ANNUAL REPORT | 2014

PRIME MERIDIAN HOLDING COMPANY

PRIME MERIDIAN BANK

MEMBER FDIC

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Dear Fellow Shareholders,

Prime Meridian Bank continued performing at a steady pace in 2014. We grew many important metrics: capital, net income, deposits, loans and – most importantly – our people. We are proud of the core banking team assembled (now 50 employees). They are the force which will drive our planned growth.

The team is being led in a culture of strong purpose. We have improved our technology and gained strength from the important challenges we faced.

Last year:

- Prime Meridian Holding Company (the “Company”) concluded its stock offering and completed its first year as an SEC-reporting company.
- We successfully navigated an impaired loan participation, and maintained a strong deposit base, despite the expected loss of a large short term deposit.

We ended the year with total assets of $210.4 million on a consolidated basis, compared to $206.4 million at the end of the prior year.

For the year ended December 31, 2014, the Company reported net earnings of $1.0 million, or $0.59 per basic and $0.58 per diluted share, compared to net earnings of $1.1 million, or $0.77 per basic and $0.76 per diluted share, for the year ended December 31, 2013.

- Proceeds from the Company stock offering and exercised stock options totaled $5.4 million during the year ended December 31, 2014.
- The Company realized net earnings of $1.0 million for the year ended December 31, 2014, despite a net loan charge-off of $403,000 in connection with a $1.4 million impaired loan participation.
- Net Interest Income grew 19.0% during 2014 to $7.5 million, due to a combination of higher loan balances and interest expense management.
- Total assets of the Company were $210.4 million as of December 31, 2014, with a net loan portfolio of $151.9 million.
- The Company grew its net loan portfolio by nearly $31 million, an increase of 25.3% over the previous year end.

Bank management instituted a purpose initiative, “Banking Done Right, Right Away,” to guide its daily work. Led by the Bank’s Brand Team, we continue to enhance an already-strong culture, “to ensure positive experiences for every client, every day, through every transaction.”

On behalf of you — the shareholder — the Company eagerly awaits the new opportunities ahead. We are prepared. It is with great pride that we present the enclosed 2014 Annual Report.

Warm regards,

Sammie D. Dixon, Jr.
Chief Executive Officer

Richard A. Weidner, CPA
Chairman of the Board

P.S. Vote your shares online or by phone. See enclosed Proxy Card for instructions.

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Prime Meridian Holding Company
Tallahassee, Florida:

We have audited the accompanying consolidated balance sheets of Prime Meridian Holding Company and Subsidiary (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company'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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 26, 2015

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Consolidated Balance Sheets

($ in thousands, except per share amounts)

	At December 31, 2014	2013
Assets		
Cash and due from banks	$ 3,757	5,033
Federal funds sold	3,611	147
Interest-bearing deposits	187	28,986
Total cash and cash equivalents	7,555	34,166
Securities available for sale	42,397	44,071
Loans held for sale	1,871	150
Loans, net of allowance for loan losses of $2,098 and $1,734	151,869	121,220
Federal Home Loan Bank stock	186	204
Premises and equipment, net	3,563	3,757
Deferred tax asset	362	426
Accrued interest receivable	624	516
Bank-owned life insurance	1,613	1,562
Capitalized offering costs	0	218
Other assets	318	183
Total assets	$210,358	206,473
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	43,148	59,011
Savings, NOW and money-market deposits	122,166	109,760
Time deposits	18,657	14,594
Total deposits	183,971	183,365
Other borrowings	2,699	5,719
Official checks	368	636
Other liabilities	453	392
Total liabilities	187,491	190,112
Commitments and contingencies (Notes 4, 8 and 15)		
Stockholders' equity:		
Preferred stock, undesignated; 1,000,000 shares authorized, none issued or outstanding	0	0
Common stock, $.01 par value; 9,000,000 shares authorized, 1,941,617 and 1,498,937 issued and outstanding	19	15
Additional paid-in capital	20,056	14,929
Retained earnings	2,738	1,732
Accumulated other comprehensive income (loss)	54	(315)
Total stockholders' equity	22,867	16,361
Total liabilities and stockholders' equity	$ 210,358	206,473

See Accompanying Notes to Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Earnings
(In thousands, except per share amounts)

	Year Ended December 31, 2014	2013
Interest income:		
Loans	$ 7,134	6,076
Securities	922	838
Other	60	56
Total interest income	8,116	6,970
Interest expense:		
Deposits	625	646
Other borrowings	36	58
Total interest expense	661	704
Net interest income	7,455	6,266
Provision for loan losses	747	513
Net interest income after provision for loan losses	6,708	5,753
Noninterest income:		
Service charges and fees on deposit accounts	138	104
Gain on sale of SBA loans	0	246
Mortgage banking revenue	309	325
Income from bank-owned life insurance	51	55
Gain on sale of securities available for sale	60	14
Other income	152	115
Total noninterest income	710	859
Noninterest expenses:		
Salaries and employee benefits	3,210	2,650
Occupancy and equipment	899	897
Professional fees	395	128
Advertising	186	206
Software maintenance	178	146
Other	1,030	834
Total noninterest expenses	5,898	4,861
Earnings before income taxes	1,520	1,751
Income taxes	514	602
Net earnings	$ 1,006	1,149
Basic earnings per share	$ 0.59	0.77
Diluted earnings per share	$ 0.58	0.76
Cash dividends per common share	$ 0	0

See Accompanying Notes to Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31, 2014	2013
Net earnings	$ 1,006	1,149
Other comprehensive gain (loss):		
Change in unrealized gain on securities:		
Unrealized gain (loss) arising during the year	646	(1,349)
Reclassification adjustment for realized gains	(60)	(14)
Net change in unrealized gain (loss)	586	(1,363)
Deferred income taxes on above change	(217)	503
Total other comprehensive income (loss)	369	(860)
Comprehensive income	$ 1,375	289

See Accompanying Notes to Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2014 and 2013

($ in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2012	1,496,106	$ 15	14,896	583	545	16,039
Net earnings	0	0	0	1,149	0	1,149
Net change in unrealized gain on available for sale securities, net of income tax of $503	0	0	0	0	(860)	(860)
Common stock issued as compensation to directors	2,831	0	30	0	0	30
Stock-based compensation	0	0	3	0	0	3
Balance at December 31, 2013	1,498,937	15	14,929	1,732	(315)	16,361
Net earnings	0	0	0	1,006	0	1,006
Net change in unrealized gain on available for sale securities, net of income tax of $217	0	0	0	0	369	369
Proceeds from sale of common stock, net of $365 in offering costs	425,619	4	4,951	0	0	4,955
Proceeds from stock options exercised	14,200	0	142	0	0	142
Common stock issued as compensation to directors	2,861	0	32	0	0	32
Stock-based compensation	0	0	2	0	0	2
Balance at December 31, 2014	1,941,617	$ 19	20,056	2,738	54	22,867

See Accompanying Notes to Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2014	2013
Cash flows from operating activities:		
Net earnings	$ 1,006	1,149
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	400	360
Provision for loan losses	747	513
Net amortization of deferred loan fees	(9)	(91)
Deferred income taxes (benefit)	(153)	(175)
Gain on sale of securities available for sale	(60)	(14)
Amortization of premiums, discounts on securities available for sale	453	455
Proceeds from the sale of loans held for sale	16,380	2,182
Gain on sale of SBA loans and loans, held for sale	(273)	(250)
Loan originated as held for sale	(17,828)	(2,082)
Stock issued as compensation to directors	32	30
Stock-based compensation expense	2	3
Income from bank-owned life insurance	(51)	(55)
Net increase in accrued interest receivable	(108)	(94)
Decrease (increase) in capitalized offering cost	218	(218)
Net (increase) decrease in other assets	(135)	197
Net (decrease) increase in other liabilities and official checks	(207)	150
Net cash provided by operating activities	414	2,060
Cash flows from investing activities:		
Loan originations, net of principal repayments	(32,259)	(28,242)
Purchase of securities available for sale	(12,364)	(11,650)
Principal repayments of securities available for sale	8,150	8,082
Proceeds from the sales of securities available for sale	4,587	1,498
Maturities and calls of securities	1,494	0
Redemption of Federal Home Loan Bank stock	18	5
Proceeds from sale of other real estate owned	872	0
Purchase of premises and equipment	(206)	(680)
Net cash used in investing activities	(29,708)	(30,987)
Cash flows from financing activities:		
Net increase in deposits	606	36,636
Decrease in other borrowings	(3,020)	(41)
Proceeds from sale of common stock	4,955	0
Proceeds from stock options exercised	142	0
Net cash provided by financing activities	2,683	36,595
Net (decrease) increase in cash and cash equivalents	(26,611)	7,668
Cash and cash equivalents at beginning of year	34,166	26,498
Cash and cash equivalents at end of year	$ 7,555	34,166

(continued)

Consolidated Statements of Cash Flows, Continued

(In thousands)

	Year Ended December 31, 2014	2013
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 659	708
Income taxes	$ 551	452
Noncash transactions		
Accumulated other comprehensive (loss) income, net change in unrealized gain on sale of securities available for sale, net of taxes	$ 369	(860)
Loans transferred from Other Real Estate Owned	$ 872	0

See Accompanying Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

Organization. Prime Meridian Holding Company (the "Holding Company") owns 100% of the outstanding common stock of Prime Meridian Bank (the "Bank") (collectively the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a state (Florida)-chartered commercial bank. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of community banking services to individual and corporate customers through its two banking offices located in Tallahassee, Florida.

The following is a description of the significant accounting policies and practices followed by the Company, which conform to accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Principles of Consolidation. The consolidated financial statements include the accounts of the Holding Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. For purposes of the statement of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and interest-bearing deposits, all of which have original maturities of less than ninety days.

At December 31, 2014 and 2013, the Company was required by law or regulation to maintain cash reserves with the Federal Reserve Bank, in accounts with other banks or in the vault in the amounts of $1,026,000 and $986,000, respectively.

Securities. Securities may be classified as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in earnings. Held-to-maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities or as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities are excluded from operations and reported in accumulated other comprehensive income (loss). Gains and losses on the sale of available-for-sale securities are recorded on the trade date determined using the specific-identification method. Premiums and discounts on securities available for sale are recognized in interest income using the interest method over the period to maturity.

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 of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Loans Held for Sale. Loans held for sale include mortgage loans and Small Business Administration ("SBA") loans originated which are intended for sale in the secondary market and are carried at the lower of book value or estimated fair value in the aggregate. Gains on loans held for sale are reported on the Consolidated Statement of Earnings under noninterest income in either gain on sale of SBA loans or mortgage banking revenue. At December 31, 2014 loans held for sale were $1,871,000, compared to $150,000 at December 31, 2013.

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

Commitment and loan origination fees are capitalized and certain direct origination costs are deferred. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on all portfolio classes is discontinued at the time the loan is ninety-days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or loans that are 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 of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management confirms that a loan balance cannot be collected. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the year ended December 31, 2014.

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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are considered impaired. For such loans, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on the following factors:

The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding thirty-six months. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability, and a lack of confidence in the economy. The historical experience is adjusted for the following qualitative factors: (a) changes in lending policies and procedures, risk selection and underwriting standards; (b) changes in national, regional and local economic conditions that affect the collectability of the loan portfolio; (c) changes in the experience, ability and depth of lending management and other relevant staff; (d) changes in the volume and severity of past due loans, nonaccrual loans or loans classified special mention, substandard, doubtful or loss; (e) quality of loan review and Board of Directors oversight; (f) changes in the nature and volume of the loan portfolio and terms of loans; (g) the existence and effect of any concentrations of credit and changes in the level of such concentrations; (h) the effect of other external factors, trends or uncertainties that could affect management's estimate of probable losses, such as competition and industry conditions.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

Premises and Equipment. Land is stated at cost. Buildings, leasehold improvements, furniture, fixtures and equipment, and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful life of each type of asset, or the lease term if shorter.

Other Real Estate Owned. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and are carried at the lower of the new cost basis or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other real estate owned expenses.

Transfer of Financial Assets. Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

Off-Balance-Sheet Financial Instruments. In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, construction loans in process, unused lines of credit, standby letters of credit, and guaranteed accounts. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Income Taxes. There are two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent

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(1) Summary of Significant Accounting Policies, Continued

likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. As of December 31, 2014, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns. Income taxes are allocated to the Holding Company and Bank as if separate income tax returns were filed.

Derivative Financial Instruments. Derivative financial instruments are recognized as assets or liabilities in the consolidated balance sheets and measured at fair value. The Company enters into commitments to originate loans whereby the interest-rate on the loan is determined prior to funding (rate lock commitments). Rate-lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, the difference between current levels of interest rates and the committed rates is also considered.

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

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

The following describes valuation methodologies used for assets measured at fair value:

Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. Government agency securities, municipal securities and mortgage-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain asset-backed securities.

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Impaired Loans. Estimates of fair value for impaired loans is based on the estimated value of the underlying collateral which is determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Bank's management related to values of equipment or properties in the Bank's market areas. Management takes into consideration the type, location or occupancy of the equipment or property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans are classified as Level 3.

Fair Values of Financial Instruments. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Cash Equivalents. The carrying amounts of cash and cash equivalents approximate their fair value (Level 1).

Securities. Fair values for securities are based on the framework for measuring fair value (Level 2).

Loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable (Level 3).

Federal Home Loan Bank Stock. The fair value of the Company's investment in Federal Home Loan Bank stock is based on its redemption value (Level 3).

Accrued Interest Receivable. The carrying amounts of accrued interest approximate their fair values (Level 3).

Deposits. The fair values disclosed for demand, NOW, money-market and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits (Level 3).

Other Borrowings. The carrying amounts of other borrowings approximate their fair value (Level 3).

Off-Balance-Sheet Instruments. Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing (Level 3).

Advertising. The Company expenses all media advertising as incurred.

Share-Based Compensation. The Company expenses the fair value of any stock options granted. The Company recognizes share-based compensation in the statements of earnings as the options vest.

Comprehensive Income. GAAP require that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net earnings, are components of comprehensive income.

Mortgage Banking Revenue. Mortgage banking revenue includes gains on the sale of mortgage loans originated for sale. The Company recognizes mortgage banking revenue from mortgage loans originated in the consolidated statement of earnings upon sale of the loans.

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(1) Summary of Significant Accounting Policies, Continued

Recent Accounting Standards Update. In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,* which is intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an insubstance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective beginning January 1, 2015. Upon adoption, this guidance is not expected to impact the Bank's financial statements.

Recent Regulatory Developments

Basel III Rules. On July 2, 2013, the Federal Reserve Board ("FRB") approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB.

The phase-in period for the final rules began for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. The Bank is currently evaluating the provisions of the final rules and their expected impact on the Bank.

(2) Securities Available for Sale

Securities have been classified according to management's intention. The carrying amount of securities and their fair values are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2014:				
U.S. Government agency securities	$ 6,943	19	(99)	6,863
Municipal securities	9,497	113	(79)	9,531
Mortgage-backed securities	25,870	228	(95)	26,003
	$ 42,310	360	(273)	42,397
At December 31, 2013:				
U.S. Government agency securities	7,290	8	(329)	6,969
Municipal securities	9,139	14	(269)	8,884
Mortgage-backed securities	26,225	253	(198)	26,280
Asset-backed securities	1,916	22	0	1,938
	$ 44,570	297	(796)	44,071

(continued)

Securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
At December 31, 2014:				
U.S. Government agency securities	$6,863	0	6,863	0
Municipal securities	9,531	0	9,531	0
Mortgage-backed securities	26,003	0	26,003	0
	$ 42,397	0	42,397	0
At December 31, 2013:				
U.S. Government agency securities	6,969	0	6,969	0
Municipal securities	8,884	0	8,884	0
Mortgage-backed securities	26,280	0	26,280	0
Asset-backed securities	1,938	0	1,938	0
	$ 44,071	0	44,071	0

During the year ended December 31, 2014, no securities were transferred in or out of Level I, Level 2 or Level 3. During year ended December 31, 2013, securities of $1.8 million were transferred from Level 3 to Level 2 due to changes in the inputs used to value the securities.

For the year ended December 31, 2014, there were no securities measured at fair value on a recurring basis using significant observable inputs (Level 3).The table below presents a reconciliation for asset-backed securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013.

These instruments were valued using pricing models and discounted cash flow methodologies incorporating assumptions that, in management's judgment, reflect the assumptions a marketplace participant would use (in thousands):

Balance, beginning of year	$ 1,899
Total gains or (losses) - realized/unrealized-	
Transfer into/out of Level 3	(1,899)
Balance, end of year	$ 0

(continued)

(2) Securities Available for Sale, Continued

The scheduled maturities of securities are as follows (in thousands):

	Amortized Cost	Fair Value
At December 31, 2014:		
Due in one to five years	$ 2,303	2,312
Due five to ten years	6,908	6,834
Due after ten years	7,229	7,248
Mortgage-backed securities	25,870	26,003
	$ 42,310	42,397

The following summarizes sales of securities available for sale (in thousands):

	Year Ended December 31, 2014	2013
Proceeds received from sales	$ 4,587	1,498
Gross gains	60	14
Gross losses	0	0
Net gain from sale of securities	$ 60	14

At December 31, 2014 and 2013, securities with a fair value of $7,054,000 and $8,352,000, respectively, were pledged as collateral for public deposits and for other borrowings with clients.

Securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less Than Twelve Months		More Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
At December 31, 2014:				
U.S. Government agency securities	$ 0	0	$ (99)	5,945
Municipal securities	(2)	269	(77)	3,026
Mortgage-backed securities	(47)	8,250	(48)	1,705
	$ (49)	8,519	$ (224)	10,676
At December 31, 2013:				
U.S. Government agency securities	(329)	5,984	0	0
Municipal securities	(269)	5,758	0	0
Mortgage-backed securities	(198)	12,326	0	0
	$ (796)	24,068	$ 0	0

(continued)

(2) Securities Available for Sale, Continued

The unrealized losses at December 31, 2014 and 2013 on twenty-two and twenty-five securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(3) Loans

The segments and classes of loans are as follows (in thousands):

	At December 31,	
	2014	2013
Real estate mortgage loans:		
Commercial	$ 52,661	44,796
Residential and home equity	51,858	38,571
Construction	15,876	12,933
Total real estate mortgage loans	120,395	96,300
Commercial loans	30,755	24,651
Consumer and other loans	2,877	2,072
Total loans	154,027	123,023
Less:		
Net deferred loan fees	(60)	(69)
Allowance for loan losses	(2,098)	(1,734)
Loans, net	$ 151,869	121,220

The Company has divided the loan portfolio into three portfolio segments and five portfolio classes, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's Board of Directors. The portfolio segments and classes are identified by the Company as follows:

Real Estate Mortgage Loans. Real estate mortgage loans are typically divided into three classes: Commercial, residential and home equity, and construction. The real estate mortgage loans are as follows:

Commercial. Loans of this type are typically our more complex loans. This category of real estate loans is comprised of loans secured by mortgages on commercial property that is typically owner-occupied, but also includes non-owner occupied investment properties. Commercial loans that are secured by owner-occupied commercial real estate are repaid through operating cash flows of the borrower. The maturity for this type of loan is generally limited to three to five years; however, payments may be structured on a longer amortization basis. Typically, interest rates on our commercial real estate loans are fixed for five years or less after which they adjust based upon a predetermined spread over an index. At times, a rate may be fixed for longer than five years. As part of our credit underwriting standards, the Bank typically requires personal guarantees from the principal owners of the business supported by a review of the principal owners' personal financial statements and tax returns. As part of the enterprise risk management process, it is understood that risks associated with commercial real estate loans include fluctuations in real estate values, the overall strength of the borrower, the overall strength of the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrowers' management. In order to mitigate and limit these risks, we analyze the borrowers' cash flow and evaluate collateral value. Currently, the collateral securing our commercial real estate loans includes a variety of property types, such as office, warehouse, and retail facilities. Other types include multifamily properties, hotels, mixed-use residential, and commercial properties. Generally, commercial real estate loans present a higher risk profile than our consumer real estate loan portfolio.

(continued)

(3) Loans, Continued

Residential and Home Equity. We offer first and second one-to-four family mortgage loans and home equity lines of credit; the collateral for these loans is generally on the clients' owner-occupied residences. Although these types of loans present lower levels of risk than commercial real estate loans, risks do still exist because of possible fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrowers' financial condition. Borrowers may be affected by numerous factors, including divorce, job loss, illness, or other personal hardship. As part of our product mix, the Bank offers both portfolio and secondary market mortgages; portfolio loans generally are based on a 1-year, 3-year or 5-year adjustable rate mortgage; while 15-year or 30-year fixed-rate loans are generally sold to the secondary market.

Construction. Typically, these loans have a construction period of one to two years and the interest is paid monthly. Once the construction period terminates, some of these loans convert to a term loan with a maturity of one to five years. This portion of our loan portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties, and residential developments. This type of loan is also made to individual clients for construction of single family homes in our market area. An independent appraisal is used to determine the value of the collateral and confirm that the ratio of the loan principal to the value of the collateral will not exceed policies of the Bank. As the construction project progresses, loan proceeds are requested by the borrower to complete phases of construction and funding is only disbursed after the project has been inspected by a third-party inspector or experienced construction lender. Risks associated with construction loans include fluctuations in the value of real estate, project completion risk, and changes in market trends. The ability of the construction loan borrower to finance the loan or sell the property upon completion of the project is another risk factor that also may be affected by changes in market trends since the initial funding of the loan.

Commercial Loans. The Bank offers a wide range of commercial loans, including business term loans, equipment financing, and lines of credit to small and midsized businesses. Small-to-medium sized businesses, retail, and professional establishments, make up our target market for commercial loans. Our Relationship Managers primarily underwrite these loans based on the borrower's ability to service the loan from cash flow. Lines of credit and loans secured by accounts receivable and/or inventory are monitored periodically by our staff. Loans secured by "all business assets," or a "blanket lien" are typically only made to highly qualified borrowers due to the nonspecific nature of the collateral. Valuation of business collateral is generally supported by an appraisal, purchase order, or third party physical inspection. Personal guarantees of the principals of business borrowers are usually required.

Equipment loans generally have a term of five years or less and may have a fixed or variable rate; we use conservative margins when pricing these loans. Working capital loans generally do not exceed one year and typically, they are secured by accounts receivable, inventory, and personal guarantees of the principals of the business. Significant factors affecting a commercial borrower's creditworthiness include the quality of management and the ability both to evaluate changes in the supply and demand characteristics affecting the business' markets for products and services and to respond effectively to such changes. These loans may be made unsecured or secured, but most are made on a secured basis. Risks associated with our commercial loan portfolio include local, regional, and national market conditions. Other factors of risk could include changes in the borrower's management and fluctuations in collateral value. Additionally, there may be refinancing risk if a commercial loan includes a balloon payment which must be refinanced or paid off at loan maturity.

In reference to our risk management process, our commercial loan portfolio presents a higher risk profile than our consumer real estate and consumer loan portfolios. Therefore, we require that all loans to businesses must have a clearly stated and reasonable payment plan to allow for timely retirement of debt, unless secured by liquid collateral or as otherwise justified.

(continued)

(3) Loans, Continued

Consumer and Other Loans. These loans are made for various consumer purposes, such as the financing of automobiles, boats, and recreational vehicles. The payment structure of these loans is normally on an installment basis. The risk associated with this category of loans stems from the reduced collateral value for a defaulted loan; it may not provide an adequate source of repayment of the principal. The underwriting on these loans is primarily based on the borrower's financial condition. In many cases, these are unsecured credits that subject us to risk when the borrower's financial condition declines or deteriorates. Based upon our current trend in consumer loans, management does not anticipate consumer loans will become a substantial component of our loan portfolio at any time in the foreseeable future. Consumer loans are made at fixed and variable interest rates and are based on the appropriate amortization for the asset and purpose.

An analysis of the change in the allowance for loan losses follows (in thousands):

	Real Estate Mortgage Loans					
	Commercial	Residential and Home Equity	Construction	Commercial	Consumer and Other Loans	Total
Year Ended December 31, 2014:						
Beginning balance	$ 604	545	175	387	23	1,734
Provision for loan losses	502	146	36	30	33	747
Net (charge-offs) recoveries	(404)	0	0	36	(15)	(383)
Ending balance	$ 702	691	211	453	41	2,098
At December 31, 2014:						
Individually evaluated for impairment:						
Recorded investment	$ 0	0	0	229	8	237
Balance in allowance for loan losses	$ 0	0	0	92	6	98
Collectively evaluated for impairment:						
Recorded investment	$ 52,661	51,858	15,876	30,526	2,869	153,790
Balance in allowance for loan losses	$ 702	691	211	361	35	2,000
Year Ended December 31, 2013:						
Beginning balance	352	226	237	405	23	1,243
Provision (credit) for loan losses	252	319	(15)	(44)	1	513
Net (charge-offs) recoveries	0	0	(47)	26	(1)	(22)
Ending balance	$ 604	545	175	387	23	1,734
At December 31, 2013:						
Individually evaluated for impairment:						
Recorded investment	$ 0	36	0	346	0	382
Balance in allowance for loan losses	$ 0	23	0	82	0	105
Collectively evaluated for impairment:						
Recorded investment	$ 44,796	38,685	12,933	24,305	2,072	122,791
Balance in allowance for loan losses	$ 604	522	175	305	23	1,629

(continued)

(15) Loans, Continued

The following summarizes the loan credit quality (in thousands):

	Real Estate Mortgage Loans					
Credit Risk Profile by Internally Assigned Grade:	Commercial	Residential and Home Equity	Construction	Commercial Loans	Consumer and Other Loans	Total
At December 31, 2014:						
Grade:						
Pass	$ 50,654	47,357	15,714	30,006	2,801	146,532
Special mention	0	3,065	154	520	68	3,807
Substandard	2,007	1,436	8	229	8	3,688
Doubtful	0	0	0	0	0	0
Loss	0	0	0	0	0	0
Total	$ 52,661	51,858	15,876	30,755	2,877	154,027
At December 31, 2013:						
Grade:						
Pass	40,901	36,461	12,528	23,919	1,914	115,723
Special mention	1,804	1,346	396	509	38	4,093
Substandard	2,091	764	9	223	120	3,207
Doubtful	0	0	0	0	0	0
Loss	0	0	0	0	0	0
Total	$ 44,796	38,571	12,933	24,651	2,072	123,023

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, construction and non-owner occupied commercial real estate loans and commercial relationships in excess of $500,000 are reviewed at least annually. The Company determines the appropriate loan grade during the renewal process and reevaluates the loan grade in situations when a loan becomes past due.

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

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

(continued)

(15) Loans, Continued

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

Doubtful – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not necessarily preclude the potential for recovery, but rather signifies it is no longer practical to defer writing off the asset.

At December 31, 2014, there was one loan over thirty days past due, no loans past due ninety days or more but still accruing and two loans on nonaccrual. Age analysis of past-due loans at December 31, 2014 and 2013 is as follows (in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2014:							
Real estate mortgage:							
Commercial	$ 0	0	0	0	52,661	0	52,661
Residential and home equity	0	0	0	0	51,858	0	51,858
Construction	0	0	0	0	15,876	0	15,876
Commercial	18	0	0	18	30,566	171	30,755
Consumer/other	0	0	0	0	2,877	0	2,877
Total	$ 18	0	0	0	153,838	171	154,027
At December 31, 2013:							
Real estate mortgage:							
Commercial	0	0	0	0	44,796	0	44,796
Residential and home equity	0	0	0	0	38,571	0	38,571
Construction	0	0	0	0	12,933	0	12,933
Commercial	38	0	0	0	24,613	0	24,651
Consumer/other	0	0	0	0	2,072	0	2,072
Total	$ 38	0	0	0	122,985	0	123,023

(continued)

(15) Loans, Continued

The following summarizes the amount of impaired loans (in thousands):

	With No Related Allowance Recorded		With an Allowance Recorded			Total		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
At December 31, 2014:								
Commercial loans	$ 0	0	229	229	92	229	229	92
Consumer	0	0	8	8	6	8	8	6
Total	$ 0	0	237	237	98	237	237	98
At December 31, 2013:								
Residential and home equity	$ 0	0	36	36	23	36	36	23
Commercial loans	27	27	319	319	82	346	346	82
Total	$ 27	27	355	355	105	382	382	105

The average net investment in impaired loans and interest income recognized and received on impaired loans by loan class are as follows (in thousands):

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2014:			
Commercial	$ 244	14	14
Consumer	8	1	1
Total	$ 252	15	15
Year Ended December 31, 2013:			
Residential and home equity	36	3	3
Commercial	298	23	23
Total	$ 334	26	26

There were no loans measured at fair value on a nonrecurring basis at December 31, 2013. Impaired collateral-dependent loans measured at fair value on a nonrecurring basis by loan class at December 31, 2014 are as follows (in thousands):

	At Year End					Losses Recorded During the Year
	Fair Value	Level 1	Level 2	Level 3	Total Losses	
Commercial loans	$ 118	0	0	118	20	20
Consumer loans	2	0	0	2	6	6
Total	120	0	0	120	26	26

(continued)

(15) Loans, Continued

The Company grants the majority of its loans to borrowers throughout Leon County, Florida. Although the Company has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy of this area. The Company does not have any significant concentrations to any one industry or customer.

(15) Premises and Equipment

A summary of premises and equipment follows (in thousands):

	At December 31,	
	2014	**2013**
Land	$ 400	400
Building	2,399	2,387
Leasehold improvements	364	364
Furniture, fixtures and equipment	778	706
Computer and software	1,399	1,276
Total, at cost	5,340	5,133
Less accumulated depreciation and amortization	(1,777)	(1,376)
Premises and equipment, net	$ 3,563	3,757

The Company leases certain office facilities under an operating lease which expires in 2017. This lease requires monthly lease payments and common area maintenance charges and has options to renew. This lease contains escalation clauses during the term of the lease. Rent expense under this operating lease during the years ended December 31, 2014 and 2013 was $88,000 and $114,000, respectively. Future minimum rental commitments under this noncancelable lease are as follows (in thousands):

Year Ending December 31,	**Amount**
2015	$ 85
2016	85
2017	91
2018	98
	$ 359

(15) Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $15.2 million and $10.9 million at December 31, 2014 and 2013, respectively.

A schedule of maturities of time deposits follows (in thousands):

Year Ending December 31,	**Amount**
2015	$ 10,727
2016	7,420
2017	510
	$ 18,657

(continued)

(6) Other Borrowings

The Company entered into a repurchase agreement with a customer. This agreement requires the Company to pledge securities as collateral for borrowings under this agreement. A summary of other borrowings follows ($ in thousands):

	At December 31,	
	2014	2013
Balance outstanding at year-end	$ 2,699	5,719
Average balance outstanding during the year	3,592	5,789
Average interest rate paid	1.0%	1.0%
Maximum amount outstanding at any month-end during year	5,733	5,813
Pledged securities	3,558	5,882

The Company has pledged collateral to the Federal Home Loan Bank of Atlanta ("FHLB") for future advances which will be collateralized by a blanket lien on qualifying residential real estate, commercial real estate, home equity lines of credit and multi-family loans. The Company may borrow up to $30.7 million as of December 31, 2014 from the FHLB. There were no advances outstanding at December 31, 2014 or 2013. The Company also has available credit of $8.7 million in lines of credit with correspondent banks. All draws under these lines are subject to approval by the correspondent bank.

(7) Income Taxes

The components of the income taxes are as follows (in thousands):

	Year Ended December 31,	
	2014	2013
Current:		
Federal	$ 560	658
State	107	119
Total current	667	777
Deferred:		
Federal	(123)	(146)
State	(30)	(29)
Total deferred	(153)	(175)
Total income taxes	$ 514	602

(continued)

(7) Income Taxes, Continued

The reasons for the difference between the statutory Federal income tax rate of 34% and the effective tax rates are summarized as follows (dollars in thousands):

	Year Ended December 31,			
	2014		2013	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income taxes at statutory rate	$ 517	34.0%	$ 595	34.0%
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	51	3.3	60	3.4
Tax-exempt income	(42)	(2.7)	(30)	(1.7)
Other nondeductible expenses	(12)	(0.8)	(23)	(1.3)
	$ 514	33.8%	$ 602	34.4%

Tax effects of temporary differences that give rise to the deferred tax assets and liabilities are as follows (in thousands):

	At December 31,	
	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 710	517
Organizational and start-up costs	116	130
Stock-based compensation	18	18
Unrealized loss on securities available for sale	0	184
Other	60	63
Deferred tax assets	904	912
Deferred tax liabilities:		
Accrual to cash conversion	(139)	(145)
Deferred loan costs	(109)	(88)
Premises and equipment	(261)	(253)
Unrealized gains on securities available for sale	(33)	0
Deferred tax liabilities	(542)	(486)
Net deferred tax asset (liability)	$ 362	426

The Company files consolidated income tax returns in the U.S. federal jurisdiction, and the State of Florida. The Company is no longer subject to U.S. federal, or state and local income tax examinations by taxing authorities for years before 2011.

(continued)

(8) Off-Balance-Sheet Financial Instruments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, construction loans in process, unused lines of credit, standby letters of credit, and guaranteed accounts and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for available lines of credit, construction loans in process and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Commitments to extend credit and unused lines of 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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Standby letters of credit are written conditional commitments issued by the Company to guarantee the performance of a client to a third party. These letters of credit are primarily issued to support third-party borrowing arrangements and generally have expiration dates within one year of issuance. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. In the event the client does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the client. The Bank may hold collateral supporting those commitments, and at December 31, 2014 such collateral amounted to $945,000.

Guaranteed accounts are irrevocable standby letters of credit issued by us to guarantee a client's credit line with our third party credit card company, First Arkansas Bank & Trust. As a part of this agreement, we are responsible for the established credit limit on certain accounts plus 10%. The maximum potential amount of future payments we could be required to make is represented by the dollar amount disclosed in the table below.

Standby letters of credit and commitments to extend credit typically result in loans with a market interest rate when funded. A summary of the contractual amounts of the Company's financial instruments with off-balance-sheet risk at December 31, 2014 are as follows (in thousands):

Commitments to extend credit	$ 2,508
Construction loans in process	$ 7,265
Unused lines of credit	$ 23,020
Standby letters of credit	$ 1,225
Guaranteed Accounts	$ 113

(continued)

(9) Stock Option Plan

The 2007 Stock Option Plan provides for certain key employees and directors of the Company to have the option to purchase shares of the Company's common stock. Under this Plan, the total number of shares which may be issued is 108,400. All options granted have ten-year terms and vest over periods up to five years. As of December 31, 2014, there were 30,305 shares available for grant.

A summary of the activity in the Company's Stock Option Plan is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2012	136,000	$ 10.00		
Options granted	2,500	10.72		
Options forfeited	(4,500)	10.00		
Outstanding at December 31, 2013	134,000	10.01		
Options exercised	(14,200)	10.00		
Options forfeited	(11,400)	$ 10.00		
Outstanding at December 31, 2014	108,400	$ 10.01	4.2 years	
Exercisable at December 31, 2014	105,400	10.00	4.1 years	$263,500

At December 31, 2014, there was $3,000 of total unrecognized compensation expense related to nonvested share based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted-average period of twenty-one months. The total fair value of shares vesting and recognized as compensation expense was $2,000 and $3,000 in the years ended December 31, 2014 and 2013, respectively. The associated income tax benefit recognized was $0 and $1,000 for the years ended December 31, 2014 and 2013, respectively.

(10) Profit Sharing Plan

The Company sponsors a 401(k) profit sharing plan available to all employees electing to participate after meeting certain length-of-service requirements. The Company's contributions to the profit sharing plan are discretionary and determined annually. Contributions to the plan for the years ended December 31, 2014 and 2013 were $102,000 and $65,000, respectively.

(continued)

(11) Related Party Transactions

The Company enters into transactions during the ordinary course of business with officers and directors of the Company and entities in which they hold a significant financial interest. The following summarizes these transactions (in thousands):

	Year Ended December 31, 2014	2013
Loans:		
Beginning balance	$ 3,734	3,558
Originated during the year	885	354
Principal repayments	(1,605)	(178)
Ending balance	$ 3,014	3,734
Deposits at year end	$ 16,510	13,292

The Company leases an office facility from a related party. Rent expense under the operating lease during the years ended December 31, 2014 and 2013 was $88,000 and $114,000, respectively. In addition, the Bank has contracted with a related party to perform loan reviews of the Bank's loan portfolio. The expenses related to the loan reviews during the years ended December 31, 2014 and 2013 were $20,000 and $24,000, respectively.

(12) Fair Value of Financial Instruments

The approximate carrying amounts and estimated fair values of the Company's financial instruments are as follows (in thousands):

		At December 31, 2014		2013	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	1	$ 7,555	7,555	34,166	34,166
Securities available for sale	2	42,397	42,397	44,071	44,071
Loans held for sale	3	1,871	1,923	150	150
Loans, net	3	151,869	148,588	121,220	121,947
Federal Home Loan Bank stock	3	186	186	204	204
Accrued interest receivable	3	624	624	516	516
Financial liabilities:					
Deposits	3	183,971	184,057	183,365	183,435
Other borrowings	3	2,699	2,699	5,719	5,719
Off-balance-sheet financial instruments	3	0	0	0	0

(13) Dividend Restrictions

The Holding Company is limited in the amount of cash dividends it may declare and pay by the amount of dividends it can receive from the Bank. The Bank is limited in the amount of cash dividends that may be paid. The amount of cash dividends that may be paid is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Bank must consider additional factors such as the amount of current period net earnings, liquidity, asset quality, capital adequacy and economic conditions. It is likely that these factors would further limit the amount of dividend which the Bank could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

(continued)

(14) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification 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 percentage (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject

As of December 31, 2014, the Bank is well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percentages are also presented in the table ($ in thousands):

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
As of December 31, 2014:						
Tier I Capital to Average Assets	$ 19,589	9.52%	$ 8,227	4.00%	$ 10,284	5.00%
Tier I Capital to Risk-Weighted Assets	19,589	12.84	6,102	4.00	9,154	6.00
Total Capital to Risk-Weighted Assets	21,498	14.09	12,206	8.00	15,257	10.00
As of December 31, 2013:						
Tier I Capital to Average Assets	16,611	8.41	7,898	4.00	9,872	5.00
Tier I Capital to Risk-Weighted Assets	16,611	12.41	5,355	4.00	8,033	6.00
Total Capital to Risk-Weighted Assets	18,286	13.66	10,711	8.00	13,388	10.00

(15) Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will not have a material effect on the Company's financial statements. As of December 31, 2014, there is no pending or threatened litigation of which management is aware.

(continued)

(16) Earnings Per Share

Earnings per share has been computed on the basis of the weighted-average number of shares of common stock outstanding. Outstanding stock options are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method. (dollars in thousands, except per share amounts):

	2014			2013		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Year Ended December 31:						
Basic EPS:						
Net earnings	$ 1,006	1,709,746	$ 0.59	$ 1,149	1,497,737	$ 0.77
Effect of dilutive securities- Incremental shares from assumed conversion of options		16,916			20,881	
Diluted EPS:						
Net earnings	$ 1,006	1,726,662	$ 0.58	$ 1,149	1,518,618	$ 0.76

(17) Common Stock Offering

The Company filed a Registration Statement with the Securities and Exchange Commission which was effective on December 11, 2013. The Company offered up to 1,200,000 shares of common stock for $12.50 per share through December 31, 2014, when the Stock Offering was closed. The Company sold 425,619 shares and raised $4.96 million, net of expenses.

(18) Reclassification

Certain noninterest expenses were reclassified from other noninterest expense to advertising for the year ended December 31, 2013 to conform to 2014 presentation. The reclassification of expenses had no effect on net earnings.

(continued)

(19) Parent Company Only Financial Information

The Holding Company's unconsolidated financial information follows:

Condensed Balance Sheets
(In thousands)

	At December 31, 2014	2013
Assets		
Cash	$ 3,132	13
Investment in subsidiary	19,643	16,296
Other assets	92	270
Total assets	$ 22,867	16,579
Liabilities-		
Accounts payable	0	218
Stockholders' Equity		
Stockholders' equity	22,867	16,361
Total liabilities and stockholders' equity	$ 22,867	16,579

Condensed Statements of Operations
(In thousands)

	Year Ended December 31, 2014	2013
Revenues	$ 0	0
Expenses	(110)	(37)
Income tax benefit	41	15
Loss before earnings of subsidiary	(69)	(22)
Net earnings of subsidiary	1,075	1,171
Net earnings	$ 1,006	1,149

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(19) Parent Company Only Financial Information, Continued

Condensed Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2014	2013
Cash flows from operating activities:		
Net earnings	$ 1,006	1,149
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in earnings of subsidiary	(1,075)	(1,171)
Stock issued as compensation	32	30
Increase (decrease) in other assets	177	(233)
(Decrease) increase in liabilities	(218)	218
Net cash used in operating activities	(78)	(7)
Cash flow from financing activities:		
Proceeds from sale of common stock	4,955	0
Proceeds from stock options exercised	142	0
Net cash provided by financing activities	5,097	0
Cash flow from investment activities:		
Cash dividend received from bank subsidiary	300	0
Capital infusion in subsidiary	(2,200)	0
Net cash provided by investing activities	(1,900)	0
Net decrease in cash	3,119	(7)
Cash at beginning of the year	13	20
Cash at end of year	$ 3,132	13
Supplemental disclosure of cash flow information-		
Noncash items:		
Net change in accumulated other comprehensive (loss) income of subsidiary, net change in unrealized gain on securities available for sale, net of tax	$ 369	(860)
Stock-based compensation expense of subsidiary	$ 2	3

NOTES

$210.4 | TOTAL ASSETS OF THE COMPANY AS OF DEC. 31, 2014

$5.4 | CAPITAL (IN MILLIONS) RAISED DURING OUR 2014 STOCK OFFERING

$154 | VALUE OF LOANS (IN MILLIONS) FUNDED AS OF DEC. 31, 2014

50 | NUMBER OF PRIME MERIDIAN BANK EMPLOYEES

73 | COMMUNITY ORGANIZATIONS SUPPORTED

20 | NUMBER OF CONSECUTIVE QUARTERS RANKED 5 STARS BY BAUER FINANCUIAL

Board of Directors

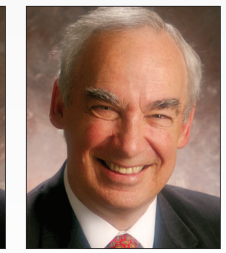
Richard A. Weidner, CPA
Chairman of the Board

Sammie D. Dixon, Jr.
CEO and President

Kathleen C. Jones
Executive Vice President and CFO

Chris L. Jensen, Jr.
Executive Vice President and Senior Lender

William D. Crona, CPA



Steven L. Evans

R. Randy Guemple, CPA

Robert H. Kirby

Frank L. Langston

Todd A. Patterson, D.O.

L. Collins Proctor, Sr.

Garrison A. Rolle, M.D.

Steven D. Smith

Marjorie R. Turnbull

Executive Management
Prime Meridian Bank

Sammie D. Dixon, Jr.
CEO and President

Chris L. Jensen, Jr.
Executive Vice President
Senior Lender

Kathleen C. Jones
CFO and Executive Vice President

Susan Payne Turner
Executive Vice President
Chief Risk Officer

Nan C. Hillis
Executive Vice President
Chief Strategy Officer

Team

Caroline Arrant	HR Specialist
Marsha Asbury-Turner	Associate Relationship Manager
John M. Baker	Marketing Director
Denise Bell	Controller
Heather Benton	Loan Operations Specialist
Edward Blissard	Courier
Ennis Blissard	Vice President, Branch Administration
Ingrid Burgett	Operations Specialist
Kevin Byrd	Head Teller
Amanda Darvill	Vice President, Associate Relationship Manager
April Brueckheimer Dean	Mortgage Loan Officer
Sammie D. Dixon, Jr.	Chief Executive Officer & President
Chris Edwards	Vice President, Market Leader/Relationship Manager
Jay Grayson	Teller
Georgia Gunn	Loan Operations Specialist
Tyler Harris	Assistant Vice President, Associate Relationship Manager
Laura Jo Hewitt	Vice President, Relationship Manager
Nan Hillis	Executive Vice President, Chief Strategy Officer
Candice Hopkins	Vice President, BSA/Compliance Officer
Brian Jennings	Teller
Chris L. Jensen, Jr.	Executive Vice President, Senior Relationship Manager
Angela Johnson	Accounting Assistant
Rosalind Johnson	Loan Operations Technician
Kathleen C. Jones	Executive Vice President, Chief Financial Officer
Taylor Joyner	Branch Manager
Shirley Lindsey	Teller/Personal Banker
Karen Linville	Branch Manager
Jill Macmillan	Executive Administrator
Christine Manuri	Assistant Vice President, Associate Relationship Manager
Caleb Martin	Head Teller
Arden Miller	Assistant Vice President, Treasury Management
Lew Moore	Market President
Brianna Page	Personal Banker
Jaina Patel	Personal Banker
Susan Payne Turner	Executive Vice President, HR\Chief Risk Officer
Sandy Perkins	Vice President, Operations
Robert Peterson	Teller
Linda Pettis	Loan Processor
Philip Pomeroy	Vice President, Relationship Manager
Christie Powis	Mortgage Loan Officer
Katie Proctor	Senior Vice President
Tara Sanders	Loan Operations Specialist
Suzanne Sconyers	Personal Banker
Sarah Shifflett	Data/Items Processing
Chartzi Spell	Teller
Mary Stafford	Vice President, Business Development
Teresa Standland	Vice President, Loan Operations Manager
Monté Ward	Senior Vice President, Bank Operations
Mesha Ware	Operations Specialist
Clint Weber	Senior Vice President, Credit Administration

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