



INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
The Southern Banc Company, Inc.
Gadsden, Alabama**

We have audited the accompanying consolidated financial statements of **The Southern Banc Company, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southern Banc Company, Inc. and Subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC".

Birmingham, Alabama
October 11, 2016

**THE SOUTHERN BANC COMPANY, INC.
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
JUNE 30, 2016 AND 2015**

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and due from banks	\$ 926,232	\$ 3,142,501
Interest-bearing deposits in banks	126,544	4,818,688
Federal funds sold	410,000	435,000
Total cash and cash equivalents	1,462,776	8,396,189
Securities available for sale, at fair value	36,103,126	42,442,800
Securities held to maturity (fair value of \$0 and \$1,281, respectively)	-	1,278
Federal Home Loan Bank stock	387,900	390,500
Loans and leases receivable, net of allowance for loan losses of \$757,515 and \$551,103, respectively	57,121,069	43,936,023
Accrued interest receivable	247,054	274,112
Property and equipment, net	810,623	846,514
Other assets	1,754,286	877,595
Total assets	\$ 97,886,834	\$ 97,165,011
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Noninterest-bearing	\$ 5,548,028	\$ 3,936,000
Interest-bearing	73,223,323	71,342,809
Total deposits	78,771,351	75,278,809
Other borrowings	5,000,000	7,156,452
Federal Funds Purchased	190,000	-
Other liabilities	726,840	497,959
Total liabilities	84,688,191	82,933,220
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$.01 per share, 500,000 shares authorized, no shares issued or outstanding	-	-
Common stock, par value \$.01 per share, 3,500,000 shares authorized, 1,454,750 shares issued, 806,086 shares outstanding	14,548	14,548
Additional paid-in capital	13,886,524	13,886,524
Retained earnings	8,166,366	9,524,777
Shares held in trust, 32,643 shares at cost	(640,135)	(640,135)
Treasury stock, 648,664 shares at cost	(8,825,282)	(8,825,282)
Accumulated other comprehensive income	596,622	271,359
Total stockholders' equity	13,198,643	14,231,791
Total liabilities and stockholders' equity	\$ 97,886,834	\$ 97,165,011

See Notes to Consolidated Financial Statements.

**THE SOUTHERN BANC COMPANY, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Interest income		
Loans, including fees	\$ 2,942,516	\$ 2,281,748
Securities available for sale	967,765	1,092,358
Other interest and dividends	20,629	20,075
Total interest income	3,930,910	3,394,181
Interest expense		
Deposits	757,591	682,143
Other borrowings	49,309	78,282
Total interest expense	806,900	760,425
Net interest income	3,124,010	2,633,756
Provision for loan losses	1,859,340	280,092
Net interest income after provision for loan losses	1,264,670	2,353,664
Other income		
Service charges and fees	90,421	120,276
Gain on sale of securities available for sale, net	157,933	159,709
Other income	24,812	125,329
Total other income	273,166	405,314
Other expenses		
Salaries and employee benefits	2,066,910	1,978,870
Data processing	445,859	418,178
Professional service	426,226	356,186
Equipment and occupancy expenses	243,786	245,342
Other operating expenses	560,024	431,254
Total other expenses	3,742,805	3,429,830
Loss before income tax benefit	(2,204,969)	(670,852)
Income tax benefit	(846,558)	(260,611)
Net loss	\$ (1,358,411)	\$ (410,241)
Loss per share		
Basic	\$ (1.76)	\$ (0.53)
Diluted	\$ (1.76)	\$ (0.53)
Average shares outstanding - basic	773,443	773,443
Average shares outstanding - diluted	773,443	773,443

See Notes to Consolidated Financial Statements.

**THE SOUTHERN BANC COMPANY, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Net loss	\$ (1,358,411)	\$ (410,241)
Other comprehensive income (loss):		
Unrealized holding gains on securities available for sale arising during period, net of tax of \$256,370 and \$22,736, respectively	423,655	37,574
Reclassification adjustment for gains on sales of securities realized in net loss, net of tax of \$59,541 and \$60,210, respectively	(98,392)	(99,499)
Other comprehensive income (loss)	325,263	(61,925)
Comprehensive loss	\$ (1,033,148)	\$ (472,166)

See Notes to Consolidated Financial Statements.

**THE SOUTHERN BANC COMPANY, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2016 AND 2015**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Shares Held in Trust	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, June 30, 2014	\$ 14,548	\$ 13,886,524	\$ 9,935,018	\$ (640,135)	\$ (8,825,282)	\$ 333,284	\$ 14,703,957
Net loss	-	-	(410,241)	-	-	-	(410,241)
Other comprehensive loss	-	-	-	-	-	(61,925)	(61,925)
Balance, June 30, 2015	14,548	13,886,524	9,524,777	(640,135)	(8,825,282)	271,359	14,231,791
Net loss	-	-	(1,358,411)	-	-	-	(1,358,411)
Other comprehensive income	-	-	-	-	-	325,263	325,263
Balance, June 30, 2016	\$ 14,548	\$ 13,886,524	\$ 8,166,366	\$ (640,135)	\$ (8,825,282)	\$ 596,622	\$ 13,198,643

See Notes to Consolidated Financial Statements.

**THE SOUTHERN BANC COMPANY, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
OPERATING ACTIVITIES		
Net loss	\$ (1,358,411)	\$ (410,241)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	83,178	88,488
Net amortization and accretion of securities	164,483	291,235
Provision for loan losses	1,859,340	280,092
Deferred income taxes	(846,558)	(260,611)
Net gain on sale of available for sale securities, net	(157,933)	(159,709)
Gain on sale of property and equipment	(241)	-
Decrease in interest receivable	27,058	16,855
(Decrease) increase in interest payable	(5,228)	1,864
Increase in prepaid expenses	(31,162)	(30,091)
Net other operating activities	38,309	129,239
Net cash used in operating activities	(227,165)	(52,879)
INVESTING ACTIVITIES		
Proceeds from maturities and principal payments on securities available for sale	7,151,457	10,597,083
Proceeds from sales of securities available for sale	3,113,837	3,340,438
Purchase of securities available for sale	(3,410,078)	(3,086,204)
Proceeds from maturities and principal payments on securities held to maturity	1,278	3,859
Redemption of Federal Home Loan Bank stock	2,600	16,600
Net increase in loans and lease receivables	(15,044,386)	(9,312,349)
Proceeds from sales of property and equipment	800	-
Purchases of property and equipment	(47,846)	(108,268)
Net cash provided by (used in) investing activities	(8,232,338)	1,451,159
FINANCING ACTIVITIES		
Net increase in deposits	3,492,542	3,214,393
Advances from other borrowings	2,190,000	2,000,000
Repayment of other borrowings	(4,156,452)	(2,000,000)
Net cash provided by financing activities	1,526,090	3,214,393
Net (decrease) increase in cash and cash equivalents	(6,933,413)	4,612,673
Cash and cash equivalents at beginning of year	8,396,189	3,783,516
Cash and cash equivalents at end of year	\$ 1,462,776	\$ 8,396,189
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	\$ 812,128	\$ 758,561

See Notes to Consolidated Financial Statements.

THE SOUTHERN BANC COMPANY, INC.
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Stock Code#
002CSN3F5A