FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2015
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
FDIC Certificate Number: 20568-1

LUMBEE GUARANTY BANK
(Exact Name of Issuer as Specified in Its Charter)

North Carolina (State or other jurisdiction of Incorporation of organization)	56-0990387 (I.R.S. Employer Identification Number)
403 East Third Street Pembroke, NC (Address of Principal Executive Offices)	28372 (Zip Code)

Registrant's telephone number, including area code: (910) 521-9707

Securities registered pursuant to Section 12(b) of the Exchange Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $2.00

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

[ ] Large accelerated filer	[ ] Accelerated filer
[ ] Non-accelerated filer (Do not check if a smaller reporting company)	[X] Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act).
[ ] Yes [X] No

The aggregate market value of the voting and non-voting common equity, consisting solely of common stock, held by non-affiliates of the issuer (2,584,436 shares) computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, such stock was last sold as of June 30, 2015 is $28,428,796.

The number of shares of outstanding common stock of the issuer as of March 11, 2016 is 3,417,565.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statements to be delivered to shareholders in connection with the annual meeting of stockholders to be held May 25, 2016, are incorporated by reference into Form 10-K Part III, Items 10, 11, 12, 13, and 14.

Lumbee Guaranty Bank
Form 10-K
December 31, 2015
Index

Part I

Item 1. Business

General Description of Business

Lumbee Guaranty Bank (the "Bank") was incorporated under the laws of North Carolina on September 29, 1971, and commenced operations as a North Carolina state-chartered bank on December 20, 1971. The Bank conducts its operations through 14 full-service offices located in Robeson, Cumberland and Hoke Counties.

History

Lumbee Guaranty Bank was founded in 1971, when a group of individuals decided there was a need for a community bank to serve the local community, which has a high concentration of Native American Indians as residents. The incorporators sold stock to roughly 750 subscribers, 97% of whom were Indian, and the Bank officially became the first Native American Indian-owned bank in the United States.

Location and Service Area

Lumbee Guaranty Bank's corporate headquarters are located in the town of Pembroke, North Carolina. The bank operates two general banking offices in the town of Pembroke, three branches in the city of Lumberton and branches in the towns of St. Pauls, Red Springs, Maxton, Fairmont and Rowland, all in Robeson County, North Carolina. Three additional branches are located in neighboring Cumberland County in the town of Hope Mills and the city of Fayetteville. The Bank also operates a branch in the city of Raeford located in Hoke County, North Carolina.

A substantial portion of the Bank's market is located in Robeson County, North Carolina. Robeson County is the largest county in the State of North Carolina and is comprised of 29 townships serviced by mostly small business, manufacturing and service industries, the University of North Carolina at Pembroke and Southeastern Regional Medical Center. The United States Census Bureau estimated that Robeson County's population was 134,760 as of 2014. With the rural nature of the county, the Bank's business is seasonal to some extent due to the emphasis on agriculture and construction related trades located in the county.

The Bank also has a presence in North Carolina's Cumberland and Hoke Counties. These counties serve as home to Fort Bragg which is the United States' largest Army installation. The United States Census Bureau estimated that Cumberland and Hoke Counties had populations of 326,328 and 51,611 respectively, as of 2014. Fayetteville serves as Cumberland's county seat and has an estimated population of 203,948, making it the sixth-largest municipality in North Carolina. Fort Bragg and Pope Army Airfield contribute $4.5 billion annually into the region's economy, making Fayetteville one of the largest retail markets in the state. In addition to Fort Bragg, the area's largest employers include: Cumberland County School System, Wal-Mart retail stores and distribution center, Goodyear Tire manufacturing plant, and Cape Fear Valley Health System.

Banking Services

The Bank operates for the primary purpose of providing an adequate return to our shareholders while safely meeting the banking needs of individuals and small-to-medium sized businesses in the Bank's service area by developing personal, hometown associations with these customers.

The Bank offers a wide range of banking services including checking accounts, savings accounts, money market accounts, certificates of deposit, and individual retirement accounts. All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law.

We offer a full range of lending services including commercial, real estate, consumer, residential, and agricultural and raw land. We offer non-deposit investment products for sale to the public through Capital Investment Group.

Other services include safe deposit boxes, notary public, consumer online banking, bill payment and e-statements, wire transfers and direct deposit of payroll and social security checks. We operate automated teller machines at each of our 14 full service banking centers. The Bank also offers VISA credit and debit card services.

The Bank's primary sources of revenue are interest income from its lending activities, and, to a lesser extent, from its investment portfolio. The Bank also earns fees from lending and deposit activities. The major expenses of the Bank are interest on deposit accounts, general and administrative expenses, data processing and occupancy expenses. The Bank does not provide trust services.

Lending Activities

The Bank's lending products include commercial, real estate, consumer, residential and agricultural loans. The loan portfolio constituted 60.59% of average earning assets of the Bank for the year ended December 31, 2015 and has historically produced the highest interest rate spread above the cost of funds. The Bank's loan officers and loan committees have the authority to extend credit under limits approved by the Board of Directors. Each loan officer or loan committee is assigned a specific level of loan authority. Having loan authority gives the individual or committee the ability to authorize the extension of credit. Loan authority also sets the maximum level of credit exposure, including overdrafts, to a single borrower or related borrower(s). The Bank has two loan committees designated as Management Loan Committees – one is composed of the Chief Credit Officer, Chief Operating Officer, and senior lenders and the other is composed of the President/CEO, Chief Credit Officer, and Chief Operating Officer. Any credit request that exceeds the authority of the Management Loan Committee on which the President/CEO sits as a member is presented to the full Board of Directors. The Management Loan Committees not only act as approval bodies to ensure consistent application of the Bank's loan policy, but also provide valuable insight through communication and pooling of knowledge, judgment and experience of its members.

At December 31, 2015, residential real estate loans represented 43% of the loan portfolio while commercial real estate loans were 47%. Commercial and consumer loans were 5% and 4%, respectively, and agricultural and raw land loans made up 1% of the portfolio.

The Bank's loan policies are established and approved by the Bank's Board of Directors. These policies identify criteria that should be considered when evaluating a loan request. Management has established specific policy and underwriting guidelines for each loan product offered by the Bank, consistent with the content of the policies, as well as safe and sound banking practices. Loan policies are intended to provide a framework for the consistent evaluation of loan requests presented to the Bank. However, the Board of Directors recognizes that there are times when exceptions to these policies, underwriting guidelines, and procedures will be necessary. Therefore, the Bank encourages judgmental evaluation of each loan request, and will allow for such exceptions when appropriately and properly mitigated and documented.

All loans in the Bank's portfolio are risk-rated using a combination of risk factors to quantify the risk grade. The risk grade is set at the inception of the loan through the approval process, and is periodically re-evaluated based on the approved loan servicing requirements and updated financial information. Loans are subject to risk from the conditions of the economy in the Bank's market area and also the national economy. The complexity of potential loan structures, amounts, collateral, financial conditions of the borrowers and guarantors, and the changing marketplace require the Bank to exercise good judgment in evaluating the risk factors.

Investments

The Bank invests a portion of its assets in Government-sponsored enterprise debt instruments; state, county and municipal obligations; and FNMA, GNMA, and FHLMC mortgage-backed securities. The Bank's investments are managed in relation to loan demand and deposit growth and are generally used to provide for the investments of excess funds at reduced yields and risk relative to increases in loans or to offset fluctuations in deposits. The Bank does not engage in any hedging activities.

Deposit Activities

Deposits are the major source of funds for lending and other investment activities. The Bank considers the majority of its regular savings, demand, NOW and money market deposits and small denomination certificates of deposit, to be core deposits. These accounts comprised 84.4% of the Bank's total deposits at December 31, 2015. Certificates of deposit in denominations of $100,000 or more represented an additional 13.9% of deposits at year end. Large denomination certificates of deposit have historically remained a stable source of funds. At December 31, 2015 the Bank had brokered deposits in the amount of $4.6 million or 1.7% of total deposits.

The Bank is a participating institution in the Certificate of Deposit Account Registry Service ("CDARS"). CDARS is a technology based service that the Bank can incorporate into its traditional product offering. The service uses a web based application that allows participating institutions across the country to swap, sell, or buy deposits from other members. The CDARS program has limitations but can be used to attract new deposits, diversify our funding sources, and manage liquidity. The bank had no reciprocal deposits with CDARS at December 31, 2015.

Bank Website

The Bank maintains an internet website at www.lumbeeguarantybank.com. This website contains information relating to the Bank and its business. Information on our website is not incorporated into this Form 10-K.

Employees

At December 31, 2015, the Bank had 99 full time and 5 part time employees, none of whom are represented by a union or covered by a collective bargaining agreement. Management considers employee relations to be good.

Competition

The Bank encounters strong competition both in making loans and in attracting deposits. The widespread enactment of state laws that permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of it business, the Bank competes with other commercial banks, credit unions, finance companies, brokerage and investment banking companies, and other financial intermediaries. Many of these competitors have substantially greater resources and lending limits and may offer certain services that we do not currently provide. Recent federal and state legislations have heightened the competitive environment in which financial institutions must conduct their business. Accordingly, the potential for competition among financial institutions of all types has increased significantly.

We compete by relying upon specialized services, responsive handling of customer needs, and personal contacts by our officers, directors, advisory board members, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number of branch locations while smaller, independent financial institutions, like the Bank, tend to compete primarily by a combination of rate and personal service.

Currently, in Robeson County, the Bank competes with ten other commercial banks that operate 31 branches in the County. In the FDIC's Summary of Deposits for June 30, 2015, the Bank held 23.7% of the deposits in Robeson County, which represents the second largest market share of all financial institutions in the county. In Cumberland County, the Bank competes with fourteen other financial institutions that operate 66 branches and held 0.8% of that county's deposits. In Hoke County, the Bank competes with four other financial institutions that operate 4 branches and held 14% of the county's deposits.

Government Supervision and Regulation

The following discussion is a summary of the principal laws and regulations that comprise the regulatory framework that applies to the Bank. Other laws and regulations that govern various aspects of the operations of banks are not described, although violations of such laws and regulations could result in supervisory enforcement action against the Bank. The following descriptions summarize the material terms of the principal laws and regulations and are qualified in their entirety by reference to the applicable laws and regulations:

<u>General</u>

The events of the past few years have led to numerous new laws in the United States and internationally for financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act" or "Dodd-Frank"), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States. From our perspective, the Dodd-Frank Act primarily did the following:

Created the Financial Stability Oversight Council charged with identifying systemically important institutions, whose distress or failure could imperil our financial stability, and recommending enhanced prudential standards for such institutions.

- Established an orderly liquidation regime for such systemically important institutions in an effort to end "too-big-to-fail".
- Required originators and securitizers of mortgage loans to retain part of the loan assets that are bundled into securities in order to incent them to exercise more caution.
- Established a regulatory framework for derivatives and placed limitations on bank proprietary trading.
- Provided more stringent capital requirements for banks.
- Established regulatory oversight of the credit rating agencies through the Securities and Exchange Committee ("SEC").
- Created a new Bureau of Consumer Financial Protection with broad authority to write rules to protect consumers. At the federal level, the FDIC will continue to examine us for compliance with such rules.
- Added significant new requirements relating to residential mortgage loans, including a requirement that originators determine a consumer's ability to repay a loan.

Many aspects of the Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on our Bank, our customers and the financial industry in general. The following provisions are expected to directly impact our Bank:

- The federal banking agencies are directed to make capital requirements countercyclical. Such that the amount of capital required increases in times of economic expansion and decreases in times of economic contraction. In effect building a buffer in an expanding economy.
- The Act required the FDIC to base deposit insurance assessments on an insured depository institution's total consolidated assets minus its tangible equity, rather than on its deposit base (subject to adjustment for custodial banks and bankers' banks). Basing assessments on assets rather than deposits should benefit smaller banks and adversely impact larger banks, as small banks rely more on deposits to fund lending than larger banks do.
- The Act made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.
- The Act repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Mortgage originators are placed under a new duty of care to be qualified and registered and licensed in accordance with state or federal law, including the Secure and Fair Enforcement for Mortgage Licensing Act ("S.A.F.E. Act"). A mortgage originator has a duty to include on all loan documents his or her unique identifier as provided by the Nationwide Mortgage Licensing System and Registry.
- The Act established minimum standards for mortgages, defined high cost mortgages, and specified licensed appraiser requirements.
- The Bank will have to comply with provisions related to executive compensation and corporate governance such as say on pay and clawback provisions on incentive compensation.
- The Act revised the accredited investor standard for raising capital in a private offering.

The implications of the Act for the Bank will depend to a large extent on the manner in which rules adopted pursuant to the Act are implemented by the primary U.S. financial regulatory agencies as well as potential changes in market practices and structures in response to the requirements of the Act. The Bank continues to analyze the impact of rules adopted under the Act. However, the full impact will not be known until the rules, and other regulatory initiatives that overlap with the rules are finalized and their combined impacts can be understood.

The Sarbanes-Ox1ey Act of 2002 was signed into law on July 30, 2002. It comprehensively revised the laws affecting corporate governance, accounting obligations and corporate reporting for companies with equity or debt securities registered under the Securities Exchange Act of 1934. Compliance with this complex legislation and with subsequent Securities and Exchange Commission rules has since been a major focus of all public corporations in the United States, including the Bank. Among the many significant provisions of the Sarbanes-Oxley Act, Section 404 and related Securities and Exchange Commission rules created increased scrutiny by management, the internal auditors, and external auditors of our systems of internal controls over financial reporting. Dodd-Frank eliminated the auditor attestation of Section 404 of the Sarbanes-Oxley Act of 2002 for smaller reporting banks like Lumbee Guaranty Bank. However, the Bank's certifying officers must still attest to the effectiveness of the Bank's internal controls.

As a state-chartered bank, the Bank is subject to regulation, supervision and examination by the North Carolina Commissioner of Banks ("NCCOB") and the FDIC. Federal and North Carolina laws govern the activities in which the Bank may engage, the investments that it may make and limit the aggregate amount of loans that may be granted to one borrower to 15% of the bank's capital and surplus unless the loans are secured by certain types of marketable collateral. Various consumer and compliance laws and regulations also affect the Bank's operations.

The NCCOB and FDIC conduct regular examinations of the Bank and review such matters as the adequacy of loan loss reserves, quality of loans and investments, management practices, compliance with laws, and other aspects of its operations. In addition to these regular examinations, the Bank must furnish the FDIC with periodic reports containing a full and accurate statement of its affairs. Supervision, regulation and examination of banks by these agencies are intended primarily for the protection of depositors rather than shareholders.

Insurance of Accounts and Regulation by the FDIC

Our deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund.

Due to the large number of recent bank failures, the FDIC adopted a revised risk-based deposit insurance assessment schedule in February 2009, which raised deposit insurance premiums. The FDIC also implemented a five basis point special assessment of each insured depository institution’s assets minus Tier 1 capital as of June 30, 2009, which special assessment amount was capped at 10 basis points times the institution’s assessment base for the second quarter of 2009. In addition, the FDIC required financial institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2011 through and including 2012 to re-capitalize the Deposit Insurance Fund. The prepaid assessment was expensed over a three-year period.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank’s deposit insurance.

Capital

The FDIC has issued risk-based and leverage capital guidelines applicable to banking organizations that they supervise. Under the risk-based capital requirements, the Bank generally is required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles ("Tier I capital"). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance ("Tier 2 capital" and, together with Tier I capital, "Total capital").

The FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring new election of directors, and requiring the dismissal of directors and officers. The Bank presently maintains sufficient capital to remain in compliance with these capital requirements.

The risk-based capital standards of the FDIC explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, including an institution's abi1ity to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank's capital adequacy.

The Basel Committee provides a framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III will require banks to maintain substantially more capital, with a greater emphasis on common equity. In July 2013, the Federal Reserve Bank, the OCC and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6.0% (increased from 4.0%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4.0% for all institutions. The rules eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for banks with assets of $15 billion or less. The rules established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% or risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital falls below that buffer amount. These limitations will establish a maximum percentage of eligible retained income that may be utilized for such actions.

<u>Other Safety and Soundness Regulations</u>

There are a number of obligations and restrictions imposed on depository institutions by Federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event that the depository institution becomes in danger of default or is in default. The FDIC's claim for reimbursement is superior to claims of shareholders of the insured bank but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the insured bank.

The Federal banking agencies also have broad powers under current Federal law to take prompt corrective action to resolve problems of banks and other insured institutions. The Federal Deposit Insurance Act requires that the federal banking agencies establish five capital levels for insured depository institutions. The category levels are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." It also requires or permits such agencies to take certain supervisory actions should an insured institution's capital level fall. For example, an "adequately capitalized" institution is restricted from accepting brokered deposits. An "undercapitalized" or "significantly undercapitalized" institution must develop a capital restoration plan and is subject to a number of mandatory and discretionary supervisory actions. These powers and authorities are in addition to the traditional powers of the Federal banking agencies to deal with undercapitalized institutions. The Bank is "well capitalized" under FDIC guidelines.

Laws restrict the interest and charges which the Bank may impose for certain loans. The Bank's loan operations also are subject to certain federal laws, such as the Truth in Lending Act, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act. The deposit operations of the Bank also are subject to the Truth in Savings Act, the Right to Financial Privacy Act, the Electronic Funds Transfer Act and Regulation E, the Expedited Funds Availability Act and Regulation CC, and the Bank Secrecy Act. These and other similar laws result in significant costs to financial institutions and create the potential for liability to customers and regulatory authorities.

Federal regulatory authorities also have broad enforcement powers over the Bank, including the power to impose fines and other civil and criminal penalties, and to appoint a receiver in order to conserve the assets of any such institution for the benefit of depositors and other creditors.

The Federal Bureau of Investigation ("FBI") has sent, and will send, banking regulatory agencies lists of the names of persons suspected of involvement in terrorist attacks and other terrorist activities as they may occur and are investigated. The FBI has requested, and will request in the future, that the Bank search its records for any relationships or transactions with persons on those lists. In addition, on an ongoing basis, the Office of Foreign Assets Control ("OFAC"), a division of the Department of the Treasury, is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze that account, file a suspicious activity report and notify the FBI. The Bank actively checks all OFAC areas including, but not limited to, new accounts, wire transfers and customer files.

In October 2001, the USA Patriot Act of 2001 ("Patriot Act") was enacted in response to the September 11, 2001 terrorist attacks in New York, Pennsylvania and Northern Virginia. The Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism. The continuing impact on financial institutions of the Patriot Act and related regulations and policies is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws, and imposes various regulations, including standards for verifying customer identification at account opening, and rules to promote cooperation among financial institutions, regulators, and law enforcement entities to identify persons who may be involved in terrorism or money laundering.

The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

In June 2010, the Federal Reserve, the OCC, and the FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The guidance, which covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The FDIC will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Bank, that are not "large, complex banking organizations". These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In October 2011, the SEC Division of Corporate Finance issued new guidance describing disclosures of cyber security incidents and attacks and the prevention and remediation measures and expenses that public companies have or may suffer. The Bank has in place an online banking channel, electronic mail services and select various systems which correspond with external public and private networks not owned or operated by us. The Bank's online banking services are outsourced to a national firm specializing in internet banking and protecting its clients from cyber-attacks. Methods of defense include but are not limited to Secured Socket Layer (“SSL”) security, multifactor authentication and Internet Protocol ("IP") white listing. The Bank also utilizes the services of an intrusion prevention firm to secure our inbound internet channels with real time monitoring and blocking of malicious activity. The Bank's Information Technology staff monitors the event activity log and notifications are received if abnormalities are detected. At December 31, 2015, the Bank has not experienced any significant security incidents. Adequate insurance coverage is in place should an incident pose financial and/or reputational risk.

<u>Payment of Dividends</u>

Under North Carolina banking law, as amended during 2012, the Bank may declare such dividends as it deems proper, provided that it may not make any distribution that reduces its capital below required levels, and it may not declare a dividend if, after the dividend, it cannot pay its debts as they become due. Under the FDIC's rules, a bank may not declare or pay any dividend if, after making the dividend payment, the bank would be "undercapitalized", as defined in regulations of the FDIC. In addition, the Bank is subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. In 2015, the Bank declared a dividend of $0.18 per share, paying out a total of $615,162 in dividends to shareholders.

<u>Community Reinvestment</u>

The requirements of the Community Reinvestment Act ("CRA") are applicable to the Bank. The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low-to-moderate income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution's efforts in meeting community credit needs currently are evaluated as part of the examination process pursuant to a number of assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or other facility. The Bank strives to meet the credit needs of all segments of its market, consistent with safe and sound banking practices.

<u>Economic and Monetary Polices</u>

The Bank's operations are affected not only by general local economic conditions, but also by the economic and monetary policies of various regulatory authorities. In particular, the Federal Reserve regulates money, credit and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

We believe that the worst of the economic downturn is in the past, but the economy still has many resources that are being underutilized. The national unemployment rate for February 2016 was 4.9%. The rate continues to improve and is down considerably from the 10% peak in October 2009. As of December 31, 2015 the unemployment rates for the North Carolina counties of Robeson, Cumberland, and Hoke were 8.2%, 7.2% and 7.5%, respectively. Economic growth's story is similar to unemployment: gross domestic product has improved from the worst of the recession when the economy was contracting, but its recent levels are still considered subpar. For 2016, the consensus economists' prediction for gross domestic product is 2.4%. While positive, this is not the level that will quickly bring down the unemployment rate. Inflation, one of the main determinants of interest rates, continues to be close to or within the Federal Open Market Committee's comfort zone of less than 2% on an annual basis. As long as inflation and inflation expectations remain in check, it is likely that interest rates will remain low. The Federal Reserve's December 2015 decision to raise rates was unanimous, however, concerns remain regarding inflation, dollar strength, global growth, weak commodities and more volatile equity markets. We believe that a return to strong economic growth and low unemployment will take several years.

Item 1A. Risk Factors

Not Applicable

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Bank is headquartered in the Main Office at 403 East Third Street, Pembroke, North Carolina. In addition, the Bank owns and operates retail banking offices in North Carolina located at 915 West Third Street in Pembroke, 600 North Pine Street in Lumberton, 2899 West Fifth Street in Lumberton, 4845 Fayetteville Road in Lumberton, 306 South Fifth Street in St. Pauls, 3500 North Main Street in Hope Mills, 104 Martin Luther King, Jr. Drive in Maxton, 215 East Fourth Street in Red Springs, 201 North Bond Street in Rowland, 301 North Walnut Street in Fairmont, 2315 Bloom Avenue in Fayetteville, and 720 Harris Avenue in Raeford, North Carolina. The Bank owns an additional facility that is utilized for its Operations Center at 410 East Third Street in Pembroke, North Carolina.

The Bank is obligated on a month to month lease of its retail banking location at 6313 Raeford Road in Fayetteville, North Carolina. The lease calls for monthly payments of $2,100 and can be terminated at any time by either party.

The Bank is also obligated on a month to month lease for a storage facility on East 4th Street in Lumberton, North Carolina. The lease calls for monthly payments of $500 and can be terminated at any time by either party.

For additional information on properties and leases, see the Premises and Equipment note to the financial statements. All premises occupied by the Bank are considered to be adequate.

Item 3. Legal Proceedings

In the normal course of business the Bank is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the financial statements.

Item 4. Mine Safety Disclosures

Not Applicable

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of the Bank's common stock are neither listed on any stock exchange nor quoted on the NASDAQ Stock market and the stock trades infrequently. Shares of common stock have periodically been sold in a limited number of privately negotiated transactions between stockholders. There is no established public trading market for shares of our common stock. As of December 31, 2015, there were approximately 1,870 record holders of the Bank's common stock.

Dividends Declared

2014:	**Per Share**
June	$0.08
December	$0.09

2015:	**Per Share**
June	$0.09
December	$0.09

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Cautionary Statement Regarding Forward-Looking Statements

Certain information in this report may include "forward-looking statements" as defined by federal securities law. These forward-looking statements contain the Bank's expectations, plans, future financial performance, and other statements that are not historical facts. Although the Bank believes that its assumptions regarding these forward-looking statements are based on reasonable assumptions, actual results could differ materially. The forward-looking statements involve known and unknown risks including, but not limited to, the following factors:

- Changes in general local, regional and national economic and business conditions in the Bank's market area, including downturns in certain industries.
- Changes in deposit composition and controlling the growth of deposits.
- Changes in banking laws, compliance, and the regulatory climate of the Bank.
- Changes in interest rates and the management of interest rate risk.
- Demand for banking services, both lending and deposit products, in our market area.
- Risks inherent in making loans such as repayment risks and fluctuating collateral values.
- Changes in loan quality, delinquencies and defaults by our borrowers.
- Further decline in the market value of real estate in the Bank's market.
- Increased regulatory scrutiny requiring considerable time and attention of our management and board of directors.
- Attraction and retention of key personnel, including the Bank's management team and directors.
- Changes in technology, product delivery channels, and end user demands and acceptance.
- Changes in consumer spending, borrowings, and savings habits.
- The soundness of other financial institutions.
- Risks related to cyber incidents.
- Government intervention in the U.S. financial system.
- Changes in accounting principles, policies, and guidelines.

These risks and inherent uncertainties should be considered in evaluating forward-looking statements contained in this report. We caution readers not to place undue reliance on those statements, which are specific as of the date of the report.

Overview

Management's Discussion and Analysis is provided to assist in understanding and evaluating Lumbee Guaranty Bank's financial condition and its results of operations. The following discussion should be read in conjunction with the Bank's financial statements.

Lumbee Guaranty Bank is an independent, community bank which has fourteen full-service offices operating in the three North Carolina counties of Robeson, Cumberland and Hoke. The Bank extends both commercial and consumer loans throughout its market area and offers a full range of deposit accounts for its customer base.

Critical Accounting Policies

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The notes to the audited financial statements included in this annual report for the year ended December 31, 2015 contain a summary of our significant accounting policies.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the creditworthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses.

Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Income Taxes

We use assumptions and estimates in determining income taxes payable or refundable for the current year, deferred income tax liabilities and assets for events recognized differently in our financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations. Management exercises judgment in evaluating the amount and timing of recognition of resulting tax liabilities and assets. These judgments and estimates are reevaluated on a continual basis as regulatory and business factors change. No assurance can be given that either the tax returns submitted by us or the income tax reported on the financial statements will not be adjusted by either adverse rulings by the United States Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service. We are subject to potential adverse adjustments, including, but not limited to, an increase in the statutory federal or state income tax rates, the permanent nondeductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

Results of Operations

Summary

Net income for the year ended December 31, 2015 was $2.1 million compared to $2.3 million for the year ended December 31, 2014. Net interest income decreased to $11.4 million for the year ended December 31, 2015 from $11.7 million in the prior year. A decrease in noninterest income for 2015 was realized as a result of a decrease in service charges on deposit accounts offset by increases in gains on sales of securities, income from bank owned life insurance, and other operating income. Higher noninterest expense in 2015 is attributed to increased pension expense and data processing expenses in 2015.

Net Interest Income

Net interest income, the principal source of bank earnings, is the amount of income generated by earning assets (primarily loans and investment securities) less the interest expense incurred on interest-bearing liabilities (primarily deposits used to fund earning assets). Net interest income decreased slightly in 2015 to $11.4 million in 2015 from $11.7 million in 2014. In 2015, assets and liabilities continued to reprice at historically low rates, resulting in a decline in interest income and interest expense. Interest income decreased by $849 thousand from 2014 to 2015 compared to a decrease from 2013 to 2014 of $127 thousand. Interest expense decreased from $2.1 million in 2013 to $1.5 million in 2014 to $938 thousand in 2015. The following table sets forth information related to our average balance sheet, average yields on assets and average costs of liabilities.

	Year ended December 31,								
	2015			2014			2013		
(dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Interest-earning assets:									
Loans[3]	$ 179,055	$ 10,056	5,62%	$ 187,278	$ 10,861	5.80%	$ 180,774	$ 10,929	6.05%
Investment securities:									
Available for sale	41,902	917	2.19%	41,590	899	2.16%	50,466	1,058	2.10%
Held to maturity	42,843	1,354	3.16%	44,895	1,417	3.16%	42,402	1,329	3.13%
Nonmarketable securities	493	22	4.46%	603	25	4.15%	700	18	2.57%
Deposits with banks	20,182	32	0.16%	17,031	29	0.17%	13,269	24	0.18%
Total earning assets	284,475	12,381	4.35%	291,397	13,231	4.54%	287,611	13,358	4.64%
Noninterest-earning assets:									
Cash and due from banks	3,784			6,911			12,935		
Premises and equipment	16,965			11,334			10,525		
Other assets	12,149			12,723			13,637		
Allowance for loan losses	(2,795)			(3,130)			(3,386)		
Total assets	$ 314,578			$ 319,235			$ 315,837		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest checking	$ 75,383	146	0.19%	$ 68,880	160	0.23%	$ 65,096	172	0.26%
Savings deposits	18,454	31	0.17%	18,011	31	0.17%	16,491	26	0.16%
Large time deposits	47,316	281	0.59%	48,781	547	1.12%	55,115	841	1.53%
Other time deposits	56,074	387	0.69%	71,698	592	0.83%	80,481	831	1.03%
Total deposits	197,227	845	0.43%	207,370	1,330	0.64%	217,183	1,870	0.86%
FHLB Advances	1,951	90	4.61%	3,299	150	4.55%	4,196	181	4.31%
Securities sold under agreements to repurchase	1,348	2	0.15%	2,265	3	0.13%	2,822	4	0.14%
Total interest-bearing liabilities	200,526	937	0.47%	212,934	1,483	0.70%	224,201	2,055	0.92%
Noninterest-bearing liabilities:									
Demand deposits	70,663			70,099			62,662		
Other liabilities	9,372			4,668			2,844		
Total liabilities	280,561			287,639			289,707		
Shareholders' equity	34,017			31,534			31,615		
Total liabilities and shareholders' equity	$ 314,578			$ 319,235			$ 321,322		
Net interest income		$ 11,444			$ 11,748			$ 11,303	
Interest rate spread[1]			3.88%			3.84%			3.72%
Interest rate margin[2]			4.02%			4.03%			3.93%

[1] Net interest spread is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
[2] Net interest margin equals net interest income divided by total interest-earning assets.
[3] Average loan balances include nonaccrual loans

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following table sets forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates had on changes in net interest income for the comparative periods presented. Changes attributed to both rate and volume have been allocated on a pro rata basis.

	2015 Compared to 2014 Increase (Decrease)			2014 Compared to 2013 Increase (Decrease)		
		Due To			Due To	
(in thousands)	Total	Rate	Volume	Total	Rate	Volume
Interest-earning assets						
Loans	$ (805)	$ (337)	$ (468)	$ (68)	$ (582)	$ 514
Investment securities:						
Taxable	18	11	7	(159)	34	(193)
Exempt from income tax	(63)	2	(65)	88	9	79
Dividend income	(3)	2	(5)	7	11	(6)
Deposits with banks	3	(2)	5	5	(1)	6
Total	(850)	(324)	(526)	(127)	(529)	400
Interest-bearing liabilities						
Interest checking	(14)	(32)	18	(12)	(23)	11
Savings deposits	-	-	-	5	2	3
Large time deposits	(266)	(250)	(16)	(294)	(205)	(89)
Other time deposits	(205)	(88)	(117)	(239)	(155)	(84)
Total deposits	(485)	(370)	(115)	(540)	(381)	(159)
FHLB Advance	(60)	2	(62)	(31)	10	(41)
Securities sold under agreements to repurchase	(1)	-	1	(1)	-	1
Total	(546)	(368)	(176)	(572)	(371)	(199)
Net interest income	$ (304)	$ 44	$ (350)	$ 445	$ (158)	$ 599

Decreases in the volume of interest-earning assets offset by a decrease in average interest-bearing liabilities provided a decrease of $350 thousand to net interest income for 2015 while decreases in yields earned on average assets and costs of average liabilities provided an increase of $44 thousand. For 2014, increases in the volume of interest-earning assets offset by a decrease in average interest-bearing liabilities provided an increase of $599 thousand to net interest income while decreases in yields earned on average assets and costs of average liabilities provided a decrease of $158 thousand

Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as a non-cash expense to our statement of operations. We review our loan portfolio periodically to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under “Allowance for Loan Losses” for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

The provision for loan losses decreased from $626 thousand in 2014 to $0 in 2015. The allowance for loan losses was $2.6 million at December 31, 2015, approximately 1.48% of gross outstanding loans at that date. Management considers the allowance for loan loss balance to be adequate for possible charge-offs in subsequent years on the uncollected loan balances at December 31, 2015.

Noninterest Income

Noninterest income consists of revenue generated from a broad range of financial services and activities. The majority of noninterest income is a result of service charges on deposits, including charges for insufficient funds, ATM fees, and fees charged for non-deposit services such as safe deposit box rentals. Noninterest income decreased $232 thousand or 8.9% from $2.6 million in 2014 to $2.4 million in 2015. The increase primarily related to decreases in service charges on deposit accounts and losses on the disposal of certain fixed assets in 2015.

Noninterest Expense

Noninterest expense increased $343 thousand or 3.2% from $10.9 million in 2014 to $11.2 million in 2015. The largest component of the increase relates to an increase in pension related expenses and data processing expenses in 2015.

Income Taxes

Income tax expense is based on amounts reported in the statements of income (after adjustments for non-taxable income and non-deductible expenses) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. The deferred tax assets and liabilities represent the future Federal income tax return consequences of those differences, which will be taxable or deductible, depending on when the assets and liabilities are recovered or settled. The State of North Carolina lowered the corporate income tax rate from 6.9 percent to 6 percent effective for tax years beginning on or after January 1, 2014, and to 5 percent for tax years beginning on or after January 1, 2015.

Income taxes were 18.7% of net income before taxes for 2015 compared to 20.3% for 2014. The decrease is the result of a higher pre-tax income for 2014 and a higher percentage of tax-exempt income for 2015 compared to 2014.

Financial Position

General

At December 31, 2015, total assets were $317.4 million compared to $314.2 million at December 31, 2014. Total deposits increased $3.3 million, of which $14.3 million were interest-bearing, $4.0 million were noninterest-bearing, and $1.3 million were savings offset by a decrease of $16.3 million in time deposits. Loans decreased $6.9 million due to the continued national lack of loan demand. Investment securities increased by $1.3 million as the Bank managed the increase in deposits with the continued lack of loan demand.

Average interest-earning assets decreased as a percentage of total average assets. For 2015, average interest-earning assets were 90.4% of total average assets compared to 91.3% at 2014 and 89.5% at 2013. The average asset mix for 2015, 2014 and 2013 are presented in the following table.

	For the year ended December 31,					
	2015		2014		2013	
(in thousands)	Average Balance	%	Average Balance	%	Average Balance	%
Interest-earning assets:						
Loans	$ 179,055	56.92%	$ 187,278	58.68%	$ 180,774	56.26%
Investment securities:						
Taxable	41,902	13.32%	41,590	13.03%	50,466	15.71%
Exempt from income tax	42,843	13.62%	44,895	14.07%	42,402	13.19%
Nonmarketable securities	493	0.16%	603	0.19%	700	0.22%
Deposits with banks	20,182	6.42%	17,031	5.34%	13,269	4.13%
Total interest-earning assets	284,475	90,43%	291,397	91.30%	287,611	89.51%
Noninterest-earning assets:						
Cash and due from banks	3,784	1.20%	6,912	2.17%	12,935	4.02%
Premises and equipment	16,965	5.39%	6,912	2.17%	10,525	3.28%
Other assets	9,354	2.97%	10,723	3.36%	10,251	3.19%
Total noninterest-earning assets	30,103	9,57%	27,776	8.70%	33,711	10.49%
Total average assets	$ 314,578	100.00%	$ 319,173	100.00%	$ 321,322	100.00%

Investments

At December 31, 2015, investment securities available for sale were included on our balance sheet at a fair value of $43.7 million and consisted of government sponsored enterprises and FNMA, GNMA, and FHLMC mortgage-backed securities. Investments securities held to maturity were included on our balance sheet at an amortized cost of $42.6 million and consisted of state and municipal securities.

We continually evaluate our investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities, change the composition of our investment securities portfolio, and change the proportion of investments made into the available for sale and held to maturity investment categories.

Gross unrealized gains in our investment securities portfolio were $1.8 million as of December 31, 2015 and $2.0 million as of December 31, 2014. Gross unrealized losses were $492 thousand as of December 31, 2015 and $710 thousand as of December 31, 2014. Management does not believe that gross unrealized losses as of December 31, 2015, represent an other-than-temporary impairment.

The following table presents the maturity distribution at amortized cost, weighted-average yield by maturity, and fair value of investment securities as of December 31, 2015, 2014 and 2013.

December 31, 2015
(in thousands)

	Amortized Cost Due					
	Within One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total	Market Value
Government sponsored enterprises	$ -	$ 750	$ 16,085	$ -	$ 16,835	$ 16,818
FNMA, GNMA, and FHLMC mortgage-backed securities	4,008	11,785	8,756	2,584	27,133	26,881
State and municipal securities	2,395	19,159	9,901	11,102	42,557	44,114
Total	$ 6,403	$ 31,694	$ 34,742	$ 13,686	$ 86,525	$ 87,813

Weighted Average Yields

	Within One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
Government sponsored enterprises	-%	1.75%	2.43%	-%	2.09%
FNMA, GNMA, and FHLMC mortgage-backed securities	1.98%	1.98%	2.01%	2.08%	2.01%
State and municipal securities	2.43%	2.32%	3.17%	3.81%	2.93%
Total	2.20%	2.01%	2.54%	2.95%	2.43%

December 31, 2014
(in thousands)

	Amortized Cost Due					
	Within One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total	Market Value
Government sponsored enterprises	$ 2,638	$ 8,527	$ 4,603	$ 1,015	$ 16,783	$ 16,561
FNMA, GNMA, and FHLMC mortgage-backed securities	887	2,875	19,299	1,135	24,196	24,205
State and municipal securities	1,929	13,266	15,781	13,230	44,206	45,718
Total	$ 5,454	$ 24,668	$ 39,683	$ 15,380	$ 85,185	$ 86,484

Weighted Average Yields					
Government sponsored enterprises	1.76%	1.86%	1.87%	1.92%	1.85%
FNMA, GNMA, and FHLMC mortgage-backed securities	2.52%	2.45%	2.39%	2.25%	2.40%
State and municipal securities	3.14%	2.15%	3.23%	3.84%	3.09%
Total	2.47%	2.15%	2.50%	2.67%	2.45%

December 31, 2013
(in thousands)

	Amortized Cost Due					
	Within One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total	Market Value
Government sponsored enterprises	$ 1,010	$ 1,931	$ 10,713	$ -	$ 13,654	$ 12,969
FNMA, GNMA, and FHLMC mortgage-backed securities	-	13,998	17,559	-	31,557	30,657
State and municipal securities	843	14,459	23,511	5,599	44,412	43,695
Total	$ 1,853	$ 30,388	$ 51,783	$ 5,599	$ 89,623	$ 87,321

Weighted Average Yields					
Government sponsored enterprises	1.72%	1.54%	2.15%	-%	2.03%
FNMA, GNMA, and FHLMC mortgage-backed securities	-%	2.74%	1.84%	-%	2.14%
State and municipal securities	2.20%	3.14%	2.96%	3.85%	3.12%
Total	1.94%	2.75%	2.41%	3.50%	2.59%

Loans

We make commercial, mortgage and consumer loans to our customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the North Carolina counties of Robeson, Cumberland and Hoke. The ability of our borrowers to honor their contracts is dependent upon the general economic conditions in the area.

Total loans were $176.4 million at December 31, 2015 compared to $183.3 million at December 31, 2014, a decrease of $6.9 million or 3.79%. Loans secured by real estate comprise the largest part of our loan portfolio, 89.7% at December 31, 2015 and 89.4% at December 31, 2014. Non-real estate commercial loans comprised 6.1% of our loan portfolio at December 31, 2015 compared to 5.9% at December 31, 2014, while consumer loans comprised 4.2% at December 31, 2015 compared to 4.7% at December 31, 2014.

The following table presents the composition of our loan portfolio.

(in thousands)	December 31, 2015	2014	2013	2012	2011
Commercial	$ 8,414	$ 10,802	$ 10,758	$ 9,638	$ 10,144
Commercial Real Estate	82,682	87,493	83,684	77,858	80,884
Consumer	7,276	8,677	9,763	11,460	12,517
Residential Real Estate	75,462	73,791	76,459	77,187	76,848
Agricultural and Raw Land	2,374	2,463	2,790	2,967	2,859
Other	156	76	120	72	96
Gross Loans	176,364	183,302	183,574	179,182	183,348
Unearned Fees	(330)	(341)	(388)	(382)	(416)
Gross Loans less Unearned Fees	176,034	182,961	183,186	178,800	182,932
Allowance for Loan Losses	(2,619)	(2,817)	(3,246)	(3,453)	(3,209)
Net Loans	$ 173,415	$ 180,144	$ 179,940	$ 175,347	$ 179,723

The following table presents fixed rate and variable rate loans by their contractual maturities.

(in thousands)	December 31, 2015 One Year or Less	Over One Year through Five Years	Over Five Years	Total
Commercial	$ 5,475	$ 2,420	$ 519	$ 8,414
Commercial Real Estate	26,678	45,065	10,939	82,682
Consumer	2,774	3,976	526	7,276
Residential Real Estate	36,862	34,179	4,421	75,462
Agricultural and Raw Land	1,281	853	240	2,374
Total	$ 73,070	$ 86,493	$ 16,645	$ 176,208
Variable rate loans	$ 32,917	$ 11,407	$ 865	$ 45,189
Fixed rate loans	40,153	75,086	15,780	131,019
Total	$ 73,070	$ 86,493	$ 16,645	$ 176,208

Allowance for Loan Losses

An allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent losses in the loan portfolio. Management's judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions and environmental factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the discounted cash flows, collateral value, or observable market price of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk similar loan pools and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the current year and two prior years to ensure the most relevant data is being used in the model following the economic recession, anemic recovery and current economic conditions.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Qualitative environmental factors include external risk factors that management believes affect our overall lending environment. Environmental factors that management routinely analyzes include: levels and trends in delinquencies and impaired loans; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting practices; experience, ability, and depth of lending management and staff; national and local economic trends and conditions such as unemployment rates, housing statistics and banking industry conditions; local economic forecasts; and the effect of changes in credit concentrations.

At December 31, 2015, the allowance for loan losses was $2.6 million or 1.49% of total loans compared to $2.8 million or 1.54% of total loans at December 31, 2014. The following table presents activity in the Allowance for Loan Losses.

	For the year ended December 31,				
(in thousands)	2015	2014	2013	2012	2011
Balance at beginning of period	$ 2,817	$ 3,246	$ 3,453	$ 3,209	$ 2,778
Charge-offs:					
Commercial	-	(265)	(36)	(59)	(69)
Commercial Real Estate	(60)	(342)	-	(181)	(141)
Consumer	(23)	(47)	(161)	(115)	(100)
Residential Real Estate	(171)	(417)	(169)	(85)	(131)
Agricultural and Raw Land	-	-	(126)	-	-
Total Charge-offs	(254)	(1,071)	(492)	(440)	(441)
Recoveries:					
Commercial	-	7	-	8	15
Commercial Real Estate	2	-	-	-	-
Consumer	10	7	33	43	22
Residential Real Estate	7	2	-	33	2
Agricultural and Raw Land	37	-	-	-	-
Total Recoveries	56	16	33	84	39
Net Charge-offs	(198)	(1,055)	(459)	(356)	(402)
Provision	-	626	252	600	833
Balance at end of period	$ 2,619	$ 2,817	$ 3,246	$ 3,453	$ 3,209
Net charge-offs as a percentage of average loans	0.11%	0.56%	0. 25%	0. 20%	0.23%

The following table presents the Allowance for Loan Losses by loan category and the loan category as a percentage of total loans. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	December 31,									
	2015		2014		2013		2012		2011	
(in thousands)	$	%[1]	$	%[1]	$	%[1]	$	%[1]	$	%[1]
Commercial	$ 91	3.5%	$ 218	5.9%	$ 529	5.9%	$ 482	5.4%	$ 501	5.6%
Commercial Real Estate	1,158	44.2%	1,008	47.8%	1,420	38.0%	1,123	35.3%	623	35.7%
Consumer	64	2.4%	45	4.7%	129	5.3%	369	6.4%	163	6.8%
Residential Real Estate	983	37.5%	871	40.3%	764	49.3%	698	51.3%	1,215	50.3%
Agricultural and Raw Land	7	0.3%	-	1.3%	5	1.5%	2	1.6%	6	1.6%
Unallocated	316	12.1%	675	-%	399	-%	779	-%	701	-%
	$ 2,619	100.0%	$ 2,817	100.0%	$ 3,246	100.0%	$ 3,453	100.0%	$ 3,209	100.0%

[1]Loan category as a percentage of total loans.

Nonperforming Loans

Loans are generally placed in non-accrual status when the collection of interest is 90 days or more past due, when the full collection of all principal and interest is unlikely (even if the amount and timing of the eventual loss are unknown), when a loan is designated as Troubled Debt Restructuring ("TDR"), or when the borrower has filed for bankruptcy. Loans that are less delinquent may also be placed on non-accrual if so directed by the Chief Credit Officer or President/CEO.

Loans that meet these criteria guidelines may be kept on accrual if approved by the Chief Credit Officer and the loan is well secured and in the process of collection. A debt is "well secured" if collateralized by liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt in full; or by the guarantee of a financially responsible party. A debt is "in process of collection" if collection is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal actions which are reasonably expected to result in repayment of the debt or its restoration to a current status. With the approval of the Chief Credit Officer, a loan also may be kept on accrual if it is past due because of a recent maturity without a timely renewal, but the loan has been approved for renewal and is in the process of being renewed and returned to a paying status. When interest accrual is discontinued, all unpaid accrued interest is reversed.

A non-accrual loan may be returned to accrual status when we can reasonably expect continued timely payments until payment in full. All prior arrearage does not necessarily have to be eliminated, nor do all previously charged off amounts need to have been recovered. The loan can be returned to accrual status if: 1) approved by the Chief Credit Officer, and 2) the return to sustained, acceptable, payment performance, without subsequent relapse to seriously delinquent or otherwise non-performing, is likely. The two general rules that apply here are: a) all principal and interest amounts contractually due (including arrearage) are reasonably assured of repayment within a reasonable period, and b) there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms involving payments of cash or cash equivalents.

The following table sets forth our nonperforming assets.

	December 31,				
(in thousands)	2015	2014	2013	2012	2011
Non-accrual loans	$ 4,373	$ 5,425	$ 6,863	$ 4,174	$ 4,122
Loans 90 days+ past due, still accruing	-	13	73	764	1,090
Troubled debt restructurings, still accruing	2,897	2,191	1,525	3,394	1,510
Total nonperforming loans	7,270	7,629	8,461	8,332	6,722
Foreclosed real estate	636	1,034	726	1,461	1,227
Total nonperforming assets	$ 7,906	$ 8,663	$ 9,187	$ 9,793	$ 7,949

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

At December 31, 2015, our impaired loans amounted to $9.4 million consisting of real estate, consumer, and commercial loans. Of these impaired loans, $6.4 million had specific reserves set aside in an amount of $1.1 million for future losses.

Potential Problem Loans

As of December 31, 2015, our watch list loans amounted to $33.9 million, compared to $27.8 million at December 31, 2014. The watch list is the classification utilized by us when we have an initial concern about the financial health of a borrower. We then gather current financial information about the borrower and evaluate our current risk in the credit. We will then either move it to "substandard" or back to its original risk rating after a review of the information. There are times when we may leave the loan on the "watch list," if, in management's opinion, there are risks that cannot be fully evaluated without the passage of time, and we want to review it on a more regular basis. Loans on the watch list are not considered "potential problem loans" until they are determined by management to be classified as substandard.

Loans past due 30-89 days amounted to $6.6 million at December 31, 2015 as compared to $6.1 million at December 31, 2014. Past due loans are often regarded as a precursor to further credit problems which would lead to future increases in nonaccrual loans and other real estate owned. At December 31, 2015, there were no loans past due greater than 90 days that had not already been placed on nonaccrual.

Deposits

Total deposits at December 31, 2015 were $276.3 million compared to $273.0 million at December 31, 2014. Non-interest bearing, interest bearing, and savings deposits increased $3.9 million, $14.3 million, and $1.3 million respectively while time deposits decreased $16.3 million.

Average interest-bearing deposits also decreased from 2014 to 2015 as did rates. The weighted average rate paid for total deposits decreased from 0.64% for the year ended December 31, 2014 to 0.43% for the year ended December 31, 2015. The table below presents average interest-bearing deposits and the average rate paid on each category for the year.

	December 31,					
	2015		2014		2013	
(in thousands)	Average Balances	Average Rate	Average Balances	Average Rate	Average Balances	Average Rate
Interest-bearing deposits:						
Interest checking	$ 75,383	0.19%	$ 68,880	0.23%	$ 65,096	0.26%
Savings	18,454	0.17%	18,011	0.17%	16,491	0.16%
Time deposits, $100,000 and over	47,316	0.59%	48,781	1.12%	55,115	1.53%
Other time deposits	56,074	0.69%	71,698	0.83%	80,481	1.03%
Total interest-bearing deposits	197,227	0.43%	207,370	0.64%	217,183	0.86%
Noninterest-bearing deposits	70,663		70,099		62,662	
Total average deposits	$ 267,890		$ 277,469		$ 279,845	

Total time deposits decreased $16.3 million from $113.4 million at December 31, 2014 to $97.0 million at December 31, 2015. Time deposits greater than $100,000 were $38.5 million and $46.9 million at December 31, 2015 and 2014, respectively.

The following table presents a maturity analysis of time deposits of $100,000 and over at December 31.

(in thousands)	2015	2014
Less than three months	$ 6,817	$ 12,396
Three months through one year	21,024	25,388
Over one year	10,696	9,140
Total time deposits, $100,000 and over	$ 38,537	$ 46,924

Federal Home Loan Bank Advances

At December 31, 2015, we had outstanding advances from the Federal Home Loan Bank of $1.4 million compared to $3.0 million at December 31, 2014. The advances are used primarily for asset/liability management. The weighted average rate paid on the advances during 2015 was 4.59%. These advances mature between 2020 and 2024. Our remaining credit availability was $60.6 million at December 31, 2015.

Capital

Total shareholders' equity increased $354 thousand to $33.2 million at December 31, 2015 from $32.9 million at December 31, 2014. Unrealized losses on available for sale securities and the unfunded portion of the Bank's pension plan which are included in other comprehensive income, net of tax, increased $1.2 million from December 31, 2014 to December 31, 2015. This change combined with dividends paid of $615 thousand offset net income of $2.1 million for the year.

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation ("FDIC"). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines involving quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios of: total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2015, that we meet all the capital adequacy requirements to which we are subject.

As of December 31, 2015, the most recent notification from the FDIC, we were categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, we will have to maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed our prompt corrective action category.

The Basel Committee provides a framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III will require banks to maintain substantially more capital, with a greater emphasis on common equity. In July 2013, the Federal Reserve Bank, the OCC and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6.0% (increased from 4.0%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4.0% for all institutions. The rules eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for banks with assets of $15 billion or less. The rules established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% or risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital falls below that buffer amount. These limitations will establish a maximum percentage of eligible retained income that may be utilized for such actions.

Our actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Total Capital						
(to Risk-Weighted Assets)	$ 36,681	18.98%	$ 15,458	8.00%	$ 19,323	10.00%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)	$ 34,263	17.73%	$ 8,695	4.50%	$ 12,560	6.50%
Tier I Capital						
(to Risk-Weighted Assets)	$ 34,263	17.73%	$ 11,594	6.00%	$ 15,458	8.00%
Tier I Capital						
(to Average Assets)	$ 34,263	11.13%	$ 12,314	4.00%	$ 15,393	5.00%
December 31, 2014						
Total Capital						
(to Risk-Weighted Assets)	$ 32,885	17.75%	$ 15,861	8.00%	$ 19,826	10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 32,709	16.50%	$ 7,931	4.00%	$ 11,896	6.00%
Tier I Capital						
(to Average Assets)	$ 32,709	10.38%	$ 12,609	4.00%	$ 15,762	5.00%

Key Ratios

The following schedule of key ratios is presented for the years December 31, 2015, 2014, and 2013.

	2015	2014	2013
Return on Assets	0.67%	0.71%	0.57%
Return on Equity	6.23%	7.22%	5.81%
Dividend Payout Ratio	29.04%	25.53%	29.78%
Equity to Assets (averages)	10.81%	9.88%	9.84%
Ending Equity to Ending Assets	10.47%	10.47%	9.83%
Average Interest Earning Assets			
to Average Total Assets	90.43%	91.30%	89.51%
Average Net Loans			
to Average Total Loans	98.44%	98.12%	98.13%
Average Interest Earning Assets			
to Average Interest Bearing Liabilities	141.86%	136.85%	128.28%

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in our financial statements. Rather, our financial statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. As discussed previously, we seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Risk

Commitments to extend credit are agreements to lend to a customer as long as the customer has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2015, unfunded commitments to extend credit were $17.3 million. A significant portion of the unfunded commitments related to consumer equity lines of credit. Based on historical experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At December 31, 2015, there were commitments totaling approximately $137 thousand under letters of credit. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Liquidity

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

Our liquidity position is primarily dependent upon our need to respond to loan demand and short-term demand for funds caused by withdrawals from deposit accounts and upon the liquidity of our assets. Our primary liquidity sources include cash and amounts due from other banks, federal funds sold and investments available for sale. In addition, we have the ability to borrow funds from the Federal Home Loan Bank and the Federal Reserve Bank and to purchase federal funds from other financial institutions. Management believes our liquidity sources are adequate to meet our operating needs.

Interest Rate Sensitivity

One of the principal goals of our asset and liability management strategy is to manage interest rate risk. Interest rate risk management balances the effects of interest rate changes on interest earning assets or interest bearing liabilities, to protect us from wide fluctuations in our net interest income which could result from interest rate changes.

We actively monitor and manage our interest rate risk exposure principally by measuring our interest sensitivity "gap," and net interest income simulations. Interest sensitivity gap is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when we are liability-sensitive.

The following table sets forth information regarding our rate sensitivity, as of December 31, 2015 and 2014, at each of the time intervals. The information in the table may not be indicative of our rate sensitivity position at other points in time. In addition, the maturity distribution implied in the table may differ from the contractual maturities of the earning assets and interest-bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios and other embedded optionality in the application of the interest rate sensitivity methods described above.

December 31, 2015	**Timeframes**							
(in thousands)	1 month	2 month	3 month	4-12 months	1-3 years	3-5 years	> 5 years	Total
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,937	$ 7,937
Interest-bearing deposits in other banks	24,755	-	-	-	-	-	-	$ 24,755
Total investments	716	1,051	537	8,704	21,178	26,179	28,338	86,703
Total loans	82,999	4,547	5,205	24,557	37,536	20,044	(1,473)	173,415
Other Assets	-	-	-	-	-	-	24,612	24,612
Total Rate Sensitive Assets (RSA)	$ 108,470	$ 5,598	$ 5,742	$ 33,261	$ 58,714	$ 46,223	$ 59,414	$ 317,422
Noninterest bearing	$ -	$ -	$ -	$ -	$ -	$ -	$ 73,099	$ 73,099
Interest checking and savings	18,556	-	-	-	-	-	87,620	$ 106,176
Time deposits	5,660	6,455	8,219	50,219	24,268	1,394	810	97,025
Securities sold under agreements to repurchase	-	-	1,254	-	-	-	-	1,254
FHLB advances	21	21	21	188	502	502	113	1,368
Other Liabilities	-	-	-	-	-	-	5,262	5,262
Total Rate Sensitive Liabilities (RSL)	$ 24,237	$ 6,476	$ 9,494	$ 50,407	$ 24,770	$ 1,896	$ 166,904	$ 284,184
Equity	$ -	$ -	$ -	$ -	$ -	$ -	$ 33,238	$ 33,238
Periodic Gap	$ 84,233	$ (878)	$ (3,752)	$ (17,146)	$ 33,944	$ 44,327	$(140,728)	$ -
Cumulative Gap/RSA	26.6%	(0.03)%	(1.2)%	(5.4)%	10.7%	14.0%	(44.5)%	-
Cumulative Gap	$ 84,233	$ 83,355	$ 79,603	$ 62,457	$ 96,401	$ 140,728	$ -	$ -
Cumulative Gap/RSA	26.6%	26.3%	25.2%	19.7%	30.5%	44.5%	-	-
RSA/RSL	447.5%	86.4%	60.5%	66.0%	237.0%	2,437.9%	29.3%	100.00%

December 31, 2014	**Timeframes**							
(in thousands)	Floating	1-3 months	3-12 months	1-3 years	3-5 years	5-15 years	> 15 years	Total
Interest-bearing deposits in other banks	$ 19,367	$ -	$ -	$ -	$ -	$ -	$ -	$ 19,367
Total investments	-	8,932	482	2,239	18,309	31,613	23,397	84,972
Total loans	12,131	30,016	27,703	39,261	51,684	17,941	4,490	183,226
Total Rate Sensitive Assets (RSA)	$ 31,498	$ 38,948	$ 28,185	$ 41,500	$ 69,993	$ 49,554	$ 27,887	$ 287,565
Interest checking and savings	$ 26,347	$ -	$ -	$ 64,205	$ -	$ -	$ -	$ 90,552
Time deposits	-	27,726	58,022	26,242	1,364	-	-	113,354
Securities sold under agreements to repurchase	-	1,763	-	-	-	-	-	1,763
FHLB advances	-	-	1,500	-	-	1,498	-	2,998
Total Rate Sensitive Liabilities (RSL)	$ 26,347	$ 29,489	$ 59,522	$ 90,447	$ 1,364	$ 1,498	$ -	$ 208,667
Interest Sensitivity Gap	$ 5,151	$ 9,459	$ (31,337)	$ (48,947)	$ 68,629	$ 48,056	$ 27,887	$ 78,898
Cumulative Gap	$ 5,151	$ 14,610	$ (16,727)	$ (65,674)	$ 2,955	$ 51,011	$ 78,898	$ 78,898
Cumulative Gap/RSA	1.79%	5.08%	(5.82)%	(22.84)%	1.03%	17.74%	27.44%	27.44%
RSA/RSL	119.55%	132.08%	47.35%	45.88%	5,131.45%	3,308.01%	-%	137.81%

Retirement Benefits

Pension Plan

We maintain a qualified defined benefit pension plan (the "Pension Plan") under which a participating employee will become eligible to receive monthly retirement benefits beginning at his or her normal retirement age of 65 and thereafter for life. All employees, including our executive officers, are eligible to participate in the Pension Plan if they are at least 21 years old and if they have been employed by us for at least twelve months during which they have worked at least 1,000 hours. Benefits, which become fully vested after five years of continuous employment, are determined based on a formula using a participant's "final average compensation," which is the participant's highest average total compensation, including deferred compensation, for any five years during the participant's final ten years of employment. A participant's normal annual "life annuity" benefit under the Pension Plan will equal (i) 0.65% of his or her final average compensation multiplied by his or her years of credited service (up to a maximum of 35 years), plus (ii) 0.65% of the amount of his or her final average compensation in excess of the applicable social security covered compensation (as in effect on the earlier of a termination of employment or age 65) multiplied by his or her years of credited service (up to a maximum of 35 years). Participants may elect to receive benefits in a "single life annuity" or a "joint and survivor annuity." If a participant elects a joint and survivor annuity, the amount of the annual benefit will be actuarially reduced. If a participant's employment continues after age 65, his or her annual benefit will be actuarially increased to reflect the continuing accrual of benefits during the participant's extended employment and the projected reduction in the number of his or her benefit payments.

Early retirement is permitted under the Pension Plan for participants who have reached age 55 with at least ten years of service. If a participant retires early, his or her annual benefit under the Pension Plan, commencing at age 65, will be the amount accrued under the formula described above through the early retirement date. However, if he or she begins receiving benefits before age 65, the annual benefit will be actuarially reduced by 6.66% for each year of the first five years, and by 3.33% for each year of the additional five years, by which the participant's early retirement date precedes his or her normal retirement date. Upon a termination of employment due to disability, a participating employee will become eligible to receive retirement benefits at a rate which is determined using the same formula as is applied to early retirement, except that payments may begin before the participating employee reaches age 55, in which case the benefits will be further actuarially reduced according to the participant's age at the time of disability. Vested retirement benefits under the Pension Plan are not affected by a termination or change in control.

Section 401(k) Plan

We maintain a qualified Section 401(k) voluntary savings plan that provides a vehicle for employees to defer a pre-tax portion of their compensation for retirement and receive an employer matching contribution on a portion of their voluntary deferrals. Full-time employees become eligible to participate in the plan after one full year of employment. Participants may choose to defer up to 50% of their total earnings each month, up to a maximum annual voluntary deferral amount set by the IRS which, for 2015, is $18,000 for a participant under age 50 and $24,000 for a participant who is age of 50 or older. We make a matching contribution to each participant’s account equal to 50% of his or her contributions up to 6% of earnings that he or she defers, but not more than a maximum matching contribution of 3% of the participant’s eligible compensation. Our Section 401(k) matching contributions during 2015 for the accounts of our executive officers named in the Summary Compensation Table above are included in the “All Other Compensation” column of the table and are listed in a footnote to the table.

Directors and Officers Deferral Plan

We maintain a nonqualified deferred compensation plan under which our executive officers and directors may elect each year, in advance, to defer receipt of up to 100% of their compensation and fees until they retire from their employment or service as directors. All amounts deferred by officers are held by an independent trustee in individual accounts for them. We do not make any contributions to, or pay any interest or other amount or guarantee any rate of return on, the officers' accounts. The trustee invests deferred amounts, as directed by the individual officers, in any one or a combination of investment funds available under the arrangement.

Employee Stock Ownership Plan

The Bank formed an Employee Stock Ownership Plan (“ESOP”), for its employees in 2013. The ESOP will purchase shares of the Bank’s common stock on the open market from time to time with funds borrowed from a loan from a third party lender. All employees of the Bank meeting certain tenure requirements are entitled to participate in the ESOP. Employer contributions are discretionary. Employee contributions are not permitted.

Deferred Compensation Plan for Directors/Executives

The Bank has established a deferred compensation plan for non-employee directors of the Bank (the "Director Plan"). Each participating director may defer up to 100% of their monthly Board fees into the Director Plan. The Director Plan also provides a $25,000 death benefit payable to the Director's beneficiary. The Bank also adopted a deferred compensation plan for the benefit of key employees. While the plan is to be funded from the general assets of the Bank, life insurance policies were acquired for the purpose of serving as the primary funding source.

Executive Salary Continuation Agreements

During 2004 we entered into an Executive Salary Continuation Agreement with each of our executive officers. Under the agreement should executive officers remain employed by us until they reached age 65 and then retired, we would pay monthly payments for life, with annual increases of 1.75%, beginning on the first day of the next month following their retirement.

Under accounting rules that apply to us, we accrue an expense on our books each year for our liability for payments under the agreements. Upon the death of an officer while still employed but before reaching age 65, or after monthly payments have begun under his agreement, the then-current balance of the total liability we have accrued for future payments to the officer under his agreement (the officer's "Accrual Balance," as adjusted, in the case of an officer's death following retirement, for payments already made) will be paid to the officer's designated beneficiary or estate. If, prior to age 65, an officer becomes disabled for a qualified period, an amount equal to the officer's then-current Accrual Balance will be paid into a trust and held for his benefit. If he remains disabled on the date he reaches age 65, he will receive payments from the funds held for his benefit and will not be entitled to any further benefits under his agreement. However, if he has returned to service before he reaches age 65, then, in addition to payments of the above funds held in trust for his benefit, he will be entitled to a reduced retirement benefit under his agreement according to a pre-determined formula. As of December 31, 2015, the Accrual Balance on our books for each of the executive officers under their agreements was $1,738,946.

If an executive officer's employment is voluntarily terminated by him, or terminated by us without cause, other than in connection with a change in control (including by reason of death or disability), we will pay him or his beneficiary an amount equal to the officer's then-current Accrual Balance. If an executive officer dies after retiring, his designated beneficiary or estate will receive the officer's then-current Accrual Balance (as adjusted for payments made following the officer's retirement). If an executive officer's employment is terminated voluntarily or involuntarily, except for cause, within six months before or after a change in control, he will receive full retirement benefits upon reaching age 65. For purposes of the Executive Salary Continuation Agreements, a change in control will occur if there is a change in the control of 50% or more of our stock. If an executive officer's employment is terminated by us for cause, no amounts will be paid under the agreements.

Split Dollar Life Insurance Agreements

We have purchased life insurance policies on the lives of each of our executive officers and have entered into Endorsement Method Split-Dollar Agreements with them. The policies covered by the agreements are held by a third party trustee. Under the agreements, upon the death of an executive officer while he remains employed by us, 90% of the "net at risk insurance portion" of the death proceeds of the officer's policy will be paid to the officer's designated beneficiary or his estate. The net at risk insurance portion of the proceeds of a policy is equal to the total death proceeds less the cash value of the policy. If, at the time of his death, the officer no longer is employed by us, then, provided that he previously had been employed by us for at least ten years, his designated beneficiary or estate will be entitled to receive 25% of the net at risk insurance portion of the death proceeds of his policy, plus an additional 5% for each additional year of employment. We will receive the remainder of the death benefits under each policy, including the full cash value. No amount will be paid to the designated beneficiary or estate of an officer who has been terminated for cause. The amount which would have been paid to the designated beneficiaries or estates of our executive officers under their agreements if they had died on December 31, 2015, totaled $1,515,621. During 2004, we made one-time premium payments on the policies covered by the agreements, and no premiums were paid during 2015.

Intangible Assets

On April 6, 2012 the Bank purchased two retail branches in Pembroke and Raeford, North Carolina. The purchase of these two branches resulted in goodwill and core deposit intangible assets for the Bank. Deposits are a liability of a bank; however their existence may create an intangible asset. The buyer receives a "built in" customer base of, usually, stable relationships when a bank is acquired. This customer base has demonstrable economic benefits to the buyer. A core deposit base consists of specific account relationships existing at the time of acquisition. These account holders will eventually pass away, relocate or move their account, and therefore the core deposit base has a limited life.

Deferred Tax Asset

The Bank's net deferred tax asset was $2.3 million and $1.4 million at December 31, 2015 and 2014, respectively. In evaluating whether we will realize the full benefit of our net deferred tax asset, we consider both positive and negative evidence, including among other things recent earnings trends and projected earnings, and asset quality. As of December 31 2015, management concluded that the Bank's net deferred tax assets were fully realizable. The Bank will continue to monitor deferred tax assets closely to evaluate whether we will be able to realize the full benefit of our net deferred tax asset or whether there is any need for a valuation allowance. Significant negative trends in credit quality, losses from operations, or other factors could impact the realization of the deferred tax asset in the future. The Bank feels confident that deferred tax assets are more likely than not to be realized.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm
Balance Sheets
Statements of Income
Statements of Comprehensive Income
Statements of Changes in Shareholders' Equity
Statements of Cash Flows
Notes to Financial Statements

elliott davis decosimo

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Lumbee Guaranty Bank

We have audited the accompanying balance sheets of Lumbee Guaranty Bank (the “Bank”) as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lumbee Guaranty Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Elliott Davis Decosimo

Charlotte, North Carolina
March 25, 2016

Lumbee Guaranty Bank
Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and due from banks	$ 3,995,402	$ 5,043,522
Interest-bearing deposits in other banks	28,696,289	19,366,620
Cash and cash equivalents	32,691,691	24,410,142
Investment securities, available for sale	43,699,210	40,766,012
Investment securities, held to maturity (fair value $44,114,292 and $45,718,429 at December 31, 2015 and 2014, respectively)	42,556,665	44,206,120
Loans	176,363,944	183,302,042
Less: Unearned fees	(330,135)	(340,968)
Allowance for loan losses	(2,618,545)	(2,816,958)
Loans, net	173,415,264	180,144,116
Premises and equipment, net	9,600,816	9,933,618
Intangible assets, net	654,425	666,405
Nonmarketable equity securities	448,200	580,300
Foreclosed real estate	635,752	1,034,018
Accrued interest receivable	1,159,194	1,228,417
Prepaid expenses	355,611	385,593
Cash value of bank owned life insurance	9,428,993	9,160,256
Other assets	2,776,515	1,688,184
Total assets	$ 317,422,336	$ 314,203,181
Liabilities and shareholders' equity		
Deposits:		
Noninterest-bearing	$ 73,098,666	$ 69,127,508
Interest checking	86,992,501	72,708,412
Savings	19,183,725	17,843,237
Time deposits	97,024,671	113,354,078
Total deposits	276,299,563	273,033,235
Securities sold under agreements to repurchase	1,253,770	1,762,867
Federal Home Loan Bank advances	1,367,959	2,997,929
Accrued interest payable and other expenses	2,859,080	2,986,384
Defined benefit pension plan liability	2,393,641	528,356
Other liabilities	9,849	9,718
Total liabilities	284,183,862	281,318,489
Commitments and contingencies (Notes 17 and 18)		
Shareholders' equity		
Common stock, $2.00 par value, 5,000,000 shares authorized; 3,417,565 shares issued and outstanding	6,835,130	6,835,130
Surplus	7,048,553	7,046,776
Undivided profits	20,996,117	19,492,814
Accumulated other comprehensive loss	(1,641,326)	(490,028)
Total shareholders' equity	33,238,474	32,884,692
Total liabilities and shareholders' equity	$ 317,422,336	$ 314,203,181

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

Lumbee Guaranty Bank
Statements of Income
For the years ended December 31, 2015 and 2014

	2015	2014
Interest income		
Interest and fees on loans	$ 10,056,261	$ 10,861,193
Interest on securities:		
Available for sale	916,943	898,493
Held to maturity	1,354,018	1,417,450
Nonmarketable equity securities	22,398	24,858
Other interest income	31,987	28,810
Total interest income and fees	12,381,607	13,230,804
Interest expense		
Interest expense on interest-bearing deposits	146,263	159,998
Interest expense on savings	31,327	30,733
Interest expense on time deposits	667,835	1,139,905
Interest expense on fed funds purchased	-	90
Interest expense on FHLB advances	90,218	150,183
Interest expense on securities sold under agreements to repurchase	1,961	3,211
Total interest expense	937,604	1,484,120
Net interest income	11,444,003	11,746,684
Provision for loan losses	-	625,650
Net interest income after provision for loan losses	11,444,003	11,121,034
Noninterest income		
Service charges on deposit accounts	1,665,840	1,885,533
Income from bank owned life insurance	268,737	261,499
Gains on sales of securities	56,306	47,074
Other operating income	433,359	410,888
Total noninterest income	2,424,242	2,604,994
Noninterest expense		
Salaries and wages	4,593,735	4,411,049
Other personnel costs	1,712,602	1,464,887
Net occupancy expense	715,516	730,013
Equipment expense	424,446	392,062
Amortization	11,980	13,277
Data processing	1,242,247	990,716
FDIC insurance premiums	239,816	265,224
Foreclosed real estate expense, net	125,226	138,404
Printing and office supplies	262,638	366,340
Accounting fees	241,856	289,790
Other operating expenses	1,692,449	1,807,303
Total noninterest expense	11,262,511	10,869,065
Income before income taxes	2,605,734	2,856,963
Income tax expense	487,269	580,608
Net income	$ 2,118,465	$ 2,276,355
Basic net income per common share	$ 0.62	$ 0.67
Diluted net income per common share	$ 0.62	$ 0.67
Weighted average basic common shares outstanding	3,417,565	3,417,565
Weighted average diluted common shares outstanding	3,417,565	3,419,065

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

Lumbee Guaranty Bank
Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014

	2015	2014
Net income	$ 2,118,465	$ 2,276,355
Other comprehensive income (loss):		
Unrealized holding gains on available for sale securities	1,867	1,417,747
Tax effect	(635)	(482,034)
Total net of taxes	1,232	935,713
Reclassification adjustment for gains realized in net income	(56,306)	(47,074)
Tax effect	19,144	16,005
Total net of taxes	(37,162)	(31,069)
Changes to defined benefit pension plan liability	(1,689,951)	(18,609)
Tax effect	574,583	6,327
Total net of taxes	(1,115,368)	(12,282)
Total other comprehensive income (loss)	(1,151,298)	892,362
Comprehensive income	$ 967,166	$ 3,168,717

Lumbee Guaranty Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2015 and 2014

	Common Stock				Accumulated Other Comprehensive	Total Shareholder's
	Shares	Amount	Surplus	Undivided Profits	Income (Loss)	Equity
Balance, December 31, 2013	3,417,565	$ 6,835,130	$ 7,046,776	$ 17,797,445	$ (1,382,390)	$ 30,296,961
Net income	-	-	-	2,276,355	-	2,276,355
Other comprehensive income	-	-	-	-	892,362	892,362
Dividends declared ($0.17 per share)	-	-	-	(580,986)	-	(580,986)
Balance, December 31, 2014	3,417,565	6,835,130	7,046,776	19,492,814	(490,028)	32,884,692
Net income	-	-	-	2,118,465	-	2,118,465
Other comprehensive loss	-	-	-	-	(1,151,298)	(1,151,298)
Dividends declared ($0.18 per share)	-	-	-	(615,162)	-	(615,162)
Stock based compensation	-	-	1,777	-	-	1,777
Balance, December 31, 2015	3,417,565	$ 6,835,130	$ 7,048,553	$ 20,996,117	$ (1,641,326)	$ 33,238,474

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

Lumbee Guaranty Bank
Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 2,118,465	$ 2,276,355
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	507,570	500,535
Amortizations of premiums/discounts	370,336	416,311
Amortizations of intangible assets	11,980	13,277
Realized gains on sales of securities	(56,306)	(47,074)
Losses on foreclosed real estate	31,411	69,861
Income from bank owned life insurance	(268,737)	(261,499)
Provision for loan losses	-	625,650
Loss from disposal of premise and equipment, net	50,848	-
Stock based compensation	1,777	-
Decrease (increase) in:		
Accrued interest receivable	69,223	49,503
Prepaid expenses and other assets	(465,257)	345,482
Increase (decrease) in:		
Accrued interest payable and other expenses	(127,304)	662,606
Other liabilities	175,465	(42,267)
Net cash flows provided by operating activities	2,419,471	3,917,776
Cash flows from investing activities		
Purchases of investment securities, available for sale	(9,839,869)	(16,972,498)
Purchases of investment securities, held to maturity	(2,117,960)	(957,464)
Maturities, calls and paydowns of investment securities, available for sale	5,478,101	6,333,616
Maturities and calls of investment securities, held to maturity	3,529,200	913,200
Sales of investment securities, available for sale	1,298,316	14,751,354
Redemptions of nonmarketable equity securities	132,100	105,700
Decrease (increase) in loans	6,161,399	(1,599,739)
Purchases of premises and equipment, net	(225,616)	(195,336)
Proceeds from sales of foreclosed real estate	934,308	392,376
Net cash flows provided by investing activities	5,349,979	2,771,209
Cash flows from financing activities		
Increase (decrease) in deposits	3,266,328	(2,595,848)
Decrease in securities sold under agreements to repurchase	(509,097)	(1,482,639)
Paydowns on FHLB advances	(1,629,970)	(1,127,840)
Cash dividends	(615,162)	(580,986)
Net cash flows provided by (used by) financing activities	512,099	(5,787,313)
Net increase in cash and cash equivalents	8,281,549	901,672
Cash and cash equivalents at beginning of period	24,410,142	23,508,470
Cash and cash equivalents at end of period	$ 32,691,691	$ 24,410,142
Supplemental disclosure of cash flow information		
Interest paid	$ 1,006,827	$ 821,514
Taxes paid	$ 266,910	$ 360,249
Non-cash transactions		
Transfer from loans to foreclosed assets	$ 567,453	$ 769,860
Change in unrealized gain (loss) on securities available for sale, net of tax	$ (35,930)	$ 904,644
Changes to defined benefit pension plan liability, net of tax	$ (1,115,368)	$ (12,282)

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

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Lumbee Guaranty Bank is an independent, community bank providing full service banking through fourteen branch offices in Robeson, Cumberland, and Hoke counties in North Carolina. The Bank extends both commercial and consumer loans throughout its market area and offers a full range of deposit accounts for its customer base. The Bank is a North Carolina state-chartered bank subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation.

The accounting and reporting policies of the Bank follow generally accepted accounting principles ("GAAP") and general practices of the financial services industry, within the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") structure of authoritative literature. The following is a summary of the more significant policies.

Critical Accounting Policy

Management believes the policy with respect to the methodology for the determination of the allowance for loan losses involves a high degree of complexity. Management must make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. This critical policy and its application are periodically reviewed with the Audit Committee and Board of Directors.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of foreclosed assets such as real estate acquired in connection with foreclosures or in satisfaction of loans, fair value of financial instruments, deferred taxes, and employee benefit plans.

Cash and Cash Equivalents

Cash and cash equivalents include cash and noninterest-bearing deposits, interest-bearing deposits, and funds sold. All amounts are readily convertible to cash and have maturities of less than 90 days.

Investment Securities

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Bank held no trading securities as of December 31, 2015 and 2014. Available for sale investment securities are those that may be sold before maturity due to changes in the Bank's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income. Held to maturity investment securities are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Investment Securities, continued

Realized gains and losses are recorded in noninterest income and expense are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual securities.

The Bank conducts an other-than-temporary-impairment ("OTTI") analysis of investment securities on a quarterly basis or more often if a potential loss-triggering event occurs. A write-down of a debt security is recorded when fair value is below amortized cost in circumstances where: (1) the Bank has the intent to sell a security; (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the Bank does not expect to recover the entire amortized cost basis of the security. If the Bank intends to sell a security or if it is more likely than not that the Bank will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Bank does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. To determine the amount related to credit loss on a debt security, the Bank applies a methodology similar to that used for evaluating the impairment of loans. As of December 31, 2015, management determined that the Bank did not own any investment securities that were other-than-temporarily-impaired.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their outstanding principal amount adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Loan origination fees and costs are capitalized and recognized as an adjustment to the yield on the related loan.

The Bank grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the North Carolina counties of Robeson, Cumberland and Hoke. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in the area.

Interest is accrued on a loan and credited to income based on the principal amount outstanding. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 90 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Note 1. Organization and Summary of Significant Accounting Policies, continued

Loans, continued

A loan is considered impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Impaired loans exclude smaller balance homogeneous loans that are collectively evaluated for impairment.

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), an impairment is recognized by establishing or adjusting an existing allocation of the allowance, or by recording a partial charge-off of the loan to its fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Loans Modified in a Troubled Debt Restructuring

Loans are considered to have been modified in a troubled debt restructuring ("TDR") when, due to a borrower's financial difficulties; the Bank makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a nonaccrual loan that has been modified in a troubled debt restructuring remains on nonaccrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

Allowance for Loan Losses

An allowance for loan losses is maintained at a level deemed appropriate by management to adequately provide for known and inherent losses in the loan portfolio. The Bank's judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which the Bank believes to be reasonable, but which may or may not prove to be accurate.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions and environmental factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the discounted cash flows, collateral value, or observable market price of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into loan pools with similar risk and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the current year and two prior years to ensure the most relevant data is being used in the model following the economic recession, anemic recovery and current economic conditions.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Qualitative environmental factors include external risk factors that management believes affect the overall lending environment of the Bank. Environmental factors that management of the Bank routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk selection and underwriting practices, experience, ability, and depth of lending management and staff, national and local economic trends and conditions such as unemployment rates, and housing statistics, banking industry conditions, local economic forecasts, and the effect of changes in credit concentrations.

Bank Premises and Equipment

Land is carried at cost. Buildings and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the following estimated useful lives or lease terms:

	Years
Buildings and improvements	7-40
Furniture and equipment	3-10

Foreclosed Real Estate

Properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less anticipated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses during the holding period and gains and losses on sales are included in foreclosed real estate expense.

Securities Sold Under Agreements to Repurchase

The Bank enters into sales of securities under agreements to repurchase. Fixed-coupon repurchase agreements are treated as financing, with the obligation to repurchase securities sold being reflected as a liability and the securities underlying the agreements remaining as assets.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Postretirement Benefit Plan

A qualified defined pension plan (the "Plan") is provided to all employees who meet the eligibility requirements of 21 years of age and one year of service in which they have worked a minimum of 1,000 hours. To maintain the Plan's funding adequacy, the Bank contributes an appropriate amount which is deductible for federal income tax purposes. Benefits under the plan are accrued by periodic charges to income as determined by the Plan's actuary.

To the extent accumulated plan assets, including current period cash contributions, are less than projected benefit obligations, the Bank accrues such obligations through either a charge to income or other comprehensive income.

The Bank recognizes in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status. The Bank also measures the Plans' assets and obligations that determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax.

Stock Based Compensation

The Bank may grant stock based compensation to employees and non-employee directors in the form of stock options and stock awards. The Stock Option Plan is administered by our Personnel Committee, which is authorized to make all determinations regarding the persons to whom, and numbers of shares for which, options and awards will be granted, to specify certain of the terms of options and awards, and to interpret and establish rules, make all determinations, and take all other actions necessary or advisable in the administration of the Stock Option Plan. The Bank recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model and related assumptions.

Employee Stock Ownership Plan

The Bank established an Employee Stock Ownership Plan ("ESOP") for the exclusive benefit of all eligible employees and their beneficiaries subject to authority to amend, from time to time, or terminate, the ESOP. The ESOP is primarily designed to invest in common stock of the Bank and is permitted to purchase Bank common stock with contributions to the ESOP made by the Bank. Also, the ESOP is permitted to borrow money and use the loan proceeds to purchase Bank common stock. The money and Bank common stock in the ESOP is intended to grow tax free until retirement, death, disability or other termination of employment with the Bank.

Advertising and Public Relations Expense

The Bank expenses adverting and public relations costs as they are incurred. Advertising costs were $83,581 and $80,555 for the years ended December 31, 2015 and 2014, respectively.

Income Taxes

Provision for income taxes is based on amounts reported in the statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Income per Share

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, assuming conversion of all potentially dilutive common stock equivalents.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income reflects the change in the Bank's equity during the period from transactions and events other than investments by and distributions to shareholders. It consists of certain changes in assets and liabilities that are reported as separate components of shareholders' equity rather than as income or expense. The following table shows the changes in accumulated other comprehensive income by component.

	Unrealized Gains and Losses on Available for Sale Securities	Defined Benefit Pension Items	Total
Balance, December 31, 2013	$ (1,045,957)	$ (336,433)	$ (1,382,390)
Net unrealized losses on investment securities, net of tax			
Other comprehensive income before reclassifications	935,713	-	935,713
Amounts reclassified from accumulated other comprehensive loss	(31,069)	-	(31,069)
Defined benefit pension items, net of tax			
Amortization of transition	-	1,733	1,733
Amortization of prior service cost	-	(24,033)	(24,033)
Amortization of net actuarial losses	-	10,018	10,018
Balance, December 31, 2014	$ (141,313)	$ (348,715)	$ (490,028)
Net unrealized losses on investment securities, net of tax			
Other comprehensive income before reclassifications	1,232	-	1,232
Amounts reclassified from accumulated other comprehensive loss	(37,162)	-	(37,162)
Defined benefit pension items, net of tax			
Amortization of transition	-	2,626	2,626
Amortization of prior service cost	-	(36,414)	(36,414)
Amortization of net actuarial losses	-	(1,081,580)	(1,081,580)
Balance, December 31, 2015	$ (177,243)	$ (1,464,083)	$ (1,641,326)

Note 1. Organization and Summary of Significant Accounting Policies, continued

Off-Balance Sheet Financial Instruments

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

Concentrations of Credit Risk

Financial instruments, which potentially subject the Bank to concentrations of credit risk, consist principally of loans, investment securities, and amounts due from banks.

The Bank makes loans to individuals and small businesses for personal and commercial purposes primarily in Robeson, Cumberland, and Hoke counties in North Carolina and surrounding areas. The Bank's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Bank to increased credit risk should economic conditions change over the course of a loan's life. For example, the Bank makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Bank to unusual credit risk.

The Bank's investment portfolio consists principally of obligations of the United States, its agencies or its corporations as well as state and municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Bank places its deposits and correspondent accounts with high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Risks and Uncertainties

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

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

Note 1. Organization and Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements.

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

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Bank for reporting periods beginning after December 15, 2017. The Bank will apply the guidance using a modified retrospective approach. The Bank does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Bank will apply the guidance prospectively to all prior periods presented in the financial statements. The Bank does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Bank to measure defined benefit plan assets and obligations using the month-end that is closest to the Bank's fiscal year-end. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 with early adoption permitted. The Bank does not expect these amendments to have a material effect on its financial statements.

In June 2015, the FASB issued amendments to clarify the ASC, correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Bank does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Bank for reporting periods beginning after December 15, 2017. The Bank will apply the guidance using a modified retrospective approach. The Bank does not expect these amendments to have a material effect on its financial statements.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements, continued

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Bank does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the balance sheet. The new lease standard only contains targeted changes to accounting by lessors, however, lessees will be required to recognize most leases in their balance sheets as lease liabilities for lease payments and right-of-use assets representing the lessee's rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2018. Early adoption is permitted for all companies and organizations. Management is currently analyzing the impact of the adoption of this guidance on the Bank's financial statements, including assessing changes that might be necessary to information technology systems, processes and internal controls to capture new data and address changes in financial reporting.

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

Note 2. Restrictions on Cash and Due From Banks

To comply with banking regulations, the Bank is required to maintain certain average cash reserve balances with the Federal Reserve Bank. The daily average cash reserve requirement was approximately $2,202,000 and $1,497,000 for the periods including December 31, 2015 and 2014, respectively.

Note 3. Investment Securities

Debt and equity securities have been classified in the balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at December 31 follow:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2015				
Available for Sale:				
Government sponsored enterprises	$ 16,835,015	$ 104,437	$ (121,824)	$ 16,817,628
FNMA, GNMA, and FHLMC mortgage-backed securities	27,132,744	11,585	(262,747)	26,881,582
	$ 43,967,759	$ 116,022	$ (384,571)	$ 43,699,210
Held to Maturity:				
State and municipal securities	$ 42,556,665	$ 1,665,489	$ (107,862)	$ 44,114,292
2014				
Available for Sale:				
Government sponsored enterprises	$ 16,783,452	$ 28,463	$ (250,711)	$ 16,561,204
FNMA, GNMA, and FHLMC mortgage-backed securities	24,196,670	178,338	(170,200)	24,204,808
	$ 40,980,122	$ 206,801	$ (420,911)	$ 40,766,012
Held to Maturity:				
State and municipal securities	$ 44,206,120	$ 1,801,092	$ (288,783)	$ 45,718,429

At December 31, 2015 and 2014, the Bank had one held to maturity security that was taxable with an amortized cost of $541,143 and 500,000, respectively.

The scheduled maturities of securities available for sale and securities held to maturity at December 31, 2015, are shown below. Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Due in one year or less	Due in one year through five years	Due in one year through ten years	Due after ten years
Available for Sale:				
Government sponsored enterprises	$ -	$ 744,781	$ 16,072,847	$ -
FNMA, GNMA, and FHLMC mortgage-backed securities	3,964,836	11,668,226	8,683,426	2,565,094
	$ 3,964,836	$ 12,413,007	$ 24,756,273	$ 2,565,094
Held to Maturity:				
State and municipal securities	$ 2,395,237	$ 19,158,309	$ 9,900,860	$ 11,102,259

Investment securities with an amortized cost of approximately $54,271,000 and $57,450,000 were pledged at December 31, 2015 and 2014, respectively, to secure certain deposits and for other purposes required by law.

Gross realized gains and losses recognized for the years ended December 31 are as follows:

	2015	2014
Gross realized gains	$ 56,306	$ 261,661
Gross realized losses	-	(214,587)
Net realized gains	$ 56,306	$ 47,074

Note 3. Investment Securities, continued

The following tables detail unrealized losses and related fair values in the Bank's investment securities portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015						
Government sponsored enterprises	$ 4,954,043	$ (42,355)	$ 3,029,058	$ (79,469)	$ 7,983,101	$ (121,824)
FNMA, GNMA, and FHLMC mortgage-backed securities	14,028,292	(114,355)	6,124,878	(148,392)	20,153,170	(262,747)
State and municipal securities	2,080,840	(4,118)	7,215,207	(103,744)	9,296,047	(107,862)
Total temporarily impaired securities	$ 21,063,175	$ (160,828)	$ 16,369,143	$ (331,605)	$ 37,432,318	$ (492,433)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2014						
Government sponsored enterprises	$ 2,028,779	$ (701)	$ 11,137,454	$ (250,010)	$ 13,166,233	$ (250,711)
FNMA, GNMA, and FHLMC mortgage-backed securities	-	-	8,848,766	(170,200)	8,848,766	(170,200)
State and municipal securities	931,334	(1,739)	11,578,650	(287,044)	12,509,984	(288,783)
Total temporarily impaired securities	$ 2,960,113	$ (2,440)	$ 31,564,870	$ (707,254)	$ 34,524,983	$ (709,694)

Management evaluates securities for other-than–temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects if the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Bank does not believe that gross unrealized losses as of December 31, 2015, which was comprised of 29 securities, represent an other-than temporary impairment. At December 31, 2015, the Bank had 4 government sponsored enterprise securities, 9 FNMA, GNMA, and FHLMC mortgage-backed securities and 16 state and municipal securities that had been in an unrealized loss position for more than twelve months. Management believes these losses are temporary and are a result of the current interest rate environment. The Bank does not intend to sell these securities and it is more likely than not that the Bank will not be required to sell these securities before recovery of their amortized cost.

Restricted equity securities, which are carried at cost, consist of investments in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), which is an upstream correspondent of the Bank. The FHLB requires financial institutions to make equity investments in the FHLB in order to borrow from it. The Bank is required to hold that stock so long as it borrows from the FHLB. The FHLB stock is restricted in the fact that the stock may only be repurchased by the issuer. Management also considers these investments when testing for impairment. On a quarterly basis, management reviews the FHLB's capital adequacy to ensure it meets regulatory minimum requirements. Bank management does not believe any unrealized losses associated with investments in the FHLB to be anything other than temporary.

Note 4. Loans Receivable

The major segmented components of loans at December 31, 2015 and 2014 are as follows:

	2015	2014
Commercial	$ 8,414,696	$ 10,801,744
Commercial Real Estate	82,682,022	87,493,311
Consumer	7,275,949	8,676,579
Residential Real Estate	75,461,790	73,790,992
Agricultural and Raw Land	2,373,908	2,463,356
Total Principal Balance	176,208,365	183,225,982
Overdrafts	175,549	79,160
Loans in Process	(19,970)	(3,100)
Gross Loans	176,363,944	183,302,042
Unearned Fees	(330,135)	(340,968)
Allowance for Loan Losses	(2,618,545)	(2,816,958)
Net Loans	$ 173,415,264	$ 180,144,116

The Bank had no subprime residential loans at December 31, 2015 and 2014.

Note 5. Allowance for Loan Losses

The following table presents activity in the allowance for loan losses for the years-ended December 31, 2015 and 2014 on a portfolio segment basis. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Allowance for loan losses	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural Raw Land	Unallocated	Other	Total
Balance-December 31, 2014	$ 217,718	$ 1,008,272	$ 45,058	$ 871,302	$ 311	$ 670,297	$ 4,000	$ 2,816,958
Charge-Offs	-	(59,520)	(23,507)	(171,237)	-	-	-	(254,264)
Recoveries	20	2,000	10,075	7,357	36,399	-	-	55,851
Provisions	(126,788)	207,052	32,426	275,547	(29,667)	(354,570)	(4,000)	-
Balance – December 31, 2015	$ 90,950	$ 1,157,804	$ 64,052	$ 982,969	$ 7,043	$ 315,727	$ -	$ 2,618,545
Balance- December 31, 2013	$ 529,234	$ 1,419,683	$ 69,996	$ 764,416	$ 4,675	$ 398,893	$ 58,770	$ 3,245,667
Charge-Offs	(264,778)	(341,929)	(47,056)	(417,071)	-	-	-	(1,070,834)
Recoveries	6,856	85	7,108	2,426	-	-	-	16,475
Provisions	(53,594)	(69,567)	15,010	521,531	(4,364)	271,404	(54,770)	625,650
Balance – December 31, 2014	$ 217,718	$ 1,008,272	$ 45,058	$ 871,302	$ 311	$ 670,297	$ 4,000	$ 2,816,958
December 31, 2015								
Allowance for Loan Losses ending balance:								
Individually evaluated for impairment	$ 6	$ 599,447	$ 1,053	$ 541,079	$ -	$ -	$ -	$ 1,141,585
Collectively evaluated for impairment	$ 90,944	$ 558,357	$ 62,999	$ 441,890	$ 7,043	$ 315,727	$ -	$ 1,476,960
Loans Receivable: Ending Balance – Total	$ 8,414,696	$ 82,682,022	$ 7,275,949	$ 75,461,790	$ 2,373,908	$ -	$ -	$ 176,208,365
Ending balances:								
Individually evaluated for impairment	$ 274,830	$ 4,193,561	$ 20,106	$ 4,881,988	$ 49,229	$ -	$ -	$ 9,419,714
Collectively evaluated for impairment	$ 8,139,866	$ 78,488,461	$ 7,255,843	$ 70,579,802	$ 2,324,679	$ -	$ -	$ 166,788,651
December 31, 2014								
Allowance for Loan Losses ending balance:								
Individually evaluated for impairment	$ 13,803	$ 712,735	$ 1,403	$ 677,800	$ -	$ -	$ -	$ 1,405,741
Collectively evaluated for impairment	$ 203,915	$ 295,537	$ 43,655	$ 193,502	$ 311	$ 670,297	$ 4,000	$ 1,411,217
Loans Receivable: Ending Balance – Total	$ 10,801,744	$ 87,493,311	$ 8,676,579	$ 73,790,992	$ 2,463,356	$ -	$ -	$ 183,225,982
Ending balances:								
Individually evaluated for impairment	$ 527,029	$ 4,575,721	$ 88,867	$ 5,494,908	$ 50,423	$ -	$ -	$ 10,736,948
Collectively evaluated for impairment	$ 10,274,715	$ 82,917,590	$ 8,587,712	$ 68,296,084	$ 2,412,933	$ -	$ -	$ 172,489,034

Note 5. Allowance for Loan Losses, continued

Past Due Loans

A loan is considered past due if the required principal and interest payment has not been received as of the due date. The following schedule is an aging of past due loans receivable by portfolio segment as of December 31, 2015 and 2014. *(in thousands)*

December 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	Current	Total Loans Receivable	90 Days+ Still Accruing
Commercial	$ 62	$ 11	$ 90	$ 163	$ 8,251	$ 8,414	$ -
Commercial Real Estate	1,870	42	443	2,355	80,327	82,682	-
Consumer	120	4	12	136	7,140	7,276	-
Residential Real Estate	4,124	410	1,233	5,767	69,695	75,462	-
Agricultural and Raw Land	-	-	-	-	2,374	2,374	-
	$ 6,176	$ 467	$ 1,778	$ 8,421	$ 167,787	$ 176,208	$ -

December 31, 2014

	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	Current	Total Loans Receivable	90 Days+ Still Accruing
Commercial	$ 94	$ -	$ 106	$ 200	$ 10,602	$ 10,802	$ -
Commercial Real Estate	1,278	-	894	2,172	85,321	87,493	-
Consumer	155	18	61	234	8,443	8,677	13
Residential Real Estate	4,266	280	1,141	5,687	68,104	73,791	-
Agricultural and Raw Land	27	-	-	27	2,436	2,463	-
	$ 5,820	$ 298	$ 2,202	$ 8,320	$ 174,906	$ 183,226	$ 13

Non-accrual Loans

Loans are generally placed in non-accrual status when the collection of interest is 90 days or more past due, when the full collection of all principal and interest is unlikely, (even if the amount and timing of the eventual loss are unknown), when a loan is designated as Troubled Debt Restructuring, or when the Borrower has filed for bankruptcy. Loans that are less delinquent may also be placed on non-accrual if so directed by the Chief Credit Officer or President/CEO.

Loans that meet these criteria guidelines may be kept on accrual if approved by the Chief Credit Officer and one of the following apply: 1) The loan is well secured and in the process of collection. 2) The loan is past due because of a recent maturity without a timely renewal, but the loan has been approved for renewal and is in the process of being renewed and returned to a paying status. A debt is "well secured" if collateralized by liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt in full; or by the guarantee of a financially responsible party. A debt is "in process of collection" if collection is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal actions which are reasonably expected to result in repayment of the debt or its restoration to a current status. When interest accrual is discontinued, all unpaid accrued interest is reversed.

A non-accrual loan may be returned to accrual status when the Bank can reasonably expect continued timely payments until payment in full. All prior arrearage does not necessarily have to be eliminated, nor do all previously charged off amounts need to have been recovered. The loan can be returned to accrual status if: 1) Approved by the Chief Credit Officer, and 2) the return to sustained, acceptable, payment performance, without subsequent relapse to seriously delinquent or otherwise non-performing, is likely. The two general rules that apply here are: a) All principal and interest amounts contractually due (including arrearage) are reasonably assured of repayment within a reasonable period, and b) There is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms involving payments of cash or cash equivalents.

Note 5. Allowance for Loan Losses, continued

Nonaccrual loans as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Commercial	$ 126,302	$ 155,719
Commercial Real Estate	2,185,530	2,732,397
Consumer	36,234	77,094
Residential Real Estate	2,022,433	2,459,790
Agricultural and Raw Land	2,880	-
	$ 4,373,379	$ 5,425,000

Impaired Loans

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. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

All nonaccrual loans are considered to be impaired however only those meeting certain thresholds are individually evaluated for impairment.

The following tables present impaired loans by class of loan as of December 31, 2015 and 2014:

	Recorded[1] Investment	Unpaid[2] Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
December 31, 2015					
With no related allowance recorded:					
Commercial	$ 192,487	$ 346,435	$ -	$ 239,867	$ 5,294
Commercial Real Estate	958,254	1,308,223	-	1,221,441	52,108
Residential Real Estate	1,833,362	1,923,190	-	1,635,010	85,950
Agricultural and Raw Land	49,229	49,229	-	25,211	3,990
	3,033,332	3,627,077	-	3,121,529	147,342
With an allowance recorded:					
Commercial	82,343	82,343	6	54,158	7,242
Commercial Real Estate	3,235,307	3,235,307	599,447	3,223,693	92,472
Consumer	20,106	20,107	1,053	15,940	2,155
Residential Real Estate	3,048,626	3,078,494	541,079	3,385,317	155,197
	6,386,382	6,416,251	1,141,585	6,679,108	257,066
Combined:					
Commercial	274,830	428,778	6	294,025	12,536
Commercial Real Estate	4,193,561	4,543,530	599,447	4,445,134	144,580
Consumer	20,106	20,107	1,053	15,940	2,155
Residential Real Estate	4,881,988	5,001,684	541,079	5,020,327	241,147
Agricultural and Raw Land	49,229	49,229	-	25,211	3,990
	$ 9,419,714	$ 10,043,328	$ 1,141,585	$ 9,800,637	$ 404,408

Note 5. Allowance for Loan Losses, continued

	Recorded[1] Investment	Unpaid[2] Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
December 31, 2014					
With no related allowance recorded:					
Commercial	$ 501,056	$ 655,004	$ -	$ 674,091	$ 33,825
Commercial Real Estate	1,271,221	1,271,221	-	1,294,891	71,765
Consumer	77,094	77,094	-	93,379	7,535
Residential Real Estate	2,070,620	2,070,620	-	2,358,049	88,180
Agricultural and Raw Land	50,423	50,423	-	50,965	4,308
	3,970,414	4,124,362	-	4,471,374	205,614
With an allowance recorded:					
Commercial	25,973	25,973	13,803	28,206	2,320
Commercial Real Estate	3,304,500	3,646,429	712,735	3,763,800	76,683
Consumer	11,773	11,773	1,403	11,999	138
Residential Real Estate	3,424,288	3,424,288	677,800	3,438,543	134,023
Agricultural and Raw Land	-	-	-	-	599
	6,766,534	7,108,463	1,405,741	7,242,548	213,164
Combined:					
Commercial	527,029	680,977	13,803	705,769	36,145
Commercial Real Estate	4,575,721	4,917,650	712,735	5,677,133	148,448
Consumer	88,867	88,867	1,403	85,886	7,673
Residential Real Estate	5,494,908	5,494,908	677,800	5,117,685	222,203
Agricultural and Raw Land	50,423	50,423	-	61,026	4,308
	$ 10,736,948	$ 11,232,825	$ 1,405,741	$ 11,647,498	$ 418,778

[1] The amount of investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment.
[2] The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect direct write-downs.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. All loan modifications are made on a case-by-case basis.

	December 31, 2015			December 31, 2014		
	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial	1	$ 24,942	$ 24,992	1	$ 68,146	$ 68,317
Commercial real estate	2	206,761	216,923	4	2,366,605	2,418,122
Consumer	1	8,351	9,938	1	11,550	12,006
Residential real estate	2	245,685	262,420	8	1,009,312	1,068,678
Agricultural and raw land	-	-	-	1	9,973	9,973
Total	6	$ 485,739	$ 514,273	15	$ 3,465,586	$ 3,577,096

During the twelve months ended December 31, 2015, the Bank modified six loans that were considered to be troubled debt restructurings. The Bank reduced the interest rate on one loan; granted terms better than those of a new origination on two loans; deferred the payment of principal and interest without a defined exit strategy on one loan; reduced the interest rate and granted terms better than those of a new origination on one loan; and on one loan the Bank reduced the interest rate, re-amortized for a longer period (policy exception), and granted terms better than those of a new origination. During the twelve months ended December 31, 2014, the bank modified fifteen loans that were considered to be troubled debt restructurings. The Bank renewed six loans with a DSC less than 1.00:1, made an interest rate concession on four loans, re-amortized two loans for a period longer than our policy, and granted terms better than those of a new origination on three loans.

Note 5. Allowance for Loan Losses, continued

Credit Quality

The Bank uses several metrics as credit quality indicators of current or potential risks as part of the ongoing monitoring of the credit quality of its portfolio. The credit quality indicators are periodically reviewed and updated on a case-by-case basis. The Bank uses the following definitions for the internal risk rating grades, listed from the least risk to the highest risk.

Pass

Loans that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

Weak Pass

This grade is given to acceptable loans that show signs of weakness in either adequate sources of repayment or collateral, but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Loans assigned Weak Pass may demonstrate some or all of the following characteristics: a) Additional exceptions to the Bank's policy requirements, product guidelines or underwriting standards that present a higher degree of risk to the Bank. Although the combination and/or severity of identified exceptions is greater, all exceptions have been properly mitigated by other factors; b) Unproved, insufficient or marginal primary sources of repayment that appear sufficient to service the debt at this time. Repayment weaknesses may be due to minor operational issues, financial trends, or reliance on projected (not historic) performance; and c) Marginal or unproven secondary sources to liquidate the debt, including combinations of liquidation of collateral and liquidation value to the net worth of the borrower or guarantor.

For existing loans, payments have generally been made as agreed with only minor and isolated delinquencies.

Special Mention

Watch List or Special Mention loans include the following characteristics: a) Loans with underwriting guideline tolerances and/or exceptions with no identifiable mitigating factors; b) Extending loans that are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date. Potential weaknesses are the result of deviations from prudent lending practices; and c) Loans where adverse economic conditions that develop subsequent to the loan origination do not jeopardize liquidation of the debt, but do substantially increase the level of risk, may also warrant this rating.

Note 5. Allowance for Loan Losses, continued

Substandard

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

Loans consistently not meeting the repayment schedule should be downgraded to substandard.

Loans in this category are characterized by deterioration in quality exhibited by any number of well-defined weaknesses requiring corrective action. The weaknesses may include, but are not limited to: high debt to worth ratios, declining or negative earnings trends, declining or inadequate liquidity, improper loan structure, questionable repayment sources, lack of well-defined secondary repayment source, and unfavorable competitive comparisons.

Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status or extensions and/or renewals.

Doubtful

Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Among these events are: the injection of capital, alternative financing, or the liquidation of assets or the pledging of additional collateral.

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists.

Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Loss

Loans classified Loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be affected in the future.

Probable Loss portions of Doubtful assets should be charged against the Allowance for Loan Losses. Loans may reside in this classification for administrative purposes for a period not to exceed the earlier of thirty (30) days or calendar quarter-end.

Note 5. Allowance for Loan Losses, continued

The following is a schedule of the credit quality of loans receivable, by portfolio segment, as of December 31, 2015 and 2014.

December 31, 2015

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural and Raw Land	Total
Pass or better	$ 5,810,471	$ 28,482,127	$ 5,736,107	$ 24,271,587	$ 701,241	$ 65,001,533
Weak Pass	1,937,071	33,210,481	1,373,105	39,238,548	1,527,611	77,286,816
Special Mention	277,212	13,311,916	48,497	5,939,541	92,948	19,670,114
Substandard or worse	389,942	7,677,498	118,240	6,012,114	52,108	14,249,902
Total	$ 8,414,696	$ 82,682,022	$ 7,275,949	$ 75,461,790	$ 2,373,908	$ 176,208,365

December 31, 2014

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural and Raw Land	Total
Pass or better	$ 7,561,290	$ 30,321,589	$ 6,774,445	$ 25,688,374	$ 335,331	$ 70,681,029
Weak Pass	2,223,882	41,760,083	1,679,112	37,009,476	2,077,602	84,750,155
Special Mention	1,387	7,142,796	58,982	4,158,751	-	11,361,916
Substandard or worse	1,015,185	8,268,843	164,040	6,934,391	50,423	16,432,882
Total	$ 10,801,744	$ 87,493,311	$ 8,676,579	$ 73,790,992	$ 2,463,356	$ 183,225,982

Note 6. Premises and Equipment

A summary of premises and equipment at December 31, 2015 and 2014 follows:

	2015	2014
Land	$ 2,225,595	$ 2,225,595
Buildings	9,502,341	9,449,749
Equipment	3,265,866	3,710,329
	14,993,802	15,385,673
Less accumulated depreciation	(5,392,986)	(5,452,055)
	$ 9,600,816	$ 9,933,618

Depreciation expense for 2015 and 2014 was $507,570 and $500,535 respectively.

Leases

The Bank is obligated on a month to month lease of its retail banking location at 6313 Raeford Road in Fayetteville, North Carolina. The lease calls for monthly payments of $2,100 and can be terminated at any time by either party.

The Bank is also obligated on a month to month lease for a storage facility on East 4th Street in Lumberton, North Carolina. The lease calls for monthly payments of $500 and can be terminated at any time by either party.

Note 7. Intangible Assets

On April 6, 2012 the Bank purchased two retail branches in Pembroke and Raeford, North Carolina. The purchase of these two branches resulted in goodwill and core deposit intangible assets for the Bank. Deposits are a liability of a bank; however their existence may create an intangible asset. The buyer receives a "built in" customer base of, usually, stable relationships when a bank is acquired. This customer base has demonstrable economic benefits to the buyer. A core deposit base consists of specific account relationships existing at the time of acquisition. These account holders will eventually pass away, relocate or move their account, and therefore the core deposit base has a limited life.

Note 7. Intangible Assets, continued

In order to value the goodwill and core deposit intangible, the Bank acquired the services of a third party. During their review the use of three methods: (i) cost savings approach, (ii) future income approach, and (iii) market approach were used to determine these values.

A summary of intangible assets at December 31, 2015 and 2014 follows:

	2015		2014	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$ 117,355	$ (54,077)	$ 117,355	$ (42,097)
Goodwill	$ 591,147		$ 591,147	

Management reviews goodwill on an annual basis for impairment and adjusts accordingly. As of December 31, 2015, management did not consider goodwill to be impaired.

The core deposit premium is amortized over 10 years using a 150% declining balance. Amortization expense for 2015 and 2014 was $11,980 and $13,277, respectively.

Note 8. Foreclosed Real Estate

Transactions in other real estate owned for the years ended December 31, 2015 and 2014:

	2015	2014
Balance, beginning of year	$ 1,034,018	$ 726,395
Additions	567,453	769,860
Sales	(934,308)	(392,376)
Write-downs and losses on sales	(31,411)	(69,861)
Balance, end of period	$ 635,752	$ 1,034,018

Note 9. Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2015 and 2014 was approximately $9,777,990 and $12,156,000, respectively.

Maturities of time deposits are scheduled as follows:

	Less Than $250,000	$250,000 or More	Total
2016	$ 66,194,842	$ 2,411,955	$ 68,606,797
2017 thru 2018	12,566,346	6,704,841	18,641,187
2018 - 2022	8,485,493	1,291,194	9,776,687
	$ 87,246,681	$ 9,777,990	$ 97,024,671

Note 10. Borrowings

Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are summarized as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Amount outstanding at year end	$ 1,253,770	$ 1,762,867
Average amount outstanding during year	$ 1,347,502	$ 2,265,360
Maximum amount outstanding at any month-end	$ 1,802,610	$ 3,278,032
Weighted average rate paid at year-end	0.15%	0.13%
Weighted average rate paid during the year	0.15%	0.14%

Federal Home Loan Bank Advances

The following information is provided for balances, rates, and maturities with the FHLB as of December 31:

	2015			2014	
Advance Type	Maturity	Rate	Amount	Rate	Amount
Fixed Rate	5/5/15	-	$ -	4.73%	$ 1,500,000
Principal Reducing Rate	12/14/20	5.17%	1,113,183	5.17%	1,218,503
Principal Reducing Rate	3/27/24	2.00%	254,776	2.00%	279,426
			$ 1,367,959		$ 2,997,929

As of December 31, 2015 and 2014, the Bank had investment securities with an amortized cost of $2.5 million and $3.5 million respectively, pledged to the FHLB.

Unsecured Lines of Credit

The Bank has unsecured lines of credit with correspondent banks available for overnight borrowing totaling approximately $14.5 million. The Bank has credit availability of approximately $60.6 million through a secured borrowing facility.

Note 11. Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2015, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the FDIC, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized; the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

The Basel Committee provides a framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III will require banks to maintain substantially more capital, with a greater emphasis on common equity. In July 2013, the Federal Reserve Bank, the OCC and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6.0% (increased from 4.0%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4.0% for all institutions. The rules eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for banks with assets of $15 billion or less. The rules established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% or risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital falls below that buffer amount. These limitations will establish a maximum percentage of eligible retained income that may be utilized for such actions.

Note 11. Regulatory Capital, continued

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual			Minimum Capital Requirement			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
		Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2015									
Total Capital									
(to Risk-Weighted Assets)	$	36,681	18.98%	$	15,458	8.00%	$	19,323	10.00%
Common Equity Tier 1 Capital									
(to Risk-Weighted Assets)	$	34,263	17.73%	$	8,695	4.50%	$	12,560	6.50%
Tier I Capital									
(to Risk-Weighted Assets)	$	34,263	17.73%	$	11,594	6.00%	$	15,458	8.00%
Tier I Capital									
(to Average Assets)	$	34,263	11.13%	$	12,314	4.00%	$	15,393	5.00%
December 31, 2014									
Total Capital									
(to Risk-Weighted Assets)	$	32,885	17.75%	$	15,861	8.00%	$	19,826	10.00%
Tier I Capital									
(to Risk-Weighted Assets)	$	32,709	16.50%	$	7,931	4.00%	$	11,896	6.00%
Tier I Capital									
(to Average Assets)	$	32,709	10.38%	$	12,609	4.00%	$	15,762	5.00%

Note 12. Income per Share

The following table details the computation of basic and diluted income per share for each year ended December 31:

	2015	2014
Net income attributable to common shareholders	$ 2,118,465	$ 2,276,355
Weighted average basic shares outstanding	3,417,565	3,417,565
Common stock equivalents:		
Stock options	-	1,500
Weighted average diluted shares outstanding	3,417,565	3,419,065
Basic net income per common share	$ 0.62	$ 0.67
Diluted net income per common share	$ 0.62	$ 0.67

Note 13. Income Taxes

The provision for income taxes for 2015 and 2014 consists of the following:

	2015	2014
Income tax expense		
Current tax expense		
Federal	$ 691,977	$ 436,278
State	128,414	149,047
Total	820,391	585,325
Deferred tax benefit		
Federal	(321,564)	(2,749)
State	(11,558)	(1,968)
Total	(333,122)	(4,717)
	$ 487,269	$ 580,608

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

	2015	2014
Federal statutory income tax at 34%	$ 885,950	$ 971,367
Tax exempt interest	(460,366)	(468,708)
Non-taxable life insurance income	(74,619)	3,348
Effect of state income taxes	77,125	97,072
Other	59,179	(22,471)
	$ 487,269	$ 580,608

Note 13. Income Taxes, continued

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 780,602	$ 855,810
Net unrealized losses on available for sale securities	91,307	72,798
Pension Obligations	754,224	179,641
Deferred Compensation	638,949	221,947
Stock compensation	57,115	58,144
Alternative minimum tax ("AMT") carryforward	183,286	181,625
Other	12,562	52,949
Total deferred tax assets	2,518,045	1,622,914
Deferred tax liabilities:		
Accumulated depreciation	(167,814)	(198,897)
Total deferred tax liabilities	(167,814)	(198,897)
Net deferred tax assets	$ 2,350,231	$ 1,424,017

The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with applicable FIN 48 regulations.

The federal income tax returns of the Bank for 2014, 2013 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

Note 14. Employee Benefit Plans

Pension Plan

The Bank maintains a noncontributory qualified benefit plan ("the Plan") covering all eligible employees who work 1,000 hours or more as of the beginning of the plan's fiscal year. Benefits are based on years of service. The Plan was amended in 2013 to revise the future benefit formula.

Under the amended plan, a participant may retire at normal retirement age with the greater of (1) 1.0% of "2012 Average Annual Compensation" multiplied by years of benefit service prior to August 15, 2013 (max 35 years) or (2) 0.65% of "Final Average Annual Compensation" multiplied by years of benefit service (max 35).

The enrolled actuary of the Plan have indicated that the amount of contribution with respect to a specified person cannot be individually calculated under the actuarial cost method used in determining aggregate contribution requirements for the Plan. For the years ending December 31, 2015 and 2014, contributions of $200,000 and $25,000 were made to the Plan, respectively.

Pension expense charged to operations was $449,608 in 2015 and $65,000 in 2014.

Note 14. Employee Benefit Plans, continued

The following table provides a reconciliation of changes in benefit obligation and fair value of plan assets, as well as the funded status recognized in the Bank's balance sheets for the plan for the years ended December 31:

	2015	2014
Benefit obligation, beginning of year	$ (5,104,205)	$ (4,986,262)
Service cost	(150,927)	(101,088)
Interest cost	(285,933)	(253,901)
Actuarial losses (gains)	(1,312,220)	65,995
Employer benefits paid	208,390	171,051
Benefit obligation, end of year	(6,644,895)	(5,104,205)
Fair value of plan assets, beginning of year	4,317,074	4,209,485
Actual return on plan assets	(57,430)	253,640
Employer contributions	200,000	25,000
Employer benefits paid	(208,390)	(171,051)
Fair value of plan assets, end of year	4,251,254	4,317,074
Funded status, end of year	$ (2,393,641)	$ (787,131)

The following represents the amounts included on the Bank's Balance Sheets as of December 31:

	2015	2014
Funded status, end of year	$ (2,393,641)	$ (787,131)
Accrued pension cost	175,334	258,775
Defined benefit pension plan liability	$ (2,218,307)	$ (528,356)

The following presents the amounts recognized in accumulated other comprehensive income ("AOCI") for the plan as of December 31:

	2015	2014
Transition obligation	$ 2,626	$ 1,733
Net prior service cost	(36,414)	(24,033)
Net loss	(1,081,580)	10,018
Amount recognized in AOCI, net of tax	$ (1,115,368)	$ (12,282)

Components of net periodic pension cost are presented in the following table:

	2015	2014
Service cost	$ 150,927	$ 101,088
Interest cost	285,933	253,901
Expected return on plan assets	(340,815)	(331,062)
Amortization of:		
Transition obligation	2,626	2,626
Prior service cost	(36,414)	(36,414)
Net actuarial losses	54,302	26,606
Net pension expense	$ 116,559	$ 16,475

The estimated transition, prior service cost, and net (gain)/loss that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are $3,000, $(36,000), and $110,000, respectively.

Note 14. Employee Benefit Plans, continued

Assumptions used to determine the benefit obligations as of December 31, 2015 and 2014 for the Plan were as follows:

	2015	2014
Weighted Average Assumptions		
Discount rate	4.75%	5.25%
Compensation Rate Increase	3.00%	3.00%

Assumptions used to determine the net periodic cost for the Plan for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Weighted Average Assumptions		
Discount rate	5.25%	5.25%
Expected Long-term Rate of Return on Plan Assets	8.00%	8.00%
Compensation Rate Increase	3.00%	3.00%

The Bank's overall investment strategy is to maintain the purchasing power of the current assets and all future contributions by producing positive rates of return on plan assets; maximize returns within reasonable and prudent levels of risk; and control costs of administering the plan and managing the investments.

The fair values of the Retirement Plan assets for the years ended December 31, 2015 and 2014 by asset category were as follows:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2015				
Cash and Equivalents	$ 40,755	$ -	$ -	$ 40,755
Domestic Equity Mutual Funds	3,959,011	-	-	3,959,011
Lumbee Guaranty Bank Common Stock	-	112,896	-	112,896
Certificates of Deposit	138,592	-	-	138,592
Total	$ 4,138,358	$ 112,896	$ -	$ 4,251,254
December 31, 2014				
Cash and Equivalents	$ -	$ -	$ -	$ -
Domestic Equity Mutual Funds	4,066,492	-	-	4,066,492
Lumbee Guaranty Bank Common Stock	-	112,896	-	112,896
Certificates of Deposit	137,686	-	-	137,686
Total	$ 4,204,178	$ 112,896	$ -	$ 4,317,074

Quoted prices for these investments were available in active markets, and therefore were classified as Level 1 measurements in the fair value hierarchy.

The Bank expects to contribute $100,000 to the Plan in 2016.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year	Amount
2016	$ 230,000
2017	250,000
2018	280,000
2019	300,000
2020	300,000
2021 - 2025	1,670,000

Note 14. Employee Benefit Plans, continued

Long-Term Stock Option Compensation Plan

Under our Long-Term Stock Compensation Plan (the "Stock Option Plan"), the Bank is authorized to grant stock options and stock awards to our officers, other key employees and directors. The Stock Option Plan is administered by our Personnel Committee, which is authorized to make all determinations regarding the persons to whom, and numbers of shares for which, options and awards will be granted, to specify certain of the terms of options and awards, and to interpret and establish rules, make all determinations, and take all other actions, necessary or advisable in the administration of the Plan.

At the Personnel Committee's discretion, options granted to officers and employees may be incentive stock options ("ISOs") pursuant to Section 422(a) of the Internal Revenue Code of 1986, as amended, or they may be nonqualified stock options ("NQSOs"). Only NQSOs may be granted to directors. To date, only stock options that qualify as ISOs have been granted under the Stock Option Plan.

The Stock Option Plan will expire, if not renewed, on May 23, 2016, and no new options or stock awards may be granted after that date. Options and awards granted prior to that date will continue to exist and may be exercised or become vested according to their terms until they have expired by their own separate terms, even if after the Stock Option Plan expiration date.

For the year ended December 31, 2015, no stock options awards were granted under the Stock Options Plan and no previously granted options were exercised. For the year ended December 31, 2014, 1,500 stock options awards were granted under the Stock Option Plan and no previously granted options were exercised.

Outstanding equity awards at December 31, 2015 were as follows:

OUTSTANDING EQUITY AWARDS AT 2015 YEAR END

	Option Awards			
Name	**Number of Securities Underlying Unexercised Stock Options (Exercisable)**	**Number of Securities Underlying Unexercised Stock Options (Unexercisable)**	**Option Exercise Price**	**Option Expiration Date**
Larry R. Chavis	42,000 (1)	-0- (1)	$12.86 (1)	02/24/2016
Kyle R. Chavis	200	400	11.01 (2)	12/18/2017
Bryan K Maynor	200	400	11.01 (2)	12/18/2017
Chadwick R Hammond	100	200	11.01 (2)	12/18/2017

(1) The option was originally granted in 2006 for 30,000 shares and at an exercise price of $18.00 per share, and became exercisable as to 15% of the covered shares each February 24 through 2012. It became exercisable as to the remaining 10% (4,200 shares) on February 24, 2013. As provided in the Plan, the number of shares and the exercise price shown in the table have been adjusted to reflect the effect of a two-for-five stock split that became effective on January 7, 2010.

(2) The options became exercisable as to one-third of the covered shares each December 18, beginning December 18, 2015 through December 18, 2017.

401(k) Plan

The Bank adopted a 401(k) plan for its employees effective April 1997. All employees are eligible provided they have attained 21 year of age and completed 1,000 hours of service. The bank contributes a matching contribution of $0.50 per cash dollar up to a maximum of 3% of an employee's eligible contribution. The Bank's expense for the plan was $75,581 and $72,000 for the years ended December 31, 2015 and 2014, respectively.

Note 14. Employee Benefit Plans, continued

Employee Stock Ownership Plan

The Bank formed an Employee Stock Ownership Plan ("ESOP"), for its employees in 2013. The ESOP will purchase shares of the Bank's common stock on the open market from time to time with funds borrowed from a loan from a third party lender. All employees of the Bank meeting certain tenure requirements are entitled to participate in the ESOP. Employer contributions are discretionary. Employee contributions are not permitted. There were 34,373 shares in the ESOP at December 31, 2015.

Note 15. Deferred Compensation Plan for Directors/Executives

The Bank has established a deferred compensation plan for non-employee directors of the Bank (the "Director Plan"). Each participating director may defer up to 100% of their monthly Board fees into the Director Plan. The Director Plan also provides a $25,000 death benefit payable to the Director's beneficiary. The Bank also adopted a deferred compensation plan for the benefit of key employees. While the plan is to be funded from the general assets of the Bank, life insurance policies were acquired for the purpose of serving as the primary funding source. Under the plan, cash values on life insurance policies increased $268,737 and $261,449 in 2015 and 2014, respectively for the annual administration of the plan.

Note 16. Related Party Transactions

The Bank has entered into transactions with its directors, executive officers, significant shareholders (own voting shares of 10% or more) and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Aggregate loan transactions with related parties were as follows:

	2015	2014
Balance, beginning	$ 2,483,657	$ 3,011,618
New loans and advances	194,915	503,068
Repayments	(722,897)	(1,031,029)
Balance, ending	$ 1,955,675	$ 2,483,657

Note 17. Commitments and Contingencies

In the normal course of business the Bank is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the financial statements.

Note 18. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Note 18. Financial Instruments with Off-Balance-Sheet Risk, continued

Financial instruments whose contract amount represents credit risk were as follows:

	2015	2014
Commitments to extend credit	$ 17,331,740	$ 15,638,026
Standby letters of credit	137,157	181,977

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

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank holds first deeds of trust, certificates of deposit and/or marketable securities as collateral supporting those commitments for which collateral is deemed necessary.

The Bank enters into a variety of interest rate contracts including interest rate caps and floors in its trading activities and in managing interest rate exposure.

Note 19. Fair Value

Financial Instruments

For assets and liabilities that are not presented on the balance sheet at fair value, the Bank uses the following methods to determine fair value:

The fair value of net loans is based on estimated cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This does not include consideration of liquidity that market participants would use to value such loans. The estimated fair values of deposits are based on estimated cash flows discounted at market interest rates.

The fair value of off-balance sheet financial instruments is considered immaterial. These off-balance sheet financial instruments are commitments to extend credit and are either short-term in nature or subject to immediate repricing.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments as of December 31, 2015 and 2014. These tables exclude financial instruments for which the carrying amount approximates fair value and which would be classified as Level 1. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

Note 19. Fair Value, continued

The estimated fair values of the Bank's financial instruments are as follows (dollars in thousands):

			Fair Value Measurements		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015					
Financial Instruments - Assets					
Cash and due from banks	$ 32,692	$ 32,692	$ 32,692	$ -	$ -
Investment securities, available for sale	43,699	43,699	-	43,699	-
Investment securities, held to maturity	42,557	44,114	-	44,114	-
Loans, net of allowance for loan losses	173,415	173,663	-	-	173,663
Federal Home Loan Bank stock	346	N/A	N/A	N/A	N/A
Accrued interest receivable	1,159	1,159	-	1,159	-
Financial Instruments – Liabilities					
Deposits	276,300	267,104	-	267,104	-
Securities under the agreement to repurchase	1,254	1,254	-	1,254	-
Federal Home Loan Bank advances	1,368	1,368	-	-	1,368
Accrued interest payable	86	86	-	86	-
December 31, 2014					
Financial Instruments - Assets					
Cash and due from banks	$ 24,410	$ 24,410	$ 24,410	$ -	$ -
Investment securities, available for sale	40,766	40,766	-	40,766	-
Investment securities, held to maturity	44,206	45,718	-	45,718	-
Loans, net of allowance for loan losses	180,144	180,190	-	-	180,190
Federal Home Loan Bank stock	580	N/A	N/A	N/A	N/A
Accrued interest receivable	1,228	1,228	-	1,228	-
Financial Instruments – Liabilities					
Deposits	273,033	263,312	-	263,312	-
Securities under the agreement to repurchase	1,763	1,763	-	1,763	-
Federal Home Loan Bank advances	2,998	2,998	-	-	2,998
Accrued interest payable	131	131	-	131	-

Fair Value Hierarchy

Under FASB ASC Topic 820 "Fair Value Measurements and Disclosures" ("FASB ASC 820"), the Bank groups assets and liabilities at fair values in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

Note 19. Fair Value, continued

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

Cash

The carry amounts of cash and short-term instruments approximate fair values and are classified as Level 1. As of December 31, 2015 and 2014, $32.7 million and $24.4 million were classified as Level 1.

Investment Securities Available for Sale

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

Loans

The Bank does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2015 and 2014, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The fair value of Impaired Loans is generally based on judgment and therefore classified as nonrecurring Level 3.

Foreclosed Real Estate

Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The fair value of foreclosed assets is generally based on judgment and therefore is classified as nonrecurring Level 3.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Note 19. Fair Value, continued

Deposits

The fair value disclosed or demand deposits (e.g., interest and noninterest checking, savings, certificates of deposit, and certain types of money market accounts) are by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. The carry amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Securities under the agreement to repurchase

The carry amounts of securities under the agreement to repurchase generally maturing within 90 days, approximate their fair values resulting in a Level 2 classification.

Federal Home Loan Bank advances

The fair values of the Bank's Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

Fair value of assets and liabilities measured on a recurring basis at December 31, 2015 and December 31, 2014 are as follows:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2015				
Available for sale securities				
Government sponsored entities	$ 16,817,628	$ -	$ 16,817,628	$ -
FNMA, GNMA, AND FHLMC				
mortgage-backed securities	26,881,582	-	26,881,582	-
Total assets at fair value	$ 43,699,210	$ -	$ 43,699,210	$ -
December 31, 2014				
Available for sale securities				
Government sponsored entities	$ 16,561,204	$ -	$ 16,561,204	$ -
FNMA, GNMA, AND FHLMC				
mortgage-backed securities	24,204,808	-	24,204,808	-
Total assets at fair value	$ 40,766,012	$ -	$ 40,766,012	$ -

Note 19. Fair Value, continued

Assets and Liabilities 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. These include assets that are measured at the lower cost or market that were recognized at fair value below cost at the end of the period. Balances are net of specific reserves. Assets measured at fair value on a nonrecurring basis are included in the table below.

	Total	Level 1	Level 2	Level 3
December 31, 2015				
Impaired loans	$ 8,278,129	$ -	$ -	$ 8,278,129
Foreclosed real estate	635,752	-	-	635,752
Total assets at fair value	$ 8,913,881	$ -	$ -	$ 8,913,881
December 31, 2014				
Impaired loans	$ 9,331,207	$ -	$ -	$ 9,331,207
Foreclosed real estate	1,034,018	-	-	1,034,018
Total assets at fair value	$ 10,365,225	$ -	$ -	$ 10,365,225

Level 3 Valuation Techniques

For Level 3 assets measured at fair value on a recurring or nonrecurring basis as of December 31, 2015 and 2014, the valuation techniques and the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at December 31, 2015	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired Loans					
Commercial	$ 274,824	$ 513,226	Appraised Value/	Collateral discounts	6-10%
			Discounted Cash Flows	Discount rate	5-16%
Commercial Real Estate	3,594,114	3,872,568	Appraised Value/	Collateral discounts	6-10%
			Discounted Cash Flows	Discount rate	5-16%
Consumer	19,053	87,464	Appraised Value/	Collateral discounts	6-10%
			Discounted Cash Flows	Discount rate	5-16%
Residential Real Estate	4,340,909	4,807,526	Appraised Value/	Collateral discounts	6-10%
			Discounted Cash Flows	Discount rate	5-16%
Agricultural and Raw Land	49,229	50,423	Appraised Value/	Collateral discounts	6-10%
			Discounted Cash Flows	Discount rate	5-16%
Foreclosed real estate	635,752	1,034,018	Appraised Value	Collateral discounts	6-10%

Note 20. Subsequent Events

The Bank evaluated events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued.

In February 2014, Lumbee Guaranty Bank entered into a definitive Branch Purchase and Assumption Agreement (the "Agreement") with Southern Bankshares (N.C.), Inc. to purchase deposits and loans from a branch location in Red Springs, North Carolina, along with certain assets and liabilities associated with the branch location. In accordance with the terms of the Agreement, Lumbee Guaranty Bank assumed approximately $2.8 million in loans and $16.4 million in deposits. The transaction was closed January 22, 2016.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Disclosure Committee, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures in accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"). The Disclosure Committee ensures that information required to be disclosed under the Exchange Act is communicated to our Chief Executive Officer and Chief Financial Officer. Internal audits conducted by our outsourced internal auditor are reviewed by certifying officers to assist in assessing the adequacy of the Bank's internal controls. Based on these evaluations, the Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures were effective as of December 31, 2015.

Item 9A. Controls and Procedures, continued

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, the Bank's management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2015 based on the criteria established in the 2013 report entitled "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and the interpretive guidance issued by the Securities and Exchange Commission in Release No. 34-55929. Based on this evaluation, the Bank's management has evaluated and concluded that the Bank's internal control over financial reporting were effective as of December 31, 2015.

This annual report does not include an attestation report of the Bank's independent registered public accounting firm regarding internal control over financial reporting. The Dodd-Frank Act exempted the Bank from complying with Section 404(b) and our registered public accounting firm was not required to issue an attestation on our internal controls over financial reporting pursuant to rules of the Securities and Exchange Commission.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

With the exception of the disclosure provided below, the information required by Item 10 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Proposal 1: Election of Directors," "Code of Ethics," "Executive Officers," and "Beneficial Ownership of Our Common Stock" in the Bank's proxy statement for its 2016 annual meeting of stockholders.

Rules of the Securities and Exchange Commission, which are adopted by the FDIC, require that the Bank disclose whether its Board of Directors has determined that its Audit Committee includes a member who qualifies as an "audit committee financial expert" as that term is defined in the SEC's rules. To qualify as an audit committee financial expert under the SEC's rules, a person must have a relatively high level of accounting and financial knowledge or expertise which he or she has acquired through specialized education or training or through experience in certain types of positions. We currently do not have an independent director who our Board believes can be considered an "audit committee financial expert" as the term is defined by the SEC and, for that reason, there is no such person who the Board can appoint to our Audit Committee.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Executive Compensation" and "Director Compensation" in the Bank's proxy statement for its 2016 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

With the exception of the disclosure provided below, the information required by Item 12 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Beneficial Ownership of Our Common Stock" in the Bank's proxy statement for its 2016 annual meeting of stockholders.

The following table summarizes all compensation plans and individual compensation arrangements which were in effect on December 31, 2015 and under which shares of the Bank's common stock have been authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of shares to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by security holders	43,500	$ 11.80	56,157
Equity compensation plans not approved by security holders	-	-	-
Total	43,500	$ 11.80	56,157

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Corporate Governance – Director Independence" and "Transactions with Related Persons" in the Bank's proxy statement for its 2016 Annual Meeting of stockholders.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated herein by reference from the information that appears under the heading or caption "Service and Fees for 2015 and 2014" in the Bank's proxy statement for its 2016 Annual Meeting of stockholders.

Part IV

Item 15. Exhibits, Financial Statements Schedules

(a) The following documents are filed as part of this Report:

1. Financial Statements

   Report of Independent Registered Public Accounting Firm
   Balance Sheets
   Statements of Income
   Statements of Comprehensive Income
   Statements of Changes in Shareholders' Equity
   Statements of Cash Flows
   Notes to Financial Statements

2. Financial Statement Schedules:

   All schedules are omitted as the required information is inapplicable or the information is presented in the Financial Statements or related notes.

3. Exhibits

3.1	Articles of Incorporation (incorporated herein by reference to the 2012 Annual Report on Form 10-K)
3.2	Bylaws of Lumbee Guaranty Bank (incorporated herein by reference to the 2012 Annual Report on Form 10-K)
10.1	Severance Compensation Agreement (incorporated herein by reference to the 2013 Annual Report on Form 10-K)
10.2	Grant of Incentive Stock Option (incorporated herein by reference to the 2013 Annual Report on Form 10-K)
10.3	Split Dollar Life Insurance Agreement (incorporated herein by reference to the 2013 Annual Report on Form 10-K)
10.4	Executive Salary Continuation Agreement (incorporated herein by reference to the 2013 Annual Report on Form 10-K)
10.5	Code of Ethics (incorporated herein by reference to the 2014 Annual Report on Form 10-K)
21	Subsidiaries of Lumbee Guaranty Bank (incorporated herein by reference to the 2012 Annual Report on Form 10-K)
31.1	Certification of Chief Executive Officer pursuant to Rule 13 a-14(a) under the Securities Exchange Act of 1934 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13 a-14(a) under the Securities Exchange Act of 1934 (filed herewith)

32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
99	Definitive Proxy Statement (as filed with the Federal Deposit Insurance Corporation)

Signatures

Pursuant to the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lumbee Guaranty Bank

Date: March 25, 2016

By: /s/Chadwick R. Hammond
Chadwick R. Hammond
VP, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/Larry R. Chavis Larry R. Chavis	Director; President and Chief Executive Officer	March 25, 2016
/s/Arnold Locklear Arnold Locklear	Chairman	March 25, 2016
/s/Larry T. Brooks Larry T. Brooks	Director	March 25, 2016
/s/Martin L. Brooks Dr. Martin L. Brooks	Director	March 25, 2016
/s/Sybil J. Bullard Sybil J. Bullard	Director	March 25, 2016
/s/Redell Collins Redell Collins	Director	March 25, 2016
/s/Charles A. Maynor Charles A. Maynor	Director	March 25, 2016

_/s/Derrick R. Staten___________ Derrick R. Staten, Sr.	Director	March 25, 2016
_/s/James E. Thomas__________ James E. Thomas	Director	March 25, 2016
_/s/Chadwick R. Hammond_____ Chadwick R. Hammond	Vice President, Chief Financial Officer	March 25, 2016

Exhibit 31.1
Certification by Chief Executive Officer
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry R. Chavis, certify that:

1. I have reviewed this annual report on Form 10-K of Lumbee Guaranty Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2016

_/s/Larry R. Chavis
Larry R. Chavis
President and Chief Executive Officer

Exhibit 31.2
Certification by Chief Financial Officer
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Chadwick R. Hammond, certify that:

1. I have reviewed this annual report on Form 10-K of Lumbee Guaranty Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules
13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2016

_/s/Chadwick R. Hammond
Chadwick R. Hammond
VP, Chief Financial Officer

Exhibit 32.1

Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, (i) the Form 10-K filed by Lumbee Guaranty Bank (the "Issuer") for the year ended December 31, 2015 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

LUMBEE GUARANTY BANK

Date: March 25, 2016

By: /s/Larry R. Chavis
Larry R. Chavis
President and Chief Executive Officer

This Certification is being furnished solely to accompany this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Bank for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Bank under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification by the Chief Financial Officer (or equivalent) Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, (i) the Form 10-K filed by Lumbee Guaranty Bank (the "Issuer") for the year ended December 31, 2015 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

LUMBEE GUARANTY BANK

Date: March 25, 2016

By: /s/Chadwick R. Hammond
Chadwick R. Hammond
VP, Chief Financial Officer

This Certification is being furnished solely to accompany this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Bank for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Bank under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.