TOUCHMARK BANCSHARES, INC.

# 2014

## Annual Report to Shareholders

TOUCHMARK
BANCSHARES, INC.

3651 Old Milton Pkwy
Alpharetta, Ga 30005

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(770) 407-6700

March 2015

Dear Shareholder:

It brings me great pleasure to report to you that 2014 was another good year for your company. Assets increased by nearly $30 million or 23% to approximately $162 million from the previous year. Total loans increased by nearly $24 million or 26% to $118 million after sales of SBA loans of $8 million. Total deposits grew by $42 million or 52% to $123 million and wholesale funding levels were simultaneously reduced by 61% to $8 million. The bank successfully disposed of $1.4 million in OREO during the year leaving one remaining vacant commercial parcel valued at $665 thousand. The gains on sale of OREO contributed $677 thousand to the bank's bottom line. Despite increased loan volume, credit quality remains satisfactory, and the level of problem assets continue to decline. Capital remains very strong and the company is well positioned for continued growth and profitability

Net income before taxes (NIBT) of $1.1 million in 2014 was approximately one and one-half times greater than the $765 thousand in NIBT during 2013, after provisions to the loan loss reserve of $555 thousand in 2014 compared to a reduction in the loan loss provision of $200 thousand in 2013. Net income after taxes (NIAT) of $757 thousand represents a 41% improvement from the prior year which translates into $0.22 earnings per share (EPS). EPS increased by 37.5% from the $0.16 in 2013 . Net interest income increased by 8.6% to $4.6 million resulting in an overall net interest margin of 3.57% for the year a 31bp decrease from the prior year primarily from lower loan yields. Earnings were positively impacted by gains on the sale of SBA loans and OREO of $963 thousand and $538 thousand, respectively. Security gains represented $132 thousand.

Our performance is partly attributable to a combination of increased demand due to improving economic conditions, our strategy to prudently deploy our capital for the purpose of maximizing shareholder value and our concerted effort to expand our lending group and their production levels. The addition of six seasoned lenders during the year, two of which specialized in SBA lending, and all with established customer relationships, proved to be the driving factor in the results attained in 2014.

We remain optimistic about the improving banking climate and the prospects for an upward trending economy, despite talk of rising rates. As we continue to cultivate lending opportunities, our capital is adequately positioned to support our growth trajectory.

On behalf of the board of directors and management, we would like to personally thank you for all your support throughout the year.

Very truly yours,

J.J. Shah, MD
Chairman, Board of Directors

Jorge L. Forment
President & CEO

# TOUCHMARK BANCSHARES, INC.
# AND SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS
**WITH**
**INDEPENDENT AUDITOR'S REPORT**

## DECEMBER 31, 2014 AND 2013

**TOUCHMARK BANCSHARES, INC.**
**AND SUBSIDIARY**

**December 31, 2014 and 2013**

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**NICHOLS, CAULEY & ASSOCIATES, LLC**
A Professional Services Firm of:
Certified Public Accountants
Certified Internal Auditors
Certified Financial Planners®
Certified Valuation Analysts

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors
Touchmark Bancshares, Inc.
Alpharetta, Georgia

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

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

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

Nichols, Cauley & Associates, LLC

Atlanta, Georgia
April 10, 2015

**TOUCHMARK BANCSHARES, INC.**
**AND SUBSIDIARY**

**Consolidated Balance Sheets**
**December 31, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 1,897,289 | $ 1,083,304 |
| Interest-bearing accounts with other banks | 3,743,360 | 3,333,058 |
| Securities available for sale | 30,198,015 | 22,166,375 |
| Restricted stock | 1,384,950 | 1,871,300 |
| Loans held for sale | - | 78,429 |
| Loans, less allowance for loan losses of $1,658,949 and $1,264,381, respectively | 116,773,504 | 92,676,244 |
| Accrued interest receivable | 400,761 | 377,612 |
| Premises and equipment | 1,568,695 | 1,666,776 |
| Foreclosed real estate | 665,000 | 2,029,407 |
| Land held for sale | 1,900,000 | 2,409,023 |
| Other assets | 3,719,955 | 5,209,588 |
| Total assets | $ 162,251,529 | $ 132,901,116 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing demand | $ 10,907,333 | $ 8,266,217 |
| Interest-bearing | 111,846,608 | 72,338,292 |
| Total deposits | 122,753,941 | 80,604,509 |
| Accrued interest payable | 29,566 | 14,766 |
| Federal funds purchased | 761,000 | 2,988,000 |
| Federal Home Loan Bank advances | 7,750,000 | 19,750,000 |
| Other liabilities | 345,925 | 148,806 |
| Total liabilities | 131,640,432 | 103,506,081 |
| Stockholders' equity: | | |
| Preferred stock, no par value, 10,000,000 shares authorized, none issued | - | - |
| Common stock, $.01 par value, 50,000,000 shares authorized, 3,465,391 issued and outstanding | 34,654 | 34,654 |
| Paid-in capital | 36,258,446 | 36,251,896 |
| Accumulated deficit | (5,768,933) | (6,526,065) |
| Accumulated other comprehensive income (loss) | 86,930 | (365,450) |
| Total stockholders' equity | 30,611,097 | 29,395,035 |
| Total liabilities and stockholders' equity | $ 162,251,529 | $ 132,901,116 |

See accompanying independent auditor’s report and notes to the consolidated financial statements.

**TOUCHMARK BANCSHARES, INC.**
**AND SUBSIDIARY**

**Consolidated Statements of Income**
**For the Years Ended December 31, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| Interest income: | | |
| Loans, including fees | $ 4,911,423 | $ 4,406,575 |
| Investment income | 772,149 | 578,104 |
| Federal funds sold | 1,133 | (120) |
| Total interest income | 5,684,705 | 4,984,559 |
| Interest expense: | | |
| Deposits | 866,559 | 479,449 |
| Federal Home Loan Bank advances | 231,589 | 270,197 |
| Other borrowings | 5,537 | 16,179 |
| Total interest expense | 1,103,685 | 765,825 |
| Net interest income | 4,581,020 | 4,218,734 |
| Provision for loan losses | 555,000 | (200,000) |
| Net interest income after provision for loan losses | 4,026,020 | 4,418,734 |
| Noninterest income: | | |
| Service charges on deposit accounts and other fees | 52,514 | 27,745 |
| Gain on sale of securities available for sale | 131,710 | 6,420 |
| Gain on sale of SBA loans | 963,338 | 1,163,413 |
| Gain on sale of foreclosed real estate | 538,018 | 33,231 |
| Other noninterest income | 541,274 | 466,933 |
| Total noninterest income | 2,226,854 | 1,697,742 |
| Noninterest expense: | | |
| Salaries and employee benefits | 2,654,063 | 2,637,227 |
| Occupancy and equipment | 265,299 | 468,594 |
| Write-down of restricted stock | - | 90,000 |
| Loss on disposition of premises and equipment | 6,794 | 494,242 |
| Loss on fair value mark of derivative instrument | - | 5 |
| Write-down of land held for sale | 509,023 | - |
| Other operating expense | 1,685,890 | 1,661,672 |
| Total noninterest expense | 5,121,069 | 5,351,740 |
| Income before taxes | 1,131,805 | 764,736 |
| Income tax benefit (expense) | (374,673) | (226,851) |
| Net income | $ 757,132 | $ 537,885 |
| Basic earnings per share | $ 0.22 | $ 0.16 |
| Diluted earnings per share | $ 0.22 | $ 0.16 |
| Dividends per share | $ - | $ - |

See accompanying independent auditor's report and notes to the consolidated financial statements.

## TOUCHMARK BANCSHARES, INC.
## AND SUBSIDIARY

### Consolidated Statements of Comprehensive Income (Loss)
### For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| Net income | $ 757,132 | $ 537,885 |
| Other comprehensive income (loss): | | |
| Securities available for sale: | | |
| Unrealized holding gains (losses) arising during the period | 806,904 | (1,147,965) |
| Reclassification adjustment for losses (gains) realized in income | (131,710) | 83,580 |
| Tax effect | (222,814) | 351,247 |
| Other comprehensive loss | 452,380 | (713,138) |
| Comprehensive income (loss) | $ 1,209,512 | $ (175,253) |

See accompanying independent auditor's report and notes to the consolidated financial statements.

**TOUCHMARK BANCSHARES, INC.**
**AND SUBSIDIARY**

**Consolidated Statements of Stockholders' Equity**
**For the Years Ended December 31, 2014 and 2013**

| | Outstanding Shares of Common Stock | Common Stock | Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2012 | 3,465,391 | $ 34,654 | $ 36,230,955 | $ (7,063,950) | $ 347,688 | $ 29,549,347 |
| Stock based compensation expense | - | - | 20,941 | - | - | 20,941 |
| Net income | - | - | - | 537,885 | - | 537,885 |
| Change in unrealized losses on securities available for sale, net | - | - | - | - | (713,138) | (713,138) |
| Balance, December 31, 2013 | 3,465,391 | 34,654 | 36,251,896 | (6,526,065) | (365,450) | 29,395,035 |
| Stock based compensation expense | - | - | 6,550 | - | - | 6,550 |
| Net income | - | - | - | 757,132 | - | 757,132 |
| Change in unrealized losses on securities available for sale, net | - | - | - | - | 452,380 | 452,380 |
| Balance, December 31, 2014 | 3,465,391 | $ 34,654 | $ 36,258,446 | $ (5,768,933) | $ 86,930 | $ 30,611,097 |

See accompanying independent auditor's report and notes to the consolidated financial statements.

**TOUCHMARK BANCSHARES, INC.**
**AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**
**For The Years Ended December 31, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | $ 757,132 | $ 537,885 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 130,755 | 169,495 |
| Net amortization | 146,717 | 396,572 |
| Provision for loan losses | 555,000 | (200,000) |
| Gain on sale for loans held for sale | (145,395) | - |
| Write down of foreclosed real estate | 70,229 | 38,000 |
| Stock compensation expense | 6,550 | 20,941 |
| Gain on sale of securities available for sale | (131,710) | (6,420) |
| Gain on sale of SBA loans | (963,338) | (1,163,413) |
| Loss on disposition of premises and equipment | 6,794 | 494,242 |
| Write-down of restricted stock | - | 90,000 |
| Write-down of land held for sale | 509,023 | - |
| Gain on sale of foreclosed real estate | (538,018) | (33,231) |
| Decrease (increase) in interest receivable | (23,149) | 51,847 |
| Deferred income taxes | 374,673 | 226,851 |
| Decrease in interest payable | 14,800 | (4,711) |
| Decrease (increase) in other assets | 892,146 | (1,057,832) |
| Increase (decrease) in other liabilities | 197,119 | (108,723) |
| Net cash provided (used) by operating activities | 1,859,328 | (548,497) |
| Cash flow from investing activities: | | |
| Decrease in federal funds sold, net | - | 125,000 |
| Decrease (increase) in interest bearing accounts | (410,302) | 1,009,067 |
| Purchase of securities available for sale | (13,898,484) | (8,714,248) |
| Proceeds from sale, call, paydown and maturity of securities available for sale | 6,507,081 | 13,980,517 |
| Sale (purchase) of restricted stock | 506,300 | (325,850) |
| Proceeds from sale of foreclosed real estate | 1,832,196 | 1,897,472 |
| Proceeds from sale of loan held for sale | 223,824 | |
| Loan originations and collections, net | (23,688,922) | (13,120,063) |
| Purchase of premises and equipment | (39,468) | (11,719) |
| Proceeds from sale of premises and equipment | - | 7,476 |
| Net cash provided (used) by investing activities | (28,967,775) | (5,152,348) |

See accompanying independent auditor’s report and notes to the consolidated financial statements.

**TOUCHMARK BANCSHARES, INC.**
**AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**
**For The Years Ended December 31, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| Cash flow from financing activities: | | |
| Net increase (decrease) in deposits | 42,149,432 | (205,391) |
| Decrease in federal funds purchased, net | (2,227,000) | (31,000) |
| Proceeds from Federal Home Loan Bank advances | - | 5,000,000 |
| Repayment of Federal Home Loan Bank advances | (12,000,000) | - |
| Net cash provided (used) by financing activities | 27,922,432 | 4,763,609 |
| Net change in cash | 813,985 | (937,236) |
| Cash at the beginning of the period | 1,083,304 | 2,020,540 |
| Cash at the end of the period | $ 1,897,289 | $ 1,083,304 |
| Supplemental disclosures of cash flow information - | | |
| Interest paid | $ 1,088,885 | $ 1,058,562 |
| Non cash activities: | | |
| Transfer of loan principal to foreclosed real estate | $ - | $ 1,216,261 |

See accompanying independent auditor's report and notes to the consolidated financial statements.

# TOUCHMARK BANKSHARES, INC.
# AND SUBSIDIARY

## Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Touchmark Bancshares, Inc. conform to generally accepted accounting principles and with general practices within the banking industry. The following is a description of the more significant of those policies that the Company follows in preparing and presenting its financial statements.

Reporting Entity and Nature of Operations

Touchmark Bancshares, Inc. (the "Company"), a Georgia corporation, was established on April 3, 2007 for the purpose of organizing and managing Touchmark National Bank, (the "Bank"). The Company is a one-bank holding company with respect to its subsidiary, Touchmark National Bank. The Bank was opened with the purpose of serving as a community bank in Gwinnett County, north Fulton and DeKalb counties and surrounding areas in the state of Georgia.

The Bank operates from its Alpharetta, Georgia headquarters and also operates a SBA loan production office in the area. The Company's primary sources of revenue are derived from the Bank's loans to customers within its geographical area and it's investment portfolio. The Company's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other community banks, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or re-price more rapidly than interest-earning assets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, fair market value of securities, derivatives and financial instruments, the valuation of deferred tax assets, and the disclosure of contingent assets and liabilities. In connection with the determination of the allowances for losses on loans management obtains independent appraisals for significant properties.

Management believes that the allowance for losses on loans is adequate. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in local economic conditions.

## Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks. Cash flows from deposits, Federal funds sold, secured borrowings, and originations and collections of loans are reported net. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. There were no required reserve balances at December 31, 2014.

Investment Securities

Securities, including equity securities with readily determinable fair values, are classified as securities available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. A decline in the market value of any security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. The general standards of accounting for other than temporary impairment (OTTI) losses require the recognition of an OTTI loss in earnings only when an entity (1) intends to sell the debt security; (2) more likely than not will be required to sell the security before recovery of its amortized cost basis or (3) does not expect to recover the entire amortized cost basis of the security. Realized gains and losses for securities are included in earnings and are derived using the specific identification method for determining the amortized cost of securities sold as of the trade date.

Periodically, all available for sale securities are evaluated for other-than-temporary impairment (OTTI) in accordance with U.S. generally accepted accounting principles, which specifies requirements for recognizing OTTI on debt securities, presentation of OTTI losses, and modifies and expands disclosure about OTTI for debt securities.

A debt security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss) or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or more-likely-than-not will be required, to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of the credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income. Otherwise, the entire difference between fair value and amortized cost basis is charged to earnings.

Restricted Stock

Restricted stock consists of Federal Reserve Bank, Federal Home Loan Bank of Atlanta (FHLB), and the Independent Bankers Bank of Florida stock, which represents an equity interest in these entities and is recorded at cost. These stocks do not have a readily determinable fair value because ownership is restricted and lacks a market.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted Stock

The amount of FHLB stock held by the Company is required by the FHLB to be maintained and is based on membership requirements and terms of advance agreements. The Company periodically evaluates its FHLB investment for possible impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. The Federal Housing Finance Agency, the regulator of the FHLB, requires it to maintain a total capital-to-asset ratio of at least 4%. At September 30, 2014, the FHLB Atlanta's unaudited capital ratio was 5.15%, exceeding the regulatory requirement.

During 2013, the Company evaluated the underlying financial condition of the Independent Bankers Bank of Florida and determined that their restricted stock investment was other-than-temporarily impaired, and recorded a charge to income of $90,000. Management also evaluated its holdings in FHLB, and Federal Reserve Bank stock and determined par value is ultimately recoverable and therefore determined that FHLB, and Federal Reserve Bank stock was not other-than-temporarily impaired. In addition, the Bank has ample liquidity and does not require redemption of its restricted stock holdings in the foreseeable future. There were no additional charges of this type during 2014.

Loan Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal, adjusted for any charge-offs, the allowance for loan losses, deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Interest on loans is credited to income on a daily basis based upon the principal amount outstanding. Loan origination fees and certain direct origination costs, less the costs associated with closing the loan, are capitalized and recognized as an adjustment of the yield of the related loan. The related loan origination costs are recognized as expense at the time the loan is originated. The net effect on the financial condition and results of operations of not deferring the net fees and costs is not significant.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income is subsequently recognized only to the extent cash payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame.

Loan delinquencies are determined by comparing contractual requirements to the timing of payments received from the borrower. The policies and procedures related to nonaccrual and delinquent loans are applied to all outstanding loans.

Allowance for Loan Losses

The allowance for loan losses is increased by provision charges to income and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated probable inherent loan losses and estimated losses relating to specifically

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Loan Losses

identified loans. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on impaired loans.

While management uses available information to recognize losses on loans, future additions to the allowance 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 allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance for loan losses may consist of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the collateral value less selling costs, present value of expected cash flows, or the observable market price of the impaired loan is lower than the carrying value of the loan.

A loan is considered impaired when, based on current information and events, it is probable the Company will be unable to collect the scheduled payments of principal and 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.

Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the estimated fair value of the collateral, less selling costs, if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses or charged-off if determined to be uncollectible. By the time a loan becomes probable for foreclosure it has been charged down to fair value, less estimated costs to sell.

General allowances are established for non-impaired loans. These loans are assigned a loan category, and the allocated allowance for loan losses is determined based upon the loss percentage factors that correspond to each loan category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Loan Losses

Loss percentage factors are based on historical loss experience adjusted for qualitative factors. The qualitative factors consider among other things, credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the loss factors. Accordingly, these loss factors are reviewed periodically and modified as necessary.

The general reserves are determined based on consideration of historic loss data, the various risk characteristics of each loan segment, and whether the loans are within or outside the Company's general market area. Risk characteristics relevant to each portfolio segment are as follows:

Construction and development loans —Loans in this segment primarily include real estate development loans for which payment is derived from sale of the property as well as construction projects in which the property will ultimately be used by the borrower. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Real estate - mortgage —The Company generally does not originate loans with a loan-to-value ratio greater than 85% and does not grant subprime loans. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality in the segment.

Commercial real estate —Loans in this segment are owner occupied business properties and non-owner occupied business income-producing properties. The underlying cash flows generated by the properties and the businesses occupying the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates and decreased owner cash flows, which in turn, will have an effect on the credit quality in this segment. Management monitors the cash flows of these borrowers.

Commercial and industrial loans — Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Other loans – Loans in the segment are made to individuals and are generally secured by personal property and/or personal guaranties. Repayment is expected from the cash flows of the individual which is affected by the overall economy with specific regards to the unemployment rate.

Unallocated allowances relate to inherent losses that are not otherwise evaluated in the specific and general allowances. The qualitative factors associated with unallocated allowances are subjective and require a high degree of management judgment. These factors include the inherent imprecision in mathematical models and credit quality statistics, recent economic uncertainty, losses incurred from recent events, lagging or incomplete data and the significant factors affecting the real estate market.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Group Concentrations of Credit Risk

A substantial portion of the Company's loan portfolio is to customers in Gwinnett, Dekalb, north Fulton, and south Forsyth counties and surrounding areas in Georgia. The ultimate collectability of a substantial portion of the portfolio is therefore susceptible to changes in the economic and market condition in and around this area.

The nature of the Company's business requires that it maintain amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts, and management works to mitigate risk associated with its correspondent institutions. Amounts due from banks are typically maintained in demand deposit accounts which are insured up to $250,000.

Loans Held for Sale

Loans intended for sale in the secondary market are stated at the lower of cost or estimated fair value. Net unrealized losses, if any, are recognized through a valuation allowance. Changes in the valuation allowance are included in the determination of net income (loss) for the period in which the change occurs. The Company had no valuation allowance as of December 31, 2014 and a valuation allowance of $53,000 as of December 31, 2013, for these loans.

Transfers of Financial Assets

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, computed principally on the straight-line method over the estimated useful lives of the assets.

Maintenance and repairs that do not extend the useful life of the premises and equipment are charged to expense. The useful lives of premises and equipment are as follows:

| Asset Type | Estimated Useful Life |
|---|---|
| Buildings | 40 years |
| Leasehold improvements | lesser of lease term or expected life |
| Furniture, fixtures and equipment | 3-9 years |

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less selling costs at the date of foreclosure establishing a new cost basis. Any write down to fair value at the time of foreclosure is charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed real estate and subsequent adjustment to the value are expensed.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws and considers any uncertain tax positions.

A valuation allowance for deferred tax assets is required when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income (in the near-term based on current projections), and tax planning strategies.

The Company recognizes accrued interest associated with uncertain tax positions as part of interest expense and penalties associated with uncertain tax positions as part of other expenses. As of December 31, 2014 and 2013, there were no accrued interest and penalties associated with uncertain tax positions.

The operating results of the Company and its subsidiary are included in consolidated income tax returns.

Comprehensive Income (Loss)

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

Stock Based Compensation

The Company maintains a share-based employee compensation plan for grants of equity based compensation to key personnel. The Company accounts for such share-based payment based on the fair value of such as of the date of grant. Upon issuance of share based payment awards, compensation cost is recognized in the consolidated financial statements of the Company for all share-based payments granted, based on the grant date fair value over the requisite service period of the awards. The stock based compensation plan is described more fully in Note 17.

## Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding and potential common shares. Potential common shares consist of stock options and warrants. Refer to Note 10 for a summary of the components used to calculate the basic and diluted earnings per share.

Financial Instruments

In the ordinary course of business the Company enters into off balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Fair Values of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Since no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates.

The estimation methods for individual classifications of financial instruments are described in Note 14. Different assumptions could significantly affect these estimates. Accordingly, net realizable values could be materially different from the estimates presented. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the combined Company.

Reclassifications

Certain amounts have been reclassified in the 2013 consolidated financial statements for them to be more comparable to the 2014 consolidated financial statements.

Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors* (Subtopic 310-40). The amendments in this Update clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, these amendments are effective for annual and interim periods beginning after December 15, 2014. For all other entities, these amendments are effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing* (Topic 860). The amendments in this Update require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. These amendments are effective for annual periods beginning after December 15, 2014 and interim periods beginning after December 15, 2015. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In June 2014, the FASB issued ASU 2014-12, *Compensation – Stock Compensation* (Topic 718). The amendments apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. These amendments are effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In August 2014, the FASB issued ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors* (Subtopic 310-40). The objective of this Update is to reduce diversity in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable recognized upon

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. These amendments are effective for public entities for annual and interim periods beginning after December 15, 2014. For all other entities, these amendments are effective for annual periods ending after December 15, 2015 and interim periods beginning after December 15, 2015. The adoption of this standard did not or is not expected to have a material effect on the Company's operating results or financial condition.

2. RISK FACTORS

The Company's operations, profitability, cash flows, capital and liquidity are affected by various risk factors, including, but not necessarily limited to, interest-rate risk, credit risk and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities and rate terms and structures of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur resulting from factors beyond the control of the Company.

The Company's operations, profitability, cash flows, capital and liquidity are significantly dependent on economic conditions and related uncertainties. In addition, the Company is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies.

The Company is particularly sensitive to changes in economic conditions and related uncertainties in Georgia because the Company derives substantially all of its loans, deposits and other business from this area. The subsidiary Bank of the Company is a community bank and as such, is mandated by the Community Reinvestment Act and other regulations to conduct most of its lending activities within the geographic area where it is located. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy which may include further deterioration in commercial and residential real estate.

The Company is subject to extensive federal and state governmental supervision and regulation, which are intended primarily for the protection of depositors. In addition, the Company is subject to changes in federal and state laws, as well as changes in regulations, governmental policies and accounting principles. The effects of any such potential changes cannot be predicted but could adversely affect the business, operations, profitability, cash flows, capital and liquidity of the Company in the future.

The Company is subject to vigorous competition in all aspects and areas of business from banks and other financial institutions, including savings and loan associations, savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. The Company also competes with nonfinancial institutions,

2. RISK FACTORS

including retail stores that maintain their own credit programs and governmental agencies that make available low cost or guaranteed loans to certain borrowers. Certain competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems and a wider array of commercial banking services.

In addition, the Bank conducts business daily with correspondent banks. These banks are not immune to financial difficulties. Regulation F "Limitations on Interbank Liabilities" requires the Bank to establish and maintain written policies and procedures to prevent excessive exposure to any individual correspondent banking relationship relative to the financial condition of such correspondent. The Company is vulnerable to the financial difficulties of any of its major correspondent banking relationships directly and indirectly.

3. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses, and estimated fair value of investments securities at December 31, 2014 and 2013, are summarized as follows:

| December 31, 2014 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Government-sponsored enterprises (GSEs)* | $ 2,927,213 | $ 33,369 | $ (144,908) | $ 2,815,674 |
| State and municipal securities | 5,970,151 | 76,276 | (2,265) | 6,044,162 |
| Mortgage-backed GSE residential | 21,170,905 | 173,449 | (6,175) | 21,338,179 |
| | $ 30,068,269 | $ 283,094 | $ (153,348) | $ 30,198,015 |
| **December 31, 2013** | | | | |
| U.S. Government-sponsored enterprises (GSEs)* | $ 3,146,836 | $ - | $ (267,444) | $ 2,879,392 |
| State and municipal securities | 5,349,237 | 45,574 | (286,544) | 5,108,267 |
| Mortgage-backed GSE residential | 14,215,750 | 84,656 | (121,690) | 14,178,716 |
| | $ 22,711,823 | $ 130,230 | $ (675,678) | $ 22,166,375 |

* Such as Federal Home Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, and Small Business Administration

The amortized cost and estimated fair value of investment securities at December 31, 2014, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

3. SECURITIES AVAILABLE FOR SALE:

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 3,409,137 | $ 3,440,897 |
| Due after one year but less than five years | 12,847,728 | 12,965,457 |
| Due after five years but less than ten years | 11,790,230 | 11,756,544 |
| Due after ten years | 2,021,174 | 2,035,117 |
| | $ 30,068,269 | $ 30,198,015 |

For the purpose of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

The Company had gross gains on sales of securities of $131,710 and no gross losses on sales of securities during the year ended December 31, 2014. The Company had gross gains on sales of securities of $63,750 and gross losses on sales of securities of $57,331 during the year ended December 31, 2013.

Securities with a carrying value of $1,132,472 and $13,401,841 at December 31, 2014 and 2013, respectively, were pledged to secure public deposits, Federal Home Loan Bank advances, and for other purposes required, or permitted by law. Taxable interest income on investments was $624,818 and $471,949 for the years ended December 31, 2014 and 2013, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

3. SECURITIES AVAILABLE FOR SALE:

| | Less than Twelve Months | | More than Twelve Months | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2014: | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Government-sponsored enterprises (GSEs) | $ (32,049) | $ - | $ (112,859) | $ 2,823,009 | $ (144,908) | $ 2,823,009 |
| State and municipal securities | (2,265) | 1,120,516 | - | - | (2,265) | 1,120,516 |
| Mortgage-backed GSE residential | - | 2,892,206 | (6,175) | 1,406,719 | (6,175) | 4,298,925 |
| | $ (34,314) | $ 4,012,722 | $ (119,034) | $ 4,229,728 | $ (153,348) | $ 8,242,450 |
| December 31, 2013: | | | | | | |
| U.S. Government-sponsored enterprises (GSEs) | $ (96,338) | $ 1,138,212 | $ (171,106) | $ 1,741,181 | $ (267,444) | $ 2,879,393 |
| State and municipal securities | (286,544) | 4,012,183 | - | - | (286,544) | 4,012,183 |
| Mortgage-backed GSE residential | (121,690) | 7,653,284 | - | - | (121,690) | 7,653,284 |
| | $ (504,572) | $ 12,803,679 | $ (171,106) | $ 1,741,181 | $ (675,678) | $ 14,544,860 |

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

At December 31, 2014, 13 of 44 debt securities have unrealized losses with aggregate depreciation of 1.9% from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Although the issuers have shown declines in earnings and a weakened financial condition as a result of the weakened economy, no credit issues have been identified that cause management to believe the declines in market value are other than temporary. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

*U.S. Government-sponsored enterprises (GSEs).* The Company’s unrealized losses on nine investments in U.S. Government-sponsored enterprises (GSEs) were caused by changes in interest rates. This security will continue to be monitored as part of the Company’s periodic impairment analysis, but is expected to perform even if the rating agencies reduce the credit rating in the bond issuer. Accordingly, it is expected that the security will not be settled at a price less than the amortized cost basis of the Company’s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has no immediate plans to sell the investment, and because it is not more likely than not that the Company will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, management does not consider this investment to be other-than-temporarily impaired at December 31, 2014.

3. SECURITIES AVAILABLE FOR SALE:

*State and municipal securities.* The Company's unrealized losses on two investments in state and municipal securities were caused by changes in interest rates. This security will continue to be monitored as part of the Company's periodic impairment analysis, but is expected to perform even if the rating agencies reduce the credit rating in the bond issuer. Accordingly, it is expected that the security will not be settled at a price less than the amortized cost basis of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has no immediate plans to sell the investment, and because it is not more likely than not that the Company will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, management does not consider this investment to be other-than-temporarily impaired at December 31, 2014.

*Mortgage-backed securities GSE residential*. The unrealized losses on the Company's investment on two mortgage-backed securities GSE residential were caused by changes in interest rates. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

During 2013, the Company evaluated the condition of its investment in restricted stock of the Independent Bankers Bank of Florida (IBB). Based on the Company's evaluation of the underlying financial condition of IBB, the Company recognized an other-than-temporary impairment of $90,000 in the income statement for the year ended December 31, 2013.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans as of December 31, 2014 and 2013 is summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Construction and development | $ 20,022,863 | $ 7,359,800 |
| Real estate - mortgage | 5,878,913 | 3,374,950 |
| Commercial real estate | 82,613,702 | 79,370,322 |
| Commercial and industrial | 9,517,541 | 3,597,076 |
| Other | 670,407 | 402,845 |
| | 118,703,426 | 94,104,993 |
| Unearned loan origination income | (270,973) | (164,368) |
| Allowance for loan losses | (1,658,949) | (1,264,381) |
| Loans, net | $ 116,773,504 | $ 92,676,244 |

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

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

*Construction and Development*
Loans in this segment include real estate development loans for which the source of repayment is the sale of the property as well as construction projects in which the property will ultimately be used by the borrower. Total construction and development loans as of December 31, 2014 were 16.87% of the total loan portfolio.

*Real Estate - Mortgage*
These are loans secured by real estate mortgages. Total real estate mortgage loans as of December 31, 2014 were 4.95% of the total loan portfolio.

*Commercial Real Estate*
The commercial real estate portfolio represents the largest category of the Company's loan portfolio. These loans are owner occupied business properties or non-owner occupied business income-producing properties. The loans are dependent upon the borrower's cash flow, either from the borrower's business or rental income of the underlying property. Total commercial real estate loans as of December 31, 2014 were 69.60% of the total loan portfolio.

*Commercial and Industrial*
Loans in this segment are made to businesses and are generally secured by business assets. Total commercial and industrial loans as of December 31, 2014 were 8.02% of the total loan portfolio.

*Other*
Loans in this segment are made to individuals and are secured by personal assets or unsecured. Total other loans as of December 31, 2014 were 0.56% of the total loan portfolio.

In the normal course of business, the Bank may sell and purchase loan participations to and from other financial institutions and related parties. Loan participations are typically sold to comply with the legal lending limits per borrower as imposed by regulatory authorities. The participations are sold without recourse and the Bank imposes no transfer or ownership restrictions on the purchaser. At December 31, 2014 and 2013 the Bank had $39,502,918 and $38,611,491 of participations sold, and $1,096,790 and $3,057,781 participations purchased. The majority of the participations sold are Small Business Administration guaranteed loans for which the guaranteed portion was sold.

**TOUCHMARK BANKSHARES, INC.**
**AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses as of December 31, 2014, by portfolio segment, is as follows:

| | Construction and Development | Real Eastat - Mortgage | Commercial Real Estate | Commercial and Industrial | Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 45,359 | $ 55,283 | $ 997,744 | $ 76,052 | $ 874 | $ 89,069 | $ 1,264,381 |
| Charge-offs | - | - | - | (166,552) | - | - | (166,552) |
| Recoveries | - | 6,120 | - | - | - | - | 6,120 |
| Provision | 168,423 | 31,124 | 131,335 | 221,358 | 1,077 | 1,683 | 555,000 |
| Ending balance | $ 213,782 | $ 92,527 | $ 1,129,079 | $ 130,858 | $ 1,951 | $ 90,752 | $ 1,658,949 |
| Ending balance: individually evalutated for impairment | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Ending balance: collectively evalutated for impairment | $ 213,782 | $ 92,527 | $ 1,129,079 | $ 130,858 | $ 1,951 | $ 90,752 | $ 1,658,949 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Gross loans: | | | | | | | |
| Ending balance | $ 20,022,863 | $ 5,878,913 | $ 82,613,702 | $ 9,517,541 | $ 670,407 | $ - | $ 118,703,426 |
| Ending balance: individually evalutated for impairment | $ 1,770,000 | $ - | $ 1,005,753 | $ - | $ - | $ - | $ 2,775,753 |
| Ending balance: collectively evalutated for impairment | $ 18,252,863 | $ 5,878,913 | $ 81,607,949 | $ 9,517,541 | $ 670,407 | $ - | $ 115,927,673 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses as of December 31, 2013, by portfolio segment, is as follows:

| | Construction and Development | Real Eastat - Mortgage | Commercial Real Estate | Commercial and Industrial | Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 239,481 | $ 99,363 | $ 1,084,519 | $ 108,404 | $ 2,564 | $ 252,778 | $ 1,787,109 |
| Charge-offs | - | - | (518,354) | - | - | - | (518,354) |
| Recoveries | - | 6,112 | 189,514 | - | - | - | 195,626 |
| Provision | (194,122) | (50,192) | 242,065 | (32,352) | (1,690) | (163,709) | (200,000) |
| Ending balance | $ 45,359 | $ 55,283 | $ 997,744 | $ 76,052 | $ 874 | $ 89,069 | $ 1,264,381 |
| Ending balance: individually evalutated for impairment | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Ending balance: collectively evalutated for impairment | $ 45,359 | $ 55,283 | $ 997,744 | $ 76,052 | $ 874 | $ 89,069 | $ 1,264,381 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Gross loans: | | | | | | | |
| Ending Balance | $ 7,359,800 | $ 3,374,950 | $ 79,370,322 | $ 3,597,076 | $ 402,845 | $ - | $ 94,104,993 |
| Ending balance: individually evalutated for impairment | $ 2,600,000 | $ - | $ 1,065,780 | $ - | $ - | $ - | $ 3,665,780 |
| Ending balance: collectively evalutated for impairment | $ 4,759,800 | $ 3,374,950 | $ 78,304,542 | $ 3,597,076 | $ 402,845 | $ - | $ 90,439,213 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Impaired loans as of December 31, 2014 and 2013, by portfolio segment, are as follows:

| | Unpaid Total Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance |
|---|---|---|---|---|---|
| As of December 31, 2014 | | | | | |
| Construction and development | $ 1,770,000 | $ 1,770,000 | $ - | $ 1,770,000 | $ - |
| Real estate - mortgage | - | - | - | - | - |
| Commercial real estate | 1,226,933 | 1,005,753 | - | 1,005,753 | - |
| Commercial and industrial | - | - | - | - | - |
| Other | - | - | - | - | - |
| Total | $ 2,996,933 | $ 2,775,753 | $ - | $ 2,775,753 | $ - |
| As of December 31, 2013 | | | | | |
| Construction and development | $ 2,600,000 | $ 2,600,000 | $ - | $ 2,600,000 | $ - |
| Real estate - mortgage | - | - | - | - | - |
| Commercial real estate | 1,286,960 | 1,065,780 | - | 1,065,780 | - |
| Commercial and industrial | - | - | - | - | - |
| Other | - | - | - | - | - |
| Total | $ 3,886,960 | $ 3,665,780 | $ - | $ 3,665,780 | $ - |

| | Year Ended December 31, 2014 | | Year Ended December 31, 2013 | |
|---|---|---|---|---|
| | Average Recorded Investment | Income Recognized | Average Recorded Investment | Income Recognized |
| Construction and development | $ 2,185,000 | $ - | $ 2,755,000 | $ 130,000 |
| Real estate - mortgage | - | - | - | - |
| Commercial real estate | 1,035,727 | - | 803,890 | - |
| Gross unrealized gains and losses | - | - | - | - |
| Other | - | - | - | - |
| Total | $ 3,220,727 | $ - | $ 3,558,890 | $ 130,000 |

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

A primary credit quality indicator for financial institutions is delinquent balances. Delinquencies are updated on a daily basis and are continuously monitored. Loans are placed on nonaccrual status as needed based on repayment status and consideration of accounting and regulatory guidelines. Nonaccrual balances are updated and reported on a daily basis. Following are the delinquent amounts, by portfolio segment, as of December 31, 2014 and 2013:

| | Current | 30-89 Days | Accruing Greater Than 90 Days | Total Accruing Past Due | Non-accrual | Total Financing Receivables |
|---|---|---|---|---|---|---|
| December 31, 2014 | | | | | | |
| Construction and development | $20,022,863 | $ - | $ - | $ - | $ - | $20,022,863 |
| Real estate - mortgage | 5,878,913 | - | - | - | - | 5,878,913 |
| Commercial real estate | 81,607,949 | - | - | - | 1,005,753 | 82,613,702 |
| Commercial and industrial | 9,517,541 | - | - | - | - | 9,517,541 |
| Other | 670,407 | - | - | - | - | 670,407 |
| December 31, 2013 | | | | | | |
| Construction and development | $ 7,359,800 | $ - | $ - | $ - | $ - | $ 7,359,800 |
| Real estate - mortgage | 3,374,950 | - | - | - | - | 3,374,950 |
| Commercial real estate | 78,304,542 | - | - | - | 1,065,780 | 79,370,322 |
| Commercial and industrial | 3,597,076 | - | - | - | - | 3,597,076 |
| Other | 402,845 | - | - | - | - | 402,845 |

The Company utilizes a nine grade internal loan rating system for its loan portfolio as follows:

- Loans rated 1-4 (Pass) - Loans in these categories have low to average risk.
- Loans rated 5 (Internal Watch List) - These assets raise some concern due to either prior financial or collateral problems, or recent developing conditions, and thus warrant closer monitoring and review than “pass” assets.
- Loans rated 6 (Special Mention) - These assets constitute an undue and unwarranted credit risk but not to the point of justifying a substandard classification.
- Loans rated 7 (Substandard) - A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.
- Loans rated 8 (Doubtful) - An asset classified as doubtful has all the weaknesses inherent in one classified 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 rated 9 (Loss) - Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loan grades are monitored regularly and updated as necessary based upon review of repayment status and consideration of periodic updates regarding the borrower's financial condition and capacity to meet contractual requirements. The following presents the Company's loans by risk rating based on the most recent information available as of December 31, 2014 and 2013:

| | Construction and Development | Real Estate - Mortgage | Commercial Real Estate | Commercial and Industrial | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2014 | | | | | | |
| 1-4 (Pass) | $ 18,133,498 | $ 5,878,913 | $77,766,415 | $ 9,505,161 | $670,407 | $ 111,954,394 |
| 5 (Internal Watch List) | 119,365 | - | 2,669,193 | 12,380 | - | 2,800,938 |
| 6 (Special Mention) | - | - | 1,172,341 | - | - | 1,172,341 |
| 7 (Substandard) | 1,770,000 | - | 1,005,753 | | - | 2,775,753 |
| 8 (Doubtful) | - | - | - | - | - | - |
| 9 (Loss) | - | - | - | - | - | - |
| Total | $ 20,022,863 | $ 5,878,913 | $82,613,702 | $ 9,517,541 | $670,407 | $ 118,703,426 |
| December 31, 2013 | | | | | | |
| 1-4 (Pass) | $ 4,617,645 | $ 3,374,950 | $75,115,165 | $ 3,541,804 | $402,845 | $ 87,052,409 |
| 5 (Internal Watch List) | 142,155 | - | 2,756,582 | 55,272 | - | 2,954,009 |
| 6 (Special Mention) | - | - | 432,795 | - | - | 432,795 |
| 7 (Substandard) | 2,600,000 | - | 1,065,780 | - | - | 3,665,780 |
| 8 (Doubtful) | - | - | - | - | - | - |
| 9 (Loss) | - | - | - | - | - | - |
| Total | $ 7,359,800 | $ 3,374,950 | $79,370,322 | $ 3,597,076 | $402,845 | $ 94,104,993 |

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

In this current real estate environment it has become more common to restructure or modify the terms of certain loans under certain conditions (i.e. troubled debt restructures or "TDRs"). In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable real estate market. When the Company has modified the terms of a loan, the Company usually either reduces or defers payments for a period of time. The Company has not forgiven any material principal amounts on any loan modifications to date. TDRs as of December 31, 2014 and 2013 quantified by loan type classified separately as accrual and non-accrual are presented in the table below.

| | Number of Loans | Accruing | Non-Accrual | Total |
|---|---|---|---|---|
| December 31, 2014 | | | | |
| Construction and development | 1 | $ 1,770,000 | $ - | $ 1,770,000 |
| Real estate - mortgage | - | - | - | - |
| Commercial real estate | 1 | - | 1,005,753 | 1,005,753 |
| Commercial and industrial | - | - | - | - |
| Other | - | - | - | - |
| Total | 2 | $ 1,770,000 | $ 1,005,753 | $ 2,775,753 |
| December 31, 2013 | | | | |
| Construction and development | 1 | $ 2,600,000 | $ - | $ 2,600,000 |
| Real estate - mortgage | - | - | - | - |
| Commercial real estate | 1 | - | 1,065,780 | 1,065,780 |
| Commercial and industrial | - | - | - | - |
| Other | - | - | - | - |
| Total | 2 | $ 2,600,000 | $ 1,065,780 | $ 3,665,780 |

Company policy is to return non accrual TDR loans to accrual status when all the principal and interest amounts contractually due, pursuant to its modified terms, are brought current and future payments are reasonably assured. Company policy also considers payment history of the borrower, but is not dependent upon a specific number of payments. The Company recorded no specific reserve as of December 31, 2014 and recognized no partial charge offs on the TDR loans described above during the year ended December 31, 2014. There were no specific reserves and recognized partial charge offs of $221,180 on TDRs for the year ended December 31, 2013.

Loans are modified to minimize loan losses when management believes the modification will improve the borrower's financial condition and ability to repay the loan. The Company typically does not forgive principal. The Company generally either defers, or decreases monthly payments for a temporary period of time. A summary of the types of concessions made are presented in the table below.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

| | Reduction of payment amount | | Deferred payments for 90 days | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2014 | Number | Amount | Number | Amount | Number | Amount |
| Construction and development | 1 | $1,770,000 | - | $ - | 1 | $ 1,770,000 |
| Commercial real estate | 1 | 1,005,753 | - | - | 1 | 1,005,753 |
| December 31, 2013 | | | | | | |
| Construction and development | 1 | $2,600,000 | - | $ - | 1 | $ 2,600,000 |
| Commercial real estate | 1 | 1,065,780 | - | - | 1 | 1,065,780 |

The following table presents loans by portfolio segment modified as TDRs and the corresponding recorded investment, which includes accrued interest and fees, as of December 31, 2014 and 2013.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| Construction and development | 1 | $ 1,770,000 | 1 | $ 2,600,000 |
| Real estate - mortgage | - | - | - | - |
| Commercial real estate | 1 | 1,005,753 | 1 | 1,065,780 |
| Commercial and industrial | - | - | - | - |
| Other | - | - | - | - |
| Total | 2 | $ 2,775,753 | 2 | $ 3,665,780 |

There have been no loans modified as a TDR within the past twelve months for which there was a payment default within the twelve month period ended December 31, 2014.

During 2012, Company purchased loans with outstanding principal balances at the time of purchase of $8,085,324, for a carrying value of $8,428,950. No loans were purchased during the year ended December 31, 2014. The outstanding balances of these purchased loans as of December 31, 2014 was $6,951,361, and these loans are included in the loan disclosures above.

During 2009, the Company purchased loans with outstanding principal balances at the time of purchase of $20,229,202 for a carrying value of $2,301,680. During the year ended December 31, 2011, the Company sold certain of these purchased loans with outstanding principal balances of $2,266,064, resulting in a loss on sale of $102,809. No loans were sold during the years ended December 31, 2013 and 2012. As of December 31, 2013, loans with outstanding principal balances of $1,566,684 remained with a carrying value of $78,429. During the year ended December 31, 2014, the remainder of the loans held for sale were sold, resulting in a gain of $145,395. There were no loans remaining as held for sale as of December 31, 2014.

5. PREMISES AND EQUIPMENT

Major classifications of these assets at December 31, 2014 and 2013 are summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 400,000 | $ 400,000 |
| Building | 1,238,097 | 1,238,097 |
| Leasehold improvements | - | - |
| Furniture, fixtures and equipment | 364,449 | 521,723 |
| | 2,002,546 | 2,159,820 |
| Accumulated depreciation | (433,851) | (493,044) |
| Premises and equipment, net | $ 1,568,695 | $ 1,666,776 |

6. DEPOSITS

Deposit account balances at December 31, 2014 and 2013 are summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Non-interest bearing demand deposits | $ 10,907,333 | $ 8,266,217 |
| Interest - bearing demand | 53,700,269 | 37,203,692 |
| Savings | 332,245 | 103,654 |
| Time Deposits | 57,814,094 | 35,030,946 |
| Total Deposits | $ 122,753,941 | $ 80,604,509 |

Time deposits listed above include $6,311,658 and $7,394,359 in brokered certificates of deposit at December 31, 2014 and 2013, respectively. Time deposits that meet or exceed the FDIC Insurance Limit of $250,000 at December 31, 2014 and 2013 were $16,456,849 and $8,832,976, respectively.

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

| Year Ending December 31, | |
|---|---|
| 2015 | $ 35,819,272 |
| 2016 | 16,412,138 |
| 2017 | 3,262,751 |
| 2018 | 817,418 |
| 2019 | 1,502,515 |
| | $ 57,814,094 |

7. LEASES

The Company entered into an agreement to lease a location in Marietta, Georgia for a term of thirty-eight months, with the lease commencing in June 2013 and ending in July 2016. This lease contains a rental holiday for the first two months of the lease and thereafter requires rental payments. Currently monthly rental payment is $2,240. The terms of the lease also allow the Company to automatically renew the lease for an additional three years. This lease was terminated in February 2015 in exchange for a payment of $38,000.

The Company also entered in a lease agreement to lease an office location in Alpharetta, Georgia for a term of fifty-four months, with the lease commencing in February 2015 and ending in July 2019. This lease contains a rental holiday for the first three months for one Suite and the first seven months for another Suite. The monthly payment has yet to initiate, but the first payment is due in May 2015 for $2,893. The first full payment for both Suites will occur in September 2015 for $5,785.

The minimum lease payments not including common area cost allocation under these leases are as follows:

| Year Ending December 31, | Minimum Lease Payments |
|---|---|
| 2015 | $ 39,190 |
| 2016 | $ 71,329 |
| 2017 | $ 73,461 |
| 2018 | $ 75,646 |
| 2019 | $ 45,381 |

Total rental expense for the years ended December 31, 2014 and 2013 was $40,010 and $156,606, respectively.

8. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank (FHLB) as of December 31, 2014 and 2013 are summarized as follows:

| December 31, 2014 | | | |
|---|---|---|---|
| Rate Type | Maturity Date | Interest Rate | Amount |
| Principal Reducing Credit | 03/20/17 | 1.05% | 2,250,000 |
| Convertible | 09/04/18 | 3.60% | 3,000,000 |
| Convertible | 09/10/18 | 3.25% | 2,500,000 |
| | | | $ 7,750,000 |

8. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

| December 31, 2013 | | | |
|---|---|---|---|
| Rate Type | Maturity Date | Interest Rate | Amount |
| Fixed | 01/09/14 | 0.18% | $ 5,000,000 |
| Fixed | 01/21/14 | 0.21% | 2,000,000 |
| Fixed | 03/18/14 | 0.32% | 2,000,000 |
| Fixed | 04/28/14 | 0.29% | 1,000,000 |
| Fixed | 06/27/14 | 0.28% | 1,000,000 |
| Principal Reducing Credit | 03/20/17 | 1.05% | 3,250,000 |
| Convertible | 09/04/18 | 3.60% | 3,000,000 |
| Convertible | 09/10/18 | 3.25% | 2,500,000 |
| | | | $ 19,750,000 |

The aggregate of the advances is collateralized by the Company's FHLB stock, the Company's deposits with the FHLB, securities and a blanket floating lien on a portion of the Company's loan portfolio, portions of which can be used to cover any defaults on repayments of advances. Total amount of loans pledged as of December 31, 2014 were approximately $14,059,000.

As of December 31, 2014, the Company has lines of credit with four correspondent banks for overnight borrowings of $28,600,000. The Company had $761,000 in borrowings outstanding on these lines at December 31, 2014. The lines of credit and outstanding balances at December 31, 2014 were as follows:

| Correspondent Bank | Commitment | Balance Outstanding |
|---|---|---|
| First National Bankers Bank | $ 5,600,000 | $ - |
| Independent Bankers Bank | 5,000,000 | - |
| The Independent Bankers Bank | 5,000,000 | - |
| CenterState Bank | 9,000,000 | 761,000 |
| | $ 24,600,000 | $ 761,000 |

Individually the correspondent banks require the borrowings to be limited to a maximum of 10 to 14 consecutive days.

9. INCOME TAXES

The total provision for income taxes in the statement of operations is as follows:

| | 2014 | 2013 |
|---|---|---|
| Currently payable | $ - | $ - |
| Deferred income taxes | 374,673 | 226,851 |
| Change in valuation allowance | - | - |
| | $ 374,673 | $ 226,851 |

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

| | 2014 | 2013 |
|---|---|---|
| Tax provision at statutory rate | $ 384,814 | $ 260,010 |
| Differences resulting from: | | |
| State income taxes | 24,081 | 11,110 |
| Other items, net | (34,222) | (44,269) |
| Valuation allowance | - | - |
| Provision for income taxes | $ 374,673 | $ 226,851 |

For the years ended December 31, 2014 and 2013, management believes there are no material amounts of uncertain tax positions. Additionally, there were no amounts of interest and penalties recognized in the balance sheet as of December 31, 2014 and 2013 or on the statements of income for the years ended December 31, 2014 and 2013. Further, all years subsequent to 2011 remain subject to examination.

9. INCOME TAXES

The following summarizes the components of deferred taxes at December 31, 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| Deferred income tax assets (liabilities) | | |
| Allowance for loan losses | $ 109,329 | $ 9,081 |
| Pre-opening expense | 278,968 | 313,479 |
| Net operating loss carryforwards | 2,499,288 | 2,672,689 |
| Depreciation | (128,452) | (16,851) |
| Stock options | 514,589 | 512,114 |
| Deferred loan fees | 46,063 | 46,063 |
| Other | 94,456 | 252,339 |
| Securities available for sale | (42,816) | 179,998 |
| Total gross deferred income tax assets | 3,371,425 | 3,968,912 |
| Less valuation allowance | - | - |
| Total deferred tax assets (liabilities) | $ 3,371,425 | $ 3,968,912 |

The future tax consequences of the differences between the financial reporting and tax basis of the Company's assets and liabilities resulted in a net deferred tax asset. Management has performed an evaluation of future taxable income and determined that a valuation allowance is not necessary at December 31, 2014 as future taxable income is more likely than not to exceed the deferred tax asset.

The federal and state net operating loss carryforwards will expire beginning in 2027 if not previously utilized.

10. EARNINGS PER SHARE

Weighted average common shares outstanding at December 31, 2014 and 2013 were 3,465,391. Weighted average common shares outstanding are used to calculate both basic and diluted earnings per share for the years ended December 31, 2014 and 2013 due to the antidilutive effect of potential common shares. The primary factor contributing to the antidilutive nature of potential common shares for the years ended December 31, 2014 and 2013 was that the weighted average exercise price exceeded the average market price for the year.

11. RELATED PARTY TRANSACTIONS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons and firms were indebted to the Company in the aggregate amount of $585,452 and $99,702 as of December 31, 2014 and 2013, respectively. Changes in related party loans for the year ended December 31, 2014 are as follows:

11. RELATED PARTY TRANSACTIONS

| | | |
|---|---|---|
| Balance, beginning of year | $ | 99,702 |
| Advances | | 500,000 |
| Repayments | | (14,250) |
| Balance, end of year | $ | 585,452 |

These persons and firms had deposits with the Company totaling $11,048,070 and $5,379,539 at December 31, 2014 and 2013, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Company's nature of business is such that it ordinarily results in a certain amount of litigation. In the opinion of management, there is no litigation in which the outcome will have a material effect on the consolidated financial statements.

The Company does not anticipate any material losses as a result of the commitments and contingent liabilities.

13. FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments can include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

| | Contract Amount (In Thousands) | | | |
|---|---|---|---|---|
| | December 31, 2014 | | December 31, 2013 | |
| Commitments to extend credit | $ | 32,637 | $ | 7,671 |
| Standby letters of credit | $ | 689 | $ | 678 |

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

13. FINANCIAL INSTRUMENTS

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Company has cash deposits with financial institutions in excess of the insured limitation of the Federal Deposit Insurance Corporation. If any of these financial institutions were not to honor its contractual liability, the Company could incur losses.

14. FAIR VALUE

Financial Instruments Measured at Fair Value

The Company follows ASC 820, *Fair Value Measurement and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, ASC 820 does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Fair value is used on a recurring basis for assets and liabilities in which fair value is the primary basis of accounting. Examples of these include available for sale and trading securities and loans held for sale. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower cost or market basis, foreclosed real estate, collateral dependent impaired loans and long-lived assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value, which are in accordance with ASC 820.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

## 14. FAIR VALUE

### Financial Instruments Measured at Fair Value

The table below presents the Company's assets measured at fair value on a recurring basis as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Assets | Total | Level 1 | Level 2 | Level 3 | Total Gains (Losses) |
| Recurring fair value measurements: | | | | | |
| Securities available for sale: | | | | | |
| U.S. Government-sponsored enterprises (GSEs) | $ 2,815,674 | $ - | $ 2,815,674 | $ - | |
| State and municipal securities | 6,044,162 | - | 6,044,162 | - | |
| Mortgage-backed GSE residential | 21,338,179 | - | 21,338,179 | - | |
| Total securities available for sale | 30,198,015 | - | 30,198,015 | - | |
| Total recurring fair value measurements | $ 30,198,015 | $ - | $ 30,198,015 | $ - | |
| Nonrecurring fair value measurements: | | | | | |
| Foreclosed real estate | $ - | $ - | $ - | $ - | $ - |
| Impaired loans | - | - | - | - | - |
| Land held for sale | - | - | - | 1,900,000 | (509,023) |
| Total nonrecurring fair value measurements | $ - | $ - | $ - | $ 1,900,000 | $ (509,023) |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Assets | Total | Level 1 | Level 2 | Level 3 | Total Gains (Losses) |
| Recurring fair value measurements: | | | | | |
| Securities available for sale: | | | | | |
| U.S. Government-sponsored enterprises (GSEs) | $ 2,879,392 | $ - | $ 2,879,392 | $ - | |
| State and municipal securities | 5,108,267 | - | 5,108,267 | - | |
| Mortgage-backed GSE residential | 14,178,716 | - | 14,178,716 | - | |
| Total securities available for sale | 22,166,375 | - | 22,166,375 | - | |
| Derivative instruments | - | - | - | - | |
| Loans held for sale | 78,429 | - | - | 78,429 | |
| Total recurring fair value measurements | $ 22,244,804 | $ - | $ 22,166,375 | $ 78,429 | |
| Nonrecurring fair value measurements: | | | | | |
| Foreclosed real estate | $ 665,000 | $ - | $ - | $ 665,000 | $ (38,000) |
| Impaired loans | 3,665,780 | - | - | 3,665,780 | (221,180) |
| Total nonrecurring fair value measurements | $ 4,330,780 | $ - | $ - | $ 4,330,780 | $ (259,180) |

14. FAIR VALUE

Financial Instruments Measured at Fair Value

Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. The investments in the Company’s portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets.

Loans held-for-sale are measured at the lower of cost or fair value. Fair value is currently based on the purchase price of the loan held for sale. Management believed that the overall value of these loans is based on the value of the collateral securing these loans. On loans held for sale, collateral includes commercial real estate.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs.

| | Loans Held For Sale | Land Held For Sale |
|---|---|---|
| Balance, December 31, 2013 | $ 78,429 | $ 2,409,023 |
| Loan foreclosures | - | - |
| Write downs | - | (509,023) |
| Sales | (78,429) | - |
| Balance, December 31, 2014 | $ - | $ 1,900,000 |

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may include real estate, or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Company. The value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Company if significant, or the equipment’s net book value on the business’ financial statements. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the collateral value. When the fair value of the collateral is based on an observable market price or a current appraised value, the foreclosed asset is recorded 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 real estate as nonrecurring Level 3.

## 14. FAIR VALUE

### Financial Instruments Measured at Fair Value

The following methods and assumptions that were used by the Company in estimating fair values of financial instruments are disclosed herein:

*Cash, federal funds sold, and interest bearing deposits with other banks.* The carrying amounts of cash and short-term instruments approximate their fair value due to the relatively short period to maturity of instruments.

*Investment securities*. Fair values for securities are based predominately on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of similar instruments.

*Restricted stock.* The carrying values of restricted equity securities approximate fair values.

*Loans Held for Sale.* Loans held for sale are carried at the lower of cost or market value. Fair value is based on what secondary markets are offering for loans with similar characteristics.

*Loans receivable.* For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

*Deposits.* The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

*Federal Home Loan Bank ("FHLB") advances and other borrowings.* Fair values of fixed rate FHLB advances and other borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements. The carrying values of variable rate FHLB advances and other borrowings approximate fair value.

*Secured borrowings.* The carrying amounts of secured borrowings approximate their fair values.

*Accrued interest.* The carrying amounts of accrued interest approximate their fair values.

*Derivative instruments.* The fair values of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

*Off-balance-sheet instruments.* Fair values for 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 counter parties' credit standings.

14. FAIR VALUE:

Fair Value of Financial Instruments

The Company's carrying amounts and estimated fair values of financial instruments as of December 31, 2014 and 2013 (in thousands) were as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Cash and due from banks | $ 1,897 | $ 1,897 | $ 1,083 | $ 1,083 |
| Interest-bearing accounts with other banks | 3,743 | 3,743 | 3,333 | 3,333 |
| Securities | 30,198 | 30,198 | 22,166 | 22,166 |
| Restricted stock | 1,385 | 1,385 | 1,871 | 1,871 |
| Loans held for sale | - | - | 78 | 78 |
| Loans receivable | 116,774 | 115,309 | 92,676 | 92,520 |
| Accrued interest receivable | 401 | 401 | 378 | 378 |
| Liabilities | | | | |
| Deposits | 122,754 | 122,851 | 80,605 | 80,595 |
| Accrued interest payable | 30 | 30 | 15 | 15 |
| Federal funds purchased | 761 | 761 | 2,988 | 2,988 |
| FHLB advances | 7,750 | 8,165 | 19,750 | 20,216 |

15. EMPLOYEE BENEFITS

The Company has a 401(k) plan covering all employees. As of January 1, 2012, the Company no longer provided matching contributions. Expenses of $3,639 and $3,116 relating to this plan were charged to operations for 2014 and 2013, respectively.

16. STOCK BASED COMPENSATION

Stock Options

During 2008, the Company adopted an Employee Incentive Stock Plan (the Stock Plan). The Stock Plan offers stock awards to key employees to encourage continued employment by facilitating their purchase of an equity interest in the Company. These awards are granted at the discretion of the Board of Directors at an exercise price determined by the Board at the grant date. Options awarded under the Stock Plan have a term of ten years from the date of grant and vest ratably over three years, unless otherwise stated in the award agreement. A total of 191,000 shares have been reserved under the Stock Plan.

16. STOCK BASED COMPENSATION

Stock Options

The Company has 36,418 outstanding options to purchase common stock which were issued to employees of the Company. Upon issuance of options, compensation cost was recognized in the consolidated financial statements of the Company for all share-based payments granted, based on the grant date fair value estimated.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the assumptions listed in the table below. Expected volatility for the period has been determined by a combination of a calculated value based on expected volatility of similar entities, and on the historical volatility of the Company's stock. The expected term of options granted is based on the short-cut method and represents the period of time that the options granted are expected to be outstanding. Expected dividends are based on dividend trends and the market price of the Company's stock price at grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | December 31, 2013 | | |
|---|---|---|---|
| Risk-free interest rate | | 1.39 | % |
| Expected life (years) | | 5.00 | |
| Expected volatility | | 50.00 | % |
| Expected dividends | | 0.00 | % |
| Expected forfeiture rate | | 27.60 | % |
| Weighted average fair value of options granted | $ | 2.58 | |
| Weighted average exercise price | $ | 8.50 | |

The Company recorded stock-based compensation expense related to the options of $6,550 and $20,941 during the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, there was $2,410 of unrecognized compensation cost related to options outstanding, which is expected to be recognized during 2015.

16. STOCK BASED COMPENSATION

Stock Options

A summary of activity in the Company's stock option plans is presented below:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Shares | Average Exercise Price | Shares | Weigthed Average Exercise Price |
| Outstanding at beginning of year | 58,168 | $ 9.12 | 115,618 | $ 8.77 |
| Granted | - | - | 5,000 | 8.50 |
| Exercised | - | - | - | - |
| Forfeited/cancelled | (21,750) | - | (62,450) | 8.46 |
| Outstanding at end of year | 36,418 | $ 9.12 | 58,168 | $ 9.12 |
| Options exercisable at year-end | 34,752 | 9.24 | 53,002 | 9.24 |

The outstanding options have a weighted average remaining contractual life of approximately 5.72 years as of December 31, 2014. The exercisable options have a weighted average remaining contractual life of approximately 5.65 years as of December 31, 2014. At December 31, 2014, the aggregate intrinsic value of options outstanding and exercisable was $0.

Warrants

Type I (Director) warrants were awarded in recognition of certain directors contributions to the initial capitalization of the Company. The Company awarded only 30,000 Type I warrants due to the majority of warrants issued being Type II. These warrants vest over three years.

Type II (Organizer) warrants were awarded in recognition of the financial risk undertaken by organizers in contributing seed capital and guaranteeing certain liabilities of the Company to fund organizational expenses. Warrants were issued based on the amount of funds each organizer placed at risk, which included seed capital contributed and each organizers pro-rata share of an organizational line of credit and land loan guaranteed. The Company awarded 430,000 Type II warrants, which vested immediately upon issuance.

Type I and Type II warrants have an expiration term of 10 years from the anniversary date. The purchase price of each additional share under the warrant agreement is $10 per share. Each warrant agreement has an anti-dilution clause whereby if the Company subdivides its outstanding shares of common stock into a greater number of shares, or declares and pays a stock dividend, the purchase price of each share shall be proportionately reduced, and the Company shall proportionately increase the number of shares of common stock.

Additionally, 12,500 immediately vesting warrants were issued to the organizational consultant during the first quarter of 2008. During the year ended December 31, 2010, 3,333 stock warrants were forfeited, and during the year ended December 31, 2014, 10,000 stock warrants were forfeited. At December 31, 2014, there were 459,167 stock warrants outstanding and fully vested. At December 31, 2013, there were 469,167 stock warrants outstanding and fully vested.

16. STOCK BASED COMPENSATION

Warrants

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility for the period has been determined by a combination of a calculated value based on expected volatility of similar entities, and on the historical volatility of the Company's stock. The expected term of warrants granted is based on the short-cut method and represents the period of time that the warrants granted are expected to be outstanding. Expected dividends are based on dividend trends and the market price of the Company's stock price at grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no warrants granted or exercised for the years ended December 31, 2014 and 2013.

The Company recorded no stock-based compensation expense for the years ended December 31, 2014 and 2013, respectively, related to these warrants.

At December 31, 2014, there was no unrecognized compensation cost related to warrants. The weighted average remaining contractual life of the warrants outstanding as of December 31, 2014 approximately 3.0 years. At December 31, 2014, the aggregate intrinsic value of warrants outstanding and exercisable was $0.

17. REGULATORY MATTERS

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

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

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

17. REGULATORY MATTERS

The Bank's actual capital amounts (in thousands) and ratios as of December 31, 2014 and 2013 are presented in the following table:

| | Actual | | For Capital Adequacy Purposes: | | To Be Well Capitalized Under Prompt Corrective Action Provisions: | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2014: | | | | | | |
| Total Capital (to Risk Weighted Assets) | $ 27,651 | 19.9% | $ 11,117 | 8.0% | $ 13,897 | 10.0% |
| Tier I Capital (to Risk Weighted Assets) | $ 25,992 | 18.7% | $ 5,559 | 4.0% | $ 8,338 | 6.0% |
| Tier I Capital (to Average Assets) | $ 25,992 | 16.5% | $ 6,288 | 4.0% | $ 7,861 | 5.0% |
| As of December 31, 2013: | | | | | | |
| Total Capital (to Risk Weighted Assets) | $ 25,482 | 23.7% | $ 8,595 | 8.0% | $ 10,743 | 10.0% |
| Tier I Capital (to Risk Weighted Assets) | $ 24,218 | 22.5% | $ 4,297 | 4.0% | $ 6,446 | 6.0% |
| Tier I Capital (to Average Assets) | $ 24,218 | 19.4% | $ 4,999 | 4.0% | $ 6,249 | 5.0% |

18. LIMITATION ON DISTRIBUTIONS:

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings, and the ratio of equity capital to total assets. The Bank is currently not allowed to pay dividends to the Company until it becomes cumulatively profitable.

19. OTHER OPERATING EXPENSES

Significant components of noninterest expenses are as follows:

| | 2014 | 2013 |
|---|---|---|
| Loan collections | $ 210,350 | $ 64,167 |
| Loan related expenses | 132,316 | 121,022 |
| Data processing and information technology | 327,315 | 283,692 |
| Professional services | 264,074 | 192,906 |
| Supervisory assessments | 153,652 | 148,594 |
| Foreclosed real estate costs | 105,049 | 294,661 |
| Software license and fees | 81,634 | 57,271 |

**TOUCHMARK BANKSHARES, INC.**
**AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

20. CONDENSED FINANCIAL INFORMATION ON TOUCHMARK BANCSHARES, INC (PARENT COMPANY ONLY)

Condensed Balance Sheets

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash * | $ 927,361 | $ 757,426 |
| Investment in subsidiary * | 28,184,079 | 26,683,619 |
| Loans held for sale, net of valuation allowance | - | 78,429 |
| Foreclosed real estate | - | 70,229 |
| Land held for sale | 1,900,000 | 2,409,023 |
| Other assets | 589,358 | 405,095 |
| Total assets | $ 31,600,798 | $ 30,403,821 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| Liabilities: | | |
| Accounts payable | $ - | $ 21 |
| Total liabilities | - | 21 |
| Stockholder's equity | 31,600,798 | 30,403,800 |
| Total liabilities and stockholder's equity | $ 31,600,798 | $ 30,403,821 |

* Eliminated in consolidation.

## Notes to Consolidated Financial Statements

20. CONDENSED FINANCIAL INFORMATION ON TOUCHMARK BANCSHARES, INC (PARENT COMPANY ONLY)

Condensed Statements of Operations

| | For the Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Interest income: | | |
| Investment income | $ - | $ 1,291 |
| Total interest income | - | 1,291 |
| Noninterest income: | | |
| Gain on sales of assets | 200,394 | - |
| Total noninterest income | 200,394 | - |
| Noninterest expense: | | |
| Occupancy and equipment | - | 22,122 |
| Other operating expense | 688,120 | 44,280 |
| Total noninterest expense | 688,120 | 66,402 |
| Net income (loss) before equity in undistributed income of subsidiary | (487,726) | (65,111) |
| Equity in undistributed income of subsidiary | 1,041,532 | 448,237 |
| Income before taxes | 553,806 | 383,126 |
| Income tax benefit | 184,263 | 129,295 |
| Net income | $ 738,069 | $ 512,421 |

20. CONDENSED FINANCIAL INFORMATION ON TOUCHMARK BANCSHARES, INC (PARENT COMPANY ONLY)

Condensed Statements of Cash Flows

| | For the Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | $ 738,069 | $ 512,421 |
| Adjustments to reconcile net income to net cash used by operating activities | | |
| Gain on asset sales | (200,394) | - |
| Write down of foreclosed real estate | 70,229 | - |
| Write down of land held for sale | 509,023 | - |
| Equity in undistributed income of subsidiary | (1,041,532) | (448,237) |
| Deferred tax assets | (184,263) | (77,997) |
| Decrease (increase) in other assets | - | (51,298) |
| Increase (decrease) in other liabilities | (21) | (21,478) |
| Net cash used by operating activities | (108,889) | (86,589) |
| Cash flow from investing activities: | | |
| Proceeds from sale of loans held for sale | 223,824 | - |
| Proceeds from sale of foreclosed real estate | 55,000 | - |
| Decrease in interest bearing accounts with other banks | - | 245,000 |
| Net cash provided by investing activities | 278,824 | 245,000 |
| Net change in cash | 169,935 | 158,411 |
| Cash at the beginning of the year | 757,426 | 599,015 |
| Cash at the end of the year | $ 927,361 | $ 757,426 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Stock based compensation expensed at subsidiary | $ 6,550 | $ 20,941 |
| Transfer of loans held for sale to foreclosed real estate | $ - | $ 70,229 |

21. SUBSEQUENT EVENTS

The Company assessed events that have occurred subsequent to December 31, 2014 through April 10, 2015 for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to or disclosure in the consolidated financial statements which were issued on April 10, 2015.

TOUCHMARK
BANCSHARES, INC.

# Board of Directors

J.J. Shah, Chairman
Vivian A. Wong, Vice Chairman
William D. Crosby
Jorge L. Forment
Yuling R. Hayter
Sudhirkumar C. Patel
Mukund C. Raja
Hasmukh P. Rama
Meena J. Shah

# Executive Officers

Jorge L. Forment
President & CEO

Kellie Pressnall
Chief Financial Officer

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