



PRIVATE PLACEMENT MEMORANDUM

**Up to 300,000 Shares of Common Stock
\$9.50 per Share
\$2,850,000 Aggregate Offering Size**

Jefferson Bankshares, Inc. is a Florida corporation and the parent bank holding company for Jefferson Bank of Florida, a Florida-chartered commercial bank. We are headquartered in Oldsmar, Florida, between Tampa and Clearwater, Florida.

We are offering for sale 300,000 shares of common stock at \$9.50 per share. There is no minimum number of shares that we must sell in this offering and there is no minimum purchase requirement to participate in this offering. This offering is open only to Florida residents who are either: (i) current shareholders of Jefferson Bankshares, Inc. or (ii) “accredited investors” (as defined by Securities and Exchange Commission regulations).

The Board of Directors reserves the right, in its sole discretion, to accept or reject any subscription, in whole or in part.

The net proceeds from this offering will be used to increase Jefferson Bank’s capital to support its loan and deposit growth, provide capital to expand its branch network, to support possible acquisitions of other financial institutions or branches, and for general corporate purposes.

The offering period began on February 28, 2014, and will terminate on April 28, 2014, unless terminated earlier, or extended until no later than June 30, 2014, by our Board of Directors.

This is a risky investment. These securities are subject to investment risk, including the possible loss of principal. Some of the risks of this investment are described under “Risk Factors,” beginning on Page 8.

NEITHER THE FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”), THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PRIVATE PLACEMENT MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This table summarizes the offering and the amounts we expect to receive.

	Per Share	Aggregate Offering
Offering price	\$9.50	\$2,850,000.00
Placement agent commissions.....	\$0.00	\$0.00
Proceeds to us before expenses ⁽¹⁾	\$9.50	\$2,850,000.00

⁽¹⁾ We estimate that the expenses of the offering payable by us will total approximately \$50,000. See “Use of Proceeds.”

These securities are not savings accounts, deposits or other obligations of a bank. These securities are not insured by the FDIC or any other governmental agency, and are subject to investment risk, including the possible loss of your entire investment.

The date of this Private Placement Memorandum is February 28, 2014.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Private Placement Memorandum contains forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our operations or performance after the offering. Also, when we use any of the words “believes,” “expects,” “anticipates,” “intends,” “may,” or similar expressions, we are making forward-looking statements. Many possible events or factors could affect our future financial results, and could cause those results or performances to differ materially from those expressed in our forward-looking statements. These possible events or factors include:

- the factors described under the heading “Risk Factors” beginning on page 8;
- general economic conditions;
- legislative/regulatory changes;
- monetary and fiscal policies of the U.S. Government;
- the quality and composition of our loan or investment portfolios;
- demand for loan products;
- deposit flows;
- competition;
- demand for financial services in our primary trade area;
- litigation, tax, and other regulatory matters;
- accounting principles and guidelines; and
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, and services.

You should also recognize that all forward-looking statements are necessarily speculative and speak only as of the date made. You should also recognize that various risks and uncertainties, such as those described above, could cause actual results for future periods to differ materially. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that any expectations will prove to be correct. We discuss what we believe are the most significant of these risks, uncertainties, and other factors under the heading “Risk Factors” beginning on page 8 of this Private Placement Memorandum. We urge you to carefully consider these factors prior to making an investment.

REFERENCES

In this Private Placement Memorandum, we frequently use the terms “we,” “our,” “us,” and the “Company” which refer to Jefferson Bankshares, Inc. and Jefferson Bank of Florida on a consolidated basis. We use the terms “Bankshares” and the “Holding Company” to independently refer to Jefferson Bankshares, Inc. The terms “Jefferson Bank,” and the “Bank” refer to Jefferson Bank of Florida. Unless we indicate otherwise, the information in this Private Placement Memorandum assumes the sale of all 300,000 shares.

PRIVATE PLACEMENT MEMORANDUM SUMMARY

This summary highlights specific information contained elsewhere in this Private Placement Memorandum. Because this is a summary, it may not contain all of the information that is important to you. Therefore, you should read carefully the more detailed information set forth in this Private Placement Memorandum and in our financial statements before making a decision to invest in our common stock.

Jefferson Bankshares, Inc.

Jefferson Bankshares, Inc. was incorporated under the laws of the State of Florida on October 28, 2013. On February 27, 2014, it completed a statutory share exchange and internal reorganization to become the parent-bank holding company for Jefferson Bank of Florida (the “Reorganization”). Bankshares is a shell bank holding company whose only operations are those of the Bank.

Our executive management and members of our Board of Directors own approximately 22.6% of our common stock outstanding as of December 31, 2013. We believe that such ownership, combined with their dedication to the Company, fully align the interest of our executive management and Board with the interest of our shareholders. Depending on the level of Board and management participation in this offering, however, this percentage may change following the offering.

Jefferson Bank of Florida

Jefferson Bank of Florida, a Florida-chartered commercial bank, commenced operations on December 3, 2007, and has grown to approximately \$194 million in total assets in just over six years.

We operate through our four full service banking branches in Pinellas and Pasco Counties offices, one loan production office in each of Pinellas County and Palm Beach County, Florida. Our main office is in Oldsmar, near the border of Hillsborough and Pinellas Counties. Our first branch office, which opened in October 2011, is on the heavily traveled, U.S. Highway 19 in Palm Harbor. Our second branch office opened in July 2012, near downtown Tarpon Springs, in northern Pinellas County. Our newest branch, which opened in November 2013, is in New Port Richey, in the northwestern portion of Pasco County. We have also operated a loan production office in Clearwater since May 2011, and a loan production office in Boca Raton since June 2011.

Our vision is for the Bank to be a leading community bank in the markets we serve. Our goals are to achieve and maintain profitable operations and strong asset quality, while providing a high level of customer service. We are relationship oriented and provide a “high tech/high touch” environment intended to exceed our customers’ needs.

Performance Highlights

Between the Bank opening on December 3, 2007 and December 31, 2013, our accomplishments include:

- growing our total assets to \$194 million, net loans to \$117 million, and total deposits to \$152 million;
- achieving net income available to common shareholders of \$715,000 or \$0.32 per share, for the year ended December 31, 2013, and \$1.3 million and \$507,000 for the years ended December 31, 2012 and 2011, respectively;
- maintaining strong credit quality, resulting in non-performing assets of only \$498,000, as of December 31, 2013, and total charge-offs since opening of \$2.4 million;
- raising \$20.0 million in initial capital, without the assistance of an investment banking firm;

- opening three branch offices and two loan production offices;
- establishing a mortgage loan production division which generally originates residential mortgage loans for sale in the secondary market;
- forming Bankshares to serve as the Bank’s parent bank holding company;
- participating in the Treasury’s Small Business Lending Fund (“SBLF”) by issuing \$3.4 million preferred stock and thereafter maintaining the minimum 1% dividend rate; and
- fostering recognition of the Jefferson Bank brand in our market areas through the efforts and involvement of the members of our management team and Board of Directors.

Our Operating and Business Strategy

To attract customers and acquire market share controlled by other financial institutions in our market area, our management philosophy is to emphasize prompt and responsive personal service to the residents, businesses, and professionals primarily in the communities of Oldsmar, Palm Harbor, Tarpon Springs, and New Port Richey, as well as the remainder of northern Pinellas and Pasco Counties. We also market our products and services to those persons and entities in the remaining portions of Pinellas County and northwestern Hillsborough County, and we have a residential loan production office in Boca Raton, Florida. Our range of banking services, as well as our emphasis on personal attention and service, prior experience in the market area, prompt decision-making, and consistency in banking personnel are major tools in our efforts to capture market share. We utilize advertising and one-on-one selling efforts to build a distinct institutional image for Jefferson Bank and to capture a customer base.

Management and Board of Directors

Our officers have substantial banking experience, which is an asset in providing both products and services designed to meet the needs of our customer base. In addition, our directors are active members of the business communities in Pinellas, Hillsborough and Pasco Counties and their continued active community involvement provides an opportunity to promote Jefferson Bank and its products and services.

Our executive management team is led by our Chairman and Chief Executive Officer, Robert B. McGivney, who has nearly 45 years of banking experience, including over 20 years as Chief Executive Officer of banks in Pinellas County, Florida. Our President, Chief Operating Officer, and Senior Lender, James P. Nelson, has spent his entire career of over 30 years at banks located in Pinellas County, including nearly 20 years as senior lender at local institutions. Chief Financial Officer and Executive Vice President Margaret M. Orr has held financial managerial positions at local institutions since 1986.

In addition to Mr. McGivney, the Bank’s and Bankshares’ Boards of Directors are both comprised of six local business people with diverse business backgrounds and strong ties to the Pinellas and Pasco County communities. Of those six individuals, four of them served as directors of other financial institutions prior to Jefferson Bank opening for business.

Our directors are:

<u>Name of Director</u>	<u>Principal Occupation</u>
Gary L. Blackwell	Real estate investor and developer
David L. Brandon	President, Brandon Construction Company, Inc.
Ronald S. Hockman	President, Hockman Insurance Agency, Inc.
Stephen S. Jacobs, MD	President, CEO, and Medical Director, Morton Plant Mease Primary Care, Inc.
Robert B. McGivney	Chairman and CEO, Jefferson Bank and Bankshares
Joseph L. Oliveri	President, Oliveri Architects
Paul J. Wikle	Real estate investor and developer

Location and Market Area

Our primary service area is Oldsmar, Palm Harbor, Tarpon Springs, and New Port Richey, as well as the remainder of northern Pinellas and Pasco Counties. Pinellas County is located on the west coast of Central Florida, north of Tampa Bay. Pasco County is also on the west coast of Florida, just north of Pinellas County. We believe that the density of Pinellas and Pasco Counties' population offers attractive demographics for the growth of our Bank. According to the Florida Agency for Workforce Innovation, Pinellas County had a non-seasonally adjusted unemployment rate of 5.7% as of December 31, 2013, compared to 6.7% for Pasco County and 5.9% for all of Florida.

According to the Federal Deposit Insurance Corporation ("FDIC"), as of June 30, 2013, there were 36 commercial banks and savings associations operating in Pinellas County with eight headquartered in the county. Those 36 institutions operate a total of 317 branches located within Pinellas County, with a total deposit base of approximately \$30.6 billion. Also as of June 30, 2013, in Pasco County there were 23 financial institutions operating 110 offices, with a total deposit base of approximately \$5.3 billion.

No Recommendation

No recommendation is being made as to whether you should purchase shares in this offering. Investors should consult their own financial advisors prior to purchasing shares in this offering.

Dividend Policy

We do not intend to pay dividends on shares of our common stock for the foreseeable future. We intend to use all available earnings to fund the continued operation and growth of Bankshares and the Bank. We do, however, expect to pay dividends on the shares of Class A Preferred Stock issued under the SBLF.

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THE OFFERING

Securities Offered	300,000 shares of common stock.
Offering Price	\$9.50 per share. The factors that were considered in determining the offering price are discussed in “Terms of Offering - Offering Price” beginning on page 15.
Purchaser Requirements	This offering is open only to Florida residents who are either: (i) current shareholders of Bankshares; or (ii) “accredited investors” (as defined by Securities and Exchange Commission regulations) and for nine months following this offering, we will restrict resales of shares purchased in this offering to Florida residents.
Acceptance of Subscriptions	Our Board of Directors reserves the right to reject or accept any subscription, in whole or in part.
Best Efforts Offering	The shares in this offering are being offered on a “best efforts” basis through our directors and executive officers. This means that we are not required to sell any minimum number or dollar amount of shares of our common stock. We intend to conduct a first closing and issue shares after we have accepted subscriptions for at least \$1,000,000 and subsequent closings at our discretion.
Offering Period	The offering will expire on April 28, 2014 at 5:00 p.m., Eastern Time, or earlier in our sole discretion. We have the right, however, to extend the offering until no later than June 30, 2014, without notice to subscribers.
Minimum Purchase	There is no minimum subscription size to participate in this offering.
Purchase Limitations	Shares will not be issued, without prior approval, to any person who, in the Board of Directors’ opinion, would be required to obtain prior approval from any state or federal regulatory authority to own or control our securities.
Market for Our Securities	There is currently no public market for our common stock. We do not expect that an active trading market for our common stock will develop or be sustained after the offering. Even if our stock begins trading in an over-the-counter market, those trading markets lack the depth, liquidity, and order volumes necessary to maintain a liquid market in our common stock.
Common Stock Outstanding	As of the date of this Private Placement Memorandum, the Holding Company had 2,199,988 shares of common stock issued and outstanding.
Options Outstanding	As of December 31, 2013, there are 294,250 shares covered by stock options, which are held by our

directors and employees. All outstanding options have exercise prices of \$9.09 per share.

Use of Proceeds	The net proceeds of this offering will be used to increase the Bank’s capital to support its loan and deposit growth in our markets. The increase in capitalization will also enable us to further strengthen our capital base and consider further branch expansion or the acquisition of other financial institutions. Our Board and management will have broad discretion in determining the specific uses of the offering proceeds and the timing of any selected uses.
Placement Agent Fees	While we do not intend to pay a placement agent or brokerage fee or commission on any shares sold, our Board of Directors has reserved the right to retain a broker dealer to assist in this offering. In such case, we do not expect the total compensation paid to such broker dealer to exceed 7% of the dollar amount of shares sold by any such broker dealer.
Risk Factors	You should carefully read the “Risk Factors” section beginning on page 8 of this Private Placement Memorandum before making any investment decision or purchasing any shares of common stock.
Information about the Offering	Questions concerning this offering should be directed to our Chairman and Chief Executive Officer Robert B. McGivney at (727) 781-7500 or (813) 855-7500.

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PROCEDURE FOR PURCHASING SHARES

We reserve the right to accept or reject any subscription, in whole or in part. To subscribe for shares, a subscriber must complete the accompanying Stock Order Form and Investor Questionnaire, and mail or deliver them to us, along with full payment for the shares to be purchased by making a check or bank draft drawn on a U.S. bank, a cashier's check or money order, or funds transferred via wire transfer made payable to "**Jefferson Bankshares, Inc.**"

Your Stock Order Form, Investor Questionnaire, and payment must be delivered to:

Jefferson Bankshares, Inc.
Attention: Robert B. McGivney
Chairman and Chief Executive Officer
3711 Tampa Road
Oldsmar, Florida 34677

and must be received not later than 5:00 p.m., Eastern Time, on April 28, 2014, unless we choose, without notice and in our sole discretion, to shorten the offering period, or, alternatively, to extend the offering period until no later than June 30, 2014. If you have any questions about how to subscribe, including wire instructions, please call Robert B. McGivney, our Chairman and Chief Executive Officer, at (727) 781-7500 or (813) 855-7500.

If the amount you send with your Stock Order Form and Investor Questionnaire is not the exact amount required to purchase the number of shares that you indicate are being subscribed for, or if you do not specify the number of shares to be purchased, then you will be deemed to have subscribed to purchase shares to the full extent of the payment tendered (subject to reduction to the extent necessary to comply with any regulatory limitation or conditions we impose in connection with the offering).

Failure to include the full subscription price with your subscription may cause us to reject your subscription order. The method of delivery of the Stock Order Form, Investor Questionnaire, and payment of the subscription price will be at your election and risk. If you send your subscription by mail, we recommend that you use registered or express mail, return receipt requested. If you wish to pay by uncertified personal check, please note that the funds may take at least five business days to clear.

We will decide all questions concerning the timeliness, validity, form, and eligibility of Stock Order Forms and Investor Questionnaires, and our decisions will be final and binding. In our sole discretion, we may waive any defect or irregularity in any subscription, may permit any defect or irregularity to be corrected within such time as we may allow, or may reject any purported subscription. Stock Order Forms will not be deemed to have been received or accepted until all irregularities have been waived or cured within the allotted time. There is no duty to give a subscriber notice of any defect or irregularity in a Stock Order Form submitted, and no liability will be incurred for failure to give such notice.

Subscriptions may not be revoked by subscribers. You should not subscribe unless you are certain you wish to acquire shares. If the offering terminates for any reason without the release of any subscription proceeds to us, all proceeds will promptly be returned to the subscribers, without interest and without any deduction for expenses. Prior to accepting any subscription, the Company will determine if an investment in Company stock is suitable for an investor. In doing so, the Company must conclude that it has reasonable grounds for believing that the investment is suitable for such investor upon the basis of the facts disclosed by the investor in his or her Stock Order Form and Investor Questionnaire as to his or her other security holdings and as to his or her financial situation and needs.

SUMMARY FINANCIAL DATA

The Reorganization occurred on February 27, 2014, therefore, the data presented below reflects the performance of the Bank during the periods and as of the dates indicated. The data presented below as of and for the year ended December 31, 2013, is derived from our unaudited financial statements. Our unaudited balance sheet and statement of earnings are included with this Private Placement Memorandum as *Appendix A*. Our summary financial data presented below as of and for the years ended December 31, 2012, and December 31, 2011, is derived from our audited financial statements, which are included with this Private Placement Memorandum as *Appendix B*. The following Summary Financial Data should be read in conjunction with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section beginning on page 29. The Bank’s historical results will not necessarily be indicative of future results.

	<u>At and for the Year Ended December 31, 2013</u> (Unaudited)	<u>At and for the Year Ended December 31, 2012</u>	<u>At and for the Year Ended December 31, 2011</u>
Dollars in Thousands (except per share data)			
Selected Balance Sheet Data:			
Total assets	\$193,892	\$ 173,487	\$ 140,757
Total loans, net	116,868	92,107	69,962
Total deposits	151,029	136,015	106,037
Stockholders’ equity	20,048	21,718	21,158
Selected Operating Data:			
Net interest income	\$ 5,566	\$ 4,834	\$ 4,523
Provision for loan losses.....	35	92	141
Net interest income after provision for loan losses...	5,531	4,742	4,382
Net earnings available to common shareholders	715	1,311	507
Per Share Data:			
Basic and diluted earnings per common share.....	\$ 0.32	\$ 0.60 ⁽¹⁾	\$ 0.23 ⁽¹⁾
Book value per common share	7.58	8.34 ⁽¹⁾	8.09 ⁽¹⁾
Common shares outstanding.....	2,199,988	2,199,988 ⁽¹⁾	2,199,988 ⁽¹⁾
Average common shares outstanding, basic and diluted.....	2,199,988	2,199,988 ⁽¹⁾	2,199,988 ⁽¹⁾
Performance Ratios:			
Return on average assets	0.41%	0.86%	0.41%
Return on average equity, net of SBLF	4.22%	7.55%	2.92%
Noninterest expense to average assets.....	2.93%	3.33%	3.14%
Net interest margin	3.18%	3.16%	3.68%
Asset Quality Ratios:			
Allowance for loan losses as a percentage of total loans outstanding	1.71%	2.19%	2.68%
Net charge-offs as a percentage of average loans.....	0.05%	0.04%	0.62%
Nonperforming loans as a percentage of total assets	0.26%	0.33%	0.56%
Capital Ratios:			
Total risk-based capital ratio	18.63%	23.08%	24.79%
Tier 1 risk-based capital ratio	17.38%	21.82%	23.52%
Tier 1 leverage capital ratio	11.31%	13.19%	14.17%
<u>Total equity to total assets</u>	<u>10.34%</u>	<u>12.52%</u>	<u>15.03%</u>

(1) Values have been restated to reflect the stock dividend paid on October 15, 2013.

RISK FACTORS

Investing in our securities involves significant risks, including the risks described below. You should carefully consider the following information about these risks, together with the other information contained in this Private Placement Memorandum and the information incorporated by reference into this Private Placement Memorandum before purchasing shares. The risks that we have highlighted here are not the only ones that we face. For example, additional risks presently unknown to us or that we currently consider immaterial or unlikely to occur could also impair our operations. In addition, there are risks beyond our control. If any of these risks actually occurs, our business, financial condition or results of operations could be negatively affected, and you could lose part or all of your investment.

Changes in business and economic conditions, in particular those of the Florida markets in which we operate, could continue to lead to lower asset quality, and lower earnings.

Unlike larger national or regional banks that are more geographically diversified, our business and earnings are closely tied to general business and economic conditions, particularly the economy of Pinellas and Pasco Counties, Florida. The local economy is heavily influenced by tourism, real estate, and other service-based industries. Factors that could affect the local economy include declines in tourism, higher energy costs, reduced consumer or corporate spending, natural disasters or adverse weather, the recent and possibly continuing significant decline in real estate values and the recent significant deterioration in general economic conditions. A sustained economic downturn could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenue and lower earnings. The Florida economy has been slow to recover from the ongoing economic recession. Unemployment rates in Florida and our market areas continue to be elevated. However, we continually monitor changes in the economy, including levels of visitor arrivals and spending, changes in housing prices, and unemployment rates. We also monitor the value of collateral, such as real estate, that secures loans we have made. A decline in the value of collateral could also reduce a customer's borrowing power.

Most expansionary activities require approval by our regulators, which we may not be able to obtain, or which may impose conditions which we find to be unacceptable.

Mergers, acquisitions, branch openings, and other expansionary activities generally require approval by our regulators. We may not be able to obtain such approvals if our regulators do not believe we are financially or managerially strong enough to integrate or manage such activities. In addition, our regulators consider our capital, liquidity, profitability, regulatory compliance, and levels of goodwill and intangibles when considering acquisition and expansion proposals. Our regulators may also impose conditions in approvals that we find to be unacceptable, prohibitive, or otherwise undesirable. In any of those instances, we may be unable or unwilling to consummate a transaction or undertake an expansionary activity.

Our growth and financial performance will be negatively impacted if we are unable to execute our growth strategy.

Our success depends primarily on generating loans and deposits of acceptable risk and expense. There can be no assurances that we will be successful in continuing our organic, or internal, growth strategy, which depends upon economic conditions, our ability to identify appropriate markets for expansion, our ability to recruit and retain qualified personnel, sufficient capital to support our growth initiatives, competitive factors, banking laws, and other factors. As we implement our growth strategy, we expect to incur increased personnel, occupancy and other operating expenses. If we open new branches, we must absorb those higher expenses while we begin to generate new deposits, and there is a time lag involved in redeploying new deposits into attractively priced loans and other higher yielding earning assets. Similarly, mergers and acquisitions present financial, managerial, and strategic challenges that we may not successfully address. If we are unable to address any of the foregoing issues, our earnings and

financial performance may be adversely impacted. In addition, our plans to grow will likely depress our earnings in the short run, even if we efficiently execute our strategy.

We operate in a highly competitive industry and market area.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include Internet banks and national, regional and community banks within the various markets we serve. We also face competition from many other types of financial institutions, including, without limitation, savings and loan institutions, credit unions, mortgage companies, other finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can (unless laws are changed) merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Many of our competitors have fewer regulatory constraints and may have lower cost structures.

If real estate values in our markets decline, our loan portfolio may become impaired.

A significant portion of our loan portfolio consists of mortgages secured by real estate located in Pinellas, Hillsborough, and Pasco Counties, Florida. Real estate values in our market may decline due to: changes in national, regional, or local economic conditions; fluctuations in interest rates and the availability of loans to potential purchasers; changes in the tax laws and other governmental statutes, regulations and policies; and acts of nature. If real estate values decline in our market, the value of the real estate collateral securing our loans will likely be reduced. Such a reduction in the value of our collateral could increase the number of nonperforming loans, reduce our ability to sell our collateral and thereby adversely affect our financial performance. If we do not adjust to rapid changes in the financial services industry, our financial performance may suffer.

We face substantial competition for deposit and loan relationships.

Competing providers include other financial institutions and other financial and nonfinancial companies, which may offer products functionally equivalent to those offered by us. Competing providers may have greater financial resources than we do and offer services within and outside the market areas we serve. In addition to this challenge of attracting and retaining customers for traditional banking services, our competitors include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that financial institutions have not been able or allowed to offer to their customers in the past. The increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. If we are unable to adjust to both increased competition for traditional banking services and changing customer needs and preferences, our financial performance and your investment in our common stock could be adversely affected.

We may not be able to successfully compete with our competitors for larger customers because our lending limits are lower than theirs.

As a relatively young financial institution, our lending limits are significantly lower than those of many of our competitors. Our legal secured lending limit is 25% of the Bank's capital accounts. After this offering our lending limit will continue to be significantly less than the limits of most of our competitors and may affect our ability to develop relationships with larger businesses in our market area. We may try to serve the needs of these borrowers by selling loan participations to other institutions, but this strategy may not succeed.

Our loan portfolio includes a substantial amount of commercial real estate and construction and development loans.

The credit risk associated with commercial real estate and construction and development loans is a result of several factors, including the concentration of principal in a limited number of loans and to borrowers in similar lines of business, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. Repayment of loans secured by commercial real estate in some cases is dependent upon the successful operation, development, or sale of the related real estate or commercial project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In these cases, we may be compelled to modify the terms of the loan. As a result, repayment of these loans may, to a greater extent than other types of loans, be subject to adverse conditions in the real estate market or economy.

Our business is highly susceptible to credit risk.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that the collateral securing the payment of their loans (if any) may not be sufficient to assure repayment. Credit losses could have a material adverse effect on our operating results.

Some of our borrowers may not repay their loans and losses from loan defaults may exceed the allowance we establish for that purpose, which may have an adverse effect on our business.

Some borrowers may not repay loans that we make to them. This risk is inherent in the banking business. If a significant amount of loans due are not repaid, it would have an adverse effect on our earnings and overall financial condition. Like all financial institutions, we maintain an allowance for loan losses to provide for loan defaults and nonperformance. The allowance for loan losses reflects our management's best estimate of probable losses in the loan portfolio at the relevant time. This evaluation is primarily based upon a review of our and the banking industry's historical loan loss experience, known risks contained in the loan portfolio, composition and growth of the loan portfolio, and economic factors. Although we believe that our current allowance for loan losses is adequate and that the methodology we are currently using to determine our provision for loan losses is sound, the process of establishing the allowance for loan losses is an inherently difficult process and is based on numerous assumptions. As a result, our allowance for loan losses may not be adequate to cover actual losses, and future provisions for loan losses may adversely affect our earnings.

Changes in interest rates could have significant adverse effects on our financial condition and results of operations.

Fluctuations in interest rates could have significant adverse effects on our financial condition and results of operations. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, domestic and international events, and changes in financial markets in the United States and in other countries. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key driver rates, as well as balance sheet growth, client loan and deposit preferences and the timing of changes in these variables. In an environment in which interest rates are increasing, our interest costs on liabilities may increase more rapidly than our income on interest-earning assets. This could result in a deterioration of our net interest margin.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. Actions by the Federal Home Loan Bank of Atlanta ("FHLB"), or the Board of Governors of the Federal Reserve System may reduce our borrowing capacity. Additionally, we may not be able to attract deposits at competitive rates. An inability to raise funds through traditional deposits, brokered deposits, borrowings, the sale of securities or loans and other

sources could negatively affect our liquidity or result in increased funding costs. Liquidity may also be adversely impacted by bank supervisory and regulatory authorities mandating changes in the composition of our balance sheet to asset classes that are less liquid.

Reputational risk and social factors may impact our results.

Our ability to originate and maintain accounts is highly dependent upon consumer and other external perceptions of our business practices and/or our financial health. Adverse perceptions regarding our business practices and/or our financial health could damage our reputation in both the customer and funding markets, leading to difficulties in generating and maintaining accounts as well as in financing them. Adverse developments with respect to the consumer or other external perceptions regarding the practices of our competitors, or our industry as a whole, may also adversely impact our reputation. In addition, adverse reputational impacts on third parties with whom we have important relationships may also adversely impact our reputation. Adverse impacts on our reputation, or the reputation of our industry, may also result in greater regulatory and/or legislative scrutiny, which may lead to laws or regulations that may change or constrain the manner in which we engage with our customers and the products we offer. Adverse reputational impacts or events may also increase our litigation risk. We carefully monitor internal and external developments for areas of potential reputational risk and have established governance structures to assist in evaluating such risks in our business practices and decisions.

We operate in an environment highly regulated by federal and state government; changes in federal and state banking laws and regulations could have a negative impact on our business.

The Bank is a Florida state-chartered commercial bank, and is regulated primarily by the Florida Office of Financial Regulation (the “OFR”) and the FDIC. Federal and various state laws and regulations govern numerous aspects of the Bank’s operations, including adequate capital and financial condition, permissible types and amounts of extensions of credit, investments, and nonbanking activities, and restrictions on dividend payments. Federal and state bank regulatory agencies have extensive discretion and power to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies. We also undergo periodic examinations by the regulatory agencies. Following such examinations, we may be required, among other things, to change our asset valuations or the amounts of required loan loss allowances or to restrict our operations. Those actions would result from the banking regulators’ judgments, based on information available to them at the time of their examination.

The enactment and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act may have a material effect on our operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) imposes significant regulatory and compliance changes on us and the banking industry in general. The key effects of the Dodd-Frank Act on our business are: changes to regulatory capital requirements; creation of new governmental agencies; and restrictions on mortgage loan origination and risk retention. The Dodd-Frank Act contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments. While it is generally expected that these limitations are not intended to restrict hedging activities, the impact of the statutory limitations on our ability to conduct hedging strategies will not be clear until the implementing regulations have been promulgated. Legislative action regarding foreclosures or bankruptcy laws may negatively impact our business.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and statements of operations. For example, in April 2009 the Financial Accounting Standards Board (“FASB”) eased its mark-to-market reporting requirements that require banks to price assets to reflect current market prices

each quarter. As a result, banks may now use “significant” judgment when assessing the value of the assets sitting on their balance sheets. Although the mark-to-market changes were beneficial, future changes in financial accounting and reporting standards (or a return to the prior mark-to-market requirements) could require us to apply a new or revised standard retroactively, which could result in a material adverse effect on our financial condition or could even require us to restate prior period financial statements.

We may be subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.

When we originate loans, we rely heavily upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation.

We face risks related to our operational, technological, and organizational infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire the necessary operational and technological infrastructure and to manage the cost of that infrastructure while we expand. Similar to other financial institutions, our operational risk can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or outside persons and exposure to external events. We are dependent on our operational infrastructure to help manage these risks. In addition, we are heavily dependent on the strength and capability of our technology systems which we use both to interface with our customers and to manage our internal financial and other systems. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones depends on the functionality of our technology systems. Additionally, our ability to run our business in compliance with applicable laws and regulations is dependent on these infrastructures.

Investors may face dilution resulting from the issuance of common stock in the future.

Our Articles of Incorporation do not provide for shareholder preemptive rights. Therefore, we may issue common stock without offering shares to our current shareholders and without shareholder approval, up to the number of authorized shares set forth in our Articles of Incorporation. Our Board of Directors may determine from time to time a need to obtain additional capital through the issuance of additional shares of common stock or other securities. There can be no assurance that such shares may be issued at prices or on terms better than or equal to the terms obtained by our current shareholders. The issuance of any additional shares of common stock by us in the future may result in a reduction of the book value or market price, if any, of the then-outstanding common stock. Issuance of additional shares of common stock will reduce the proportionate ownership and voting power of our existing shareholders.

Shares of our preferred stock may be issued in the future which could materially adversely affect the rights of the holders of our common stock.

Our Articles of Incorporation give our Board the authority to issue classes or series of preferred stock and to determine the designations, preferences, rights and qualifications or restrictions of those shares without any further vote or action of the shareholders. The rights of the holders of our common stock will be subject to, and may be materially adversely affected by, the rights of the holders of any preferred stock that may be issued by us in the future.

Our common stock is not an insured bank deposit and is subject to market risk.

Our shares of common stock are not deposits, savings accounts, or other obligations of us, or any other depository institution, are not guaranteed by us or any other entity, and are not insured by the FDIC or any other governmental agency.

We may need additional capital in the future and this capital may not be available when needed or at all.

We may need to obtain additional debt or equity financing in the near future to fund future growth and meet our capital needs. We cannot guarantee that such financing will be available to us on acceptable terms or at all. If we are unable to obtain future financing, we may not have the resources available to fund our planned growth.

We have not paid dividends on our common stock in the past, and we are restricted in our ability to pay dividends to our shareholders.

Since our inception, we have not paid any cash dividends on our common stock, and we do not intend to pay dividends on our common stock in the foreseeable future. Even if we decide to pay dividends in the future, our ability to do so is primarily contingent upon the Bank's ability to pay dividends to the Holding Company. The Bank's ability to pay dividends is limited by state and federal regulatory restrictions and by our need to maintain sufficient capital to support our operations. If the Bank does not satisfy these regulatory requirements, it will be unable to pay cash dividends to the Holding Company and the Holding Company will be significantly limited in its ability to pay dividends on our common stock.

We rely heavily on Robert B. McGivney, James P. Nelson, and the rest of our management team, and the unexpected loss of any of those personnel could adversely affect our operations.

Our growth and development is particularly dependent upon the personal efforts and abilities of Robert B. McGivney, our Chairman and Chief Executive Officer, and James P. Nelson, our President, Chief Operating Officer, and Senior Lender. The loss or unavailability to the Bank of either of these officers could have a materially adverse effect on our operations and prospects. To mitigate this risk, we have employment agreements with both Mr. McGivney and Mr. Nelson.

Our executive officers and directors will continue to have substantial control over Bankshares after the offering which could delay or prevent a change of control that may be favored by our other shareholders.

Our executive officers and directors, if acting together, would be able to significantly influence all matters requiring approval by our shareholders, including election of directors and the approval of mergers or other business combination transactions. Our executive officers and directors own or have the right to acquire approximately 31.1% of the total number of shares as of December 31, 2013 and may also subscribe to purchase additional shares in the offering.

The interests of these directors and executive officers may differ from the interests of other shareholders, and these shareholders, acting together, would be able to influence significantly all matters requiring approval by shareholders. As a result, these shareholders could approve or cause us to take actions of which you disapprove or that may be contrary to your interests and those of other investors.

A vibrant public trading market for our common stock has not and likely will not develop.

Presently, our common stock is not listed or quoted on any stock exchange or market and we do not anticipate seeking such a listing or quotation following this offering. The absence of a public market for our shares may make it difficult for you to resell your shares and is likely to depress the prices which you would receive from any sale of your shares. You may, therefore, be required to bear the economic

risks of this investment for an indefinite period of time. Even if we become quoted on the Pink Sheets or the OTC Bulletin Board, such trading markets lack depth, liquidity and orderliness necessary to maintain a liquid market in our common stock. We do not expect a more liquid market for our common stock to develop for several years, if at all. We do not expect to have enough shareholders or outstanding shares to support an active trading market, even if we are eventually listed on a recognized trading market. In addition, for nine months following this offering, we will restrict resales of shares purchased in this offering to Florida residents. Accordingly, investors should consider the potential illiquid and long-term nature of an investment in our common stock.

Certain provisions of Florida and federal law may discourage or prevent a takeover of our Company and result in a lower market price for our common stock.

Florida and federal law contain anti-takeover provisions that apply to us. These provisions could discourage potential buyers from seeking to acquire us in the future, even though certain shareholders may wish to participate in such a transaction. These provisions could also adversely affect the market price of our common stock.

This is a best efforts offering, and we may not be able to raise all the capital we need to continue to grow our operations.

This offering is being made on a “best efforts” basis, which means there is no guarantee that we will be able to sell all or any of the securities offered. There is no minimum number of shares that we must sell to complete the offering, and we are unable to guarantee that we will be able to sell any shares. In the event we are unable to raise sufficient capital from this offering, it is likely that we will be unable to continue to grow as planned, which may adversely affect future earnings. Regardless of the number of shares that we sell in this offering, we may need to obtain additional capital in the future so that we can successfully execute our business strategy.

The offering price is not necessarily an indication of the value of our shares.

The offering price does not necessarily bear any relationship to the book value of our assets, past operations, cash flows, losses, financial condition, or any other established criteria for value. Our Board of Directors determined the pricing of the offering considering our historic and expected growth, prior sales of our shares, and general market conditions, among other factors. Nevertheless, the offering price bears no relationship to the amount of our assets, book value, shareholders’ equity, or other typical criteria of value, and may exceed the fair market value of our shares and the price at which shares may be sold after the offering. Consequently, you may lose a portion of your investment simply as a result of an inaccurately determined offering price.

We have broad discretion as to the use of proceeds from the offering. Our failure to effectively apply such proceeds could affect our profits.

We have not allocated the proceeds of the offering to any specific purpose, and we will have significant flexibility in determining the amounts of net proceeds we will apply to different uses and the timing of such applications. We may utilize the proceeds in a manner that we believe is in our best interest but with which you may not agree and over which you will have no control.

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TERMS OF OFFERING

General

We are offering up to 300,000 shares of common stock at a price of \$9.50 per share, to raise up to \$2,850,000. We reserve the right to reject any subscription in the offering, in whole or in part.

The offering will expire at 5:00 p.m., Eastern Time on April 28, 2014, unless we sell all of the shares earlier, terminate the offering earlier, or extend the offering. We reserve the right to terminate the offering at any time or to extend the offering, without notice, until no later than June 30, 2014.

As soon as practicable after receipt of a subscription, we will decide whether to accept or reject it. Once a subscription is submitted, it will be binding and cannot be withdrawn by the subscriber. Payment from any subscriber for shares in excess of the amount of securities allocated to such subscriber, if any, will be refunded by mail, without interest, within 30 days of the date of rejection. We will issue certificates for shares of common stock which have been subscribed and paid for as soon as practicable after we conduct a closing of this offering.

Offering Price

The offering price does not necessarily bear any relationship to the book value of our assets, past operations, cash flows, losses, financial condition, or any other established criteria for value. You should not consider the offering price as an indication of our present or future value. Our Board has established the offering price of the shares by considering several factors, including our financial and operational condition, the liquidity character of the stock, and the general market conditions for stock. We have neither sought nor obtained a valuation opinion from an outside financial consultant or investment banker as to the value of our shares for the purpose of this offering.

How to Subscribe

If you wish to purchase shares in this offering, you may do so by completing and signing the Stock Order Form and the Investor Questionnaire included with this Private Placement Memorandum, and delivering them to us before the expiration date, together with payment in full in the amount of \$9.50 times the number of shares for which you have subscribed. Payment must be made payable to “Jefferson Bankshares, Inc.” and made by:

- check or bank draft drawn on a U.S. bank;
- cashier’s check or money order; or
- funds transferred via wire transfer.

The subscription price will be deemed to have been received only upon:

- clearance of any uncertified check; or
- receipt of any certified check or bank draft drawn upon a U.S. bank, any cashier’s check, money order, or wire transfer.

If you wish to pay by uncertified personal check, please note that the funds may take at least five business days to clear. Accordingly, any such payment of the subscription price should be sent in time to ensure that payment is received and clears by the expiration date of the offering.

The Stock Order Form, Investor Questionnaire, and payment of the offering price should be delivered to:

Jefferson Bankshares, Inc.
Attention: Robert B. McGivney, Chairman and Chief Executive Officer
3711 Tampa Road
Oldsmar, Florida 34677

If the amount you send with your Stock Order Form and Investor Questionnaire is not the exact amount required to purchase the number of shares that you indicate are being subscribed for, or if you do not specify the number of shares to be purchased, then you will be deemed to have subscribed to purchase shares to the full extent of the payment tendered.

Failure to include the full subscription price or valid funds with your subscription may cause us to reject your subscription. The method of delivery of the Stock Order Form and Investor Questionnaire and payment of the subscription price will be at your election and risk. If you send your subscription by mail, we recommend that you use registered or express mail, return receipt requested.

We will decide all questions concerning the timeliness, validity, form, and eligibility of Stock Order Forms, and our decisions will be final and binding. In our sole discretion, we may waive any defect or irregularity in any subscription, may permit any defect or irregularity to be corrected within such time as we may allow, or may reject any purported subscription. Stock Order Forms will not be deemed to have been received or accepted until all irregularities have been waived or cured within the allotted time. There is no duty to give a subscriber notice of any defect or irregularity in a Stock Order Form submitted, and no one will incur any liability for failure to give such notice.

Sale without Registration

The shares have not been registered with the SEC or the OFR, Division of Securities, or any other state securities agency and are being offered in reliance upon certain exemptions from federal and state securities laws requiring registration. Sales of the shares will be made under the federal exemption provided under Section 3(a)(11) of the Securities Act of 1933, as we will only sell shares to residents of the State of Florida and for nine months following this offering, we will restrict resales of shares purchased in this offering to Florida residents. We will also rely on exemptions from registration under Florida pursuant to the current security holder and private placement exemptions in Sections 517.061 (6) and (11), *Florida Statutes*, respectively. In addition to requiring that all investors be “accredited,” we will only accept subscriptions from investors we determine to be sophisticated in our sole judgment.

To qualify as an accredited investor, a purchaser must represent in writing that at least one of the following is true:

- such person is a natural person whose individual net worth or joint net worth together with that person’s spouse, excluding the value of that person’s primary residence (and any debt secured by such residence that is less than the value of such residence and not incurred within 60 days of the purchase), at the time of his or her acquisition of the shares exceeds \$1,000,000;
- such person is a natural person who has had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person’s spouse in excess of \$300,000 in each of those years, and has a reasonable expectation of reaching the same level of income in the current year;
- such person is a director or executive officer of the Holding Company or the Bank;
- it is a trust that is qualified as an accredited investor, in that it has net assets in excess of \$5,000,000, was not formed specifically for the purpose of acquiring the shares in the offering, and the purchase of the shares is directed by a sophisticated investor, or if the trust is a grantor trust, the grantor would qualify as an accredited investor under the standards applicable to a natural person; or

- it is a charitable organization, corporation, or partnership with greater than \$5,000,000 in assets.

Each prospective purchaser is required to make certain representations to enable us to reasonably determine that each purchaser is a resident of the State of Florida and either a current security holder of the Holding Company or an “accredited investor.”

In addition to the such representations, each prospective investor will be required to represent that: (i) he or she knows that the shares have not been registered under the Securities Act, and that he or she has no right to require such registration; (ii) he or she is purchasing the shares for his or her own account for investment and not for resale to others; and (iii) he or she understands that his or her right to transfer the shares will be restricted and that the shares may not be transferred, unless such transfer is in compliance with the exemptions under which the shares are being sold and is not in violation of the Securities Act or applicable state securities laws (including investment suitability standards under applicable state law).

Resale of Restricted Securities

For nine months following this offering, we will restrict resales of shares purchased in this offering to Florida residents.

Issuance of Shares

We will place all subscription funds into a noninterest-bearing, fully insured account up to the FDIC limits at the Bank. The purpose of this account is to facilitate the closing process. The release of funds from this account is not dependent upon raising any specific amount in this offering or any other event. We expect to hold an initial closing after having accepted \$1,000,000 in subscriptions and subsequent closings at our discretion. However, as there is no minimum sale requirement, we may hold a closing at any time. If the offering terminates for any reason without the release of any subscription proceeds to us, all subscription funds will promptly be returned to subscribers, without interest and without any deduction for expenses.

Plan of Distribution

Shares will be offered to only Florida residents, who are either: (i) current Bankshares shareholders; or (ii) accredited investors. The shares will be offered on a best efforts basis by our executive officers and directors. Our officers and directors will not receive any commissions or other remuneration in connection with these activities, but they may be reimbursed for reasonable expenses incurred as a result of such activities, if any. In reliance on Rule 3a4-1 of the Securities Exchange Act of 1934, and Section 517.12(2), *Florida Statutes*, we believe that our officers who are engaged in the sale of the shares will not be deemed to be brokers and/or dealers. Individuals indicating an interest in acquiring shares will be provided with a copy of this Private Placement Memorandum prior to the acceptance of subscription funds. Subscriptions will be accepted only if accompanied by a properly completed Stock Order Form and Investor Questionnaire and payment for the shares to be purchased.

While we do not intend to retain the services of a placement agent in this offering, we reserve the right for part of the selling efforts in this offering to be made by a placement agent that would be retained after the date hereof. If we do so, the Holding Company will pay commissions, placement fees or other consideration to such placement agent. Such commission on the sales of the shares would not be expected to exceed 7%.

Purchase Limitations

There is no minimum purchase requirement to participate in the offering. Shares will not be issued to any person who, in our opinion, would be required to obtain prior clearance or approval from any state or federal regulatory authority to own or control such securities until such clearance has been

obtained. This restriction applies to individual investors, as well as to investors who would be presumed to be acting in concert with each other.

Under federal regulations, a rebuttable presumption of concerted action will arise under the following circumstances:

- a person will be presumed to be acting in concert with the members of the person's immediate family (which includes a person's spouse, father, mother, step-parent, children, step-children, brothers, step-brothers, sisters, step-sisters and grandchildren; the father, mother, brothers, and sisters of the person's spouse; and the spouses of all of the foregoing);
- In addition, the following persons will be presumed to be acting in concert:
 - a company and any controlling shareholder, partner, trustee, or management official of that company, if both the company and the person own voting securities of the Holding Company;
 - companies under common control;
 - persons that are parties to any agreement, contract, understanding, relationship, or other arrangement, whether written or otherwise, regarding the acquisition, voting, or transfer of control of voting securities of a bank or bank holding company, other than through a revocable proxy as described in Section 255.42(a)(5) of Regulation Y;
 - persons that have made, or propose to make, a joint filing under Sections 13 or 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78n), and the rules promulgated thereunder by the SEC; and
 - a person and any trust for which the person serves as trustee.

Suitability Standards

In determining whether to accept a subscription, in whole or in part, we may take into account a subscriber's potential to do business with, or to direct customers to, the Company. The requested size of a proposed subscription may also cause us to seek further information concerning the subscriber's net worth, potential for income production, experience in making investment decisions and primary investment objectives. The satisfaction of any such inquiry does not necessarily mean that an investment in the shares is suitable or that a subscription by a particular subscriber to invest will be accepted. Because of the probable lack of any significant public market for the shares for an indefinite period following their issuance, a subscriber should consider an investment in the shares to be an illiquid and long-term investment. Also, due to the nature of the investment, an early sale of the shares could result in a loss to the selling shareholder of some part or all of his initial investment.

USE OF PROCEEDS

The net proceeds of this offering will be used to increase the capital of the Bank and to support its future loan and deposit growth, expand its branch network, support possible acquisitions of other financial institutions or branches, and for general corporate purposes. The increase in capital will also permit us to make loans larger than which we are currently permitted to make. We may consider opening additional branches, although we have not identified any other specific branch locations. If we identify an appropriate and attractive opportunity, we may also consider acquiring another financial institution, or individual branches, in our market, although there are no specific acquisitions currently being considered. We will have broad discretion over the use of the net proceeds of this offering and may not allocate the proceeds in the most profitable manner. Following the offering, we will initially invest the net proceeds in cash and cash equivalents, while we identify more desirable investment opportunities, such as new loans.

IMPACT ON BOOK VALUE

At December 31, 2013, our net tangible common book value was \$16.7 million, or \$7.58 per share, based upon 2,199,988 shares outstanding. The decrease in book value per share attributable to new investors represents the difference between the amount per share paid by purchasers of our shares in this offering and the pro forma net tangible book value per share of our stock immediately after completion of the offering. The following table illustrates the change in book value per share attributable to new investors based on the sale of 300,000 shares in this offering (the maximum number of shares offered) and after deducting offering expenses of \$50,000.

	Assuming 300,000 Shares Sold
Offering price	\$9.50
Net offering proceeds after expenses.....	\$2,800,000
Net tangible common book value at December 31, 2013.....	\$16,681,000
Pro forma net tangible common book value after the offering	\$19,481,000
Increase in net tangible common book value attributable to new shareholders.....	\$0.21

DIVIDEND POLICY

Since commencing operations, neither the Bank nor Bankshares has paid any cash dividends to our common shareholders. Our policy is to retain any earnings to support our current and expected future growth. Future dividends may be declared subject to the sole discretion of the Board of Directors. The Board of Directors will consider, among other factors, our actual and projected earnings, financial condition, and regulatory capital requirements (including applicable statutory and regulatory restrictions on the payment of dividends) in determining whether to declare a dividend. However, we do not anticipate paying dividends on shares of our common stock in the foreseeable future. Notwithstanding the foregoing, we do intend to pay dividends on the shares of Class A Preferred Stock issued under the SBLF program.

Our ability to pay dividends on shares of our common stock is essentially contingent upon the Bank's ability to pay dividends to the Holding Company. The bank is restricted under Florida banking laws and by regulations of the OFR. Pursuant to Florida law, a state bank may not pay dividends from its capital stock. All dividends must be paid out of current net profits then on hand plus retained net profits of the preceding two years, after deducting bad debts, depreciation and other worthless assets, and after making provision for reasonably anticipated future losses on loans and other assets. Finally, a state bank may not declare a dividend which would cause the bank's capital accounts to fall below the minimum amount required by law or banking regulations. Notwithstanding the foregoing, the OFR has granted approval to all Florida state-chartered banks to pay dividends to their holding companies to fund the payment of dividends on shares of preferred stock issued under the SBLF program.

In addition, on October 15, 2013, the Bank paid a 10% stock dividend on the shares of Bank common stock.

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CAPITALIZATION

The following table sets forth the Bank's capitalization as of December 31, 2013, assuming the offering was conducted by the Bank, and as adjusted to give effect to the proceeds from the assumed sale of 300,000 shares (the maximum number of shares offered), after deducting estimated offering expenses of \$50,000.

	Actual at December 31, 2013 (unaudited)	As Adjusted for Sale of 300,000 Shares
	(Dollars in Thousands)	
Stockholders' equity:		
Common stock, \$5.00 par value, 9,000,000 shares authorized, 2,199,988 shares issued and outstanding at December 31, 2013 and 2,499,988 shares issued and outstanding at the completion of the offering ⁽¹⁾	\$11,000	\$12,500
Series A Preferred Stock, \$1.00 par value, \$1,000 liquidation value; 3,367 shares issued and outstanding.....	3,367	3,367
Additional paid-in capital.....	11,256	12,556
Accumulated deficit	(2,929)	(2,929)
Accumulated other comprehensive loss	(2,646)	(2,646)
Total stockholders' equity.....	<u>\$20,048</u>	<u>\$22,848</u>
Capital Ratios:		
Total risk-based capital ratio ⁽²⁾	18.63%	20.48%
Tier 1 leverage ratio	11.31%	12.61%
Tier 1 risk-based capital ratio ⁽²⁾	17.38%	19.23%
Total equity to total assets	10.34%	11.62%

(1) No effect has been given to the issuance of additional shares of common stock pursuant to outstanding options.

(2) Assumes net proceeds invested in cash or cash equivalents.

MARKET FOR SECURITIES

Our common stock is not listed, quoted or traded on any stock market or exchange. We will not seek to have it listed or quoted on any market or exchange following this offering. If our stock does become listed or quoted, we do not anticipate an active market developing for our shares in the foreseeable future.

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OUR BUSINESS

General

The Bank was formed by a group of Pinellas County business leaders and bank executives who identified a need for a locally owned community bank. The Bank opened for business on December 3, 2007, from its Oldsmar main office. On October 31, 2011, the Bank opened a branch office in Palm Harbor and opened a second branch office in Tarpon Springs, Florida on July 25, 2012. On November 19, 2013, the Bank opened its newest branch in New Port Richey, Florida.

On February 27, 2014, the Bank and Bankshares completed the Reorganization through a statutory share exchange which resulted in Bankshares becoming a bank holding company and the Bank being a wholly owned subsidiary of Bankshares. Presently, Bankshares' only activity is the ownership of the Bank.

Operating and Business Strategy

The Bank is a full-service community bank, with local leadership and decision making. Our management and staff emphasize relationship banking. As part of that, we focus on small and medium-sized business and consumers who are seeking banking services offered in a personalized and responsive manner. Our strategy involves attracting customers and acquiring market share controlled by other financial institutions in our market area. Our management philosophy emphasizes prompt and responsive personal service to the residents, businesses, and professionals primarily in the communities and neighboring communities of Oldsmar, Palm Harbor, Tarpon Springs, and New Port Richey, as well as the remainder of northern Pinellas and northwestern Pasco Counties. We also market our products and services to those persons and entities in the remaining portions of Pinellas County, western Pasco County, and northwestern Hillsborough County.

We believe that our range of banking services, as well as our emphasis on personal attention and service, prior experience in the market area, prompt decision-making and consistency in banking personnel are major tools in our efforts to capture market share. We utilize advertising and one-on-one selling efforts to build a distinct institutional image for Jefferson Bank and to capture a customer base. Business development efforts focus primarily on small businesses engaged in the real estate, legal, retail, accounting, manufacturing, and medical fields. We distinguish ourselves from our competitors through a high level of customer service and by delivering products that we believe are competitive and that meet the needs of our customers.

Our business strategy is to be among the outstanding financial institutions in the communities we serve by providing a high level of personalized service, competitive banking products, a challenging and rewarding work environment for our staff, and attractive and convenient banking offices. We intend to continue to expand our business through internal growth, as well as selective geographic expansion, while maintaining strong asset quality and profitability. Our business strategy incorporates the following elements:

- Capitalizing on customer dissatisfaction relating to recent and ongoing consolidation of banks in our market area into regional and national financial institutions. Additionally, certain regional banks in our market area have experienced turmoil that has resulted in decreased customer service to business and consumers in our market. As an independent community-based banking organization, we believe we can compete effectively by providing a higher level of personalized service to our customers.
- Maintaining excellent asset quality by adhering to stringent underwriting standards and policies.

- Recruiting bankers with experience in, and knowledge of, our markets who have been displaced or have grown dissatisfied as a result of the consolidation or turmoil within the banking industry.
- Expanding our market area by establishing new branches in communities that present attractive growth opportunities within Pinellas and Pasco Counties and select contiguous markets.
- Achieving and maintaining profitability on a sustained basis. As a relatively new bank, we have incurred costs associated with starting and growing our business, including opening new branches and hiring new personnel. Although we expect to continue to incur expenses related to growing our business, we are focused on becoming profitable on a sustained basis.
- Achieving an optimal level of low-cost funding. In order to sustain our projected asset growth, we are committed to achieving an optimal level of retail deposits that will minimize our funding costs.
- Establishing significant brand recognition in our market area through extensive community and local business involvement of our management and directors.

Market Area and Competition

Our primary service area is Oldsmar, Palm Harbor, Tarpon Springs, and New Port Richey, as well as the remainder of northern Pinellas County and northwestern Pasco County. Pinellas County is located on the west coast of Central Florida, north of Tampa Bay and is Florida's six largest county in terms of population, but is the second smallest in terms of area. This density of population provides us with an opportunity to market Jefferson Bank to a large number of potential customers with fewer branches than banks in less densely populated counties. Pasco County is also on the west coast of Florida, just north of Pinellas County.

We believe that Pinellas and Pasco Counties have attractive demographics for the growth of our Bank. Based on reports obtained from Pinellas County Economic Development, the population of Pinellas County in 2012 was 915,680, with nearly 40% of the population being between 25 and 54 years of age. The average annual household income in Pinellas County was \$57,849 in 2012 and its population was 470,391, with median household income of \$43,787.

The largest employment sectors of the Pinellas County workforce include retail trade, health care and social assistance, accommodation and food services, professional, scientific, and technology services, manufacturing, food services, finance and insurance, educational services, and public administration. In Pasco County, the largest employment sectors were education, health care, retail trade, and professional services. According to the Florida Agency for Workforce Innovation, Pinellas County had a non-seasonally adjusted unemployment rate of 5.7% as of December 31, 2013, compared to 6.7% for Pasco County and 5.9% for Florida.

According to the FDIC, as of June 30, 2013, there were 36 commercial banks and savings associations operating in Pinellas County with eight headquartered in the county. Those 36 institutions operate a total of 317 branches located within Pinellas County, with a total deposit base of approximately \$30.6 billion. The total deposit base increased approximately \$1.8 billion from 2003 to 2013, which represents an increase of 6.25%. In Pasco County, as of June 30, 2013, there were 23 financial institutions, operating 110 offices, with a total deposit base of \$5.3 billion.

Lending Activities

General. We consider the maintenance of a well-underwritten and diversified loan portfolio to be a prudent and profitable method of employing funds raised through deposits. Our objective is to maintain a high quality, diversified credit portfolio consisting of commercial loans, consumer loans and mortgage loans. We offer loan products and programs that we believe are responsive to the business community's financial requirements. Our borrowers are generally located within our primary market area, with a small portion of our lending business occurring in neighboring counties. As of December 31, 2013, our loan portfolio was composed of:

<u>Type of Loan</u>	<u>% of Total Loan Portfolio</u>
Commercial real estate	51.60%
Commercial	18.52
Residential real estate	22.41
Consumer	1.78
Construction	<u>5.69</u>
Total	<u>100.00%</u>

Loan Approval and Review. Loan approval policies have been established to provide our lenders with the discretion necessary to accomplish our lending objectives while assuring compliance with banking regulations. Our Bank's Board's Loan Committee is responsible for ensuring the soundness of the Bank's credit policy, adherence to lending policies and compliance with applicable laws, rules, and regulations. To fulfill these responsibilities, the Loan Committee reviews the adequacy of the Bank's credit policy on at least an annual basis, reviews all large loans and monitors the performance of the loan portfolio on an ongoing basis.

Lending Limits and Loan Approval Authority. Our lending activities are subject to a variety of lending limits imposed by state and federal law. In general, the Bank is subject to a legal limit on secured loans to a single borrower equal to 25% of the Bank's capital accounts. As of December 31, 2013, this lending limit was approximately \$5.6 million. Different limits may also apply based on the type of loan or the nature of the borrower, including the borrower's relationship to the Bank. These limits increase or decrease as our capital increases or decreases. Unless the Bank is able to sell participations in loans to other financial institutions, the Bank will not be able to meet the continuing lending needs of loan customers requiring aggregate extensions of credit above these limits.

Our Board of Directors approves all loans made to Bank insiders. The full Board and its Loan Committee have loan approval authority up to our legal lending limit. Certain of our lending officers, including our Chairman and Chief Executive Officer Robert B. McGivney and President, Chief Operating Officer, and Senior Lender James P. Nelson, have individual lending limits of up to \$1,000,000.

Credit Risk. The principal credit risk associated with each category of loans is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic and real estate conditions and the strength of the manufacturing, services, and retail market segments. General economic factors affecting a borrower's ability to repay include interest, inflation, and employment rates and the strength of the local and national economy, as well as other factors affecting a borrower's customers, suppliers, and employees.

Commercial Real Estate Loans. We originate mortgage loans for the acquisition and refinancing of commercial real estate properties. As of December 31, 2013, \$61.4 million, or 51.60%, of our total loan portfolio consisted of loans secured by commercial real estate properties. The majority of our commercial real estate loans are secured by developed and undeveloped land, office buildings, manufacturing facilities, distribution/warehouse facilities and retail centers, which are generally located in our local market area.

Our commercial real estate loans generally have terms of five to seven years, although payments may be amortized over 20 years. These commercial real estate loans include various types of loans

secured by nonresidential commercial real estate. Inherent in commercial real estate loans' credit risk is the risk that the primary source of repayment, the operating company, will be insufficient to service the debt. If a real estate loan is in default, we also run the risk that the value of a secured commercial real estate loan's collateral will decrease, and thereby be insufficient to satisfy the loan. To mitigate these risks, we evaluate each borrower on an individual basis and attempt to determine its business risks and credit profile.

We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio is established by independent appraisals. Appraisals are performed by an independent appraiser selected by us, and all appraisals are reviewed by our management team. We consider the quality and location of the real estate, the credit of the borrower, the cash flow of the project and the quality of management involved with the property. As of December 31, 2013, 29.57% of our commercial real estate loans were secured by owner-occupied property.

Loan-to-value ratios on our commercial real estate loans vary by collateral type. The policy maximum loan-to-value ratio of any one commercial real estate loan is 80%. As part of the criteria for underwriting commercial real estate loans, we generally impose a debt coverage ratio (the ratio of net operating income before payment of debt service compared to debt service) of not less than 1.0. It is also our general practice to obtain personal guarantees from the principals of our corporate borrowers on our commercial real estate loans.

Loans secured by commercial real estate typically have higher balances and are more difficult to evaluate and monitor and, therefore, involve a greater degree of credit risk than other types of loans. If the estimate of value proves to be inaccurate, the property may not provide us with full repayment in the event of default and foreclosure. Because payments on these loans are often dependent on the successful development, operation and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We seek to minimize these risks by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan.

On a case-by-case basis, we also require borrowers to establish interest reserves with loan proceeds to ensure timely payment of interest. In order to ensure secondary sources of repayment and liquidity, we typically review the personal financial statements of the principal owners and require their personal guarantees.

Commercial Loans. Part of our loan portfolio includes commercial loans to members of the business community in order to provide funds for such purposes as financing business equipment. Risks of these types of loans include the general business conditions of the local economy and borrowers' ability to conduct their businesses to generate sufficient profits to repay their loans under the agreed upon terms and conditions. Personal guarantees are typically obtained from the principals of business borrowers and third parties to support the borrowers' ability to service the debt and reduce the risk of non-payment.

Commercial loans are either short term (one year or less) or intermediate term (three to five years) in nature and may be secured, unsecured or partially secured. Maturities are structured in relation to the economic purpose of the loan, conforming to the anticipated source of repayment. Interest rates are originated on a floating rate basis, typically tied to the prime rate. The basis upon which we set interest rates relative to the prime rate is based upon the risk of the credit facility. Floors and pre-payment penalties are established whenever possible. In addition, we attempt to originate fees on each loan closed through the Bank.

Term loans are those having an anticipated final maturity of more than one year from the initial funding date. Amortization schedules on term loans which are secured by collateral other than real estate will typically reflect a complete payout within seven years of the funding date.

Demand notes are utilized in connection with certain secured commercial loan transactions where the nature of the transactions suggest that such structure is clearly preferable; however, time notes are utilized as a matter of routine.

We consider the following types of credit, subject to adequate available resources to monitor and service such credit:

- term loans secured by machinery and equipment (terms of such loans must be consistent with the purpose, cash flow capacity, and economic life of collateral); and
- credit lines for short-term working capital requirements. Credit lines are typically subject to review at least annually and generally carry a requirement for a minimum 30 consecutive day annual out-of-debt period.

As of December 31, 2013, \$22.0 million, or 18.52%, of our total loan portfolio consisted of commercial loans.

Residential Mortgage Loans. We offer mortgage loan programs to provide financing primarily for the acquisition or construction of single-family, owner-occupied primary residences. All loans are structured with an amortization schedule not exceeding 30 years. Adjustable rate loans are maintained in our loan portfolio and fixed rate loans are sold in the secondary market, in order to generate fee income.

Normally, the loan-to-value ratio of each conventional mortgage that we make does not exceed 80%. However, we do participate with private mortgage insurance companies for the purpose of providing loans with a loan-to-value ratio of up to 97%. We offer revolving lines of credit and closed end loans secured by second mortgages on individuals' homes, primarily within our market area. We typically extend credit up to 80% of a home's value and primarily underwrite these loans based on a borrower's cash flow and creditworthiness. The risk of these loans include the frequency of interest rate changes, the financial stability of borrowers and the ability to liquidate foreclosed real estate to produce sufficient revenue to prevent a loss. As of December 31, 2013, \$26.7 million, or 22.41%, of our total loan portfolio consisted of residential mortgage loans.

We also maintain an active mortgage origination program for loans to be sold in the secondary market. In 2013, we sold such loans totaling \$20.6 million in principal.

Consumer Loans. Consumer loans are made to individuals for household, family, and personal expenditures. Consumer loans generally involve more risk than mortgage loans because the collateral for a defaulted loan may not provide an adequate source of repayment of the principal. This risk is due to the potential for damage to the collateral or other loss of value and the fact that any remaining deficiency often does not warrant further collection efforts. The performance of a consumer loan also depends on the borrower's continued financial stability and is, therefore, more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Generally, consumer loans and non-real estate secured loans have a maturity of no longer than six years. The primary type of consumer lending is for the financing of boats and automobiles, personal lines of credit, home improvements and education. We also make loans secured by second mortgages on real estate and other collateral, as well as unsecured loans. As of December 31, 2013, \$2.1 million, or 1.78%, of our total loan portfolio consisted of consumer loans.

Construction Loans. We offer loans to developers and to individuals to finance the costs of houses and commercial properties. These loans typically are extended to customers with a history of satisfactory credit and successful experience in their line of business. Loan advance ratios typically include a hard cash equity requirement and preleasing for non-owner occupied real estate. As of December 31, 2013, \$6.7 million or 5.69% of our total loan portfolio consisted of construction loans.

Deposit Services

We offer a broad range of interest bearing and non-interest bearing deposit accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, regular interest-bearing savings accounts and certificates of deposit with fixed rates and a range of maturity date options. Our sources of deposits include residents, businesses, and employees of businesses within our market area obtained through the personal solicitation of our officers and directors, direct-mail solicitation, and advertisements published in the local media. We typically pay competitive interest rates on our time and savings deposits. In addition, we maintain a service charge fee schedule which is competitive with other financial institutions in our market area, covering such matters as maintenance fees on checking accounts, per-item processing fees on checking accounts, and returned-check charges.

We attempt to compete aggressively for deposits in our primary market area. Among our product offerings are online business banking, remote deposit capture, checking accounts, cash management services, safe deposit boxes, direct deposit of payroll and social security checks, wire transfers, and automatic drafts. Based on experience, our management believes these accounts and products are profitable when considering the entire potential customer relationship, which may include other deposit accounts, loans, and sources of fee income.

We occasionally offer certificate of deposit promotions designed to attract customers to whom we intend to cross-sell other services, including loan products. Our goal is to attract customers who will become permanent customers due to more responsive, more personalized, and faster service. We also seek to accumulate as much zero interest or low cost deposits as possible.

We offer a tiered, money market/savings product, whereby the Bank pays higher rates on higher-deposit balances. We believe this deposit vehicle permits the Bank to compete with money market mutual funds.

We occasionally enter into repurchase agreements with customers that require the Bank to pledge securities as collateral for the account balance.

As of December 31, 2013, our deposit composition was:

<u>Type of Deposit</u>	<u>% of Total Deposit Portfolio</u>
Non-interest bearing accounts	21.80%
Interest bearing demand deposit accounts, savings accounts, money market accounts, and customer repurchase agreements	51.21%
Time deposits	<u>26.99%</u>
Total	<u>100.00%</u>

We also attempt to focus on relationship banking. Typically, customer relationships become more profitable as the number of services they utilize increases, and the balance in each individual account increases as the total number of accounts increase.

We occasionally participate in the Certificate of Deposit Account Registry Service (“CDARS”) and Insured Cash Sweep (“ICS”), permitting us to accept CD and Money Market deposits which would otherwise be too large for full FDIC insurance coverage and reciprocally place portions of such CDs with other banks thereby obtaining additional insurance coverage. These programs have allowed us to attract accounts with higher average balances.

Investments

Investment securities also comprise a substantial portion of the Bank's assets. We primarily invest in direct obligations of the United States, obligations guaranteed as to principal and interest by the United States and obligations of agencies of the United States, municipalities and corporations. In addition, we are required to purchase stock in the Federal Home Loan Bank of Atlanta have a small investment with our primary correspondent, FNBB. We enter into federal funds transactions with our principal correspondent banks, and have primarily acted as a net seller of such funds. The sale of federal funds amounts to a short-term loan from us to another bank, usually overnight. The Bank has funds invested overnight with the Federal Reserve in an excess balance account and with the Federal Home Loan Bank.

As of December 31, 2013, our investment portfolio composition was:

<u>Type of Security</u>	<u>% of Total Securities Portfolio</u>
Mortgage Backed/CMO's	88.22%
Corporate (FHLB & FNBB)	2.01
Other (funds invested overnight)	<u>9.77</u>
Total	<u>100.00%</u>

Asset/Liability Management

Our objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash management, loan, investment, borrowing and capital policies. Designated bank officers are responsible for monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix, stability and leverage of all sources of funds while adhering to prudent banking practices. It is our overall philosophy to support asset growth primarily through growth of core deposits, which include deposits of all categories made by individuals, partnerships and corporations. We attempt to invest the largest portion of our assets in commercial, consumer and real estate loans.

Our asset/liability mix is monitored on a daily basis with a monthly report reflecting interest-sensitive assets and interest-sensitive liabilities being prepared and presented to our Board of Directors. The objective of this policy is to control interest-sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on our earnings.

Correspondent Banking

Correspondent banking involves the provision of services by one bank to another bank which cannot provide that service for itself from an economic or practical standpoint. The Bank purchases correspondent services offered by larger banks, including check collections, purchase and sale of federal funds, securities safekeeping, investment services, coin and currency supplies, over line or limit and liquidity loan participations and sales of loans to or participations with correspondent banks. As compensation for services provided by a correspondent, we occasionally maintain certain balances with such correspondents in non-interest bearing accounts.

Data Processing

We obtain data processing from an outside service bureau, from which we receive a full range of data processing services, including an automated general ledger, deposit accounting, commercial, real estate and installment loan processing, central information file, ATM processing, bill payment, and internet banking services.

Properties

We lease our main office and two of our branch offices. Our main office in Oldsmar, Florida is located near the Hillsborough and Pinellas County line. This facility is 8,135 square feet, with two drive through windows. Our executive and administrative offices are also located in this location.

We own our Palm Harbor, Florida branch which is located on U.S. Highway 19, the most heavily travelled road in the county. It is 3,365 square feet, with two drive through lanes.

Our Tarpon Springs, Florida branch is in Northern Pinellas County and is comprised of 3,648 square feet and three drive through windows.

Our New Port Richey, Florida office is located in western Pasco County and is 3,500 square feet with two drive through windows.

Our Clearwater, Florida loan production office is leased on a month-to-month basis and is located in Pinellas County.

Our Boca Raton, Florida loan production office is leased for a term of one year and is located in Palm Beach County.

Employees

As of December 31, 2013, we employed 39 full-time and seven part-time employees. Our employees are not represented by any collective bargaining group. We believe that relations with our employees are good.

We maintain a comprehensive employee benefits program providing, among other group benefits, health insurance, long-term disability insurance, term life insurance, a 401(k) retirement savings plan, and a stock option plan. We believe our employee benefits program is generally competitive with employee benefits provided by other financial services employers in our local market area.

Additional personnel will be hired as needed, including additional tellers and financial service representatives.

Legal Proceedings

None of the Holding Company, the Bank, or any of our respective properties is subject to any material legal proceedings.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion reviews our results of operations and assesses our financial condition as of, and for the years ended, December 31, 2013 and as of December 31, 2012. You should read the following discussion and analysis in conjunction with our "Selected Financial Data" and our audited financial statements and the related notes as of and for the year ended December 31, 2012, included as Appendix B and our unaudited balance sheet and statement of operations as of and for the year ended December 31, 2013, included as Appendix A to this Private Placement Memorandum. All financial data is for the Bank, not the consolidated Company, as the Reorganization occurred after December 31, 2013. All financial data as of, and for the year ended, December 31, 2013, is unaudited.

Critical Accounting Policies

We have established certain accounting and financial reporting policies to govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities. Management considers these accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from the judgments and estimates adopted by management, which could have a material impact on the carrying values of assets and liabilities and the results of our operations. Our significant accounting policies are described in the notes to the financial statements for the year ended December 31, 2012, included with this Private Placement Memorandum.

Balance Sheet Review

General. At December 31, 2013, our total assets were \$193.9 million, consisting principally of \$116.9 million in loans (net of allowance of \$2.0 million), \$59.8 million in securities, and \$9.3 million in cash, due from banks, and overnight investments. Our liabilities at December 31, 2013 totaled \$173.8 million, comprised principally of \$151.9 million in deposits. At December 31, 2013, our shareholders' equity was \$20.0 million.

At December 31, 2012, we had total assets of \$173.5 million, consisting principally of \$92.1 million in loans (net of allowance of \$2.1 million), \$65.1 million in securities, and \$10.0 million in cash, due from banks, and overnight investments. Our liabilities at December 31, 2012 totaled \$151.8 million, consisting principally of \$136.0 million in deposits. At December 31, 2012, our shareholders' equity was \$21.7 million.

Loan Portfolio. Commercial real estate loans comprise the largest group of loans in our portfolio. At December 31, 2013, commercial real estate loans totaled \$61.4 million, or 51.6% of the total loan portfolio. Residential loans were the next largest group, totaling \$26.6 million, or 22.4% of the entire portfolio. Commercial loans totaled \$22.0 million, or 18.5% of the loan portfolio and construction loans totaled \$6.8 million, or 5.7% of the total portfolio. All other loans amounted to \$2.2 million, or 1.8% of the loan portfolio.

As of December 31, 2012, commercial real estate loans amounted to \$52.4 million, or 55.7% of the total loan portfolio. Residential loans comprised the next largest group of loans in our loan portfolio, amounting to \$23.4 million, or 24.9% of the total loan portfolio. Commercial real estate loans amounted to \$15.1 million or 16.0% of the total loan portfolio. Construction loans amounted to \$2.1 million or 2.3% of the total portfolio. All other loans amounted to \$1.1 million, or 1.1% of the total loan portfolio.

The following table sets forth the composition of our loan portfolio (dollars in thousands):

	<u>At</u> <u>December 31, 2013</u>		<u>At</u> <u>December 31, 2012</u>	
	<u>Amount</u>	<u>% of</u> <u>Loans to</u> <u>Total Loans</u>	<u>Amount</u>	<u>% of</u> <u>Loans to</u> <u>Total Loans</u>
Commercial real estate	\$ 61,359	51.60%	\$52,437	55.68%
Commercial	22,022	18.52	15,082	16.02
Residential real estate	26,644	22.41	23,446	24.90
Consumer	2,111	1.78	1,053	1.12
Construction	<u>6,770</u>	<u>5.69</u>	<u>2,148</u>	<u>2.28</u>
 Total loans.....	 \$118,906	 <u>100.00%</u>	 \$94,166	 <u>100.00%</u>
 Allowance for loan losses.....	 <u>\$ (2,038)</u>		 <u>\$ (2,059)</u>	
 Loans, net.....	 <u>\$116,868</u>		 <u>\$92,107</u>	

Allowance for Loan Losses. We must maintain an adequate allowance for loan losses (“ALLL”) based on a comprehensive methodology that assesses the probable losses inherent in our loan portfolio. We maintain an ALLL based on a number of quantitative and qualitative factors, including levels and trends of past due and non-accrual loans, asset classifications, loan grades, change in volume and mix of loans, collateral value, historical loss experience, size and complexity of individual credits and economic conditions. Provisions for loan losses are provided on both a specific and general basis. Specific allowances are provided for impaired credits for which the expected/anticipated loss is measurable. General valuation allowances are based on a portfolio segmentation based on risk grading with a further evaluation of various quantitative and qualitative factors noted above.

We periodically review the assumptions and formulas by which additions are made to the specific and general valuation allowances for losses in an effort to refine such allowances in light of the current status of the factors described above. The methodology is presented to and approved by the Board of Directors. Future additional provisions to the loan loss reserves may be made as appropriate as new loans are identified or as existing loans may deteriorate.

All adversely classified loans are carefully evaluated for losses or potential loss exposure. The evaluation occurs at the time the loan is classified and on a regular basis thereafter (at least quarterly). This evaluation is documented in a problem asset status report relating to a specific loan or relationship. Specific allocation of reserves considers the value of the collateral, the financial condition of the borrower, and industry and current economic trends. We review the collateral value, cash flow, and tertiary support on each classified credit. Any deficiency outlined by a real estate collateral evaluation liquidation analysis, or cash flow shortfall is accounted for through a specific allocation reserve calculation for the loan.

We also perform a portfolio segmentation based on risk grading. Loans are rated into different categories, with a percentage of the portfolio, based on grade, allocated to the allowance. The loss factors for each risk grade are determined by management based on management’s overall assessment of the overall credit quality at month end taking into account various quantitative and qualitative factors such as trends of past due and non-accrual loans, asset classifications, loan grades, collateral value, historical loss experience and economic conditions.

The following table sets forth information with respect to activity in the allowance for loan losses for the years ended December 31, 2013, and December 31, 2012 (dollars in thousands).

	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
Average loans outstanding.....	<u>\$ 106,388</u>	<u>\$ 80,812</u>
Allowance at beginning of period.....	2,059	1,925
Provision for loan losses.....	35	92
(Charge offs) net of recoveries	<u>(56)</u>	<u>42</u>
Allowance at end of period.....	<u>\$ 2,038</u>	<u>\$ 2,059</u>
Allowance as a percent of total loans	1.71%	2.19%
Total loans at end of period	\$ 118,906	\$ 94,166

While management believes our allowance for loan losses is adequate as of December 31, 2013, future adjustments to our allowance may be necessary if economic conditions differ substantially from the assumptions used in making the determination.

Securities Portfolio. Our Bank’s securities portfolio primarily consists of U.S. government and agency securities. Securities are categorized as “held to maturity,” “available for sale,” or “trading.” Securities held to maturity represent those securities which the Bank has the positive intent and ability to hold to maturity. Securities available for sale represent those investments which may be sold for various reasons including changes in interest rates and liquidity considerations. These securities are reported at fair market value with unrealized gains and losses being reported as a separate component of shareholders’ equity, net of income taxes. Trading securities are held primarily for resale and are recorded at their fair market values. Unrealized gains or losses on trading securities are included immediately in operations. At December 31, 2013, we had no securities categorized as held to maturity or trading.

The table below sets forth the carrying value, and the fair value, of our securities portfolio for the dates specified (in thousands):

<u>At December 31, 2013</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<i>Available for Sale:</i>				
Mortgage Backed Securities	<u>\$ 64,040</u>	=	<u>\$ (4,233)</u>	<u>\$ 59,807</u>
<u>At December 31, 2012</u>				
<i>Available for Sale:</i>				
Mortgage Backed Securities	<u>\$ 65,472</u>	=	<u>\$ (409)</u>	<u>\$ 65,063</u>

Deposits and Other Sources of Funds. In addition to deposits, the sources of funds available for lending and for other business purposes include loan repayments and principal repayments on securities. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are influenced significantly by general interest rates and money-market conditions. Borrowings, as well as available lines of credit, may be used on a short-term basis to compensate for reductions in other sources, such as deposits at less than projected levels.

Deposits are attracted principally from within our primary service area, Pinellas and northwestern Pasco Counties, Florida. We offer a wide selection of deposit instruments including:

- demand deposit accounts;
- NOW accounts;
- money-market accounts;
- regular savings accounts;
- certificate accounts; and
- retirement savings plan (such as IRA accounts).

Certificate of deposit rates are set to encourage longer maturities as cost and market conditions will allow. Deposit account terms vary, with the primary differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate. We emphasize commercial banking relationships in an effort to increase demand deposits as a percentage of total deposits.

Deposit interest rates are set periodically by management, based on a review of loan demand, deposit flows and a survey of rates among competitors and other financial institutions in Florida.

The amounts of each of the following categories of deposits, at December 31, 2013, and December 31, 2012, are as follows (dollars in thousands):

	<u>At</u> <u>December 31, 2013</u>	<u>At</u> <u>December 31, 2012</u>
Noninterest-bearing demand deposits.....	\$ 33,114	\$ 24,276
Interest-bearing demand deposits, savings deposits, money market deposits, and customer repurchase agreements	77,803	75,199
Time deposits.....	<u>41,012</u>	<u>36,540</u>
Total deposits.....	<u>\$151,029</u>	<u>\$136,015</u>

The following table sets forth the maturities of our time deposits of \$100,000 or more by category for the periods indicated (dollars in thousands):

	<u>As of December 31,</u>	
	<u>2013</u>	<u>2012</u>
Three months or less	\$ 6,335	\$ 7,600
Over three months through one year	10,407	7,865
Over one year through three years	16,452	14,097
Over three years	<u>2,530</u>	<u>1,667</u>
Total	<u>\$35,724</u>	<u>\$31,229</u>

Liquidity

Our liquidity management objectives are to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for expansion. Liquidity management addresses the ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise. Our primary sources of internally generated funds are principal and interest payments on loans receivable, cash flows generated from operations, and cash flows generated by investments. External sources of funds include increases in deposits and advances from the FHLB. We also have “Fed Funds” lines of credit extended by our correspondent banks to utilize for overnight cash flow needs. Our liquidity is expected to increase due to the net proceeds of this offering.

Our management monitors our liquidity position on an on-going basis and reports regularly to our Board of Directors the level of liquidity compared to minimum levels established by Board policy. As of December 31, 2013, our level of liquidity was in excess of the minimum established by Board policy.

We believe that we have sufficient liquidity to meet our loan commitments as well as fluctuations in deposits. As of December 31, 2013, we had commitments to fund approximately \$31.0 million in loans. At that same date, we had certificates of deposit totaling approximately \$18.8 million maturing within one year. We are not currently aware of any demands, trends, commitments or events that would result in our inability to meet anticipated or unexpected liquidity needs, and we believe that we can

adequately satisfy all of our commitments.

Federal Home Loan Bank Advances. Deposits are the primary source of funds for our lending and investment activities and for our general business purposes. We have the ability to use advances from the FHLB to supplement our funds and to meet deposit withdrawal requirements. The FHLB provides various forms of advances, or secured credit, for member financial institutions. As a member of the FHLB, we are required to own capital stock in such correspondent bank and we are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities that are obligations of, or guaranteed by, the U.S. Government and government agencies), subject to certain creditworthiness standards. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit.

At December 31, 2013 we had \$21.0 million in outstanding FHLB advances that were secured by \$48.4 million and \$9.8 million in loans and mortgage backed securities, respectively.

We maintain a liquidity reserve, which may consist of cash-on-hand, demand deposits due from correspondent banks, and other investments and short-term marketable securities. Our liquidity ratio at December 31, 2013 was 27%, compared with 38% at December 31, 2012.

Capital Resources

We are subject to regulatory capital requirements imposed by various regulatory banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by banking regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and percentages (set forth in the table below) of regulatory capital as defined in the regulations. As of December 31, 2013, and December 31, 2012, the Bank met all capital adequacy requirements to which it is subject and was considered to be “well capitalized” under the applicable regulatory definition.

	Actual		Adequately Capitalized⁽¹⁾		Well Capitalized⁽²⁾	
	Amount	Percent	Amount	Percent	Amount	Percent
<i>As of December 31, 2013:</i>						
(Dollars in thousands)						
Total Capital (to risk-weighted assets)	\$22,790	18.63%	\$9,785	8.0%	\$12,232	10.0%
Tier 1 Capital (to risk-weighted assets)	21,254	17.38%	4,893	4.0%	7,339	6.0%
Tier 1 Capital (to average assets)	21,254	11.31%	7,515	4.0%	9,394	5.0%
<i>As of December 31, 2012:</i>						
Total Capital (to risk-weighted assets)	\$22,554	23.08%	\$7,817	8.0%	\$9,771	10.0%
Tier 1 Capital (to risk-weighted assets)	21,322	21.82%	3,909	4.0%	5,863	6.0%
Tier 1 Capital (to average assets)	21,322	13.19%	6,466	4.0%	8,082	5.0%

(1) To be considered “adequately capitalized” under the FDIC’s Prompt Corrective Action regulations.

(2) To be considered “well capitalized” under the FDIC’s Prompt Corrective Action regulations.

Interest Rate Sensitivity Management

As part of our asset and liability management, we have emphasized establishing and implementing internal asset-liability decision processes, as well as communications and control procedures to manage our earnings. These processes and procedures provide us with better capital planning, asset mix and volume controls, loan-pricing guidelines, and deposit interest-rate guidelines, which should result in tighter controls and less exposure to interest-rate risk.

A principal objective of our asset/liability management policy is to minimize the sensitivity of our earnings and the economic values of our equity to changes in interest rates. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring our interest rate sensitivity “gap.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest-rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. The gap ratio is computed as rate sensitive assets/rate sensitive liabilities. A gap ratio of one to one represents perfect matching. A gap is considered positive when the amount of interest-rate sensitive assets exceeds interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would adversely affect net interest income, while a positive gap would result in an increase in net interest income. During a period of falling interest rates, a negative gap would result in an increase in net interest income, while a positive gap would adversely affect net interest income.

In order to minimize the potential for adverse effects of material and prolonged increases in interest rates on the results of our operations, we monitor asset and liability management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of: (a) emphasizing the origination of adjustable rate loans; (b) maintaining a stable core deposit base; and (c) maintaining a significant portion of liquid assets (cash and short-term and/or readily marketable securities).

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest-rate risk inherent in loan and deposit taking activities. To that end, we actively monitor and manage our interest-rate risk exposure. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on and off-balance sheet transactions are aggregated, and the resulting net positions are identified. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, should also be considered.

Our primary objective in managing interest-rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while adjusting our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest-rate risk. However, a sudden or substantial increase in interest rates may adversely impact our earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis.

Off-Balance Sheet Arrangements

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments primarily include commitments to extend credit, unfunded lines of credit and standby letters of credit. The Bank uses these financial instruments to meet the financing needs of its customers. These financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not represent unusual risks and management does not anticipate any accounting losses that would have a material effect on the Bank.

A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk at December 31, 2013 and at December 31, 2012 (dollars in thousands) are as follows:

	<u>As of</u> <u>December 31, 2013</u>	<u>As of</u> <u>December 31, 2012</u>
Commitments to extend credit	\$ -	\$ 2,250
Unfunded lines of credit	31,006	23,343
Standby letters of credit	1,331	906

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 some 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 credit worthiness 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 of the counterparty.

Standby letters-of-credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party and to support private borrowing arrangements. Essentially, all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending credit. The Bank may hold collateral supporting those commitments.

In general, loan commitments and letters of credit are made on the same terms, including with respect to collateral, as outstanding loans. Each customer's creditworthiness and the collateral required are evaluated on a case-by-case basis.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires the measurement of our financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, substantially all of the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same magnitude as the prices of goods and services, because such prices are affected by inflation to a larger extent than interest rates.

Comparison of Results of Operations of the Years Ended December 31, 2013 and 2012

Net Income. Net income available to common shareholders for the year ended December 31, 2013, was \$715,000 or \$0.32 per basic and diluted share, compared to a net income available to common shareholders of \$1.3 million or \$0.60 per basic and diluted share for the year ended December 31, 2012. The decrease in net earnings was primarily due to a net gain recognized on the sale of securities in 2012.

Interest Income. Interest income was approximately \$6.2 million for the year ended December 31, 2013, as compared to \$5.5 million for the year ended December 31, 2012. The increase was primarily attributable to an increase in loan balances in 2013.

Interest Expense. Interest expense for the year ended December 31, 2013 was \$0.6 million as compared to \$0.7 million for the year ended December 31, 2012. The decrease was primarily due to lower interest rates.

Provision for Loan Losses. We recorded a provision for loan losses for the years ended December 31, 2013, and December 31, 2012 of \$35,000 and \$92,000, respectively. In 2013, \$57,000 was charged off from the allowance. The allowance for loan losses was \$2.0 million at December 31, 2013.

Noninterest Income. Noninterest income was \$1.0 million for the year ended December 31, 2013, as compared to \$2.7 million for the year ended December 31, 2012. Our noninterest income primarily consisted of service charges on deposit accounts and mortgage origination fees in 2013. In 2012, noninterest income also included a gain of \$1.7 million on the sale of investment securities.

Noninterest Expense. Noninterest expense was \$5.3 million for the year ended December 31, 2013, compared to \$5.2 million for the year ended December 31, 2012.

Income Taxes. The income tax expense for the year ended December 31, 2013, was \$457,000 compared to income tax expense of \$843,000 in 2012.

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MANAGEMENT AND BOARD OF DIRECTORS

The following persons currently serve on both Holding Company's and the Bank's Board of Directors. Each director has served on the Holding Company's Board since it was incorporated on October 28, 2013. The names and ages of the directors, a brief description of their principal occupation and business experience, and certain other information are set forth below.

Gary L. Blackwell, age 70, a real estate investor and developer, was elected as a Director of Jefferson Bank on November 1, 2007. He has been a resident of Pasco County for 59 years. Mr. Blackwell has served as a director of several banks, including Ellis First National Bank of New Port Richey, Bank of Pasco County, First National Bank of the South, Village Bank, and First Kensington Bank. He has also served on many boards on behalf of Pasco County, including being the Chairman of the Pasco County Planning Commission.

David L. Brandon, age 54, the President of Brandon Construction Company, Inc. was elected as a Director of Jefferson Bank on October 28, 2009. He graduated from the University of Florida School of Building Construction and founded Brandon Construction Company in 1983. Mr. Brandon was a founding Director of Peoples Bank in Palm Harbor. He then served as a Director for Synovus Bank of Tampa Bay after the merger with Peoples Bank.

Ronald S. Hockman, age 62, the President of Hockman Insurance Agency, Inc. was elected to the Jefferson Bank Board of Directors on December 16, 2009. He has been involved in the field of insurance since completing his military career as a member of the U.S. Navy in 1972. In 1972 he joined the Harmon Insurance Agency, Inc. and in 1981 he purchased the company. The company, now known as Hockman Insurance Agency, Inc., specializes in commercial and industrial insurance. He was a director of Kensington Bankshares and First Kensington Bank from January 2002 until it was sold in September 2006.

Stephen H. Jacobs, MD, age 67, the President, Chief Executive Officer and Medical Director of Morton Plant Mease Primary Care, Inc., Clearwater, Florida, since 1999, was elected to the Jefferson Bank Board of Directors on November 1, 2007. He joined Mease Health Care in 1984 and then the staff at Morton Plant Hospital in 1986. In 1972, Dr. Jacobs earned his Medical Degree from Albert Einstein College of Medicine in New York. He subsequently was on faculty at the NYU School of Medicine from 1975 to 1982, where he was an Instructor in Clinical Medicine. He is certified by the American Board of Internal Medicine, the National Board of Medical Examiners, and is a fellow of the American College of Physicians. Dr. Jacobs served as a Lieutenant Commander and flight surgeon in the U.S. Navy from 1982 to 1984.

Robert B. McGivney, age 65, the President of the Holding Company and the Chairman of the Board and Chief Executive Officer of Jefferson Bank, was elected to the Bank Board on November 1, 2007. He was a director and the Chief Executive Officer and President of Madison Bank from September 1990 until it merged with Whitney National Bank in August 2004. From the time of the merger until September 2005, he remained as Area President for Whitney Bank. Prior to joining Madison Bank, Mr. McGivney had been a banker in San Antonio, Texas for 21 years, 17 of which were with Cullen/Frost Bankers, Inc., a \$13 billion bank holding company headquartered in San Antonio. He served as Chief Executive Officer and President of one of the holding company's affiliate banks and President and Chief Operating Officer of another in San Antonio. Mr. McGivney is active in the community and previously served two terms on the Board of Directors of the Florida Bankers Association. He was also the Chairman of the Trustees of Mease Hospitals. He is also a member of the boards of Morton Plant Mease Health Care, BayCare Health System and has served on the Executive Board of the West Central Florida Council of the Boy Scouts of America.

Joseph L. Oliveri, age 51, President of Oliveri Architects in Palm Harbor, Florida, a firm which he founded in 1992, was elected as a Director of Jefferson Bank on November 1, 2007. As part of this practice, he has designed dozens of bank branch facilities. In addition, Mr. Oliveri is the past owner of

several real estate development companies in Palm Harbor, Florida. Mr. Oliveri received a Bachelor of Architecture from Louisiana State University.

Paul J. Wikle, age 52, was elected as a director of Jefferson Bank on November 1, 2007. Mr. Wikle owned and operated Coldwell Banker Wikle Properties, a commercial and residential real estate firm, located in Palm Harbor, Florida from 1992 until he sold the franchise to Coldwell Banker NRT in November 2009. Mr. Wikle is also a real estate investor and developer in Pinellas and Pasco Counties and is very active in the community, serving on the Board of the Tarpon Springs Chamber of Commerce, and as a past Secretary and Treasurer for the Greater Clearwater Association of Realtors. He is a Trustee for the First United Methodist Church of Tarpon Springs and has served as Chairman of the Tarpon Springs Chamber of Commerce and Tarpon Springs Jaycees. He served as a director of Madison Bank from 1996 until the 2004 merger with Whitney National Bank. Mr. Wikle is a native of Palm Harbor and received his Bachelor's Degree in Real Estate from Florida State University.

In addition, we have two executive officers who do not serve on Bankshares' or the Bank's Boards:

James P. Nelson, age 57, is the Holding Company's Vice President and the Bank's President, Chief Operating Officer and Chief Lending Officer. Mr. Nelson has over 30 years of banking experience in the Bank's target markets. He has a Master's of Business Administration and a Bachelor of Science degree in Finance and Banking. Prior to joining the Bank, Mr. Nelson served as Executive Vice President, Senior Lender and Area Executive for Synovus Bank of Tampa Bay in St. Petersburg, Florida, from 2004 to 2007. From 1996 to 2004, Mr. Nelson held the position of Executive Vice President and Senior Loan Officer of Peoples Bank, Palm Harbor, Florida. Prior to that, he held various positions with AmSouth Bank, First National Bank of Clearwater, and Community Bank of Pinellas.

Margaret M. Orr, age 64, is the Holding Company's Secretary/Treasurer and the Bank's Chief Financial Officer and Executive Vice President. Previously she was the Regional Controller for Whitney National Bank, Palm Harbor, Florida, following its acquisition of Madison Bank in 2004. Ms. Orr held the position of Controller of Madison Bank prior to assuming that position with Whitney National Bank. Ms. Orr joined Madison Bank in 1986 and held a variety of positions over her 18 year tenure.

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BENEFICIAL OWNERSHIP OF SECURITIES

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2013 by each of our directors and executive officers and all directors and executive officers as a group.

<i>Name</i>	Number of Shares ⁽¹⁾	Right to Acquire ⁽²⁾	Percent of Ownership ⁽³⁾
Gary L. Blackwell	115,500	19,250	6.07%
David L. Brandon	111,485	15,400	5.73%
Ronald S. Hockman	38,531	15,400	2.43%
Stephen H. Jacobs, MD	33,193	19,250	2.36%
Robert B. McGivney	93,029	110,000	8.79%
James P. Nelson	27,830	44,000	3.20%
Joseph L. Oliveri	34,663	19,250	2.43%
Margaret M. Orr	2,750	11,000	0.62%
Paul J. Wikle	<u>40,260</u>	<u>19,250</u>	<u>2.68%</u>
Total (9 persons)	<u>497,241</u>	<u>272,800</u>	<u>31.14%</u>

(1) Includes shares for which the named person:

- has sole voting and investment power;
- has shared voting and investment power with a spouse, or
- holds in an IRA or other retirement plan program, unless otherwise indicated in these footnotes.

(2) Includes shares that may be acquired by exercising stock options that are currently exercisable or which become exercisable within 60 days of the record date.

(3) Based on 2,199,988 shares outstanding, and only that individual exercising their stock options.

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

Meetings

The Holding Company's Board of Directors did not meet during 2013, except for one organizational meeting. During 2013, the Bank's Board of Directors held 12 regular meetings, three special meetings, and 28 committee meetings. During the year ended December 31, 2012, the Bank's Board of Directors held 12 regular meetings, two special meetings and 33 committee meetings. All of our directors attended at least 75% of the total meetings of the Board of Directors and those Board committees on which each director served.

Committees

The Holding Company's Board of Directors has not yet formed any committees. The Bank's Board of Directors is presently divided into four committees. The membership of each committee is reflected in the table below:

<i>Name</i>	<u>Asset/ Liability Committee</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Loan Committee</u>
Gary L. Blackwell	X			X
David L. Brandon	X		X	X
Ronald S. Hockman	X	X		X
Stephen H. Jacobs, MD	X	X	X	X
Robert B. McGivney	X			X
Joseph L. Oliveri	X	X		X
Paul J. Wikle	X	X		X

EXECUTIVE COMPENSATION

Compensation of Chief Executive Officer and President

The following table reflects compensation paid to our Chairman and Chief Executive Officer and President, Chief Operating Officer and Senior Loan Officer in 2013, 2012, and 2011.

Name and Principal Position	Year	Salary	Bonus	Option Awards⁽¹⁾	All Other Compensation⁽²⁾	Total
Robert B. McGivney Chairman and CEO	2013	208,333	--	--	25,920	234,253
	2012	205,000	45,100	28,600	28,043	306,743
	2011	202,686	20,457	31,200	26,642	280,985
James P. Nelson President, Chief Operating Officer and Chief Lending Officer	2013	180,000	--	--	13,129	193,129
	2012	180,000	27,000	11,440	14,504	232,944
	2011	180,000	10,000	12,480	13,185	215,665

(1) Represents the amount of expense incurred by the Bank related to stock options as calculated pursuant to the Black-Scholes model.

(2) Includes 401K (employer contribution), Country Club, HSA (employer contribution), and Term Life Insurance.

Employment Arrangements

We currently have formal employment agreements with two of our executive officers and with one other senior Bank employee. We entered into an employment agreement with our Chairman and Chief Executive Officer Robert B. McGivney on October 20, 2011. The agreement provides for an initial three-year term, with automatic one year annual renewals on each anniversary of the effective date of the agreement until the end of the fifth year of the agreement, unless either party terminates such renewals. Under the terms of his employment agreement, Mr. McGivney may terminate the agreement for any reason upon 30 days' written notification to the Bank. In addition, the Bank may terminate the agreement for "cause" upon the occurrence of certain events, including Mr. McGivney's personal dishonesty, incompetence, a pattern of unacceptable behavior, willful misconduct, insubordination, conduct which negatively reflects upon the Bank, breach of fiduciary duty, failure to substantially perform the duties stated in the agreement, violation of any law, rule, or regulation (other than minor traffic violations or similar offenses), violation of a final cease-and-desist order, illness or incapacity for a period of longer than three months, or personal default on indebtedness which is not corrected within 30 days of the date of default. If the agreement is terminated by Mr. McGivney or the Bank for any of these reasons, Mr. McGivney shall be entitled to no further compensation, except for compensation that has been accrued but not yet paid. Should the Bank terminate the agreement without "cause" or if Mr. McGivney terminates the agreement for "good reason" (as each is defined in the agreement), Mr. McGivney will be entitled to receive a severance payment of the lesser of two years base salary or the base salary that would otherwise be due for the term of the agreement, provided however, that any severance may not be less than six months of his base salary. At the option of the Bank, the severance payment may be paid in one lump sum payment within 10 days of termination or by continuing to pay Mr. McGivney as though he were still employed for up to two years following termination. If terminated without cause or with good reason, Mr. McGivney would also be entitled to the continuation of his benefit plans (for e.g. health insurance) for the shorter of two years, the time of the term remaining under the agreement, or when he becomes eligible for similar benefits with another employer. Following termination of Mr. McGivney's agreement for any reason other than cause, he will be subject to a non-competition agreement which will prohibit him from becoming employed by any financial institution in Hillsborough County, Pasco County, or Pinellas County for a period of the lesser of two years or the time of the term remaining under the agreement, provided that such restriction would be no less than six months. Mr. McGivney has also agreed that for a period of the lesser of two years or the time of the term remaining under the agreement (but at least six months) following his termination for any reason other than cause, he will not solicit the business of any then current customer or employee of the Bank. Should the Bank undergo a "change in control" (as defined in the agreement), Mr. McGivney has the right to terminate the agreement. At the

closing of a change in control he is entitled to receive a lump-sum payment equal to two times his average annual W-2 compensation calculated over the five year period prior to the change in control.

The Bank also entered into an employment agreement with our President, Chief Operating Officer, and Chief Lending Officer, James P. Nelson on July 1, 2013, with an effective date of January 1, 2013. The agreement has an initial three year term, and is automatically renewed for one additional year on each anniversary of the effective date until the end of the fifth year of the agreement, unless either party elects to earlier terminate the renewals. Under the terms of his employment agreement, the Bank may terminate the agreement for “cause”, upon the occurrence of certain events (same as those described for Mr. McGivney above). If the agreement is terminated by the Bank for cause or if Mr. Nelson terminates the agreement without “good reason” (as defined in the agreement) Mr. Nelson shall be entitled to no further compensation. Should the Bank terminate the agreement without “cause” or if Mr. Nelson terminates the agreement for good reason he shall receive a severance payment of the lesser of two years base salary or the base salary that would otherwise be due for the term of the agreement, provided however, that any severance may not be less than six months of his base salary. At the option of the Bank, the severance payment may be paid in one lump sum payment within 10 days of termination or by continuing to pay Mr. Nelson as though he were still employed for up to two years following termination. If terminated without cause or with good reason, Mr. Nelson would also be entitled to the continuation of his benefit plans (for e.g. health insurance) for the shorter of two years, the time of the term remaining under the agreement, or when he becomes eligible for similar benefits with another employer. Following termination of Mr. Nelson’s agreement for any reasons other than cause, he will be subject to same non-competition and non-solicitation provisions as are described for Mr. McGivney. If the Bank under goes a change in control (as defined in the agreement) Mr. Nelson may elect to terminate his employment. Regardless of whether Mr. Nelson is terminated as a result of a change in control, Mr. Nelson is entitled to a payment equal to two times his average annual W-2 compensation calculated over the five year period prior to the change in control upon the consummation of a change in control of the Bank.

The Bank also entered into an employment agreement with our Senior Vice President of Commercial Lending, Gary S. Gray on April 25, 2013, with an effective date of January 1, 2013. The agreement has an initial term of one year, which shall be automatically renewed for one additional year on the first anniversary of the effective date, provided that either party may decline the renewal by giving notice at least 30 days prior to the anniversary of the effective date. Following a termination of Mr. Gray by the Bank for cause (as defined in the agreement) or by Mr. Gray without good reason (as defined in the agreement) he shall only be entitled to compensation which has accrued prior to termination. If Mr. Gray is terminated without cause or for good reason he is entitled to a severance payment equal to his base salary that would be due under the then-current term of the agreement. Upon a change in control of the Bank, Mr. Gray may terminate his employment. At the closing of a change in control Mr. Gray is entitled to a lump sum payment in the amount of his average annual W-2 compensation calculated over the two year period prior the change in control. Mr. Gray also has agreed to non-competition and non-solicitation provisions in the agreement, which are substantially similar to those that are described above for Mr. McGivney and Mr. Nelson, except that Mr. Gray’s restrictions are for one year periods following termination for any reason.

Director Compensation

The Bank pays each of our non-employee directors \$500 per Bank Board or Bank Committee meeting and \$250 for each Holding Company Board meeting. If a committee meeting is contiguous with a Board meeting, no committee fees are paid. In 2013, we paid a total of \$47,000 in such fees. In 2012, the aggregate amount of such fees was \$48,000.

Stock Option Plan

The 2007 Stock Option Plan (“Plan”) was approved by the Bank’s shareholders at a Special Meeting of the Shareholders on November 1, 2007, and was assumed by the Holding Company as part of

the Reorganization. The following is a summary of the material terms of the Plan. This summary is qualified in its entirety by the complete terms of the Plan.

The Plan provides for grants of options to purchase common stock and there are 330,000 shares of common stock reserved for issuance under the Plan. The Plan is administered by the Board of Directors, which has the sole authority to grant options under the Plan. The Board is authorized to interpret the Plan, to determine the employees and directors to receive grants, the number of shares to be granted, the terms of option grants, the provisions of the respective options (which need not be identical) and to take such other action in the administration and operation of the Plan as the Board deems equitable under the circumstances. The Board selects employees and directors to participate in the Plan.

Stock options may be granted for any reason the Board deems appropriate under the circumstances and each stock option grant will be the subject of a specific Stock Option Agreement between the Bank and the employee or director. The price at which a stock option may be exercised for a share of common stock may not be less than the fair market value of a share of common stock on the date the option is granted. The period during which an option may be exercised shall be determined by the Board at the time of grant and may not extend more than ten years from the date of grant. The right to grant awards will terminate and no further grants shall be made, ten years after the effective date of the Plan.

Indemnification

Both the Holding Company's and the Bank's Articles of Incorporation provide for the indemnification of directors, officers, employees, and agents to the maximum extent permitted by Chapter 607, *Florida Statutes*. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to our directors, officers, and controlling persons under the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

SUPERVISION AND REGULATION

General

As a one-bank holding company, we are subject to an extensive body of state and federal banking laws and regulations which impose specific requirements and restrictions on virtually all aspects of our operations. We are affected by government monetary policy and by regulatory measures affecting the banking industry in general.

The following is a brief summary of some of the statutes, rules, and regulations which affect our operations. This summary is qualified in its entirety, by reference to the particular statutory and regulatory provision referred to below, and is not intended to be an exhaustive description of the statutes or regulations applicable to our business. Any change in applicable laws or regulations may have a material adverse effect on our business.

Jefferson Bankshares, Inc.

The Holding Company is a bank holding company within the meaning of the Bank Holding Company Act ("BHCA"). As such, we are required to file annual reports and other information with the Federal Reserve regarding our business operations and those of our subsidiary. We are also subject to the supervision of, and to periodic inspections by, the Federal Reserve.

The BHCA generally requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring all or substantially all of the assets of a bank;

- acquiring direct or indirect ownership or control of 5% or more of the voting shares of any bank or bank holding company; or
- merging or consolidating with another bank holding company.

The BHCA and the Change in Bank Control Act, together with regulations promulgated by the Federal Reserve, require that, depending on the particular circumstances, either the Federal Reserve's approval must be obtained or notice must be furnished to the Federal Reserve and not disapproved prior to any person or company, not a bank holding company, acquiring control of a bank holding company, subject to certain exemptions. Control is conclusively presumed to exist when an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Additionally, the BHCA provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below. As a result of the USA PATRIOT Act, which is discussed below, the Federal Reserve is also required to consider the record of a bank holding company and its subsidiary bank(s) in combating money laundering activities in its evaluation of bank holding company merger or acquisition transactions.

Except as authorized by the BHCA and Federal Reserve regulations or order, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of 5% or more of the voting shares of any company engaged in any business other than the business of banking or managing and controlling banks. The primary exception allows the ownership of shares by a bank holding company in any company the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks that ownership of shares of that company is appropriate. Activities the Federal Reserve has determined by regulation to be proper incidents to the business of banking, and thus permissible for bank holding companies, include:

- making or servicing loans and certain types of leases;
- engaging in certain insurance and discount brokerage activities;
- performing certain data processing services;
- acting in certain circumstances as a fiduciary or investment or financial advisor;
- providing management consulting services;
- owning savings associations; and
- making investments in corporations or projects designed primarily to promote community welfare.

In accordance with Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks. In adhering to the Federal Reserve's policy, we may be required to provide financial support to the Bank at a time when, absent such Federal Reserve policy, it might not be deemed advisable to provide such assistance. Under the BHCA, the Federal Reserve may also require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Such

support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. A bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) expanded the Federal Reserve’s authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. FIRREA increased the amount of civil money penalties which the Federal Reserve can assess for activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1.0 million for each day the activity continues. FIRREA also expanded the scope of the individuals and entities against which such penalties may be assessed.

Jefferson Bank

As a Florida state-chartered bank, the Bank is subject to the supervision and regulation of the OFR and the FDIC. Our deposits are insured by the FDIC for a maximum of \$250,000 per account title. For this protection, we must pay a quarterly statutory assessment and comply with the rules and regulations of the FDIC. The assessment levied on a bank for deposit insurance varies, depending on the capital position of each bank, and other supervisory factors. Currently, we are subject to the statutory assessment.

The Federal Deposit Insurance Act provides that, in the event of the “liquidation or other resolution” of a bank, the claims of depositors of the bank, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the bank. If a bank fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors.

Areas regulated and monitored by the bank regulatory authorities include:

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- establishment of branches;
- corporate reorganizations;
- transactions with affiliates;
- maintenance of books and records; and
- adequacy of staff training to carry out safe lending and deposit gathering practices.

Restrictions on Transactions with Affiliates and Loans to Insiders

Sections 23A and 23B of the Federal Reserve Act restrict transactions by banks with their affiliates. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank. Generally, Sections 23A and 23B: (1) limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of that bank’s capital stock and surplus (i.e., tangible capital); and (2) require that all such transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to a nonaffiliate. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

The Dodd-Frank Act expanded the scope of Section 23A, and going forward, will include investment funds managed by an institution as an affiliate, as well as other procedural and substantive hurdles. In addition, the Dodd-Frank Act expanded coverage of transactions with insiders by including credit exposure arising from derivative transactions (which transactions are also covered by the expansion of Section 23A). The Dodd-Frank Act prohibits an insured depository institution from purchasing or selling an asset to an executive officer, director, or principal shareholder (or any related interest of such a person) unless the transaction is on market terms, and, if the transaction exceeds 10% of the institution's capital, it is approved in advance by a majority of the disinterested directors.

A bank's authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities controlled by such persons, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve. Among other things, these loans must be made on terms substantially the same as those offered to unaffiliated individuals, the amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

Anti-tying Restrictions

Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Capital Adequacy Requirements

Banks are subject to regulatory capital requirements imposed by the Federal Reserve and the FDIC. Until a bank holding company's assets reach \$500 million, the risk-based capital and leverage guidelines issued by the Federal Reserve are applied to bank holding companies on a nonconsolidated basis, unless the bank holding company is engaged in nonbank activities involving significant leverage, or it has a significant amount of outstanding debt held by the general public. Instead a bank holding company with less than \$500 million generally applies the risk-based capital and leverage capital guidelines on a bank only basis and must only meet a debt-to-equity ratio at the holding company level. The FDIC risk-based capital guidelines apply directly to insured state banks, regardless of whether they are subsidiaries of a bank holding company. Both agencies' requirements, which are substantially similar, establish minimum capital ratios in relation to assets, both on an aggregate basis as adjusted for credit risks and off balance sheet exposures. The risk weights assigned to assets are based primarily on credit risks. Depending upon the riskiness of a particular asset, it is assigned to a risk category. Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights (0%, 20%, 50%, and 100%) is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one of its agencies are risk-weighted at 0%. Off-balance sheet items, such as loan commitments and derivative financial instruments, are also assigned one of the above risk weights after calculating balance sheet equivalent amounts. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. Derivative financial instruments are converted to balance sheet equivalents based on notional values, replacement costs and remaining contractual terms. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Capital is then classified into two categories, Tier 1 and Tier 2. Tier 1 capital consists of common and qualifying preferred shareholder's equity, less goodwill and other adjustments. Tier 2 capital consists of mandatory convertible, subordinated, and other qualifying term debt, preferred stock not qualifying for Tier 1 capital, and a limited amount of allowance for credit losses, up to a designated percentage of risk-weighted assets. Under the risk-based guidelines, financial institutions must maintain a specified minimum ratio of "qualifying" capital to risk-weighted assets. At least 50% of an institution's qualifying capital must be "core" or "Tier 1" capital, and the balance may be "supplementary" or "Tier 2" capital. In addition, the guidelines require banks to maintain a minimum leverage ratio standard of capital adequacy.

The leverage standard requires top-rated institutions to maintain a minimum Tier 1 leverage capital to assets ratio of 3%. All other institutions are required to maintain a Tier 1 leverage capital ratio of 4% or greater, based upon their particular circumstances and risk profiles. To be considered well-capitalized, the leverage ratio for a bank holding company must be at least 5%. The guidelines further provide that bank holding companies making acquisitions will be expected to maintain strong capital positions substantially above the minimum levels.

Federal banking regulators have adopted regulations revising the risk-based capital guidelines to further ensure that the guidelines take adequate account of interest rate risk. Interest rate risk is the adverse effect that changes in market interest rates may have on a bank's financial condition and is inherent to the business of banking. Under the regulations, when evaluating a bank's capital adequacy, the revised capital standards now explicitly include a bank's exposure to declines in the economic value of its capital due to changes in interest rates. The exposure of a bank's economic value generally represents the change in the present value of its assets, less the change in the value of its liabilities, plus the change in the value of its interest rate off-balance sheet contracts.

Federal bank regulatory agencies possess broad powers to take prompt corrective action as deemed appropriate for an insured depository institution and its holding company, based on the institution's capital levels. The extent of these powers depends upon whether the institution in question is considered "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Generally, as an institution is deemed to be less well-capitalized, the scope and severity of the agencies' powers increase, ultimately permitting the agency to appoint a receiver for the institution. Business activities may also be influenced by an institution's capital classification. For instance, only a "well-capitalized" depository institution may accept brokered deposits without prior regulatory approval and can engage in various expansion activities with prior notice, rather than prior regulatory approval. However, rapid growth, poor loan portfolio performance or poor earnings performance, or a combination of these factors, could change the capital position of the Bank in a relatively short period of time. Failure to meet these capital requirements could subject the Bank to prompt corrective action provisions of the FDIC, which may include filing with the appropriate bank regulatory authorities a plan describing the means and a schedule for achieving the minimum capital requirements. In addition, we would not be able to receive regulatory approval of any application that required consideration of capital adequacy, such as a branch or merger application, unless we could demonstrate a reasonable plan to meet the capital requirement within an acceptable period of time.

Basel III

On July 9, 2013, the FDIC approved an interim final rule that adopts the Federal Reserve's recent changes to the Basel III bank capital rules under the Dodd-Frank Act. The new rule covers three major areas: (i) minimum capital ratios; (ii) the definition of capital; and (iii) the standardized approach for risk-weighted assets. The interim final rule also has a phase-in period, with an effective date of January 1, 2015. Components of the new rule that affect community banks include:

➤ Definition of Capital

- Creates a specific definition for Common Equity Tier 1 Capital ("CET1") ratio.
- Redefines Tier 1 Capital to include CET1 plus non-cumulative perpetual preferred stock and grandfathered trust-preferred and other securities, less certain regulatory deductions.
- Subjects mortgage servicing assets and certain deferred tax assets to stringent limits.

➤ Regulatory Capital Ratios

- Sets a minimum CET1 ratio of 4.5%.
- Maintains Tier 1 Leverage capital ratio at 4%.
- Increases minimum Tier 1 Risk-Based capital ratio to 6%.
- Maintains a minimum Total Risk-Based capital ratio of 8%.
- Mandates a capital conservation buffer of 2.5% of risk-weighted assets.

➤ Risk-Weighted Assets

- Maintains 100% risk weight for most CRE loans and creates a 150% risk weight for high volatility commercial real estate.
- Creates a 150% risk weight for almost all past due exposures (excluding residential mortgages).
- Modifies conversion factors (conversion factors are utilized to convert off-balance sheet items to on-balance sheet) for commitments with an original maturity of one year or less.

Notably, the new rule, unlike previously issued proposed notices of rulemaking, includes changes which appear to be an attempt to lessen the impact on community banks, such as:

- Maintaining the risk-weighting approach for residential mortgages.
- Providing an opt-out from the regulatory capital recognition of accumulated other comprehensive income.
- Adopting the grandfathering provisions of the Dodd-Frank Act for trust preferred securities issued by smaller bank holding companies.

Branching

Under the Dodd-Frank Act, which was enacted on July 21, 2010, the national branching requirements have been relaxed and national banks and state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. Florida law permits a state bank to establish a branch of the bank anywhere in the state. Accordingly, under the Dodd-Frank Act, a bank with its headquarters outside the state of Florida may establish branches anywhere within Florida.

Deposit Insurance Assessments

Banks must pay assessments to the FDIC for federal deposit insurance protection. The FDIC has adopted a risk-based assessment system as required by FDICIA. Under this system, FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to their respective deposit insurance funds) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and 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.

Effective January 1, 2007, the FDIC imposed deposit assessment rates based on the risk category of the bank. Risk Category I is the lowest risk category while Risk Category IV is the highest risk category. On October 16, 2008, the FDIC published a restoration plan designed to replenish the Deposit Insurance Fund over a period of five years and to increase the deposit insurance reserve ratio, which decreased to 1.01% of insured deposits on June 30, 2008, to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the FDIC changed both its risk-based assessment system and its base assessment rates. For the first quarter of 2009 only, the FDIC increased all FDIC deposit assessment rates by 7 basis points. These new rates range from 12-14 basis points for Risk Category I institutions to 50 basis points for Risk Category IV institutions. Under the FDIC's restoration plan, the FDIC established new initial base assessment rates that are subject to adjustment as described below. Beginning April 1, 2009, the base assessment rates ranged from 10-14 basis points for Risk Category I institutions to 45 basis points for Risk Category IV institutions. Changes to the risk-based assessment system included increasing premiums for institutions that rely on excessive amounts of brokered deposits, including CDARS, increasing premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances, lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for

banks with over \$10 billion in assets, while providing a reduction for their unsecured debt. Either an increase in the Risk Category of the Bank or adjustments to the base assessment rates could have a material adverse effect on our earnings.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. The quarterly assessment rate for the first quarter of 2014 is 62 basis points. These assessments will continue until the bonds mature in 2019.

The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011.

The enactment of Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The temporary increase in deposit insurance coverage became effective on October 3, 2008. In addition, on May 20, 2009, President Obama signed the Helping Families Save Their Homes Act, which extends the temporary increase in the standard maximum deposit insurance amount to \$250,000 per depositor through December 31, 2013. This extension of the temporary \$250,000 coverage limit became permanent under the Dodd-Frank Act.

The Dodd-Frank Act, changes the basis for deposit assessments from a tax based on deposits to one based on assets. The assessment base will be calculated based on the average consolidated total assets of the financial institution minus its tangible equity. The Dodd-Frank Act also increases the minimum reserve ratio of the Deposit Insurance Fund, but the burden of the increase will be on institutions with total assets in excess of \$10 billion.

Dividends

Our ability to pay cash dividends may depend almost entirely upon the amount of dividends that the Bank is permitted to pay, by statutes or regulations, to us. Additionally, the Florida Business Corporation Act provides that we may only pay dividends if the dividend payment would not render the Company insolvent, or unable to meet our obligations as they come due. These provisions could have the effect of limiting our ability to pay dividends on the shares issued in the offering.

The OFR limits a bank's ability to pay dividends. As a Florida state-chartered bank, the Bank is subject to regulatory restrictions on the payment of dividends, including a prohibition of payment of dividends from the Bank's capital under certain circumstances without the prior approval of the OFR and the FDIC. Except with the prior approval of the OFR, all dividends of any Florida bank must be paid out of retained net profits from the current period and the previous two years, after deducting expenses, including losses and bad debts. In addition, a Florida state-chartered bank is required to transfer at least 20% of its net income to surplus until their surplus equals the amount of paid-in capital.

The Federal Reserve expects bank holding companies to serve as a source of strength to their subsidiary bank(s), which may require them to retain capital for further investment in their subsidiary bank(s), rather than pay dividends to shareholders of the bank holding company. As stated previously, the Bank may not pay dividends to the Holding Company, if, after paying those dividends, the Bank would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. Payment of dividends by the Bank may be restricted at any time at the discretion of its applicable regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice.

Fiscal and Monetary Policies

The business and earnings of the Holding Company and the Bank may be significantly affected by the fiscal and monetary policies of the federal government and its agencies. The Holding Company

and the Bank are particularly affected by the policies of the Federal Reserve, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are: (i) conducting open market operations in United States government securities; (ii) changing the discount rates of borrowings of depository institutions; (iii) imposing or changing reserve requirements against depository institutions' deposits; and (iv) imposing or changing reserve requirements against certain borrowing by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve have a material effect on the earnings of the Holding Company and the Bank.

Financial Modernization

The Gramm-Leach-Bliley Act of 1999 sought to achieve significant modernization of the federal bank regulatory framework by allowing the consolidation of banking institutions with other types of financial services firms, subject to various restrictions and requirements. In general, the Gramm-Leach-Bliley Act repealed most of the federal statutory barriers which separated commercial banking firms from insurance and securities firms and authorized the consolidation of such firms in a "financial services holding company." We have no immediate plans to utilize the structural options created by the Gramm-Leach-Bliley Act, but may develop such plans in the future.

Anti-Money Laundering

After the September 11, 2001, terrorist attacks, the United States government acted in several ways to tighten control on activities perceived to be connected to money laundering and terrorist funding. A series of orders were issued which identify terrorists and terrorist organizations and require the blocking of property and assets of, as well as prohibiting all transactions or dealings with, such terrorists, terrorist organizations and those that assist or sponsor them. The USA PATRIOT Act enacted in 2001:

- substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States;
- imposes new compliance and due diligence obligations;
- creates new crimes and penalties;
- compels the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States; and
- clarifies the safe harbor from civil liability to customers.

In addition, Treasury issued regulations in cooperation with the federal banking agencies, the SEC, the Commodity Futures Trading Commission, and the Department of Justice to:

- require customer identification and verification;
- expand the money-laundering program requirement to the major financial services sectors, including insurance and unregistered investment companies, such as hedge funds; and
- facilitate and permit the sharing of information between law enforcement and financial institutions, as well as among financial institutions themselves.

Treasury also has created the Treasury USA PATRIOT Act Task Force to work with other financial regulators, the regulated community, law enforcement and consumers to continually improve the regulations. Recently, enforcement of the USA PATRIOT Act, the Bank Secrecy Act, and other anti-money laundering laws and regulations has greatly increased from both state and federal regulators.

The Dodd-Frank Act

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act has had and will have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act established a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the OCC, and the FDIC. The following items provide a brief description of certain provisions of the Dodd-Frank Act.

- *Limitation on debit card transaction fees.* The Durbin Amendment to the Dodd-Frank Act limits the amount a provider can charge for debit card transaction fees, commonly referred to as interchange fees, to \$0.21 plus 0.05% of the price of the transaction (plus \$0.01, if the provider has certain fraud prevention standards in place).
- *Limitation on federal preemption.* The Dodd-Frank Act significantly reduces the ability of national banks and federal thrifts to rely upon federal preemption of state consumer financial laws.
- *Mortgage loan origination and risk retention.* The Dodd-Frank Act contains additional regulatory requirements that may affect our operations and result in increased compliance costs. For example, new standards have been created for mortgage loan originations on all lenders, including banks and thrifts, in an effort to require steps to verify a borrower's ability to repay. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells or mortgage and other asset-backed securities that the securitizer issues. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.
- *Imposition of restrictions on certain activities.* The Dodd-Frank Act requires new regulations for the over-the-counter derivatives market, including requirements for clearing, exchange trading, capital, margin, and reporting. Additionally, the Dodd-Frank Act requires that certain swaps and derivatives activities be "pushed out" of insured depository institutions and conducted in nonbank affiliates.
- *Expanded FDIC resolution authority.* While insured depository institutions have long been subject to the FDIC's resolution process, the Dodd-Frank Act creates a new mechanism for the FDIC to conduct the orderly liquidation of certain "covered financial companies," including bank and thrift holding companies and systemically significant nonbank financial companies.
- *Consumer Financial Protection Bureau ("CFPB").* The Dodd-Frank Act creates a new independent CFPB within the Federal Reserve. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers.
- *Deposit insurance.* The Dodd-Frank Act makes permanent the \$250,000 deposit insurance limit for insured deposits, in general.
- *Transactions with affiliates and insiders.* The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions."

- *Enhanced lending limits.* The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower.
- *Corporate governance.* The Dodd-Frank Act addresses many investor protection, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act: (1) grants stockholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers; and (4) provides the SEC with authority to adopt proxy access rules that would allow stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials.

Many of the requirements of the Dodd-Frank Act will be implemented over time and most will be subject to regulations implemented over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact such requirements will have on our operations is unclear.

Other Laws

State usury and credit laws limit the amount of interest and other charges collected or contracted by a bank on loans. Our loans are subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;
- Community Reinvestment Act, which requires financial institutions to meet their obligations to provide for the total credit needs of the communities they serve, including investing their assets in loans to low and moderate-income borrowers;
- Home Mortgage Disclosure Act requiring financial institutions to provide information to enable public officials to determine whether a financial institution is fulfilling its obligations to meet the housing needs of the community it serves;
- Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed, or other prohibitive factors in extending credit;
- Real Estate Settlement Procedures Act, which requires lenders to disclose certain information regarding the nature and cost of real estate settlements, and prohibits certain lending practices, as well as limits escrow account amounts in real estate transactions;
- Fair Credit Reporting Act governing the manner in which consumer debts may be collected by collection agencies; and
- The rules and regulations of various federal agencies charged with the responsibility of implementing such federal laws.

Our operations are also subject to the:

- The privacy provisions of the Gramm-Leach-Bliley Act of 1999, which requires us to maintain privacy policies intended to safeguard consumer financial information, to disclose these policies to our customers, and allow customers to "opt out" of having their financial service providers disclose their confidential financial information to nonaffiliated third parties, subject to certain exceptions;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E, which govern automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of debit cards, automated teller machines, and other electronic banking services.

Future Legislation

Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. The latest example was the passing of the Dodd-Frank Act. Future legislation regarding financial institutions may change banking statutes and the operating environment of the Holding Company and the Bank in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Holding Company or the Bank. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

RELATED PARTY TRANSACTIONS

Certain directors, executive officers, and their immediate family members are customers of the Bank and it is anticipated that such individuals will continue to be customers in the future. Loans made to directors, executive officers, and their immediate families require approval of a majority of the disinterested directors approving the loan. All transactions between the Bank and its directors, executive officers, the immediate family members of directors and executive officers, and any principal shareholders, were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with non-affiliated persons, and in the opinion of management, did not involve more than the normal risk of collectability or present any other unfavorable features.

As of December 31, 2013, loans to directors, executive officers, and their immediate family members represented approximately \$4,022,000, or approximately 3.9% of the Bank's total loan portfolio, all of which are current and performing according to their terms.

In the ordinary course of business, we may use the products and services of companies, partnerships, or firms of which our directors are owners, directors or officers.

The Bank leases office and retail space from PJW Properties II, LLC of which Paul J. Wikle, a director of Bankshares and the Bank, is the Managing Member and owns 21% of the economic interest and David L. Brandon, a director of Bankshares and the Bank, also a Member, owns 2.3% of the economic interest therein. The Bank made lease payments of \$241,000 to PJW Properties II, LLC during 2013. The Bank also purchases certain insurance policies through Hockman Insurance Agency, of which Bankshares and Bank director Ronald S. Hockman is the sole shareholder and President. In 2013, the premiums paid by the Bank for such policies totaled \$53,000.

DESCRIPTION OF SECURITIES

General

The capital stock of the Holding Company consists of 9,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$1.00 per share. The following summary describes the material terms of that capital stock. Reference is made to the Articles of Incorporation, copies of which will be provided upon request, for details of the provisions summarized below.

Common Stock

Holders of shares of the common stock are entitled to elect the members of our Board of Directors, and such holders are entitled to vote as one class on all matters required, or permitted, to be submitted to the shareholders. No holder of common stock has preemptive rights with respect to the issuance of shares of that or any other class of stock, and the holders of common stock are entitled to one

vote per share and are not entitled to cumulative voting rights with respect to the election of directors.

The holders of shares of common stock are entitled to dividends and other distributions if, as, and when declared by the Board of Directors out of legally available assets. Upon the liquidation, dissolution, or winding up of the Holding Company, the holder of each share of common stock will be entitled to share equally in the distribution of assets of the Holding Company. The holders of common stock are not entitled to the benefit of any sinking fund provision. The shares of common stock are not subject to any redemption provisions, nor are they convertible into any other security or property. All shares of common stock outstanding upon completion of this offering will be fully paid and nonassessable.

Class A Preferred Stock

In August 2011, the Bank raised \$3.4 million in capital through the sale and issuance of 3,367 shares of Senior Non-Cumulative Perpetual Preferred Stock, Class A (“Class A Preferred Stock”) to the Secretary of the Treasury, pursuant to the Small Business Lending Fund (the “SBLF”). The Holding Company exchanged shares of its Class A Preferred Stock for the Bank’s shares as part of the Reorganization.

Non-cumulative dividends are payable on January 1, April 1, July 1, and October 1 of each year. The dividend rate is calculated as a percentage of the \$3,367,000 aggregate liquidation amount of the outstanding Class A Preferred Stock and is based on changes in the level of Qualified Small Business Lending (“QSBL”) (as defined by the SBLF) by the Bank, compared with the Bank’s baseline QSBL level measured at July 1, 2010. Based on the Bank’s initial level of QSBL at June 30, 2011, compared with the baseline, as calculated under the SBLF, the initial dividend rate on the Class A Preferred Stock was set at 1% for the initial dividend period.

For the second through the tenth quarters following the closing of SBLF Program transaction, the dividend rate will fluctuate between 1% and 5% based on the change in the Bank’s level of QSBL compared with the initial baseline, subject to certain limitations.

From the eleventh calendar quarter through 4.5 years after closing of the SBLF program transaction, the dividend rate on the Class A Preferred Stock may be fixed at or between 1% and 7% based on the level of QSBL at that time, as compared to the baseline. The rate for this period has been set at 1%. If any Class A Preferred Stock remains outstanding after 4.5 years, the dividend rate will increase to 9%.

The Class A Preferred Stock is non-voting, except in limited circumstances that could impact the SBLF investment, such as: (i) authorization of senior stock; (ii) Articles of Incorporation amendments adversely affecting the Class A Preferred Stock; and (iii) extraordinary transactions such as mergers, asset sales, share exchanges and the like (unless the Class A Preferred Stock remains outstanding and the rights and preferences thereof are not impaired by such transaction).

If the Holding Company or the Bank has not declared and paid an aggregate of five dividend payments, whether or not consecutive, the holder of the Class A Preferred Stock will have the right, but not the obligation, to appoint a representative as an “observer” on the Holding Company’s Board of Directors. If the Holding Company has not declared and paid an aggregate of six dividend payments, whether or not consecutive, the holder of the Class A Preferred Stock will have the right, but not the obligation, to elect two directors to the Holding Company’s Board of Directors.

The Class A Preferred Stock is not convertible to common stock or any other securities. Distributions upon any liquidation of the Holding Company must be paid on the Class A Preferred Stock up to the aggregate liquidation value, plus accrued dividends, before any other shareholder distributions can be made.

The Class A Preferred Stock may be redeemed by the Holding Company at any time, at a redemption price of \$1,000 per share plus accrued but unpaid dividends through the date of redemption,

subject to regulatory approval. The Class A Preferred Stock may be redeemed in whole or in part, subject to a minimum redemption of at least 25% of the original aggregate liquidation value (i.e., approximately \$842,000).

Stock Options

Descriptions of our 2007 Stock Option Plan and the stock options issued thereunder can be found in the “Executive Compensation – Stock Option Plan” section on page 41.

LEGAL MATTERS

Certain legal matters in connection with the shares offered hereby will be passed upon for Bankshares by Adams and Reese LLP, 2457 Care Drive, Tallahassee, Florida 32308.

FINANCIAL INFORMATION

Audited financial statements for the Bank for the years ended December 31, 2012 and December 31, 2011, are included as part of this Private Placement Memorandum in ***Appendix B***. The financial statements contain the report of the Bank’s independent auditors, Hacker, Johnson & Smith, P.A., 500 N. Westshore Boulevard, Suite 1000, Tampa, Florida 33609. The audited financial statements have been attached hereto in reliance upon the report of Hacker, Johnson & Smith, P.A., independent auditors, and upon the authority of that firm as experts in accounting and auditing. Our unaudited balance sheet and statement of operations for the year ended December 31, 2013, are also included as part of this Private Placement Memorandum as part of ***Appendix A***.

STOCK TRANSFER AGENT

We serve as our own stock transfer agent and registrar.

REPORTS TO SHAREHOLDERS

We are not subject to the reporting requirements of the Securities Exchange Act of 1934. We furnish our shareholders with annual reports containing audited financial information for each fiscal year on or before the date of the annual meeting of shareholders as required by Florida law. We also furnish such other reports as we may determine to be appropriate or as otherwise may be required by law.

ADDITIONAL INFORMATION

Questions concerning this offering should be directed to our Chairman and Chief Executive Officer Robert B. McGivney at (727) 781-7500 or (813) 855-7500.