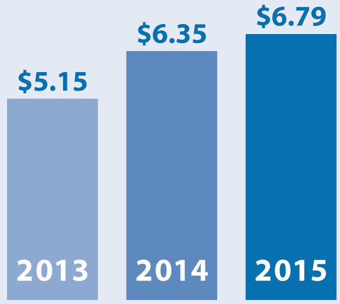
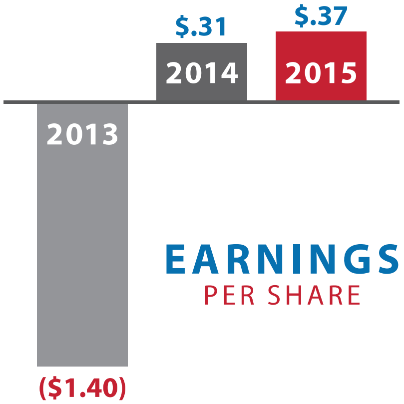
first Community Corporation

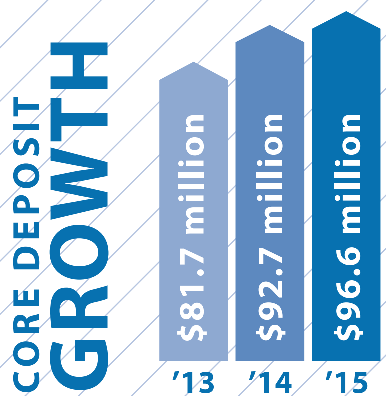
ANNUAL REPORT

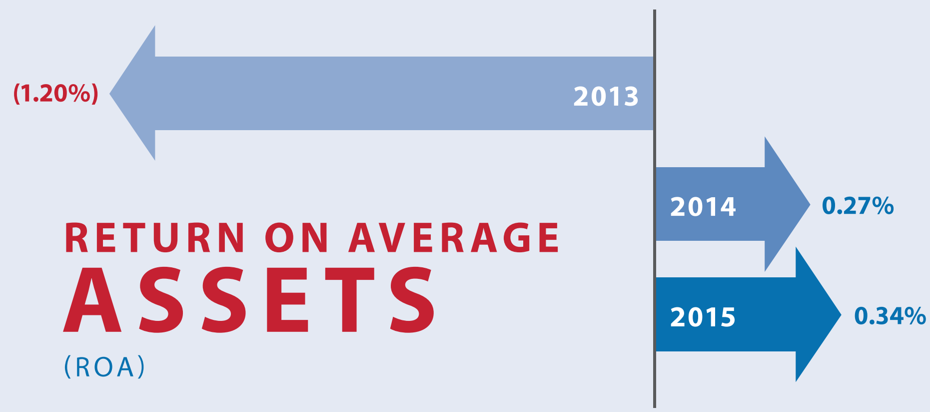
2015 Financial Performance

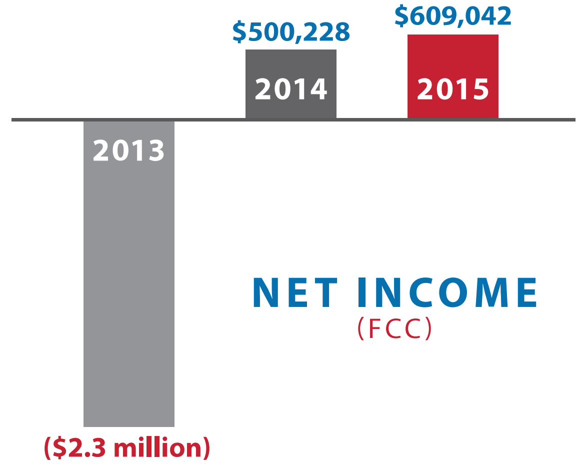


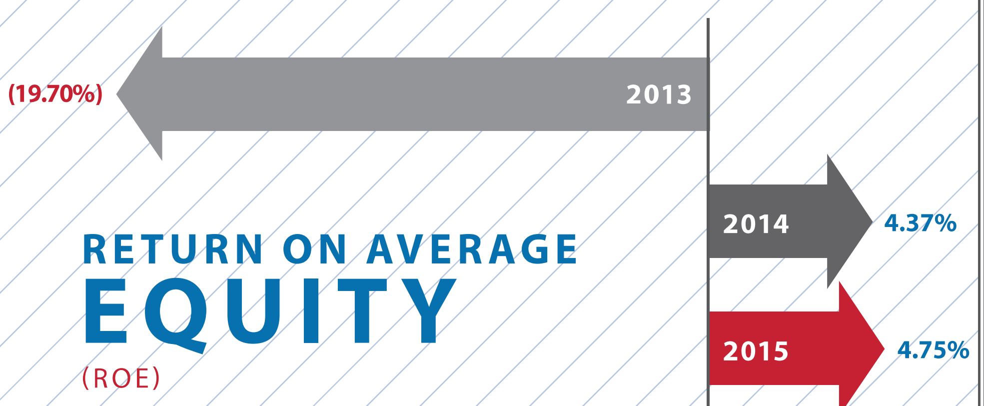
BOOK VALUE
PER SHARE

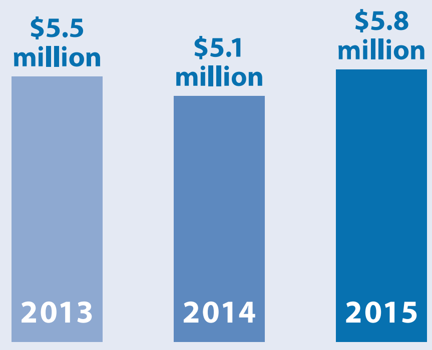












NET INTEREST INCOME
(NII FCC)

Letter to our Shareholders

America loves a comeback story, and First Community Corporation has its own comeback story to share. After a difficult struggle which followed the great recession, FCC has returned to profitability with two years of success. We did this by making a commitment to the communities and customers we serve.

I am so pleased to report the financial data detailing our profitability for 2015. The corporation earned $609,042, an increase of more than 21% over 2014. This equated to $0.37 in earnings per share, a 20% increase over 2014. The book value per share was $6.79, a 7% increase over 2014.

In addition to now being able to report two years of profitability, we are also excited to announce that the risk profile of the bank has significantly improved as a result of a substantial reduction in the volume of troubled assets. The local economic outlook has improved, and the bank is positioned for continued growth in 2016.

continued...

first Community Corporation

Friendship Indian Motorcycle
Bristol, Va.

"It was a pleasure to work with Steve Droke and the First Community Bank team on our Friendship Indian Motorcycle location. Their responsiveness and expertise helped make the challenging process of financing the renovation of an older building efficient and smooth."

Mitch Walters
Friendship Indian Motorcycle

Left to right: Mitch Walters, Steve Droke, Mick Marshall

Left to right: Tina Hawes, Darrell Mitchell, Stephanie Potts

Hair Jungle, *Mount Carmel, Tenn.*
Lawn Medics, *Church Hill, Tenn.*

"First Community Bank has been able to assist with Tina's hair salon, Darrell's landscaping business, and their personal mortgage as well. I love when I can offer a one-stop shop for our customers."

Stephanie Potts
First Community Bank

Interim Healthcare of East Tennessee
Morristown, Tenn.

"At Interim Healthcare of East Tennessee, we appreciate the support and trust of our local community bank. FCB and Steve Waller have been by our side since our launch. Steve was instrumental in assisting us in turning our dream of a small business into a reality. We would not be the multi-million dollar business we are today without the confidence he had in our vision."

Sandy Jarnagin & Peggy Ray
Interim Healthcare of East Tennessee

Left to right: Peggy Ray, Steve Waller, Sandy Jarnagin

I hope you will notice our efforts in creating a new look for portions of our annual report. Yes, we are proud of our improved financial performance. But this year, we also want to share with you how proud we are of our employees' commitment to the bank in three specific ways:

1. Our employees are committed to building relationships with our customers. Our lenders have been successful in identifying new loan opportunities and growing our customer base thereby increasing the size of our loan portfolio. The customer photos and testimonials featured speak for themselves. In addition, core deposit growth was strong during 2015 as our staff continues to experience success with our benefit-based EDGE checking product offering.

2. Our employees are committed to the community through their servant leadership. From community events and local fundraising efforts to civic clubs and our local schools, our staff members are front and center volunteering their time and resources.

3. Our employees are committed to finding and utilizing cost effective measures in day-to-day business activities. Whether it's a company-wide focus on lowering utility costs or regularly reviewing all vendor relationships and fees, our staff works diligently to keep business expenses well controlled.

Left to right: Jeanette Edens, David Woodby

McDonald Millwright
Bulls Gap, Tenn.

"It's been my honor to assist David Woodby in refinancing his commercial building, land, and mobile homes. We were also able to include a rental home in the loan."

Jeanette Edens
First Community Bank

Left to right: Paul Penland, Dave McFarland, Steve Droke

Let me close by thanking you, our shareholders, for your commitment to First Community Corporation. We rely on the support of the people who live and work here. We appreciate you for being part of our comeback story and giving us our roots. Thank you for doing business with First Community Bank and for being a shareholder of First Community Corporation.

Sincerely,

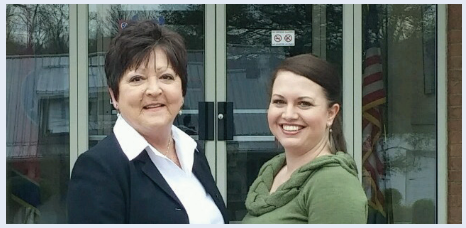
Tommy W. Young

Tommy W. Young
Chairman

Cellular Communications
Rogersville, Tenn.

"When I started in business, First Community Bank gave me my first loan. Every account I've had since has been with them because they have always been there for me. They've made me feel secure, and I trust them."

Sandy Harrell
Cellular Communications



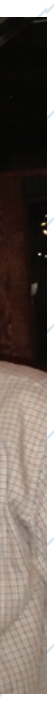
Left to right: Sandy Harrell, Ashley Lawson

Jackpot Corporation (Fazoli's, Sweet Frog)
Kingsport, Tenn.

"First Community Bank has always been wonderful to work with. They've earned my loyalty and helped my businesses be successful."

Helen So, *Jackpot Corporation*

Left to right: Dana Parkinson, Helen So



Wild Wing Café
Asheville, N.C. / Knoxville, Tenn.

"My relationship with First Community Bank has been a great partnership. Steve and Paul took the time to come meet with me at my restaurant and that means a lot. They are real people that really care."

Dave McFarland
Wild Wing Café

Left to right: Debbie Price, Debbie Farmer, and Scott Farmer

Farmer's Auto Repair
Rogersville, Tenn.

"The Farmer family and I have been working together for years. Whether it's been for a personal loan or a business loan, I'm thankful they call on me and First Community Bank first."

Debbie Price
First Community Bank

First Community Corporation

Board of Directors, Officers & Staff

Board of Directors

Tommy W. Young
Chairman/Secretary
Vice Chairman of the Hawkins County Industrial Commission
Commissioner & Secretary for the Hawkins County Gas Utility
Secretary & Treasurer United Way of Hawkins County
Board of Directors - Wellmont Hawkins County Memorial Hospital

Tyler K. Clinch
President

Steve L. Droke
Executive Vice President and
Director of Special Assets
Chief Lending Officer

Dr. David R. Johnson
Staff Veterinarian

Sidney K. Lawson
President and CEO of
Lawson Construction Company, Inc.

David L. Lunceford
Retired
Board of Directors - Meals on Wheels of Kingsport

A. Max Richardson
Owner of Richardson & Richardson
Realty and Auction Company

Officers

Tommy W. Young
Chairman of the Board and Secretary

Tyler K. Clinch
President

James B. Maddox
Treasurer

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660

PUGH CPAs

OAK RIDGE OFFICE:
800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-769-1657

PUGH & COMPANY, P.C.
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
First Community Corporation
Rogersville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Community Corporation and First Community Bank of East Tennessee which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, (collectively, consolidated financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 First Community Corporation and First Community Bank of East Tennessee as of December 31, 2015 and 2014, 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.

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
March 16, 2016

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED BALANCE SHEETS

As of December 31,		2015		2014
ASSETS				
Cash and Due from Banks	$	15,069,872	$	30,258,824
Securities Available for Sale, at Fair Value		29,772,451		28,641,785
Loans, Net		107,679,750		104,117,723
Premises and Equipment, Net		4,664,860		5,005,834
Accrued Interest Receivable		421,910		508,504
Restricted Equity Investments, at Cost		1,810,800		1,810,800
Cash Surrender Value of Life Insurance		6,912,204		6,704,663
Computer Software, Net of Amortization		78,956		101,249
Foreclosed Real Estate		2,880,492		3,202,644
Deferred Income Tax Benefit		1,934,157		1,995,566
Other Assets		472,940		555,137
Total Assets	$	171,698,392	$	182,902,729
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits:				
Noninterest-bearing	$	26,162,638	$	23,967,822
Interest-bearing		109,582,178		123,387,903
Total Deposits		135,744,816		147,355,725
Securities Sold under Agreements to Repurchase		7,000,294		6,580,816
Federal Home Loan Bank Advances		6,270,063		6,311,489
Subordinated Debentures		7,217,000		7,217,000
Accrued Interest Payable		88,968		827,661
Other Liabilities		2,428,440		2,369,238
Total Liabilities		158,749,581		170,661,929
SHAREHOLDERS' EQUITY				
Preferred Stock Class A, $8.05 par value. Authorized 400,000 shares; issued 220,080; outstanding 211,672 shares in 2015 and 2014		1,776,474		1,776,474
Preferred Stock Class B, $8.05 par value. Authorized 200,000 shares; issued 30,071; outstanding 29,846 shares in 2015 and 2014		242,072		242,072
Common Stock, no par value. Authorized 10,000,000 shares; issued 1,679,244; outstanding 1,630,812 shares in 2015 and 2014		5,599,948		5,599,948
Treasury Stock, at Cost		(946,998)		(946,998)
Retained Earnings		6,589,461		5,980,419
Accumulated Other Comprehensive Income (Loss)		(312,146)		(411,115)
Total Shareholders' Equity		12,948,811		12,240,800
Total Liabilities and Shareholders' Equity	$	171,698,392	$	182,902,729

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2015	2014
INTEREST INCOME		
Loans, including Fees	$ 5,713,359	$ 4,990,775
Securities		
Taxable	584,508	736,383
Non-taxable	47,136	65,326
Federal Funds Sold and Other	105,601	142,045
Total Interest Income	6,450,604	5,934,529
INTEREST EXPENSE		
Deposits	240,211	394,650
Federal Home Loan Bank Advances	292,693	294,675
Subordinated Debentures	154,476	187,455
Other	3,431	3,200
Total Interest Expense	690,811	879,980
NET INTEREST INCOME	5,759,793	5,054,549
PROVISION FOR LOAN LOSSES	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,759,793	5,054,549
NONINTEREST INCOME		
Service Charges on Deposit Accounts	542,368	543,479
Net Gain (Loss) on Sales of Securities Available for Sale	15,550	16,857
Increase in Cash Surrender Value of Life Insurance	209,781	193,722
Other	645,632	773,567
Total Noninterest Income	1,413,331	1,527,625
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,950,507	2,878,891
Occupancy	536,355	544,365
Data Processing	408,697	344,709
Furniture and Equipment	210,359	216,294
Advertising and Public Relations	21,506	21,498
Professional Services	236,391	256,951
Foreclosed Real Estate	927,207	519,584
Operating Supplies	81,971	69,421
Computer Software Depreciation	36,826	46,053
Software Maintenance	69,105	65,619
Telephone and Data Communications	114,750	115,599
Director and Committee Fees	57,375	53,160
FDIC and State Assessments	272,704	276,799
Other	638,504	794,052
Total Noninterest Expense	6,562,257	6,202,995
INCOME (LOSS) BEFORE INCOME TAXES	610,867	379,179
INCOME TAXES (EXPENSE) BENEFIT	(1,825)	121,049
NET INCOME (LOSS)	$ 609,042	$ 500,228

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,	2015	2014
NET INCOME (LOSS)	$ 609,042	$ 500,228
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Investment Securities Available for Sale	175,928	2,395,196
Reclassification Adjustment for Realized Gains Included in Net Income (Loss) Above	(15,550)	(16,857)
Other Comprehensive Income (Loss) Before Income Taxes	160,378	2,378,339
Income (Taxes) Benefit Related to Items of Other Comprehensive Income	(61,409)	(910,666)
Other Comprehensive Income (Loss), Net of Income Taxes	98,969	1,467,673
COMPREHENSIVE INCOME (LOSS)	$ 708,011	$ 1,967,901

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014

	Preferred Stock A	Preferred Stock B	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES, JANUARY 1, 2014	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 5,480,191	$ (1,878,788)	$ 10,272,899
Net Income (Loss)	0	0	0	0	500,228	0	500,228
Other Comprehensive Income (Loss)	0	0	0	0	0	1,467,673	1,467,673
BALANCES, DECEMBER 31, 2014	1,776,474	242,072	5,599,948	(946,998)	5,980,419	(411,115)	12,240,800
Net Income (Loss)	0	0	0	0	609,042	0	609,042
Other Comprehensive Income (Loss)	0	0	0	0	0	98,969	98,969
BALANCES, DECEMBER 31, 2015	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 6,589,461	$ (312,146)	$ 12,948,811

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2015	2014
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 609,042	$ 500,228
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	289,928	315,582
Net Amortization of Securities	69,375	75,125
(Gain) Loss of Sales of Foreclosed Real Estate	(1,743)	150,327
(Gain) Loss of Sales of Premises and Equipment	(1,568)	0
Writedowns of Foreclosed Real Estate	639,285	101,686
Deferred Income Taxes (Benefit)	0	(119,137)
Gain (Loss) on Sales of Securities Available for Sale	(15,550)	(16,857)
(Increase) Decrease in Cash Surrender Value of Company Owned Life Insurance	(207,541)	(210,265)
Change in Accrued Interest Receivable and Other Assets	168,791	62,718
Change in Accrued Interest Payable and Other Liabilities	(679,491)	78,834
Net Cash Provided by (Used in) Operating Activities	870,528	938,241
Cash Flows from Investing Activities:		
Purchases of Securities Available for Sale	(31,356,617)	(3,363,390)
Proceeds from Maturities, Redemptions, and Paydowns of Securities Available for Sale	21,860,991	3,871,104
Proceeds from Sales of Securities Available for Sale	8,471,513	12,635,544
Net (Increase) Decrease in Loans	(4,792,464)	(7,586,127)
Proceeds from Sales of Foreclosed Real Estate	915,047	750,720
Proceeds from Sales of Premises and Equipment	128,000	0
Purchases of Premises and Equipment and Computer Software	(53,093)	(69,656)
Net Cash Provided by (Used in) Investing Activities	(4,826,623)	6,238,195
Cash Flows from Financing Activities:		
Repayments of FHLB Advances	(41,426)	(39,344)
Change in Checking, Savings and Money Market Accounts	3,969,841	11,040,163
Increase (Decrease) in Time Deposits	(15,580,750)	(10,666,603)
Change in Securities Sold under Agreements to Repurchase	419,478	204,529
Net Cash Provided by (Used in) Financing Activities	(11,232,857)	538,745
Net Change in Cash and Cash Equivalents	(15,188,952)	7,715,181
Cash and Cash Equivalents at Beginning of Period	30,258,824	22,543,643
Cash and Cash Equivalents at End of Period	$ 15,069,872	$ 30,258,824
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 1,429,505	$ 736,084
Income Taxes	15,000	0
Supplemental Noncash Disclosures:		
Transfers from Loans to Foreclosed Real Estate and Repossessed Assets	$ 1,230,437	$ 487,217
Sales of Foreclosed Real Estate by Origination of Loans	0	2,199,000
Change in Unrealized Gains/Losses on Securities Available for Sale	160,378	2,378,339
Change in Deferred Income Taxes Associated with Unrealized Gains/Losses on Securities Available for Sale	61,409	910,666
Change in Net Unrealized Gains/Losses on Securities Available for Sale	98,969	1,467,673

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: First Community Corporation (the Holding Company), through its wholly owned subsidiary, First Community Bank of East Tennessee (the Bank), provides a variety of banking services to individuals and businesses from its banking offices in Rogersville, Church Hill, and Kingsport, Tennessee. Its primary deposit products are demand and savings deposits and certificates of deposit, and its primary lending products are commercial, residential real estate and consumer loans. The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States of America (GAAP) and to general practices in the banking industry. The significant policies are summarized as follows:

Basis of Presentation: The accompanying consolidated financial statements include the accounts of First Community Corporation, a one-bank holding company and its wholly-owned subsidiary, First Community Bank of East Tennessee, together referred to as "the Company". All material intercompany balances and transactions have been eliminated in consolidation. The Bank operates as a single segment.

Use of Estimates: To prepare consolidated financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments, the valuation of real estate acquired through foreclosures, and deferred compensation related to retirement plan liabilities are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for loan, deposit and securities sold under agreements to repurchase transactions.

Cash and Due from Banks: Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks. Cash on hand or on deposit with correspondent banks of $1,303,000 and $1,235,000 was required to meet regulatory reserve and clearing requirements at December 31, 2015 and 2014, respectively. These balances do not earn interest. The Bank also maintains cash deposits with the Federal Reserve Bank, which totaled approximately $11,845,000 and $25,863,000 as of December 31, 2015 and 2014, respectively, and with the Federal Home Loan Bank of Cincinnati, which totaled approximately $188,000 and $196,000 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, there were no balances in correspondent bank accounts in excess of FDIC insurance limits.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss).

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary (see Note 2).

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in the fair value (see Note 2).

Restricted Equity Investments: The Bank's equity investment represents a required investment in the Federal Home Loan Bank (FHLB) of Cincinnati, which is pledged as collateral for FHLB advances (see Note.11). This investment is carried at cost because it does not have a readily determinable fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of an estimated allowance for loan losses.

Interest income is reported on the simple interest accrual method. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to the accrual basis. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Estimated Allowance for Loan Losses: The estimated allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other trends and conditions. The entire estimated allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the estimated allowance when management believes the uncollectibility of a loan balance is confirmed.

A general reserve is established that evaluates unimpaired loans by category. Each loan within a group has similar risk characteristics. When estimating credit losses on each group of loans, management considers the bank's historical loss experience on the group, adjusted for changes in trends, conditions, and other relevant factors that affect repayment of the loans as of the evaluation date. These loans are collectively evaluated for estimated credit losses.

Another component of the ALLL is an allocated reserve on individually evaluated loans, as judgmentally determined by management to be impaired. A loan is considered impaired when based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. If a loan is impaired, an allocated allowance is established so that the loan is reported at the net present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

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

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, which range as follows: building-40 years, equipment-3 to 15 years. Computer Software is amortized using the straight-line method over the useful life of the asset and ranges from 3 to 10 years.

Foreclosed Real Estate: Real estate acquired through or instead of loan foreclosure is initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition that do not increase the property's value are expensed. The Bank's current average holding period for such properties is approximately 38 months.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives and bank officers. Company owned life insurance is recorded at its net cash surrender value, or the amount that can be realized if surrendered.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities Sold Under Agreements To Repurchase: Repurchase agreements are treated as financing transactions and are carried at the amounts at which the securities will be subsequently reacquired, as specified in the respective agreements. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to employees and directors. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

Employee Benefits: The Bank maintains a 401(k) profit-sharing plan that covers substantially all employees. The Bank matches a portion of the employee's contribution and records the expense in the period the employee contribution is withheld. The Company has a non-qualified deferred compensation arrangement with certain current and former officers. A contribution may be made or accrued each year based on future benefits to be paid under the arrangement, at the discretion of the Board of Directors if certain financial goals are met.

Consolidated Statement of Comprehensive Income: The objective of this statement is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with owners. Items included in comprehensive income include revenues, gains and losses that under generally accepted accounting principles are directly charged to equity. Examples include foreign currency translations, pension liability adjustments and unrealized gains and losses on investment securities available for sale. The Company has included its comprehensive income in a separate financial statement as part of its consolidated financial statements.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Reclassifications: Certain items in the 2014 financial statements have been reclassified to conform with the 2015 financial statements.

Evaluation of Subsequent Events: The Bank's management has evaluated subsequent events through March 16, 2016, which is the date the financial statements were available to be issued. See subsequent event Note 14.

NOTE 2 - SECURITIES

The fair values of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 996,260	$ 0	$ (750)	$ 995,510
Small Business Admin. Securities	2,532,565	5,306	(57,980)	2,479,891
U.S. Government Agency Securities	16,715,511	1,600	(330,829)	16,386,282
Residential Mortgage-backed Securities	5,697,883	3,816	(146,573)	5,555,126
Tax Exempt Municipal Securities	4,336,058	23,429	(3,845)	4,355,642
Total	$ 30,278,277	$ 34,151	$ (539,977)	$ 29,772,451
2014				
Small Business Admin. Securities	$ 2,923,460	$ 3,383	$ (82,973)	$ 2,843,870
U.S. Government Agency Securities	23,688,381	6,982	(600,883)	23,094,480
Residential Mortgage-backed Securities	502,513	5,175	0	507,688
Tax Exempt Municipal Securities	2,193,635	9,276	(7,164)	2,195,747
Total	$ 29,307,989	$ 24,816	$ (691,020)	$ 28,641,785

The amortized cost and fair value of securities at December 31, 2015, by contractual maturity is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due through One Year	$ 0	$ 0
Due after One through Five Years	6,787,508	6,757,676
Due after Five through Ten Years	8,265,842	8,171,564
Due after Ten Years	6,994,479	6,808,194
Residential Mortgage-backed and SBA Securities	8,230,448	8,035,017
Total	$ 30,278,277	$ 29,772,451

For purposes of the above maturity table, mortgage-backed securities and Small Business Administration securities, which are not due at a single maturity date, are presented on a separate line item.

Proceeds from sales of investment securities available for sale were $8,471,513 and $12,635,544 during the years ended December 31, 2015 and 2014, respectively. The Company recognized gross gains and losses of $17,183 and $1,633, respectively, from the sales of investment securities in 2015 ($92,208 and $75,351 in 2014).

Securities pledged to secure public deposits and repurchase agreements at December 31, 2015 and 2014 had a carrying amount of approximately $22,389,000 and $28,232,000, respectively.

NOTE 2 - SECURITIES (Continued)

The following table shows securities with unrealized losses and their fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2015						
U.S. Treasury Securities	$ 995,510	$ (750)	$ 0	$ 0	$ 995,510	$ (750)
Small Business Admin. Securities	0	0	2,019,476	(57,980)	2,019,476	(57,980)
U.S. Government Agency Securities	5,153,477	(88,036)	10,231,204	(242,793)	15,384,681	(330,829)
Residential Mortgage-backed Securities	5,477,508	(146,573)	0	0	5,477,508	(146,573)
Tax Exempt Municipal Securities	1,532,672	(3,845)	0	0	1,532,672	(3,845)
Total Temporarily Impaired	$ 13,159,167	$ (239,204)	$ 12,250,680	$ (300,773)	$ 25,409,847	$ (539,977)
2014						
Small Business Admin. Securities	$ 0	$ 0	$ 2,239,390	$ (82,973)	$ 2,239,390	$ (82,973)
U.S. Government Agency Securities	0	0	21,577,849	(600,883)	21,577,849	(600,883)
Residential Mortgage-backed Securities	0	0	0	0	0	0
Tax Exempt Municipal Securities	650,890	(7,164)	0	0	650,890	(7,164)
Total Temporarily Impaired	$ 650,890	$ (7,164)	$ 23,817,239	$ (683,856)	$ 24,468,129	$ (691,020)

Unrealized losses on securities have not been recognized into income because the issuer(s) securities are of higher credit quality (rated A3 or higher), management has the intent and ability to hold them for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates change.

At December 31, 2015, the 34 investment securities in an unrealized loss position have depreciated approximately 2% from the Bank's amortized cost basis. This unrealized loss relates principally to current interest rates for similar types of securities. 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 the results of reviews of the issuer's financial condition.

NOTE 3 - LOANS

A summary of loans outstanding by category at December 31, 2015 and 2014 follows:

	2015	2014
Secured by Real Estate:		
Commercial - Owner-Occupied	$ 20,754,701	$ 17,067,010
Commercial - Other	30,004,897	41,333,908
Construction, Land Development and Vacant Land	9,378,671	5,215,662
Residential Properties	29,236,718	27,445,631
Commercial, Financial and Agricultural	18,915,958	14,458,026
Consumer	1,512,127	1,323,239
	109,803,072	106,843,476
Less: Allowance for Loan and Lease Losses	(2,123,322)	(2,725,753)
Loans, Net	$ 107,679,750	$ 104,117,723

NOTE 4 - LOAN QUALITY

Management performs a quarterly evaluation of the adequacy of the allowance for loan and lease losses (ALLL). Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent) and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or lower, including loans on nonaccrual of interest. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, industry, type of property/equipment/vehicle, and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Bank.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

For financial statement presentation, the Bank segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: commercial – owner-occupied; commercial – other; construction; residential; commercial, financial and agricultural; and consumer loans. The construction and land development segment contains loans to individuals to construct their own homes as well as loans to contractors and developers to construct homes or buildings for resale or develop residential or commercial real estate. This segment has its own unique risk characteristics including the need to periodically inspect the property during construction to ensure the funds disbursed are used properly and the real estate held for collateral maintains its value in relation to the amount owed on it. The construction and land development segment also has risk characteristics related to the probability of eventual sale of the finished project or the ability to generate sufficient rental income to service the debt. The residential real estate segment is segregated from the commercial real estate segment due to the obvious differences in inherent risks in each of these types of properties and borrower types. Consumer loans have risk characteristics including the volatility of the collateral's value and the inherent risk of loaning on collateral that is mobile and subject to damage without proper insurance coverage.

The analysis for determining the ALLL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components: specific and general allocations. The specific component addresses specific reserves established for loans that were individually evaluated and deemed to be impaired. For these impairment evaluations, the Bank assesses loan relationships with balances exceeding $100,000 that show signs of possible impairment based on the payment status, internal risk ratings, or other credit quality factors. A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations. Loans measured for the ALLL under the specific allocation method normally tend to be impaired construction, real estate, vehicle or unsecured loans.

The general component addresses the reserves established for pools of homogenous loans, including primarily non-classified loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Bank's historical loan loss experience (weighted towards most recent periods) and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes factors such as: loan volume, loan collateral, management characteristics, levels of nonperforming loans, results of the loan review process, specific credit concentrations, and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment and experience. As a result of this input, additional loss percentages can be assigned to each pool of loans.

NOTE 4 - LOAN QUALITY (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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. Cash payments received on impaired loans on which the accrual of interest has been discontinued are applied to principal until the loans are returned to accrual status.

The following table presents, by loan segment, the ALLL and changes to the ALLL for the years ended December 31, 2014 and 2015 with the ALLL allocated based on the segment loan volumes:

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. & Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
Allowance at December 31, 2013	$ 806,157	$ 1,141,445	$ 187,109	$ 924,563	$ 362,338	$ 47,114	$ 0	$ 3,468,726
Provision	(403,265)	(282,840)	362,484	(253,190)	(185,707)	(22,002)	784,520	0
Charge-offs	(146,816)	(407,520)	(8,125)	(223,279)	(241)	(9,863)	0	(795,844)
Recoveries	37,315	0	8,123	280	6,400	753	0	52,871
Allowance at December 31, 2014	293,391	451,085	549,591	448,374	182,790	16,002	784,520	2,725,753
Provision	193,140	423,567	(134,386)	(218,392)	61,872	(1,247)	(324,554)	0
Charge-offs	0	(596,599)	0	(66,611)	0	(1,321)	0	(664,531)
Recoveries	42,217	0	0	8,314	10,250	1,319	0	62,100
Allowance at December 31, 2015	$ 528,748	$ 278,053	$ 415,205	$ 171,685	$ 254,912	$ 14,753	$ 459,966	$ 2,123,322

NOTE 4 - LOAN QUALITY (Continued)

The following tables present, by loan segment, loans that were evaluated for the ALLL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31, 2014 and 2015.

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. & Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
December 31, 2014								
Loans Evaluated for Allowance:								
Individually	$ 1,455,803	$ 5,380,799	$ 1,579,106	$ 1,186,174	$ 28,749	$ 5,470	$ 0	$ 9,636,101
Collectively	15,611,207	35,953,109	3,636,556	26,259,457	14,429,277	1,317,769	0	97,207,375
Total	$ 17,067,010	$ 41,333,908	$ 5,215,662	$ 27,445,631	$ 14,458,026	$ 1,323,239	$ 0	$ 106,843,476
Allowance Established for Loans Evaluated:								
Individually	$ 97,458	$ 0	$ 503,960	$ 118,876	$ 0	$ 768	$ 0	$ 721,062
Collectively	195,933	451,085	45,631	329,498	182,790	15,234	784,520	2,004,691
Allowance at December 31, 2014	$ 293,391	$ 451,085	$ 549,591	$ 448,374	$ 182,790	$ 16,002	$ 784,520	$ 2,725,753
December 31, 2015								
Loans Evaluated for Allowance:								
Individually	$ 175,122	$ 571,658	$ 1,161,344	$ 195,337	$ 0	$ 0	$ 0	$ 2,103,461
Collectively	20,579,579	29,433,239	8,217,327	29,041,381	18,915,958	1,512,127	0	107,699,611
Total	$ 20,754,701	$ 30,004,897	$ 9,378,671	$ 29,236,718	$ 18,915,958	$ 1,512,127	$ 0	$ 109,803,072
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 413,462	$ 0	$ 0	$ 0	$ 0	$ 413,462
Collectively	528,748	278,053	1,743	171,685	254,912	14,753	459,966	1,709,860
Allowance at December 31, 2015	$ 528,748	$ 278,053	$ 415,205	$ 171,685	$ 254,912	$ 14,753	$ 459,966	$ 2,123,322

NOTE 4 - LOAN QUALITY (Continued)

The following tables show additional information about those loans considered to be impaired at December 31, 2014 and 2015:

	For the Year Ended December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 1,358,345	$ 1,358,345	$ 0	$ 1,412,613	$ 80,801
Commercial - Other	5,380,799	5,525,530	0	5,682,253	32,739
Residential:					
1 - 4 Family	660,971	660,971	0	671,097	33,638
Other Loans:					
Commercial, Financial and Agricultural	28,749	28,749	0	28,747	0
Total Impaired Loans with No Specific Allowance	$ 7,428,864	$ 7,573,595	$ 0	$ 7,794,710	$ 147,178
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 97,458	$ 97,458	$ 97,458	$ 109,103	$ 0
Construction, Land Development & Vacant Land	1,579,106	1,579,106	503,960	1,615,754	50,118
Residential:					
1 - 4 Family	525,203	525,203	118,876	530,499	25,477
Other Loans:					
Consumer	5,470	5,470	768	6,416	301
Total Impaired Loans with Specific Allowance	$ 2,207,237	$ 2,207,237	$ 721,062	$ 2,261,772	$ 75,896
Total Impaired Loans	$ 9,636,101	$ 9,780,832	$ 721,062	$ 10,056,482	$ 223,074

	For the Year Ended December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 175,122	$ 175,122	$ 0	$ 181,221	$ 12,004
Commercial - Other	571,658	724,881	0	588,469	31,858
Residential:					
1 - 4 Family	195,337	195,337	0	199,884	12,318
Total Impaired Loans with No Specific Allowance	$ 942,117	$ 1,095,340	$ 0	$ 969,574	$ 56,180
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 1,161,344	$ 1,161,344	$ 413,462	$ 1,242,305	$ 40,739
Total Impaired Loans with Specific Allowance	$ 1,161,344	$ 1,161,344	$ 413,462	$ 1,242,305	$ 40,739
Total Impaired Loans	$ 2,103,461	$ 2,256,684	$ 413,462	$ 2,211,879	$ 96,919

NOTE 4 - LOAN QUALITY (Continued)

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or management watch are reviewed regularly by the Bank to determine if appropriately classified or to determine if the loan is impaired. The Bank's loan portfolio is reviewed for credit quality with samples being selected based on loan size, credit grades, etc., to ensure that the Bank's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credit until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Bank for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Bank uses the following definitions for risk ratings:

Pass – Strong credit with no existing or known potential weaknesses deserving management's close attention.

Management Watch – Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Bank to a sufficient degree of risk to warrant adverse classification. As a general rule, for the purpose of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserves. Loans classified as management watch have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

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

Loss – Loans classified as losses are uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. Certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

NOTE 4 - LOAN QUALITY (Continued)

The following table shows the Bank's credit quality indicators by type of loan as of December 31, 2014 and 2015:

	As of December 31, 2014				
	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 11,385,028	$ 4,226,179	$ 1,455,803	$ 0	$ 17,067,010
Commercial - Other	33,470,223	3,088,052	4,775,633	0	41,333,908
Construction, Land Development & Vacant Land	3,636,556	0	1,579,106	0	5,215,662
Residential:					
1 - 4 Family	19,072,809	3,569,925	1,186,174	0	23,828,908
Other	3,545,918	70,805	0	0	3,616,723
Other Loans:					
Commercial, Financial and Agricultural	14,374,560	54,717	28,749	0	14,458,026
Consumer	1,317,769	0	5,470	0	1,323,239
Total Loans	$ 86,802,863	$ 11,009,678	$ 9,030,935	$ 0	$ 106,843,476

	As of December 31, 2015				
	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 16,241,718	$ 4,129,076	$ 383,907	$ 0	$ 20,754,701
Commercial - Other	24,957,742	5,047,155	0	0	30,004,897
Construction, Land Development & Vacant Land	8,217,327	0	1,161,344	0	9,378,671
Residential:					
1 - 4 Family	21,752,012	3,811,016	429,254	0	25,992,282
Other	3,244,436	0	0	0	3,244,436
Other Loans:					
Commercial, Financial and Agricultural	17,804,331	1,111,627	0	0	18,915,958
Consumer	1,508,625	3,502	0	0	1,512,127
Total Loans	$ 93,726,191	$ 14,102,376	$ 1,974,505	$ 0	$ 109,803,072

NOTE 4 - LOAN QUALITY (Continued)

The following table provides an aging analysis of the Bank's loans as of December 31, 2014 and 2015:

	As of December 31, 2014					
	Current	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due and Nonaccrual	Total Loans
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 16,718,058	$ 188,373	$ 0	$ 160,579	$ 348,952	$ 17,067,010
Commercial - Other	36,262,550	295,725	0	4,775,633	5,071,358	41,333,908
Construction, Land Development & Vacant Land	5,215,662	0	0	0	0	5,215,662
Residential:						
1 - 4 Family	23,545,209	138,176	104,198	41,325	283,699	23,828,908
Other	3,616,723	0	0	0	0	3,616,723
Other:						
Commercial, Financial and Agricultural	14,429,277	0	0	28,749	28,749	14,458,026
Consumer	1,318,760	4,479	0	0	4,479	1,323,239
Total Loans	$ 101,106,239	$ 626,753	$ 104,198	$ 5,006,286	$ 5,737,237	$ 106,843,476

	As of December 31, 2015					
	Current	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due and Nonaccrual	Total Loans
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 20,612,938	$ 0	$ 0	$ 141,763	$ 141,763	$ 20,754,701
Commercial - Other	28,019,836	1,985,061	0	0	1,985,061	30,004,897
Construction, Land Development & Vacant Land	9,378,671	0	0	0	0	9,378,671
Residential:						
1 - 4 Family	25,742,515	139,581	0	110,186	249,767	25,992,282
Other	3,244,436	0	0	0	0	3,244,436
Other:						
Commercial, Financial and Agricultural	18,915,958	0	0	0	0	18,915,958
Consumer	1,511,168	959	0	0	959	1,512,127
Total Loans	$ 107,425,522	$ 2,125,601	$ 0	$ 251,949	$ 2,377,550	$ 109,803,072

Certain loan modifications are considered troubled debt restructurings (TDRs) when the Bank, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The bank uses various restructuring techniques, including, but not limited to, deferral of past due interest or principal, implementing A/B note structure, redeeming past due taxes, reduction of interest rates, extending maturities and modification of amortization schedules. The Bank typically does not forgive principal balances or past due interest prior to pay off or surrender of the collateral. Loans considered to be TDRs are classified as impaired loans for purposes of determination of the allowance for loans losses, until the Bank determines the loans are performing based on terms specified by the restructuring agreements. The allowance for these loans is calculated in the same manner as other impaired loans, as described above. As of December 31, 2014 and 2015, the Bank had no commitments to lend funds to borrowers whose terms have been modified as TDRs. Additionally, for the years ending December 31, 2014 and 2015, the Bank had no loans modified as TDRs within the previous 12 months for which there was a payment default during the period.

NOTE 4 - LOAN QUALITY (Continued)

The following tables present information about TDRs that were modified during the years ending December 31, 2014 and 2015:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
For the Year Ended December 31, 2014			
Troubled Debt Restructurings			
Modified During the Year Ended by			
Type of Modification:			
Reduction of Rate			
Loans Secured by Real Estate:			
Commercial - Other	2	$ 3,486,929	$ 3,486,929
Construction, Land Development & Vacant Land	1	$ 698,609	$ 698,609
Residential - 1-4 Family	1	$ 289,524	$ 289,524
For the Year Ended December 31, 2015			
Troubled Debt Restructurings			
Modified During the Year Ended by			
Type of Modification:			
		None	

NOTE 5 - PREMISES AND EQUIPMENT

Following is a summary of premises and equipment at December 31:

	2015	2014
Land	$ 1,249,742	$ 1,344,742
Building	6,295,319	6,549,030
Furniture and Equipment	1,966,170	4,072,442
	9,511,231	11,966,214
Less: Accumulated Depreciation	(4,846,371)	(6,960,380)
	$ 4,664,860	$ 5,005,834

Depreciation expense totaled $253,102 and $269,529 for 2015 and 2014.

Following is a summary of computer software at December 31:

	2015	2014
Computer Software	$ 1,088,325	$ 1,662,589
Less: Accumulated Amortization	(1,009,369)	(1,561,340)
	$ 78,956	$ 101,249

NOTE 5 - PREMISES AND EQUIPMENT (Continued)

Amortization expense totaled $36,826 and $46,053 for 2015 and 2014.

The Bank leases space for one of its branches under an operating lease. Rental expense was $40,313 for 2015 and 2014. Annual rent commitments under the non-cancelable operating lease are $40,313. The lease was renewed in February 2012 under the first 5-year renewal option, for the period March 2012 – February 2017.

NOTE 6 - FORECLOSED REAL ESTATE

Foreclosed real estate is carried at estimated fair value less costs to sell the property. An analysis of foreclosed real estate for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Balance at Beginning of Year	$ 3,202,644	$ 5,917,160
Additions to Foreclosed Real Estate	1,230,437	487,217
Foreclosed Real Estate Sold	(913,304)	(3,100,047)
Write-downs of Foreclosed Real Estate	(639,285)	(101,686)
Balance at End of Year	$ 2,880,492	$ 3,202,644

Expenses applicable to foreclosed real estate for the years ended December 31, 2015 and 2014 include the following:

	2015	2014
Net (Gain) Loss on Sales of Foreclosed Real Estate	$ (1,743)	$ 150,327
Write-downs of Foreclosed Real Estate	639,285	101,686
Operating Expenses	289,665	267,571
Total	$ 927,207	$ 519,584

NOTE 7 - DEPOSITS

A summary of deposits at December 31 follows:

	2015	2014
Noninterest-Bearing	$ 26,162,638	$ 23,967,822
NOW & MMDA	44,805,520	45,192,747
Savings	25,570,714	23,408,462
Certificates of Deposit of $250,000 or More	3,307,753	10,714,147
Other Time Deposits	35,898,191	44,072,547
	$ 135,744,816	$ 147,355,725

Scheduled maturities of time deposits for the next five years are as follows at December 31, 2015:

2016	$ 25,935,415
2017	9,141,835
2018	2,957,638
2019	679,873
2020	491,183
	$ 39,205,944

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are financing arrangements that do not have a stated maturity, but may be cancelled by either party with a five-day written notice. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2015	2014
Average Daily Balance during the Year	$ 6,858,000	$ 6,398,000
Average Interest Rate during the Year	0.05%	0.05%
Maximum Month-End Balance during the Year	$ 7,000,000	$ 7,025,000
Weighted Average Interest Rate at Year-End	0.05%	0.05%

NOTE 9 - INCOME TAX EXPENSE (BENEFIT)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2015 and 2014.

Income tax expense (benefit) as shown in the consolidated statements of operations differs from the amount computed using the statutory federal income tax rate due to tax exempt income and state excise tax expense and the effect of the valuation allowance on deferred tax assets.

The components of income tax expense (benefit) for the years ended December 31 were as follows:

	2015	2014
Current (Benefit)	$ 1,825	$ (1,912)
Deferred (Benefit)	0	(119,137)
	$ 1,825	$ (121,049)

The components of net deferred tax assets as of December 31 were as follows:

	2015	2014
Deferred Tax Assets	$ 4,449,019	$ 4,675,332
Deferred Tax Liabilities	(681,094)	(728,160)
Net Deferred Tax Assets before Valuation Allowance	3,767,925	3,947,172
Valuation Allowance	(1,833,768)	(1,951,606)
Net Deferred Tax Assets after Valuation Allowance	$ 1,934,157	$ 1,995,566

The deferred tax assets above relate primarily to the provision for loan losses, unrealized losses on foreclosed real estate and investment securities available for sale, and net operating loss carry-forwards, and are reduced by a valuation allowance since their realization in the future is uncertain. The deferred tax liabilities relate primarily to depreciation of fixed assets, FHLB stock dividends and certain prepaid expenses.

Included in the 2015 deferred tax assets above is $193,681 of deferred tax effect on the unrealized net loss on securities available for sale ($255,090 in deferred tax assets on the unrealized net loss in 2014).

Federal net operating loss carry-forwards are approximately $6.7 million, which expire at various dates from 2031 to 2035, and state net operating loss carry-forwards are approximately $7.1 million at December 31, 2015, which expire at various dates from 2026 to 2030.

NOTE 10 - RELATED PARTY TRANSACTIONS

The amount of loans to principal officers, directors, and their affiliates at December 31, 2015 and 2014 totaled approximately $139,000 and $172,000, respectively.

Deposit account balances owned by principal officers, directors, and their affiliates at December 31, 2015 and 2014 were approximately $2,800,000 and $1,607,000, respectively.

NOTE 11 - FEDERAL HOME LOAN BANK ADVANCES

The following table is a maturity schedule of advances from the Federal Home Loan Bank as of December 31, 2015:

Date of Advance	Interest Rate	Final Maturity Date		Amount Outstanding at 12/31/15
02/13/07	4.45%	02/13/17	$	1,000,000
06/01/07	4.58%	06/01/17		4,300,000
12/21/05	5.17%	01/01/31		970,063
			$	6,270,063

Interest expense associated with the advances from the FHLB totaled $292,693 for the year ended December 31, 2015 ($294,675 in 2014). Pursuant to collateral agreements with the FHLB, the advances are secured by the Bank's FHLB stock and certain qualifying residential first mortgage loans totaling approximately $15,600,000 as of December 31, 2015 ($15,000,000 in 2014), and commercial real estate loans totaling approximately $10,900,000 as of December 31, 2015 ($16,900,000 in 2014). All of the fixed rate advances have a prepayment penalty. The prepayment penalty would be based on the market rates and the length of time remaining until maturity at the time of payoff.

Additionally, the Bank maintains a line of credit advance agreement with the FHLB which allows borrowings up to $13,000,000 and a letter of credit line for the collateralization of public unit deposits up to $10,000,000. None of these lines had balances outstanding as of December 31, 2015 and 2014.

NOTE 12 - SUBORDINATED DEBENTURES AND OTHER DEBT

On September 20, 2004, the Company borrowed $3,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust II, as part of a private offering. The rate which varies quarterly with LIBOR was 2.64% at December 31, 2015. The securities mature on September 20, 2034; however, the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve.

On December 14, 2006, the Company borrowed $4,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust III, as part of a private offering. The rate, which varies quarterly with LIBOR, was 2.03% at December 31, 2015. The securities mature on December 14, 2036; the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve.

NOTE 12 - SUBORDINATED DEBENTURES AND OTHER DEBT (Continued)

The Company has provided a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the Trusts under the preferred securities in the event of a default, as defined in such guarantees. These subordinated debentures allow the Company to defer the payment of quarterly interest payments for up to 20 consecutive quarters without creating an event of default. The Company began deferring quarterly interest payments in September 2011. Pursuant to the debentures, the Company and its affiliates cannot declare or pay any dividends or distributions on their capital stock (other than the payment of dividends or distributions from the Bank to the Company), or repurchase, redeem, or acquire their capital stock until the unpaid interest payments have been paid. The Company paid these deferred interest payments in December 2015. Accrued but unpaid interest totaled $6,493 at December 31, 2015 ($711,047 at December 31, 2014).

These securities are presented as liabilities on the Company's balance sheet and count as Tier 1 and Tier 2 capital for regulatory capital purposes. In accordance with GAAP, the Trusts are not consolidated with the Company. Accordingly, the Company reports as liabilities the subordinated debentures issued by the Company and held by the Trusts. The Company's equity investment in the Trusts ($217,000) is included in other assets at year-end 2015 and 2014.

The Bank also has available federal funds lines (or equivalent thereof) with correspondent banks totaling $14,000,000 and $12,000,000 as of December 31, 2015 and 2014, respectively. None of these lines had balances outstanding as of December 31, 2015 and 2014. No collateral was pledged related to these lines as of December 31, 2015 and 2014.

NOTE 13 - SHAREHOLDERS' EQUITY

As of December 31, 2015 and 2014, the Company's charter authorized the issuance of up to 10,000,000 shares of common stock, no par value, 1,000,000 shares of preferred stock, no par value, and 400,000 shares of Series A and 200,000 shares of Series B Preferred Stock, at a par value of $8.05.

The Series A and Series B preferred stock are noncumulative, have no voting rights, have a dividend and liquidation preference to the common stock, and participate equally with the common stock in a sale or change in control of the Company. The two classes of preferred stock offer different dividends. Series A and Series B preferred stock have no redemption rights.

Treasury stock includes 48,432 shares of common stock at a cost of $809,687; 8,408 shares of Series A preferred stock at a cost of $133,742; and 225 shares of Series B preferred stock at a cost of $3,569 at December 31, 2015 and 2014.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS

The Bank and Company are subject to various regulatory capital requirements administered by their primary federal regulator. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken could have a direct material effect on the Bank and on the Company's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Company must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's and Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS (Continued)

In 2013, the Office of the Comptroller, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (together, the agencies) adopted a final rule that revises their risk-based and leverage capital requirements for banking organizations. The regulatory capital rule is effective for the Company and Bank on January 1, 2015, with certain transition provisions through December 31, 2017. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement, a higher minimum Tier 1 capital requirement, and amends the methodologies for determining risk-weighted assets. The final rule incorporates these new requirements into the agencies' prompt corrective action (PCA) framework. In addition, the final rule establishes limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Management does not believe the revised regulatory capital rules will have a significant impact on the Company and Bank and their compliance with capital adequacy requirements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank and Company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 Capital (as defined in the regulations) to Risk-Weighted Assets (as defined), Common Equity Tier 1 Capital (as defined) to Total Risk-Weighted Assets (as defined), and of Tier 1 Capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2015, that the Bank and Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2015, the Bank is categorized as *well capitalized* under the regulatory framework for prompt corrective action. To be categorized as *well capitalized*, the Bank must maintain minimum Total Risk-Based, Tier I Risk-Based, Common Equity Tier 1 Risk-Based Capital, and Tier I Leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank's category.

The Bank's board of directors has agreed with federal and state banking regulators to maintain the Bank's Tier 1 capital to average assets ratio at a minimum of 9.0%. This agreement was terminated as of February 11, 2016. The Company's board of directors has also agreed with federal banking regulators not to incur any additional debt, purchase or redeem any of its capital stock, or declare or pay dividends without prior written approval.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS (Continued)

The Company's and Bank's actual capital amounts and ratios as of December 31, 2015 are also presented in the following table. All dollar amounts are in thousands of dollars.

				For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015							
Total Capital (to Risk-Weighted Assets):							
Company (Consolidated)	$	21,147	17.19%	$ 9,841	8.00%	N/A	N/A
Bank	$	21,045	17.12%	$ 9,833	8.00%	$ 12,292	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):							
Company (Consolidated)	$	10,718	8.71%	$ 5,535	4.50%	N/A	N/A
Bank	$	19,496	15.86%	$ 5,531	4.50%	$ 7,990	6.50%
Tier I Capital (to Risk-Weighted Assets):							
Company (Consolidated)	$	15,913	12.94%	$ 7,381	6.00%	N/A	N/A
Bank	$	19,496	15.86%	$ 7,375	6.00%	$ 9,833	8.00%
Tier I Capital (to Average Assets):							
Company (Consolidated)	$	15,913	9.32%	$ 6,832	4.00%	N/A	N/A
Bank	$	19,496	11.42%	$ 6,829	4.00%	$ 8,537	5.00%

The Bank and Holding Company are also subject to federal and state regulations restricting the amount of dividends payable.

NOTE 15 - STOCK COMPENSATION PLANS

The Company has two stock option plans, the 1994 Employee Stock Option Plan (the employee plan), and the 1994 Outside Directors' Stock Option Plan (the directors' plan), which are described below. The exercise price is the market price at date of grant. In accordance with GAAP, the fair value of any options granted after January 1, 2006 will be recognized as an expense in the income statement, as services by employees and Directors are performed for the Company. All options expire within ten years from the date of grant.

1994 Employee Stock Option Plan - This plan provides for the granting of options to purchase up to 475,000 shares by officers and key employees of the Company. No options were granted in 2015 or 2014.

Outside Directors' Stock Option Plan - Adopted in 1994, this plan originally provided for the granting of options to purchase up to 150,000 (as adjusted for stock split) shares of Common Stock by non-employee directors of the Company. These options became exercisable over 5 years. In 2006 this plan was amended upon approval of the shareholders to increase the number of shares of Common Stock that may be issued pursuant to options from 150,000 to 225,000 shares, and to extend the plan through June 9, 2016. No options were granted in 2015 or 2014. As of December 31, 2015, there are 123,000 options remaining to be granted under this plan.

NOTE 15 - STOCK COMPENSATION PLANS (Continued)

A summary of the status of the Company's stock option plans for the two years ended December 31, 2015 and the changes during those years is presented below:

	Total Option Shares Outstanding	Average Exercise Price	Exercisable Options Outstanding
Options Outstanding at January 1, 2014	46,250	$ 10.23	46,250
Options Granted	0		0
Options which became Exercisable	0		0
Options Expired or Rescinded	(12,500)	10.05	(12,500)
Options Exercised	0		0
Options Outstanding at December 31, 2014	33,750	10.30	33,750
Options Granted	0		0
Options which became Exercisable	0		0
Options Expired or Rescinded	(13,750)	18.36	(13,750)
Options Exercised	0		0
Options Outstanding at December 31, 2015	20,000	4.75	20,000

The following table summarizes information about the stock options outstanding under the Company's plans at December 31, 2015:

Exercise Price	Number Outstanding	Average Remaining Life	Number Exercisable
$ 4.75	20,000	6 years	20,000

NOTE 16 - EMPLOYEE BENEFITS

The Bank maintains a 401(k) plan for all employees who have attained the age of 21 and have at least three months of service. The plan provides for a discretionary employer matching contribution, in which the employee is 100% vested. The Bank may also make additional discretionary contributions (qualified non-elective or profit sharing contributions) as determined by the Board of Directors. For these contributions, employees begin to vest in the second year and are fully vested after six years. The Bank's employer matching contribution to the 401(k) plan amounted to $39,446 in 2015 and $0 in 2014.

The Company is providing post-retirement pension benefits to a former employee. A present value based charge, which is included in non-interest expense, is made each year based on the future benefits to be paid to the employee (or beneficiary) under the plan. Total amounts paid or accrued during the year under such arrangements amounted to approximately $42,000 and $60,000 in 2015 and 2014, respectively. A discount rate of 7.0% is used to compute the liability.

The Company has a Supplemental Executive Retirement Plan for key officers and employees. A contribution may be made or accrued each year at the discretion of the board of directors based on future benefits to be paid to the officers under the plan. The plan contains certain financial goals, which must be achieved annually before a contribution is required. This plan offers retirement and death benefits to these officers. The accrued retirement liability for this plan was $1,766,684 at December 31, 2015 ($1,786,633 at December 31, 2014). Expense related to this plan was $114,528 in 2015 and $67,615 in 2014, and is included in salaries and employee benefits expense.

The Company also provides life insurance benefits to certain employees under split-dollar insurance contracts. Accrued liabilities were $199,016 at December 31, 2015 ($190,225 at December 31, 2014). Expense related to this plan was $8,791 in 2015 and $10,970 in 2014, and is included in salaries and employee benefits expense.

NOTE 17 - OFF-BALANCE SHEET ACTIVITIES

Certain financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The approximate contractual amounts of financial instruments with off-balance sheet risk were as follows at December 31:

	2015		2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to Make Loans	$ 3,784,000	$ 10,788,000	$ 5,906,000	$ 10,319,000
Unused Letters of Credit	0	219,000	0	229,000

Commitments to make loans are generally made for periods of 1 year or less. The fixed rate loan commitments have interest rates ranging from 2.15% to 11.25% and maturities ranging from 1 year to 15 years. Approximately $7,243,000 of the commitments to make loans were collateralized, primarily by real estate, at December 31, 2015 ($7,993,000 at December 31, 2014).

NOTE 18 - FAIR VALUE DISCLOSURES

GAAP establishes a framework for using fair value. It also defines fair value rules 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. GAAP generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Bank did not elect to adopt the fair value option for any financial instruments. However, other accounting pronouncements require the Bank to measure certain financial instruments at fair value as described below.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE 18 - FAIR VALUE DISCLOSURES (Continued)

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

A description of valuation methodologies used for assets and liabilities recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investment Securities Available for Sale - Investment securities available for sale are recorded at fair value in accordance with GAAP on a recurring basis. Fair value measurement for these securities is based upon quoted prices of like or similar securities, utilizing Level 2 inputs. These measurements are obtained from a service provider who considers 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 securities' terms and conditions, among other things.

Impaired Loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired in accordance with GAAP and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. The fair value of individually identified impaired loans is measured based on the present value of expected payments or the collateral value if the loan is collateral dependent. Impaired loans are classified within Level 3 of the valuation hierarchy.

Foreclosed Real Estate - Foreclosed real estate is recorded at fair value on a nonrecurring basis. Fair value measurement is based on management's estimate of the amount that will be realized when the property is sold and is classified within Level 3 of the valuation hierarchy.

NOTE 18 - FAIR VALUE DISCLOSURES (Continued)

Assets Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets measured at fair value:

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2015:				
U.S. Treasury Securities	$ 995,510	$ 995,510	$ 0	$ 0
Small Business Admin. Securities	2,479,891	0	2,479,891	0
U.S. Government Agency Securities	16,386,282	0	16,386,282	0
Residential Mortgage-backed Securities	5,555,126	0	5,555,126	0
Municipal Securities	4,355,642	0	4,355,642	0
Investment Securities Available for Sale	$ 29,772,451	$ 995,510	$ 28,776,941	$ 0
As of December 31, 2014:				
Small Business Admin. Securities	$ 2,843,870	$ 0	$ 2,843,870	$ 0
U.S. Government Agency Securities	23,094,480	0	23,094,480	0
Residential Mortgage-backed Securities	507,688	0	507,688	0
Municipal Securities	2,195,747	0	2,195,747	0
Investment Securities Available for Sale	$ 28,641,785	$ 0	$ 28,641,785	$ 0

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2015:				
Impaired Loans, Net of Allowance	$ 1,689,999	$ 0	$ 0	$ 1,689,999
Foreclosed Real Estate	2,880,492	0	0	2,880,492
	$ 4,570,491	$ 0	$ 0	$ 4,570,491
As of December 31, 2014:				
Impaired Loans, Net of Allowance	$ 8,915,039	$ 0	$ 0	$ 8,915,039
Foreclosed Real Estate	3,202,644	0	0	3,202,644
	$ 12,117,683	$ 0	$ 0	$ 12,117,683

GAAP also requires the Company to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the consolidated balance sheets, for which it is practicable to estimate fair value, and which are not already recorded at fair value.

NOTE 18 - FAIR VALUE DISCLOSURES (Continued)

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both: (1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity, or to exchange other financial instruments on potentially favorable terms with the first entity.

For the Bank, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined above. However, a large majority of those assets and liabilities do not have an active trading market nor are their characteristics similar to other financial instruments for which an active trading market exists. In addition, it is the Bank's practice and intent to hold the majority of its financial instruments to maturity and not to engage in trading or sales activities. Therefore, much of the information as well as the amounts disclosed below are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2015 and 2014, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

The estimates of fair value are based on existing financial instruments without attempting to estimate the value of anticipated future business or activity nor the value of assets and liabilities that are not considered financial instruments. For example, the value of mortgage loan servicing rights and the value of the Bank's long-term relationships with depositors, commonly known as core deposit intangibles, have not been considered in the estimates of fair values presented below. In addition, the tax implications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been included in the estimated fair values below.

The recorded book value and estimated fair value of the Company's financial instruments which are not carried at fair value as of December 31, 2015 and 2014 are as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and Cash Equivalents	$ 15,069,872	$ 15,069,872	$ 30,258,824	$ 30,258,824
Net Loans, Excluding Net Impaired Loans	105,989,751	106,346,751	95,202,684	95,193,750
Cash Surrender Value of Life Insurance	6,912,204	6,912,204	6,704,663	6,704,663
Financial Liabilities				
Deposits	$ 135,744,816	$ 135,469,816	$ 147,355,725	$ 147,317,612
Securities Sold Under Agreements to Repurchase	7,000,294	7,000,294	6,580,816	6,580,816
Federal Home Loan Bank Advances	6,270,063	6,658,063	6,311,489	7,216,932
Subordinated Debentures	7,217,000	7,217,000	7,217,000	7,217,000

The methods and assumptions used to estimate fair value are described as follows.

The carrying amount approximates the estimated fair value for cash and cash equivalents, short-term borrowings, demand deposits, variable rate loans or deposits that reprice frequently, and securities sold under agreements to repurchase. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Recorded book value of cash surrender value of life insurance is a reasonable estimate of fair value. Fair value of FHLB advances and subordinated debentures is based on current rates for similar financing. The fair value of off-balance sheet loan commitments is considered nominal and not disclosed above. Management does not consider it practicable to estimate the fair value of equity investments carried at cost. Therefore, no estimate of fair value for these investments is disclosed.

NOTE 19 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within East Tennessee. As of December 31, 2015, the Bank had concentrations of loans in residential real estate, commercial real estate and commercial lending. Generally, these loans are secured by the underlying real estate or commercial assets. The usual risks associated with such concentrations are generally mitigated by being spread over numerous borrowers and by adequate loan to collateral value ratios. The Bank has concentrations in U.S. Government agency and residential mortgage-backed securities that are guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, the Federal Farm Credit Bank and the Federal Home Loan Bank. The Bank also has a concentration in municipal bonds, which are issued by instrumentalities across the state of Tennessee.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

The Bank and Company are subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Bank or Company.

Shareholder Information

www.fcbanktn.com

423-272-5800

(ask for Jim Maddox for Shareholder Support)

American Stock Transfer and Trust (AST)

As a shareholder we encourage you to access your account(s) online at www.amstock.com. You can update your mailing address, access statement information, print a duplicate 1099 tax form, consolidate accounts, download stock transfer forms, etc.

All Shareholder Inquiries:	(800) 937-5449
Shareholder Services: (AST's Call Center is open Monday through Friday, 8am to 8pm ET.)	(718) 921-8124
TTY: (Teletypewriter for the hearing impaired)	(718) 921-8386 (866) 703-9077

Raymond James

Market Maker for First Community Corporation stock:

Raymond James and Associates, Inc.
Todd G. Raclaw
Financial Institutions Sales & Trading
Vice President
222 South Riverside Plaza, 7th Floor
Chicago, Illinois 60606
(800) 800-4693
todd.raclaw@raymondjames.com

OTCMarkets

OTCMarkets contains information about First Community Corporation stock (Profile, Prices, etc.)

http://www.otcmarkets.com/home

Stock Symbols

FCCT	First Community Corporation (Common)
FCCTP	First Community Corporation (Preferred A)
FCCTO	First Community Corporation (Preferred B)

FIRST COMMUNITY CORPORATION
COMMON STOCK AND DIVIDEND INFORMATION
Years Ended December 31, 2014 and 2015

First Community Corporation has only one class of common stock authorized, issued and outstanding. In early 2012 the Company listed its stock on the OTC Markets Group quotation service. First Community Corporation has appointed Raymond James & Associates, Inc. as the principal market maker for the stock. Information about the stock may be obtained at the OTC Markets Group website at www.otcmarkets.com, under the symbol FCCT. In addition, anyone wishing to buy or sell shares of First Community Corporation stock may contact Raymond James & Associates at 1-800-800-4693. However, there can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Company's common stock.

On February 23, 2007, the Shareholders of First Community Corporation approved a reclassification transaction whereby holders of fewer than 1,500 shares of common stock had their shares exchanged for either Series A Preferred or Series B Preferred stock. An amendment to the Company's Charter was also filed on February 23, 2007, creating these two new classes of stock.

The Company pays dividends from time to time on the outstanding shares of our stock as determined by the Board of Directors in its discretion based on the Company's financial performance and condition. It has been the practice of the Board of Directors to declare cash dividends on a quarterly basis when dividends are declared. Future dividends will depend upon our earnings, financial position, cash requirements and such other factors as the Board of Directors may deem relevant. The following table sets forth the cash dividends declared per share of the Corporation's common stock and the highest and lowest per share prices at which the Corporation's common stock has actually traded in private transactions during the periods indicated. To the best of management's knowledge, such prices do not include any retail mark-up, mark-down or commission. Shares may have been sold in transactions, the price and terms of which are not known to the Corporation. Therefore, the per share prices at which the Corporation's common stock has previously traded may not necessarily be indicative of the true market value of the shares.

2015	**High**	**Low**	**Dividends per share**
First quarter	$ 3.00	2.73	.00
Second quarter	3.55	3.30	.00
Third quarter	3.75	3.30	.00
Fourth quarter	4.00	3.60	.00

2014	**High**	**Low**	**Dividends per share**
First quarter	2.66	2.60	.00
Second quarter	2.65	2.61	.00
Third quarter	3.00	2.61	.00
Fourth quarter	3.00	2.85	.00

The authorized common stock of the Corporation consists of 10,000,000 shares of common stock, no par value per share, of which 1,630,812 were outstanding at December 31, 2014. There were 20,000 shares of the Corporation's common stock that are subject to outstanding options, warrants or securities convertible into common stock. The Corporation had approximately 190 common shareholders of record as of December 31, 2015.

First Community Bank of East Tennessee

Board of Directors, Officers & Staff

As of April 15, 2016

Board of Directors

Tyler K. Clinch, Chairman and President
Tommy W. Young, Secretary
Steve L. Droke
Dr. David R. Johnson
Sidney K. Lawson
David L. Lunceford
A. Max Richardson

Executive Officers

Tyler K. Clinch
Chief Executive Officer and President

Steve L. Droke
Executive Vice President and Chief Lending Officer
Director of Special Assets

James B. Maddox
Vice President and
Chief Financial Officer

Officers

Paul G. Penland
Senior Vice President and
Chief Credit Officer

Steven M. Waller
Senior Vice President and
Regional Area President - Hawkins County

Tammy L. Clevinger
Vice President and
Senior Credit Analyst

Jackie Charles
Vice President and
Business Development Officer

Miranda Cooper
Vice President
Marketing and Administration

Jeanette F. Edens
Vice President and
Branch Manager - Wal-mart Office, Rogersville

Vicki J. Gobble
Vice President and
Controller

Jennifer N. Greene
Vice President and
Chief Information Technology Officer

Dana L. Parkinson
Vice President and
Commercial Lending Officer

Kristin M. Waddle
Vice President and
BSA & Compliance Officer

Stephanie M. Potts
Assistant Vice President and
Branch Manager - Church Hill Office

Debbie G. Price
Vice President and
Branch Manager - East Main Office, Rogersville

A. Renee Ross
Assistant Vice President
Loan Operations Manager

B. Evelyn Anderson
Banking Officer
Director of Human Resources

Tammy Hobbs
Banking Officer
Commercial Loan Portfolio Specialist

Miles Stacy
Banking Officer
Commercial Loan Portfolio Specialist

Staff

Stacci Baker
Allison Ball
Mary Alice Beck
Lindsey Bowery
Matthew Bryant
Angela Burr
Mollie Carr
Tammy Cassidy
Melissa Collier
Katelyn Cradic
Tina Dunn
Tricia Guidry
Debbie Helton
Vicky Higgenbottom
Karen Horton
Phillip Jackson
Ashley Lawson
Darla LeBlanc
Rachel Manning
Robert McGinnis
Mauricia Moore
Ashley Morris
Brenda Nunley
Darlene Palmer
Kathy Payne
Linda Rochester
Lisa Seal
Mindy Sparks
Connie Sproles
Makala Thurman
Catheryn Trent
Wesley Vaughn
Allana Ward
Jamie Ward
Abby White
Carolyn Winstead

Legal Counsel

Hunter, Smith and Davis, LLP

Don't let fraudulent activity hang you out to dry!

first Community Bank

MEMBER FDIC

To enroll, visit: www.fcbanktn.com/textalerts

Receive alerts for the following types of transactions:

- International transactions
- Authorizations greater than $300
- Eight or more transactions in 24 hours
- Card not present
- Out of state transactions
- Declined authorizations

You can now receive text message alerts regarding suspicious activity on your First Community Bank checking account. The service is reliable and flexible for debit/ATM cardholders. Simply enroll your card and mobile number online, and your enrollment will be active for one year. You will be notified prior to expiration, and can renew this service with a simple text message.

Message and data rates may apply. To view the terms and conditions, visit www.fcbanktn.com/textalerts. You may discontinue the receipt of alerts immediately by texting the word STOP in reply to a Guardian Alert. You may unsubscribe from this service on the web site. Cardholders can also discontinue alerts by texting the word STOP to 27576. The number of alerts you will receive will be based on your card usage. You will not receive more than one message per transaction on each enrolled card. If you need help using this service, you may reply with the word HELP to an alert message. You may also click on the "Service Usage Guide" link on the web site or call 888.868.8611.