589
Equity security	30,000	30,000	-	-
Total	$ 13,025,670	$ 13,045,588	$ 31,384,418	$ 32,242,017

The following tables show gross unrealized losses and fair value of securities available-for-sale and securities held-to-maturity, aggregated by investment category, and length of time that individual securities have been in a continuous realized loss position at December 31, 2014 and 2013.

Securities Available-for-Sale

	December 31, 2014		December 31, 2013	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Less Than 12 Months				
Mortgage-backed securities	$ 4,199,552			
12 Months or More				
Mortgage-backed securities	1,520,395	40,056	-	-
Total securities available-for-sale	$ 5,719,947	$ 56,356	$ 1,999,360	$ 46,579

Securities Held-to-Maturity

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Less Than 12 Months,				
U.S. Government sponsored agencies	$ -	$ -	$ 4,549,325	$ 156,131
Mortgage-backed securities	-	-	5,011,313	210,365
Municipals	-	-	2,037,029	31,116
Total	-	-	11,597,667	397,612
12 Months or More				
Mortgage-backed securities	4,522,866	99,292	-	-
Total securities held-to-maturity	$ 4,522,866	$ 99,292	$ 11,597,667	$ 397,612

At December 31, 2014, one security classified as available-for-sale and two securities classified as held-to-maturity were in a loss position as detailed in the preceding tables. The Company does not intend to sell these securities in the near future and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company believes that, based on industry analyst reports and credit ratings, the deterioration in value is attributable to changes in market interest rates and, therefore, these losses are not considered other-than-temporary.

During 2014 and 2013, gross proceeds from the sale of available-for-sale securities were $5,295,529, and $712,248, respectively. During these periods, gross gains totaled $39,110 and $33,917, while gross losses totaled $33,789 and $0, respectively.

At December 31, 2014 and 2013, investment securities with a par value of $17,652,510 and $17,114,179 and a fair market value of $17,790,098 and $17,230,946, respectively, were pledged as collateral to secure public deposits and borrowings.

NOTE 4 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans receivable are summarized as follows:

	December 31, 2014	December 31, 2013
Real estate loans:		
Construction	$ 26,547,868	$ 24,175,347
Residential:		
Residential 1-4 family	40,985,430	35,873,036
Multifamily	4,337,462	4,312,057
Second mortgages	4,775,669	4,245,778
Equity lines of credit	20,197,227	21,270,126
Total residential	70,295,788	65,700,997
Nonresidential	99,450,427	104,378,485
Total real estate loans	196,294,083	194,254,829
Commercial and industrial	31,503,599	32,486,848
Consumer	27,540,996	11,725,319
Other	42,336	35,135
Total loans	$ 255,381,014	$ 238,502,131

The Company has pledged certain loans as collateral to secure its borrowings from the Federal Home Loan Bank. The total of loans pledged was $87,493,033 and $76,972,548 at December 31, 2014 and 2013, respectively.

Loans sold with limited recourse are 1-4 family residential mortgages originated by the Company and sold to various other financial institutions. These loans are sold with the agreement that a loan may be returned to the Company within 90 days of purchase, at any time in the event the Company fails to provide necessary documents related to the mortgages to the buyers, or if the Company makes false representations or warranties to the buyers. Loans sold under these agreements in 2014 and 2013 totaled $30,565,053 and $29,014,529, respectively. The Company uses the same credit policies in making loans held for sale as it does for on-balance-sheet instruments. Sales commitments are to sell loans at an agreed upon price and are generally funded within 60 days.

The following is an analysis of the allowance for loan losses by class of loans for the years ended December 31, 2014 and 2013.

December 31, 2014

(Dollars in Thousands)	Total	Real Estate Loans: Construction	Real Estate Loans: Residential	Real Estate Loans: Non-Residential	Total Real Estate Loans	Commercial and Industrial	Consumer and Other
Beginning balance	$ 2,894	$ 303	$ 1,043	$ 1,382	$ 2,728	$ 65	$ 101
Provisions	707	264	521	(160)	625	(90)	172
Recoveries	519	165	27	248	440	68	11
Charge-offs	(1,117)	(506)	(346)	(223)	(1,075)	(5)	(37)
Ending balance	$ 3,003	$ 226	$ 1,245	$ 1,247	$ 2,718	$ 38	$ 247

December 31, 2013

(Dollars in Thousands)	Total	Real Estate Loans: Construction	Real Estate Loans: Residential	Real Estate Loans: Non-Residential	Total Real Estate Loans	Commercial and Industrial	Consumer and Other
Beginning balance	$ 4,167	$ 1,441	$ 951	$ 1,129	$ 3,521	$ 616	$ 30
Provisions	610	(980)	903	1,136	1,059	(548)	99
Recoveries	455	138	177	35	350	89	16
Charge-offs	(2,338)	(296)	(988)	(918)	(2,202)	(92)	(44)
Ending balance	$ 2,894	$ 303	$ 1,043	$ 1,382	$ 2,728	$ 65	$ 101

The following is a summary of loans evaluated for impairment individually and collectively, by class, for the years ended December 31, 2014 and 2013.

December 31, 2014

(Dollars in Thousands)	Total	Real Estate Loans: Construction	Real Estate Loans: Residential	Real Estate Loans: Non-Residential	Total Real Estate Loans	Commercial and Industrial	Consumer and Other
Allowance							
Evaluated for impairment							
Individually	$ 259	$ 19	$ 240	$ -	$ 259	$ -	$ -
Collectively	2,744	207	1,005	1,247	2,459	38	247
Allowance for loan losses	$ 3,003	$ 226	$ 1,245	$ 1,247	$ 2,718	$ 38	$ 247
Total Loans							
Evaluated for impairment							
Individually	$ 10,104	$ 2,937	$ 2,746	$ 4,307	$ 9,990	$ 12	$ 102
Collectively	245,277	23,611	67,550	95,143	186,304	31,492	27,481
Loans receivable	$ 255,381	$ 26,548	$ 70,296	$ 99,450	$ 196,294	$ 31,504	$ 27,583

December 31, 2013

(Dollars in Thousands)	Total	Real Estate Loans: Construction	Real Estate Loans: Residential	Real Estate Loans: Non-Residential	Total Real Estate Loans	Commercial and Industrial	Consumer and Other
Allowance							
Evaluated for impairment							
Individually	$ 405	$ 2	$ 185	$ 163	$ 350	$ 53	$ 2
Collectively	2,489	301	858	1,219	2,378	12	99
Allowance for loan losses	$ 2,894	$ 303	$ 1,043	$ 1,382	$ 2,728	$ 65	$ 101
Total Loans							
Evaluated for impairment							
Individually	$ 18,160	$ 2,495	$ 3,091	$ 10,998	$ 16,584	$ 1,480	$ 96
Collectively	220,342	21,680	62,610	93,381	177,671	31,007	11,664
Loans receivable	$ 238,502	$ 24,175	$ 65,701	$ 104,379	$ 194,255	$ 32,487	$ 11,760

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. Loans are not considered impaired if a minimal delay occurs and all amounts due including accrued interest at the contractual interest rate for the period of delay are expected to be collected.

The following summarizes the Company's impaired loans as of December 31, 2014.

(Dollars in Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate				
Construction	$ 1,667	$ 1,696	$ -	$ 1,094
Residential	1,593	1,737	-	2,093
Nonresidential	4,307	4,691	-	5,866
Total real estate loans	7,567	8,124	-	9,053
Commercial and industrial	12	20	-	29
Consumer and other	102	107	-	82
	7,681	8,251	-	9,164

(Dollars in Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real estate				
Construction	$ 1,270	$ 1,800	$ 19	$ 1,313
Residential	1,153	1,171	240	1,018
Nonresidential	-	-	-	1,657
Total real estate loans	2,423	2,971	259	3,988
Commercial and industrial	-	-	-	852
Consumer and other	-	-	-	9
	2,423	2,971	259	4,849
Total				
Real estate				
Construction	2,937	3,496	19	2,407
Residential	2,746	2,908	240	3,111
Nonresidential	4,307	4,691	-	7,523
Total real estate loans	9,990	11,095	259	13,041
Commercial and industrial	12	20	-	881
Consumer and other	102	107	-	91
Total	$ 10,104	$ 11,222	$ 259	$ 14,013

The following summarizes the Company's impaired loans as of December 31, 2013.

(Dollars in Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate				
Construction	$ 680	$ 849	$ -	$ 1,599
Residential	2,127	2,272	-	3,038
Nonresidential	6,047	6,365	-	8,187
Total real estate loans	8,854	9,486	-	12,824
Commercial and industrial	12	18	-	1,131
Consumer and other	83	91	-	75
	8,949	9,595	-	14,030
With an allowance recorded:				
Real estate				
Construction	1,815	1,815	2	1,777
Residential	964	999	185	1,299
Nonresidential	4,951	5,087	163	2,803
Total real estate loans	7,730	7,901	350	5,879
Commercial and industrial	1,468	1,538	53	606
Consumer and other	13	14	2	28
	9,211	9,453	405	6,513
Total				
Real estate				
Construction	2,495	2,664	2	3,375
Residential	3,091	3,271	185	4,337
Nonresidential	10,998	11,452	163	10,990
Total real estate loans	16,584	17,387	350	18,702
Commercial and industrial	1,480	1,556	53	1,737
Consumer and other	96	105	2	104
Total	$ 18,160	$ 19,048	$ 405	$ 20,543

Interest income on impaired loans, other than nonaccrual loans, is recognized on an accrual basis. Interest income on nonaccrual loans is recognized only as collected and only after principal arrears has been satisfied. During 2014 and 2013 interest income recognized on nonaccrual loans was $149,959 and $600,924, respectively. If the nonaccrual loans had been accruing interest at their original contracted rates, interest income related to these nonaccrual loans would have been $538,670 and $796,304 for 2014 and 2013, respectively.

A summary of current, past due and nonaccrual loans as of December 31, 2014 and 2013 were as follows:

December 31, 204

(*Dollars in Thousands*)	Past Due 30-89 Days	Past Due Over 90 Days and Accruing	Past Due Over 90 Days Non-Accruing	Total Past Due	Current	Total Loans
Real estate						
Construction	$ -	$ -	$ 2,937	$ 2,937	$ 23,611	$ 26,548
Residential	25	-	1,290	1,315	68,981	70,296
Nonresidential	126	-	106	232	99,218	99,450
Total real estate loans	151	-	4,333	4,484	191,810	196,294
Commercial and industrial	11	25	4	40	31,464	31,504
Consumer and other	49	-	46	95	27,488	27,583
Totals	$ 211	$ 25	$ 4,383	$ 4,619	$ 250,762	$ 255,381
December 31, 2013						
Real estate						
Construction	$ 11	$ -	$ 481	$ 492	$ 23,683	$ 24,175
Residential	344	-	1,672	2,016	63,685	65,701
Nonresidential	24	127	5,006	5,157	99,222	104,379
Total real estate loans	379	127	7,159	7,665	186,590	194,255
Commercial and industrial	3	-	1,393	1,396	31,091	32,487
Consumer and other	19	8	74	101	11,659	11,760
Totals	$ 401	$ 135	$ 8,626	$ 9,162	$ 229,340	$ 238,502

At December 31, 2014 and December 31, 2013 loans past due 90 days and still accruing interest totaled $24,810 and $135,408, respectively.

Loans totaling $4,381,725 and $8,626,439 were in nonaccruing status at December 31, 2014 and 2013, respectively. When the ultimate collectability of a nonaccrual loan principal is in doubt, wholly or partially, all cash receipts are applied to the principal. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement.

Included in the loan portfolio are particular loans that have been modified in order to maximize the collection of loan balances. If, for economic or legal reasons related to the customer's financial difficulties, the Company grants a concession compared to the original terms and conditions on the loan, the modified loan is classified as a troubled debt restructuring ("TDR"). Concessions can relate to the contractual interest rate, maturity date or payment structure of the note. As part of our workout plan for individual loan relationships, we may restructure loan terms to assist borrowers facing financial challenges in the current economic environment.

At December 31, 2014 there were 20 loans classified as a TDR totaling $3,621,486. Of the 20 loans, 12 loans totaling $3,125,057 were performing while eight loans totaling $496,429 were not performing. As of December 31, 2013, there were 30 loans classified as TDRs totaling $7,157,230. Of the 30 loans, 16 loans totaling $3,481,589 were performing while 14 loans totaling $3,675,641 were not performing. All of these restructured loans resulted in either extended maturity or lowered rates and were included in the impaired loan balance.

The following tables provide, by class, the number of loans modified as TDRs during the year ended December 31, 2014 and 2013.

(*Dollars in Thousands*)	For The Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Number of Loans	Recorded Investment	Unpaid Principal Balance	Number of Loans	Recorded Investment	Unpaid Principal Balance
Extended maturity						
Real estate –						
Residential	-	$ -	$ -	2	$ 76	$ 76
Nonresidential	1	2,738	2,738	2	228	228
Commercial and industrial	-	-	-	1	14	14
Consumer and other	-	-	-	1	13	13
Total	1	2,738	2,738	6	331	331

(*Dollars in Thousands*)	For The Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Number	Recorded	Unpaid Principal	Number	Recorded	Unpaid Principal

	of Loans	Investment	Balance	of Loans	Investment	Balance
Reduced Rate						
Real estate –						
Residential	1	$ 62	$ 62	-	$ -	$ -
Nonresidential	-	-	-	4	738	738
Total	1	62	62	4	738	738
Totals	2	$ 2,800	$ 2,800	10	$ 1,069	$ 1,069

The following table provides the number of loans and leases modified in TDRs during the previous 12 months which subsequently defaulted during the years ended December 31, 2014 and 2013, as well as the recorded investments and unpaid principal balances as of December 31, 2014 and 2013. Loans in default are those past due greater than 89 days.

(*Dollars in Thousands*)	For The Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Number of Loans	Recorded Investment	Unpaid Principal Balance	Number of Loans	Recorded Investment	Unpaid Principal Balance
Extended Maturity						
Real estate – Nonresidential	-	$ -	$ -	1	$ 104	$ 104
Consumer and other	1	11	11	-	-	-
Total	1	11	11	1	104	104
Reduced Rate						
Real estate –						
Residential	-	-	-	1	171	171
Nonresidential	-	-	-	1	119	119
Total	-	-	-	2	290	290
Totals	1	$ 11	$ 11	3	$ 394	$ 394

All loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, are considered in determining an appropriate level of allowance for credit losses.

Credit Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, including, among other factors: current financial information, historical payment experience, credit documentation, public information, and current economic trends. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(Dollars in Thousands)	Total	Real Estate Loans: Construction	Real Estate Loans: Residential	Real Estate Loans: Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other
Pass	$ 215,707	$ 17,423	$ 62,189	$ 79,398	$ 159,010	$ 29,279	$ 27,418
Special mention	27,359	4,435	5,681	14,929	25,045	2,213	101
Substandard	12,315	4,690	2,426	5,123	12,239	12	64
Doubtful	-	-	-	-	-	-	-
Totals	$ 255,381	$ 26,548	$ 70,296	$ 99,450	$ 196,294	$ 31,504	$ 27,583

As of December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(Dollars in Thousands)	Total	Real Estate Loans: Construction	Real Estate Loans: Residential	Real Estate Loans: Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other
Pass	$ 193,839	$ 14,406	$ 56,227	$ 81,891	$ 152,524	$ 29,735	$ 11,580
Special mention	27,926	9,085	5,904	11,588	26,577	1,271	78
Substandard	16,737	684	3,570	10,900	15,154	1,481	102
Doubtful	-	-	-	-	-	-	-
Totals	$ 238,502	$ 24,175	$ 65,701	$ 104,379	$ 194,255	$ 32,487	$ 11,760

The Company enters into financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. 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. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

The following table summarizes the Company's off-balance sheet financial instruments whose contract amounts represent credit risk:

	December 31, 2014	December 31, 2013
Commitments to extend credit	$ 32,670,070	$ 34,397,688
Standby letters of credit	225,463	8,000

The Company originates certain fixed rate residential mortgage loans and commits these loans for sale based on best efforts contracts. The commitments to originate fixed rate residential mortgage loans and the sales commitments are freestanding derivative instruments. At December 31, 2014 and 2013, the Company has no material embedded derivative instruments requiring separate accounting treatment. At December 31, 2014 and 2013, the amount of the forward sales commitments approximates the carrying value of the mortgage loans held for sale of $1,970,068 and $2,248,252, respectively. Sales commitments are to sell loans at an agreed upon price and are generally funded within 60 days.

NOTE 5 - PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment consisted of the following:

	December 31,	
	2014	2013
Land	$ 10,368,249	$ 10,768,061
Buildings	13,629,945	13,621,465
Leasehold improvements	521,657	521,657
Furniture and equipment	6,402,364	6,204,104
Construction in progress	1,258,060	1,167,205
Total	32,180,275	32,282,492
Less, accumulated depreciation	8,784,969	7,948,876
Premises and equipment, net	$ 23,395,306	$ 24,333,616

Depreciation expense for the years ended December 31, 2014 and 2013 amounted to $866,280 and $803,169, respectively.

At December 31, 2014 and 2013, construction in progress consists mainly of architect fees and site work for potential new branches. As of December 31, 2014, there were no material commitments outstanding for the construction/or purchase of premises, furniture and equipment. Also, there were no material sales of premises, furniture or equipment during 2014 or 2013.

The Company recorded an impairment loss of $399,812, during 2014, on a parcel of land that was originally acquired for future facilities expansion. In August of 2014, after deciding not to expand on this parcel, the Company entered into a tentative contract to sell it for approximately $3,600,000. This contract expired on December 31, 2014, without being consummated. The subject parcel has a carrying value of approximately $4,000,000.

NOTE 6 - OTHER REAL ESTATE OWNED

Transactions in other real estate owned for the years ended December 31, 2014 and 2013 are summarized below:

	December 31,	
	2014	2013
Beginning balance	$ 8,932,634	$ 15,289,991
Additions	1,197,443	4,827,496
Sales	(7,619,951)	(6,279,377)
Write downs	(65,873)	(4,905,476)
Ending balance	$ 2,444,253	$ 8,932,634

The Company recognized a net gain of $141,868 and a net loss of $191,006 on the sale of OREO for the years ended December 31, 2014 and 2013, respectively.

Other real estate owned expense for the years ended December 31, 2014 and 2013 was $539,897 and $6,710,229, respectively, which includes gains and losses on sales.

NOTE 7 - DEPOSITS

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

Maturing In	Amount
2015	$ 64,661,920
2016	6,186,709
2017	1,215,674
2018	1,152,636
2019	604,057
Total	$ 73,820,996

Included in total time deposits at December 31, 2014 and 2013 were brokered time deposits of $22,719,000 and $23,005,000, respectively.

Time deposits that meet or exceed the FDIC insurance limits of $250,000 at year-end 2014 and 2013 were $27,814,120 and $30,723,625, respectively.

NOTE 8 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase generally mature on a one to thirty day basis. Under the terms of the repurchase agreement, the Company sells an interest in securities issued by United States Government agencies and agrees to repurchase the same securities the following business day. Information concerning securities sold under agreements to repurchase is summarized as follows:

	December 31, 2014	December 31, 2013
Balance at end of the year	$ 7,573,403	$ 4,876,118
Maximum month-end balance during the year	7,639,859	5,798,243
Average balance during the year	6,216,888	4,964,004
Average interest rate at the end of the year	0.11%	0.10%
Average interest rate during the year	0.25%	0.10%

At December 31, 2014 and 2013, investment securities with a par value of $7,938,768 and $5,565,246 and a fair market value of $7,985,434 and $5,505,545, respectively, were pledged as collateral for the underlying agreements.

NOTE 9 - ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank consisted of the following:

	Interest Rate	December 31, 2014	December 31, 2013
Advances maturing			
Fixed rate			
October 1, 2014	2.93%	$ -	$ 1,000,000
October 1, 2014	0.29%	-	10,000,000
December 19, 2014	0.33%	-	6,000,000
January 2, 2015	0.24%	6,000,000	-
April 1, 2015	0.22%	6,000,000	-
May 13, 2015	0.25%	8,000,000	-
October 9, 2015	0.30%	5,000,000	-
Daily rate			
September 17, 2014	0.36%	-	6,000,000
		$ 25,000,000	$ 23,000,000

All of the Federal Home Loan Bank advances outstanding at December 31, 2014, are due in 2015.

At December 31, 2014 and 2013 the Company has pledged certain loans totaling $87,493,033 and $76,972,548, respectively, as collateral to secure its borrowings from the FHLB. Investment securities with a par value of $4,438,676 and $5,640,797 and a fair market value of $4,578,026 and $5,883,107 were also pledged as collateral to secure the borrowings at December 31, 2014 and 2013, respectively. Additionally, the Company's FHLB stock is pledged to secure the borrowings.

NOTE 10 - JUNIOR SUBORDINATED DEBENTURES

On June 30, 2005, the Trust (a non-consolidated affiliate) issued $10,000,000 in trust preferred securities (callable without penalty) with a maturity of November 23, 2035. Interest on these securities is payable quarterly at the three-month LIBOR rate plus 1.83%. In accordance with generally accepted accounting principles, the Trust has not been consolidated in these financial statements. The Company received from the trust the $10,000,000 proceeds from the issuance of the securities and the $310,000 initial proceeds from the capital investment in the Trust, and accordingly has shown the funds due to the trust as $10,310,000 junior subordinated debentures. Current regulations allow the entire amount of junior subordinated debentures to be included in the calculation of regulatory capital.

The memorandum of understanding between the Federal Reserve Bank of Richmond (the "Federal Reserve") and the Company (the "Company MOU") requires the Company to obtain approval of the Federal Reserve Bank prior to paying interest on the junior subordinated debentures. The Federal Reserve Bank has not approved payment of dividends and interest payments since the third quarter of 2011. In accordance with the terms of the debentures, the Company may deferred interest payment up to 20 consecutive quarterly periods; however, interest will continue to accrue on these debentures and interest on such deferred interest will accrue and compound quarterly from the date such deferred interest would have been payable were it not for the extension period. As of

December 31, 2014, Company has deferred interest payments for 13 consecutive quarters on these debentures and the total amount of accrued and unpaid interest was $784,086. See Note 18 – Regulatory Matters – *Memoranda of Understanding*.

NOTE 11 – SHAREHOLDERS' EQUITY

Common Stock – The following is a summary of the changes in common shares outstanding for the years ended December 31, 2014 and 2013.

	2014	2013
Common shares outstanding at beginning of the period	4,568,695	4,094,861
Conversion of Series C preferred stock to common stock	-	470,829
Issuance of common stock	2,653	2,595
Issuance of non-vested restricted shares	213,100	1,245
Forfeiture of restricted shares	(44,625)	(835)
Common shares outstanding at end of the period	4,739,823	4,568,695

Preferred Stock - The Company's Articles of Incorporation authorizes the issuance of a class of 10,000,000 shares of preferred stock, having no par value. Subject to certain conditions, the Company's Board of Directors is authorized to issue preferred stock without shareholder approval. Under the Articles of Incorporation, the Board is authorized to determine the terms of one or more series of preferred stock, including the preferences, rights, and limitations of each series.

On March 6, 2009, the Company completed a transaction with the United States Treasury (the "Treasury") under the Troubled Asset Relief Program Capital Purchase Program, whereby the Company sold 15,349 shares of its Series A Cumulative Perpetual Preferred Stock (the "Series A Shares") to the Treasury. In addition, the Treasury received a warrant to purchase 767 shares of the Company's Series B Cumulative Perpetual Preferred Stock (the "Series B Shares"), which was immediately exercised for a nominal exercise price. The preferred shares issued to the Treasury qualify as Tier 1 capital for regulatory purposes. On March 1, 2013, the Treasury auctioned the subject securities in a private transaction with unaffiliated third-party investors.

The Series A Preferred Stock is a senior cumulative perpetual preferred stock that has a liquidation preference of $1,000 per share, pays cumulative dividends at a rate of 5% per year (approximately $767,000 annually) for the first five years and beginning May 15, 2014, at a rate of 9% per year (approximately $1,381,000 annually). Dividends are payable quarterly. At any time, the Company may, at its option and with regulatory approval, redeem the Series A Preferred Stock at par value plus accrued and unpaid dividends. The Series A Preferred Stock is generally non-voting.

The Series B Preferred Stock is a cumulative perpetual preferred stock that has the same rights, preferences, privileges, voting rights and other terms as the Series A Preferred Stock, except that dividends will be paid at the rate of 9% per year so long as the Series A Preferred Stock is outstanding and may not be redeemed until all the Series A Preferred Stock has been redeemed. The Series A and Series B Preferred Shares will receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Under the Company MOU, the Company must request prior approval from the Federal Reserve prior to declaring or paying dividends on its common stock or preferred stock, or making scheduled interest payments on its trust-preferred securities. Such approval was not granted by the Federal Reserve for payment of the Company's dividends and interest payments due and payable in the 13 consecutive quarters ended December 31, 2014. Additionally, such approval was not granted for payments due in the first quarter of 2015. Since the Company has not paid the dividend on its Series A and Series B Shares for more than six consecutive quarterly periods, the holders of these shares currently have the right to appoint up to two individuals to the Company's board of directors. To date, the right to appoint directors has not been exercised by the holders.

As of December 31, 2014, dividends in arrears on the Series A and Series B shares totaled $3,102,285.

The proceeds from the issuance of the Series A Shares and Series B Shares were allocated based on the relative fair value of each series based on a discounted cash flow model. As a result of the valuations, $14,492,526 and $856,474 was allocated to the Series A Preferred Stock and Series B Preferred Stock, respectively. This resulted in a discount of $973,260 for the Series A Shares and a premium of $82,572 for the Series B Shares. The discount and premium are being accreted and amortized, respectively, through retained earnings over a five-year estimated life using the effective interest method and have been fully recognized as of December 31, 2014.

The following is a summary of the accretion of the Series A Shares discount and the amortization of the Series B Shares premium for the years ended December 31, 2014 and 2013.

	2014	2013
Accretion of Series A Preferred Stock discount	$ 34,112	$ 194,544
Amortization of Series B Preferred Stock premium	(2,894)	(16,505)
Accretion net of amortization	$ 31,218	$ 178,039

The net amount of the accretion and amortization was treated as a deemed dividend to preferred shareholders in the computation of income (loss) per share.

Restrictions on Shareholders' Equity - South Carolina banking regulations restrict the amount of dividends that can be paid to shareholders. All of the Bank's dividends to the Company are payable only from the undivided profits of the Bank. At December 31, 2014, the Bank had negative undivided profits of $2,913,281. The Bank is authorized to upstream 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Commissioner of Banks provided that the Bank received a composite CAMELS rating of one or two at the last Federal or State regulatory examination. Under Federal Reserve regulations, the amounts of loans or advances from the Bank to the parent company are also restricted. Please see "Management's Discussion and Analysis – Liquidity Management and Capital Resources" appearing above for additional information relating to the Company's payment of dividends.

NOTE 12- OTHER OPERATING EXPENSE

Other operating expenses are summarized below:

	December 31,	
	2014	2013
Advertising	$ 119,463	$ 148,266
Office supplies and printing	119,019	90,255
Computer supplies and software amortization	137,548	141,949
Telephone	159,474	268,293
Professional fees and services	1,324,488	1,145,998
Supervisory fees and assessments	498,898	548,427
Debit and credit card expenses	776,275	767,488
Other real estate owned expenses	539,897	6,710,229
Mortgage loan expenses	177,156	262,602
Insurance expenses	288,463	356,904
Impairment loss on premises	399,812	-
Other	1,376,275	1,353,488
Total	$ 5,916,768	$ 11,793,899

NOTE 13 - INCOME TAXES

Income tax provision for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Provision		
Current income tax expense (benefit)		
Federal	$ -	$ -
State	180,207	-
Total current	180,207	-
Deferred income tax expense (benefit)		
Federal	217,519	(2,107,959)
State	10,791	(14,270)
Total deferred	228,310	(2,122,229)
Change in valuation allowance	(3,489,761)	3,519,229
Total income tax expense	$ (3,081,244)	$ 1,397,000

The components of deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Allowance for loan losses	$ 1,020,993	$ 984,012
Net operating losses	8,241,620	7,276,898
Non-accrual interest	437,122	665,599
Deferred compensation	513,511	453,849
Federal and state credits	429,954	459,238
Other real estate owned	386,426	1,743,236
Other	245,947	103,346
Gross deferred tax assets	11,275,573	11,686,178
Less, valuation allowance	(7,488,740)	(10,978,501)
Net deferred tax assets	3,786,833	707,677
Deferred tax liabilities:		
Accumulated depreciation	$ 370,444	$ 470,682
Prepaid expenses	128,726	212,157
Unrealized gains on securities available for sale	62,680	105,099
Other	26,212	24,838
Total gross deferred tax liabilities	588,062	812,776
Net deferred tax (liabilities) assets recognized	$ 3,198,771	$ (105,099)

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2013, management had recorded a full valuation allowance of $10,978,501. After review of all positive and negative factors and potential tax planning strategies, during 2014, the valuation allowance was decreased by $3,489,761, representing a valuation allowance on continuing operations of $7,488,740 at December 31, 2014.

The Company has federal net operating losses of $23,709,365 and $20,888,295 for the years ended December 31, 2014 and 2013, respectively. The Company has state net operating losses of $5,467,713 and $5,299,292 for the years ended December 31, 2014 and 2013, respectively.

A reconciliation between the income tax expense (benefit) and the amount computed by applying the federal statutory rate of 34% to income before income taxes for the years ended December 31, 2014 and 2013 follows:

	2014	2013
Tax expense (benefit) at statutory rate	$ 450,965	$ (2,155,440)
State income tax, net of federal income tax benefit	126,059	(14,270)
Tax-exempt interest income	(38,788)	(15,495)
Disallowed interest expense	524	1,186
Life insurance surrender value	(114,537)	(117,608)
Valuation allowance	(3,489,761)	3,519,229
Other, net	(15,706)	179,398
	$ (3,081,244)	$ 1,397,000

The Company had analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. Tax returns for 2011 and subsequent years are subject to review by taxing authorities.

NOTE 14 - RELATED PARTY TRANSACTIONS

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of the Company. In compliance with relevant law and regulations, the Company's related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender and do not involve more than the normal risk of collectability. As of December 31, 2014 and 2013, the Company had related party loans totaling $1,904,093 and $2,106,213, respectively. During 2014, $219,929 of advances were made to related parties and repayments totaled $422,049. As of December 31, 2014, all related party loans were current.

Deposits from directors and executive officers and their related interests totaled $1,913,397 and $1,724,671 at December 31, 2014 and 2013, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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

The Company has entered into a number of operating leases for properties relating to its branch banking and mortgage operations. The leases have various initial terms and expire on various dates. The lease agreements generally provide that the Company is responsible for ongoing repairs and maintenance, insurance and real estate taxes. The leases also provide for renewal options and certain scheduled increases in monthly lease payments. Rental expenses recorded under leases for the years ended December 31, 2014 and 2013 were $407,848 and $411,295, respectively.
The minimal future rental payments under non-cancelable operating leases having remaining terms in excess of one year, for each of the next five years and thereafter in the aggregate are:

	Amount
2015	$ 408,931
2016	429,027
2017	431,392
2018	400,048
2019	375,115
Thereafter	3,953,707
Total	$ 5,998,220

NOTE 16 - EQUITY INCENTIVE PLAN

On January 19, 2006, the Company adopted the 2006 Equity Incentive Plan (the "Plan"), which provides for the granting of dividend equivalent rights options, performance unit awards, phantom shares, stock appreciation rights and stock awards, each of which are subject to such conditions based upon continued employment, passage of time or satisfaction of performance criteria or other criteria as permitted by the Plan. The Plan, which was amended on September 17, 2010, allows the Company to award, subject to approval by the Board of Directors, up to 950,000 shares of stock to officers, employees, and directors, consultants and service providers of the Company or its affiliates. Awards may be granted for a term of up to ten years from the effective date of grant. Under the Plan, our Board of Directors has sole discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock awards may not be less than the market value of a share of common stock on the date the award is granted. Any awards that expire unexercised or are canceled become available for re-issuance.

The Company can issue the restricted shares as of the grant date either by the issuance of share certificate(s) evidencing restricted shares or by documenting the issuance in uncertificated or book entry form on the Company's stock records. Except as provided by the Plan, the employee does not have the right to make or permit to exist any transfer or hypothecation of any restricted shares. When restricted shares vest, the employee must either pay the Company within two business days the amount of all tax withholding obligations imposed on the Company or make an election pursuant to Section 83(b) of the Internal Revenue Code to pay taxes at grant date.

Restricted shares may be subject to one or more objective employment, performance or other forfeiture conditions established by the Plan Committee at the time of grant. Under the terms of the Plan, the restricted shares will not vest unless the Company's retained earnings at the end of the fiscal quarter preceding the third anniversary of the restricted share award date are greater than the award value of the restricted shares. Any shares of restricted stock that are forfeited will again become available for issuance under the Plan. An employee or director has the right to vote the shares of restricted stock after grant until they are forfeited. Compensation cost for restricted stock is equal to the market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Dividends, if any, will be paid on awarded but unvested stock.

During 2014 and 2013, the Company issued 213,100 and 1,245 shares, respectively, of restricted stock pursuant to the 2006 Equity Incentive Plan. The shares issued in 2014 vest in a single installment on the seventh anniversary of the date of grant and thus will be fully vested in 2021, subject to meeting the performance criteria of the Plan. All unearned restricted shares outstanding at December 31, 2013 were either forfeited or cancelled during 2014. The weighted-average fair value of restricted stock issued during 2014 and 2013 was $2.11 and $1.76 per share, respectively. Compensation cost associated with the issuance in 2014 and 2013 was $449,455 and $2,191, respectively. During 2014 and 2013, 44,625 and 835 shares, respectively, were either forfeited or cancelled having a weighted average price of $3.35 and $3.50, respectively. Deferred compensation expense of $81,993 and $90,597 relating to restricted stock, was amortized to income during 2014 and 2013, respectively.

The Plan also allows for the issuance of Stock Appreciation Rights ("SARs"). The SARs entitle the participant to receive the excess of (1) the market value of a specified or determinable number of shares of the stock at the exercise date over the fair value at grant date or (2) a specified or determinable price which may not in any event be less than the fair market value of the stock at the time of the award. Upon exercise, the Company can elect to settle the awards using either Company stock or cash. The shares start vesting after five years and vest at 20% per year until fully vested. Compensation cost for SARs is amortized to compensation expense over the vesting period. No SARs were issued during 2014 and 2013.

At December 31, 2014, there were 717,093 stock awards available for grant under the 2006 Equity Incentive Plan.

NOTE 17 – INCOME (LOSS) PER COMMON SHARE

Net income (loss) available to common shareholders represents net income (loss) adjusted for preferred dividends including dividends declared, accretions of discounts and amortization of premiums on preferred stock issuances and cumulative dividends related to the current dividend period that have not been declared as of period end. All potential dilutive common share equivalents were deemed to be anti-dilutive for the year ended December 31, 2013 due to the net loss.

The following is a summary of the income (loss) per common share calculations for the years ended December 31, 2014 and 2013.

	2014	2013
Income (loss) available to common shareholders		
Net income (loss)	$ 4,407,611	$ (7,736,530)
Preferred stock dividends	1,220,205	962,064
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	31,218	178,039
Net loss available to common shareholders	$ 3,156,188	$ (8,876,633)
Basic income (loss) per common share:		
Net income (loss) available to common shareholders	$ 3,156,188	$ (8,876,633)
Average common shares outstanding – basic	4,612,758	4,294,105
Basic income (loss) per common share	$ 0.68	$ (2.07)
Diluted income (loss) per common share:		
Net income (loss) available to common shareholders	$ 3,156,188	$ (8,876,633)
Average common shares outstanding – basic	4,612,758	4,294,105
Dilutive potential common shares	76,223	-
Average common shares outstanding – diluted	4,688,981	4,294,105
Diluted income (loss) per common share	$ 0.67	$ (2.07)

NOTE 18 - REGULATORY MATTERS

Capital Requirements - The Company 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 possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Currently, the Bank MOU requires that the Bank maintain a Tier 1 leverage ratio of 8%, and our other regulatory capital ratios at such levels so as to be considered well capitalized for regulatory purposes.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Tier 1 capital of the Company consists of common shareholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets. The Company's Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 capital and 8% for total risk-based capital; under the provisions of the Bank MOU the Bank will be required to maintain a Tier 1 leverage ratio of 8% and a total risk-based capital ratio of 10%. However, as the Company has less than $500 million in assets, its activities and regulatory capital structure are de-emphasized pursuant to the Federal Reserve's Small Bank Holding Company Policy Statement, with all significant business activities attributed to the Bank by the Company's regulators.

The Company and the Bank are also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to maintaining ratios 1% to 2% above the minimum.

The Company and the Bank were each considered to be "well capitalized" for regulatory purposes at December 31, 2014 and 2013. "Management's Discussion and Analysis – Capital" appearing above.

The following table summarizes the capital amounts and ratios of the Company and the Bank and the regulatory minimum requirements.

(Dollars in Thousands)	Actual		For Capital Adequacy Purposes Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
The Company						
Total capital (to risk-weighted assets)	$ 47,567	16.09%	$ 23,657	8.00%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	44,561	15.07	11,828	4.00	N/A	N/A
Tier 1 capital (to average assets)	44,561	12.20	14,606	4.00	N/A	N/A
The Bank						
Total capital (to risk-weighted assets)	$ 44,056	14.95%	$ 23,579	8.00%	$ 29,474	10.00%
Tier 1 capital (to risk-weighted assets)	41,050	13.93	11,790	4.00	17,684	6.00
Tier 1 capital (to average assets)	41,050	11.28	14,559	4.00	18,199	5.00
December 31, 2013						
The Company						
Total capital (to risk-weighted assets)	$ 45,093	15.75%	$ 22,912	8.00%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	42,199	14.73	11,456	4.00	N/A	N/A
Tier 1 capital (to average assets)	42,199	11.78	14,323	4.00	N/A	N/A
The Bank						
Total capital (to risk-weighted assets)	$ 40,973	14.35%	$ 22,839	8.00%	$ 28,549	10.00%
Tier 1 capital (to risk-weighted assets)	38,079	13.34	11,420	4.00	17,129	6.00
Tier 1 capital (to average assets)	38,079	10.67	14,276	4.00	17,846	5.00

Memoranda of Understanding - Following an examination of the Bank by the FDIC during the first quarter of 2010, the Bank's Board of Directors agreed to enter into the Bank MOU with the FDIC and the South Carolina State Board of Financial Institutions (the "SC Board"), which became effective August 19, 2010. Among other things, the Bank MOU provides for the Bank to (i) review and formulate objectives relative to liquidity and growth, including a reduction in reliance on volatile liabilities, (ii) formulate plans for the reduction and improvement in adversely classified assets, (iii) maintain a Tier 1 leverage capital ratio of 8% and continue to be "well capitalized" for regulatory purposes, (iv) continue to maintain an adequate allowance for loan and lease losses, (v) not pay any dividend to the Company without the approval of the regulators, (vi) review officer performance and consider additional staffing needs, and (vii) provide progress reports and submit various other information to the regulators.

In addition, on the basis of the same examination by the FDIC and the SC Board, the Federal Reserve requested that the Company enter into the Company MOU, which the Company entered into in December 2010. While this agreement provides for many of the same measures suggested by the Bank MOU, the Company MOU requires that the Company seek pre-approval from the Federal Reserve prior to the declaration or payment of dividends or other interest payments relating to its securities. As a result, until the Company is no longer subject to the Company MOU, it will be required to seek regulatory approval prior to paying scheduled dividends on its preferred stock and on its trust preferred securities, including the Series A and Series B Preferred Shares. This provision will also apply to the Company's common stock, although to date, the Company has not elected to pay dividends on its shares of common stock.

The Federal Reserve approved the scheduled payment of dividends on the Company's preferred stock and interest payments on the Company's trust preferred securities for the first three quarters of 2011; however, the Federal Reserve did not approve the Company's request to pay dividends and interest payments relating to its outstanding classes of preferred stock and trust preferred securities due and payable in the fourth quarter of 2011, and such consent has not been granted thereafter, largely out of deference to the Federal Reserve's policy statement on dividends.

A policy statement published by the Board of Governors of the Federal Reserve System indicates that, as a general matter, it believes the board of directors of a bank holding company should eliminate, defer, or significantly reduce the company's dividends if:

- the company's net income available to shareholders for the preceding four quarters is not sufficient to fully fund the dividends;
- the prospective rate of earnings retention is not consistent with the company's capital needs and overall current and prospective financial condition; or
- the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

The policy statement notes that a failure to do so could result in a supervisory finding that the organization is operating in an unsafe and unsound manner. We believe that the criteria noted above will be heavily weighted by the Federal Reserve in evaluating any future request by the Company to pay dividends on its Series A Shares and the Series B Shares and interest on its outstanding trust preferred securities. Accordingly, we do not anticipate submitting further approval requests until such time as each of the stated criteria has been met or there are other compelling reasons to believe such a request, if submitted, would be approved.

In response to these regulatory matters, the Bank and the Company have taken various actions designed to improve our lending procedures, nonperforming assets, liquidity and capital position and other conditions related to our operations, which are more fully described in turn as part of this discussion. We believe that the successful completion of these initiatives, and the continued improvement of the local economy of the communities we serve, will result in full compliance with our regulatory obligations with the FDIC, the SC Board and the Federal Reserve and position us well for stability and growth over the long term, although we can make no assurances that our regulatory authorities will deem us to be in compliance with the regulatory directives discussed above.

NOTE 19 - UNUSED LINES OF CREDIT

The Bank had available at the end of 2014 an unsecured line of credit, which was unused, to purchase up to $17,500,000 of federal funds from two unrelated correspondent institutions. Also, as of December 31, 2014, the Bank had the ability to borrow funds from the FHLB of up to $110,130,000. At that date $25,000,000 had been advanced. Additionally, an unused line of credit of approximately $5,138,000 was available from the Federal Reserve. The FHLB and the Federal Reserve lines can be revoked at lender's discretion.

NOTE 20 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles ("GAAP") provide a framework for measuring and disclosing fair value that requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or the writing down of individual assets.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Fair Value Hierarchy

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

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Assets Recorded at Fair Value on a Recurring Basis

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

Securities Available-for-Sale - Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2014 and 2013, a significant portion of impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Mortgage Loans Held for Sale - The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Other Real Estate Owned - Foreclosed assets are adjusted to fair value upon transfer of the loans to OREO. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31, 2014 and 2013.

	Total	Level 1	Level 2	Level 3
December 31, 2014				
Available-for-sale securities:				
Mortgage-backed securities	$ 10,200,688	$ -	$ 10,200,688	$ -
Corporate bonds	2,814,900	-	2,814,900	-
Equity security	30,000	-	30,000	-
	13,045,588	-	13,045,588	-
Mortgage loans held for sale (1)	1,970,068	-	1,970,068	-
	$ 15,015,656	$ -	$ 15,015,656	$ -
December 31, 2013				
Available-for-sale securities:				
Mortgage-backed securities	$ 9,318,633	$ -	$ 9,318,633	$ -
Corporate bonds	2,796,210	-	2,796,210	-
Equity security	30,000	-	30,000	-
	12,144,843	-	12,144,843	-
Mortgage loans held for sale (1)	2,248,252	-	2,248,252	-
	$ 14,393,095	$ -	$ 14,393,095	$ -

(1) Carried at the lower of cost or market.

There were no liabilities measured at fair value on a recurring basis at December 31, 2014 and December 31, 2013.

Assets Recorded at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2014 and December 31, 2013, aggregated by level in the fair value hierarchy within which those measurements fall.

	Total	Level 1	Level 2	Level 3
December 31, 2014				
Collateral dependent impaired loans receivable	$ 6,907,220	$ -	$ -	$ 6,907,220
Other real estate owned	2,444,253	-	-	2,444,253
Total assets at fair value	$ 9,351,473	$ -	$ -	$ 9,351,473

	Total	Level 1	Level 2	Level 3
December 31, 2013				
Collateral dependent impaired loans receivable	$ 13,359,438	$ -	$ -	$ 13,359,438
Other real estate owned	8,932,634	-	-	8,932,634
Total assets at fair value	$ 22,292,072	$ -	$ -	$ 22,292,072

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

	Valuation Technique	Significant Unobservable Inputs	General Range
Collateral-dependant impaired loans receivable	Appraised Value	Collateral discounts and estimated costs to sell	0-10%
Other real estate owned	Appraised Value	Collateral discounts and estimated costs to sell	0-10%

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2014 and December 31, 2013.

Disclosures about Fair Value of Financial Instruments

The following describes the valuation methodologies used by the Company for estimating fair value of financial instruments not recorded at fair value in the balance sheet on a recurring or nonrecurring basis:

Cash and Due from Banks and Interest-bearing Deposits with Other Banks - The carrying amount is a reasonable estimate of fair value.

Time Deposits in other Banks - The carrying amount is a reasonable estimate of fair value.

Securities held-to-maturity - The fair values of securities held-to-maturity are based on quoted market prices or dealer quotes. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities

Equity Securities - The carrying amount of nonmarketable equity securities is a reasonable estimate of fair value since no ready market exists for these securities.

Loans Receivable – For certain categories of loans, such as variable rate loans which are repriced frequently and have no significant change in credit risk, fair values are based on the carrying amounts. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits - The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Securities Sold Under Agreements to Repurchase - The carrying amount is a reasonable estimate of fair value because these instruments typically have terms of one day.

Advances From Federal Home Loan Bank - The fair values of fixed rate borrowings are estimated using a discounted cash flow calculation that applies the Company's current borrowing rate from the FHLB. The carrying amounts of variable rate borrowings are reasonable estimates of fair value because they can be repriced frequently.

Junior Subordinated Debentures - The carrying value of the junior subordinated debentures approximates their fair value since they were issued at a floating rate.

Accrued Interest Receivable and Payable - The carrying value of these instruments is a reasonable estimate of fair value.

Off-Balance Sheet Financial Instruments - Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2014 and December 31, 2013. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

			Fair Value Measurements		
	Carrying Amount	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2014					
Financial Assets:					
Securities held-to-maturity	$ 31,384,418	$ 32,242,017	$ -	$ 32,242,017	$ -
Loans receivable	255,381,014	257,956,000	-	-	257,956,000

	Carrying Amount	Fair Value	Fair Value Measurements: Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Liabilities:					
Certificates of deposit	$ 73,820,996	$ 73,905,000	$ -	$ 73,905,000	$ -
Advances from Federal Home Loan Bank	25,000,000	24,999,000	-	24,999,000	-
December 31, 2013					
Financial Assets:					
Securities held-to-maturity	$ 36,951,934	$ 36,951,934	$ -	$ 36,951,934	$ -
Loans receivable	238,502,131	240,472,000	-	-	240,472,000
Financial Liabilities:					
Certificates of deposit	$ 84,545,046	$ 85,081,000	$ -	$ 85,081,000	$ -
Advances from Federal Home Loan Bank	23,000,000	23,010,000	-	23,010,000	-

NOTE 21 - SUBSEQUENT EVENTS

In preparing these financial statements, subsequent events were evaluated through the time the consolidated financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the Securities and Exchange Commission. In conjunction with applicable accounting standards, all material subsequent events have been either recognized in the financial statements or disclosed in the notes to the consolidated financial statements.

NOTE 22 - FIRST RELIANCE BANCSHARES, INC. (PARENT COMPANY ONLY)

Condensed Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Cash	$ 3,015,509	$ 3,417,931
Investment in banking subsidiary	43,167,296	38,282,750
Marketable investments	30,000	30,000
Nonmarketable investments	58,100	58,100
Premises	3,559,455	3,986,020
Investment in trust	310,000	310,000
Other assets	266,157	17,263
Total assets	$ 50,406,517	$ 46,102,064
Liabilities		
Note payable to banking subsidiary	$ 2,944,764	$ 3,161,830
Junior subordinated debentures	10,310,000	10,310,000
Other liabilities	784,086	537,490
Total liabilities	14,038,850	14,009,320
Shareholders' equity	36,367,667	32,092,744
Total liabilities and shareholders' equity	$ 50,406,517	$ 46,102,064

Condensed Statements of Operations

	For the years ended December 31, 2014	2013
Income - Rental income from banking subsidiary	$ 58,624	$ 90,566
Expenses	879,352	522,959
Loss before income taxes and equity in undistributed income (loss) of banking subsidiary	(820,728)	(432,393)
Equity in undistributed earnings (loss) of banking subsidiary	4,966,888	(7,304,137)
Net income (loss) before income taxes	4,146,160	(7,736,530)
Income tax benefit	(261,451)	-
Net income (loss)	$ 4,407,611	$ (7,736,530)

Condensed Statements of Cash Flows

	For the years ended December 31, 2014	2013
Cash flows from operating activities		
Net income (loss)	$ 4,407,611	$ (7,736,530)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	30,188	-
Impairment loss on investment securities	-	70,000
Impairment loss on premises	399,812	-
Deferred income tax benefit	(261,451)	-
(Decrease) increase in deferred compensation on restricted stock	(53,164)	90,597
Decrease (increase) in other assets	12,557	(5,404)
Decrease in other liabilities	246,596	218,180
Equity in undistributed (earnings) loss of banking subsidiary	(4,966,888)	7,304,137
Net cash used by operating activities	(184,739)	(59,020)
Cash flows from by investing activities		
Purchase of premises, furniture and equipment	(3,435)	(26,752)
Net cash used by investing activities	(3,435)	(26,752)
Cash flows from financing activities		
Payments of note payable to banking subsidiary	(217,066)	(210,043)
Expense of auctioning Series A and Series B Preferred stock	-	(169,291)
Net proceeds from issuance of common stock	6,644	4,396
Purchase of treasury stock	(3,826)	(19,452)
Net cash used by financing activities	(214,248)	(394,390)
Decrease in cash	(402,422)	(480,162)
Cash and cash equivalents, beginning of year	3,417,931	3,898,093
Cash and cash equivalents, ending of year	$ 3,015,509	$ 3,417,931

FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

Corporate Data

ANNUAL MEETING:

The annual meeting of Shareholders of First Reliance Bancshares, Inc. and Subsidiary will be held at First Reliance Bank on Thursday, June 4, 2015, at 4:00 PM.

CORPORATE OFFICE:
2170 West Palmetto Street
Florence, South Carolina 29501
Phone (843) 662-8802
Fax (843) 662-8373

REGISTERED PUBLIC ACCOUNTING FIRM:
Elliott Davis Decosimo, LLC
1901 Main Street, Suite 900
P.O. Box 2227
Columbia, S.C. 29202

STOCK TRANSFER DEPARTMENT:
Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, New York 11717

MARKET FOR FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY COMMON STOCK; PAYMENT OF DIVIDENDS

High and Low Stock Price Information for First Reliance Bancshares, Inc. and Subsidiary

	2014		2013	
Applicable Period	**High**	**Low**	**High**	**Low**
First Quarter	$ 2.00	$ 1.59	$ 2.40	$ 1.65
Second Quarter	2.10	1.55	2.00	1.10
Third Quarter	3.10	1.90	1.99	1.50
Fourth Quarter	3.39	2.85	2.50	1.65

The Company's common stock is quoted on the over-the-counter market under the symbol FSRL. Arms-length transactions in the common stock are anticipated to be infrequent and negotiated privately between the persons involved in those transactions. The development of an active secondary market requires the existence of an adequate number of willing buyers and sellers. The Company's current reported average daily trading volume is approximately 3,087 shares. This low level of trading volume in the secondary market for the Company's common stock may materially impact a shareholder's ability to promptly sell a large block of the Company's common stock at a price acceptable to the selling shareholder. According to the Company's transfer agent, there were approximately 1,157 shareholders of record as of January 1, 2015.

The Company is a legal entity separate and distinct from the Bank. The principal sources of the Company's cash flow, including cash flow to pay dividends to its shareholders, are dividends that the Bank pays to its sole shareholder, the Company. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders. For example, all FDIC insured institutions, regardless of their level of capitalization, are prohibited from paying any dividend or making any other kind of distribution if following the payment or distribution the institution would be undercapitalized. Moreover, federal agencies having regulatory authority over the Company or the Bank have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Additional information relating to the Company's payment of dividends appears in "Management's Discussions and Analysis – Liquidity Management and Capital Resources."

Under South Carolina law, the Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the SC State Board, provided that the Bank received a composite rating of one or two at the last examination conducted by a state or federal regulatory authority. All other cash dividends require prior approval by the SC State Board. South Carolina law requires each state nonmember bank to maintain the same reserves against deposits as are required for a state member bank under the Federal Reserve Act.

It is the current policy of the Bank to retain earnings to permit possible future expansion. As a result, the Company has no current plans to initiate the payment of cash dividends on its common stock, and its future dividend policy will depend on the Bank's earnings, capital requirements, financial condition and other factors considered relevant by the board of directors of the Company and the Bank.

The Company and the Bank are currently subject to regulatory requirements relating to the declaration and payment of dividends. For additional information relating to these regulatory requirements, please see "Management's Discussion and Analysis – Liquidity and Capital Resources."

EXECUTIVE OFFICERS OF FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

F. R. Saunders, Jr.
President and Chief Executive Officer

Jeffrey A. Paolucci
Executive Vice President, Chief Financial Officer and Secretary

Thomas C. Ewart
Executive Vice President

Jesse A. Nance
Executive Vice President and Chief Credit Officer

DIRECTORS OF FIRST RELIANCE BANCSHARES, INC. AND SUBSIDIARY

F. R. Saunders, Jr.
President and Chief Executive Officer of First Reliance Bancshares, Inc. and First Reliance Bank

Jeffrey A. Paolucci
Executive Vice President, Chief Financial Officer and Secretary of First Reliance Bancshares, Inc. and First Reliance Bank

Paul C. Saunders
Senior Vice President of First Reliance Bank

A. Dale Porter
Vice President and Senior Loan Administrator for First Reliance Bank

Leonard A. Hoogenboom
Chairman of the Board of Directors of First Reliance Bancshares, Inc.; and First Reliance Bank
Owner and Chief Executive Officer of Hoogenboom, CPA

John M. Jebaily
Owner and President of Jebaily Properties, Inc.

James R. Lingle, Jr.
President and CEO, iFinancial Holdings, Inc.

C. Dale Lusk, MD
Physician / McLeod Women's Care

Julius G. Parris
Sr. Account Manager – New Business Development, Southern Graphics Systems

J. Munford Scott, Jr.
Florence County Probate Judge