SURREY BANCORP
Form 10-K
March 23, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20429

Form 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

TRANSITION REPORT UNDER SECTION 13 OR 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to _____________

Commission file number 000-50313

SURREY BANCORP
(Exact Name of Registrant as Specified in Its Charter)

NORTH CAROLINA	59-3772016
(State or Other Jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

145 North Renfro Street (P.O. Box 1227); Mount Airy, NC 27030
(Address of principal executive office)

(336) 783-3900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE

(Title of Class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K.

Indicate by checkmark whether the registrant is a larger accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second quarter was $20.2 million.

3,549,665 shares of the Registrant's common stock were issued and outstanding as of March 6, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

The annual report to security holders for fiscal year ended December 31, 2015, is incorporated by reference into Form 10-K Part II, Items 6, 7 and 8, and Part IV, Item 15. The registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders is incorporated by reference into Form 10-K Part III, Items 10, 11, 12, 13 and 14.

PART I

ITEM 1. BUSINESS

General

Surrey Bancorp (the "Company") began operations on May 1, 2003 and was created for the purpose of acquiring all the outstanding shares of common stock of Surrey Bank & Trust. The Company is subject to regulation by the Federal Reserve.

Surrey Bank & Trust (the "Bank") was incorporated on July 15, 1996 as a North Carolina banking corporation and opened for business on July 22, 1996. As such, the Bank operates under the laws of the State of North Carolina. As a state chartered, nonmember bank, the Bank is subject to regulation, supervision and regular examination by the North Carolina Banking Commission (the "Commission") through the North Carolina Commissioner of Banks (the "Commissioner") and its applicable federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). The North Carolina Banking Commission and the FDIC have the power to enforce compliance with applicable banking statutes and regulations.

The principal business of the Company is to provide comprehensive individual and corporate financial services through its main and branch offices in Mount Airy, North Carolina and branch offices in Stuart, Virginia and Pilot Mountain and Elkin, North Carolina. These services include demand and time deposits as well as commercial, installment, mortgage and other consumer lending services, insurance and investment services.

Competitive Conditions

The principal areas and methods of competition in the banking industry are the services that are offered, the pricing of those services, the convenience and availability of the services and the degree of expertise and personal manner with which those services are offered. The Company encounters strong competition from other commercial banks, including the largest North Carolina banks, operating in Mount Airy, North Carolina, and the surrounding area. In the conduct of certain aspects of its business, the Bank also competes with credit unions, insurance companies, money market mutual funds, and other non-bank financial institutions, some of which are not subject to the same degree of regulation as the Company. Many of these competitors have substantially greater resources and lending abilities than the Company and offer certain services, such as investment banking, trust, interstate and international banking services, that the Company does not provide.

Material Customers

Deposits are derived from a broad base of customers in the Company's trade area. No material portion of deposits have been obtained from a single person or a few persons (including Federal, State, and local governments and agencies thereunder), the loss of which would have a materially adverse effect on the business of the Company.

The majority of loans and commitments to extend credit have been granted to customers in the Company's market area. The majority of such customers are depositors. The Company generally does not extend credit to any single borrower or group of related borrowers in excess of approximately $5,700,000. Although the Company has a reasonably diversified portfolio, it has loan concentrations relating to customers who are in the following industries: residential real estate, real estate leasing and development, fabricated metal products manufacturing, accommodations, utilities, heavy construction, repairs and maintenance industries, nursing and residential care facilities, motion picture and sound recording industries, trucking, amusement facilities and various manufacturing industries. Total loans and loan commitments to these industry groups at December 31, 2015 and 2013 are summarized in the table below:

Industry	Loans and Commitments December 31, 2015	2014
Real Estate	$ 33,204,000	$ 28,172,000
Utilities	9,811,000	6,037,000
Accommodations	9,684,000	10,059,000
Heavy and Civil Engineering Construction	8,644,000	9,306,000
Repair and Maintenance Industries	7,931,000	7,450,000
Animal Production	6,691,000	1,805,000
Nursing and Residential Care Facilities	6,349,000	6,538,000
Motion Picture and Sound Recording Industries	5,570,000	5,942,000
Amusement, Gambling, and Recreation Industries	5,393,000	5,576,000
Truck Transportation	5,340,000	7,542,000
Specialty Trade Contractors	4,926,000	3,416,000
Construction of Buildings	4,572,000	5,505,000
Miscellaneous Manufacturing	4,520,000	4,632,000
Motor Vehicle and Parts Dealers	3,554,000	4,120,000
Building Material and Garden Equipment Dealers	3,524,000	2,080,000
Fabricated Metal Products Manufacturing	3,519,000	11,380,000
Gasoline Stations	3,376,000	1,925,000
Mining except Oil and Gas	3,164,000	-
Administrative and Support Services	3,055,000	830,000
Nonmetallic Mineral Product Manufacturing	2,960,000	2,137,000
Personal and Laundry Services	2,935,000	2,455,000
Wood Product Manufacturing	2,400,000	4,485,000
Food Service and Drinking Places	2,278,000	1,587,000
Educational Services	2,173,000	2,153,000
Other Family and Individual Services	2,022,000	1,486,000

Rights

No patents, trademarks, licenses, franchises or concessions held are of material significance to the Company.

New Services

No new services were added to the Company's operations in 2015.

Supervision and Regulation

Banking is a complex, highly regulated industry. The primary goals of banking regulations are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the North Carolina General Assembly have created largely autonomous regulatory agencies and enacted numerous laws that govern banks, their holding companies and the banking industry. The descriptions of and references to the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

As a bank holding company, Surrey Bancorp is subject to regulation, supervision and regular examinations by the Federal Reserve. As a North Carolina bank, Surrey Bank & Trust is subject to regulation, supervision and regular examination by the Commissioner and the FDIC. The Commissioner and the FDIC have the power to enforce compliance with applicable banking statutes and regulations.

Federal Regulation

Surrey Bancorp is a bank holding company that is subject to regulation, supervision and regular examinations by the Federal Reserve. As a bank holding company, Surrey Bancorp is subject to regulation, supervision and regular examinations by the Federal Reserve. The Bank Holding Company Act provides that a bank holding company must obtain the prior approval of the Federal Reserve for the acquisition of more than five percent of the voting stock or substantially all the assets of any bank or bank holding company. In addition, the Bank Holding Company Act restricts the extension of credit to any bank holding company by its subsidiary bank. The Bank Holding Company Act also provides that, with certain exceptions, a bank holding company may not engage in any activities other than those of banking or managing or controlling banks and other authorized subsidiaries or own or control more than five percent of the voting shares of any company that is not a bank. The Federal Reserve has deemed limited activities to be closely related to banking and therefore permissible for a bank holding company.

Under prior Federal Reserve policy as now codified by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), Surrey Bancorp is expected to act as a source of financial strength for Surrey Bank & Trust and to commit resources to support the Bank. This support may be required at times when Surrey Bancorp might not be inclined to provide it. In addition, any capital loans made by Surrey Bancorp to the Bank will be repaid only after the Bank's deposits and various other obligations are repaid in full.

As a North Carolina bank, Surrey Bank & Trust is subject to regulation, supervision and regular examination by the FDIC. The FDIC is required to conduct regular on-site examinations of the operations of the Bank and enforces federal laws that set specific requirements for bank capital, the payment of dividends, loans to officers and directors, and types and amounts of loans and investments made by commercial banks. Among other things, the FDIC must approve the establishment of branch offices, conversions, mergers, assumption of deposit liabilities between insured banks and uninsured banks or institutions, and the acquisition or establishment of certain subsidiary corporations. The FDIC can also prevent capital or surplus diminution in transactions where the deposit accounts of the resulting, continuing or assumed bank are insured by the FDIC.

Transactions with Affiliates. A bank may not engage in specified transactions (including, for example, loans) with its affiliates unless the terms and conditions of those transactions are substantially the same or at least as favorable to the bank as those prevailing at the time for comparable transactions with or involving other nonaffiliated entities. In the absence of comparable transactions, any transaction between a bank and its affiliates must be on terms and under circumstances, including credit standards, which in good faith would be offered or would apply to nonaffiliated companies. In addition, transactions referred to as "covered transactions" between a bank and its affiliates may not exceed 10% of the bank's capital and surplus per affiliate and an aggregate of 20% of its capital and surplus for covered transactions with all affiliates. Certain transactions with affiliates, such as loans, also must be secured by collateral of specific types and amounts. The Bank also is prohibited from purchasing low quality assets from an affiliate. Every company under common control with the Bank is deemed to be an affiliate of the Bank.

Loans to Insiders. Federal law also constrains the types and amounts of loans that the Bank may make to its executive officers, directors and principal shareholders. Among other things, these loans are limited in amount, must be approved by the Bank's board of directors in advance, and must be on terms and conditions as favorable to the Bank as those available to an unrelated person.

Regulation of Lending Activities. Loans made by the Bank are also subject to numerous federal and state laws and regulations, including the Truth-In-Lending Act, Federal Consumer Credit Protection Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and adjustable rate mortgage disclosure requirements. Remedies to the borrower or consumer and penalties to the Bank are provided if the Bank fails to comply with these laws and regulations. The scope and requirements of these laws and regulations have expanded significantly in recent years.

Branch Banking. All banks located in North Carolina are authorized to branch statewide. Accordingly, a bank located anywhere in North Carolina has the ability, subject to regulatory approval, to establish branch facilities near any of our facilities and within our market area. If other banks were to establish branch facilities near our facilities, it is uncertain whether these branch facilities would have a material adverse effect on our business. Under the Dodd-Frank Act, national and state banks may branch within the state where the head office is located, to the extent permitted by that state. National and state banks may also branch de novo into another state to the same extent a bank headquartered in that state could branch within that state, subject to certain deposit concentration limits. Federal regulations prohibit an out-of-state bank from using interstate branching authority primarily for the purpose of deposit production. These regulations include guidelines to insure that interstate branches operated by an out-of-state bank in a host state are reasonably helping to meet the credit needs of the host state communities served by the out-of-state bank.

Reserve Requirements. Pursuant to regulations of the Federal Reserve, the Bank must maintain average daily reserves against its transaction accounts. During 2015, no reserves were required to be maintained on the first $14.5 million of transaction accounts, but reserves equal to 3.0% were required to be maintained on the aggregate balances of those accounts between $14.5 million and $103.6 million, and additional reserves were required to be maintained on aggregate balances in excess of $103.6 million in an amount equal to 10.0% of the excess. These percentages are subject to annual adjustment by the Federal Reserve, which has advised that for 2016, no reserves will be required to be maintained on the first $15.2 million of transaction accounts, but reserves equal to 3.0% must be maintained on the aggregate balances of those accounts between $15.2 million and $110.2 million, and additional reserves are required on aggregate balances in excess of $110.2 million in an amount equal to 10.0% of the excess. Because required reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank bearing nominal interest, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets and interest income. As of December 31, 2015, the Bank met its reserve requirements.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by regulations of the federal bank regulatory agencies, an insured bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for banks, nor does it limit a bank's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the federal bank regulatory agencies, in connection with their examination of insured banks, to assess the banks' records of meeting the credit needs of their communities, using the ratings of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance," and to take that record into account in its evaluation of certain applications by those banks. All banks are required to make public disclosure of their CRA performance ratings. The Bank received a "satisfactory" rating in its most recent CRA examination.

Governmental Monetary Policies. The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve, a federal banking regulatory agency that regulates the money supply in order to mitigate recessionary and inflationary pressures. Among the techniques used to implement these objectives are open market transactions in United States government securities, changes in the rate paid by banks on bank borrowings, and changes in reserve requirements against bank deposits. These techniques are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect interest rates charged on loans or paid for deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of changing conditions in the national economy and money markets, as well as the effect of actions by monetary and fiscal authorities, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Bank.

Dividends. As a bank holding company that does not, as an entity, currently engage in separate business activities of a material nature, the Company's ability to pay cash dividends depends upon the cash dividends the Company receives from the Bank. The Company's primary source of income is dividends paid by the Bank. The Company must pay all of its operating expenses from funds it receives from the Bank. North Carolina banking law permits the payment of dividends if the distribution will not reduce the bank's capital below applicable capital requirements. Also, under federal banking law, no cash dividend may be paid if the Bank is undercapitalized or insolvent or if payment of the cash dividend would render the Bank undercapitalized or insolvent and no cash dividend may be paid by the Bank if it is in default of any deposit insurance assessment due to the FDIC. Therefore, shareholders may receive dividends from the Company only to the extent that funds are available at the holding company or from the Bank. In addition, the Federal Reserve generally prohibits bank holding companies from paying dividends except out of operating earnings, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition. The Federal Reserve may impose restrictions on the Company's payment of cash dividends since it is required to maintain its own adequate regulatory capital and is expected to serve as a source of financial strength and to commit resources to the Bank.

Deposit Insurance Assessments. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 permanently raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. To obtain this deposit protection, banks must pay assessments to the FDIC. The FDIC assesses insurance premiums on a bank's deposits at a variable rate depending on the probability that the Deposit Insurance Fund will incur a loss with respect to that bank. Banks assigned to higher risk classifications (that is, banks 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. The FDIC determines the deposit insurance assessment rates on the basis of a bank's capital classification and supervisory evaluations. Each of these categories has three subcategories, resulting in nine assessment risk classifications. The three subcategories with respect to capital are "well-capitalized," "adequately capitalized" and "less than adequately capitalized" (that would include "undercapitalized," "significantly undercapitalized" and "critically undercapitalized" banks). The three subcategories with respect to supervisory concerns are "healthy," "supervisory concern" and "substantial supervisory concern." A bank is deemed "healthy" if it is financially sound with only a few minor weaknesses. A bank is deemed subject to "supervisory concern" if it has weaknesses that, if not corrected, could result in significant deterioration of the bank and increased risk to the DIF of the FDIC. A bank is deemed subject to "substantial supervisory concern" if it poses a substantial probability of loss to the DIF. In addition, the FDIC can impose special assessments in certain instances. Until 2010, a bank's assessment base was roughly equal to its total domestic deposits. As required by the Dodd-Frank Act, however, the FDIC amended its regulations effective April 2011 to define a bank's assessment base as its average consolidated total assets minus its average tangible equity. This amendment also revised the insurance assessment rate schedule for banks. The new schedule charges a rate of from 0.025% to 0.09% at the lowest assessment category up to a maximum assessment of 0.45% on a bank's average deposit base. In an effort to encourage banks to limit the FDIC's exposure, the new insurance assessment rate formula also:

- Reduces the assessment rate paid by a bank by up to 0.05% based on the amount of unsecured debt held by the institution; and
- Increases a bank's assessment if it is already considered risky and brokered deposits make up more than 10% of the institution's domestic deposits.

The Bank's deposit insurance assessments may increase depending upon the risk category and subcategory, if any, to which it is assigned. Any increase in insurance assessments could have an adverse effect on the Company's earnings.

The Dodd-Frank Act established a statutory minimum reserve ratio of 1.35% of insured deposits for the Deposit Insurance Fund by September 30, 2020. On December 20, 2010, the FDIC increased the minimum reserve ratio to 2.0% and has maintained that level each year since. In order achieve these levels, the FDIC has issued special deposit insurance assessments and raised deposit insurance rates. In addition, the Dodd-Frank Act authorizes the FDIC to make additional special assessments and, for the first time in its history, charge examination fees.

Changes in Management. Any depository institution that has been chartered less than two years, is not in compliance with the minimum capital requirements of its primary federal banking regulator, or is otherwise in a troubled condition must notify its primary federal banking regulator of the proposed addition of any person to the board of directors or the employment of any person as a senior executive officer of the institution at least 30 days before such addition or employment becomes effective. During this 30-day period, the applicable federal banking regulatory agency may disapprove of the addition of such director or employment of such officer. The Bank is not subject to any such requirements.

Enforcement Authority. The federal banking laws also contain civil and criminal penalties available for use by the appropriate regulatory agency against certain "institution-affiliated parties" including management, employees and agents of a financial institution, as well as independent contractors such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs and who caused or are likely to cause more than minimum financial loss to or a significant adverse affect on the institution, who knowingly or recklessly violate a law or regulation, breach a fiduciary duty or engage in unsafe or unsound practices. These practices can include the failure of an institution to timely file required reports or the submission of inaccurate reports. These laws authorize the appropriate banking agency to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnification or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets or take other action as determined by the primary federal banking agency to be appropriate.

Capital Adequacy. The Federal Reserve has promulgated capital adequacy regulations for all bank holding companies with assets in excess of $150 million. The Bank is also subject to capital requirements and limits on activities established by the FDIC. The Federal Reserve's and the FDIC's capital adequacy regulations are based upon a risk based capital determination, whereby an institution's adequacy is determined in light of the risk, both on- and off-balance sheet, contained in the company's assets. Different categories of assets are assigned risk weightings and are counted at a percentage of their book value.

The regulations divide capital between Tier 1 capital (core capital) and Tier 2 capital. For a bank holding company, Tier 1 capital consists primarily of common stock, related surplus, noncumulative perpetual preferred stock, minority interests in consolidated subsidiaries and a limited amount of qualifying cumulative preferred securities. Goodwill and certain other intangibles are excluded from Tier 1 capital. Tier 2 capital consists of an amount equal to the allowance for loan and lease losses up to a maximum of 1.25% of risk weighted assets, limited other types of preferred stock not included in Tier 1 capital, hybrid capital instruments and term subordinated debt. Investments in and loans to unconsolidated banking and finance subsidiaries that constitute capital of those subsidiaries are excluded from capital. The sum of Tier 1 and Tier 2 capital constitutes qualifying total capital. The Tier 1 component must comprise at least 50% of qualifying total capital.

Every bank holding company and bank has to achieve and maintain a minimum Tier 1 capital ratio of at least 4.0% and a minimum total capital ratio of at least 8.0%. In addition, banks and bank holding companies are required to maintain a minimum leverage ratio of Tier 1 capital to average total consolidated assets (leverage capital ratio) of at least 3.0% for the most highly-rated, financially sound banks and bank holding companies and a minimum leverage ratio of at least 4.0% for all other banks. The Federal Deposit Insurance Corporation and the Federal Reserve define Tier 1 capital for banks in the same manner for both the leverage ratio and the risk-based capital ratio. However, the Federal Reserve defines Tier 1 capital for bank holding companies in a slightly different manner. As of December 31, 2015, the Company's leverage capital ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 13.93%, 20.29% and 21.55%, respectively.

The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory level, without significant reliance on intangible assets. The guidelines also indicate that the Federal Reserve will continue to consider a "Tangible Tier 1 Leverage Ratio" in evaluating proposals for expansion or new activities. The Tangible Tier 1 Leverage Ratio is the ratio of Tier 1 capital, less intangibles not deducted from Tier 1 capital, to quarterly average total assets. As of December 31, 2015, the Federal Reserve had not advised the Company of any specific minimum Tangible Tier 1 Leverage Ratio applicable to it.

Prompt Corrective Action. Banks are subject to restrictions on their activities depending on their level of capital. Federal "prompt corrective action" regulations divide banks into five different categories, depending on their level of capital. Under these regulations, a bank is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10% or more, a core capital ratio of 6% or more and a leverage ratio of 5% or more, and if the bank is not subject to an order or capital directive to meet and maintain a certain capital level. Under these regulations, a bank is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of 8% or more, a core capital ratio of 4% or more and a leverage ratio of 4% or more (unless it receives the highest composite rating at its most recent examination and is not experiencing or anticipating significant growth, in which instance it must maintain a leverage ratio of 3% or more). Under these regulations, a bank is deemed to be "undercapitalized" if it has a total risk-based capital ratio of less than 8%, a core capital ratio of less than 4% or a leverage ratio of less than 3%. Under these regulations, a bank is deemed to be "significantly undercapitalized" if it has a risk-based capital ratio of less than 6%, a core capital ratio of less than 3% and a leverage ratio of less than 3%. Under such regulations, a bank is deemed to be "critically undercapitalized" if it has a leverage ratio of less than or equal to 2%. In addition, the applicable federal banking agency has the ability to downgrade a bank's classification (but not to "critically undercapitalized") based on other considerations even if the bank meets the capital guidelines.

If a bank is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FDIC and the FDIC may also take certain actions to correct the capital position of the bank. An undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the FDIC of a capital restoration plan for the bank.

If a state bank is classified as significantly undercapitalized, the FDIC would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital, changes in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as critically undercapitalized, the bank must be placed into conservatorship or receivership within 90 days, unless the FDIC determines otherwise.

The capital classification of a bank affects the frequency of regulatory examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by the bank. The FDIC is required to conduct a full-scope, on-site examination of every bank on a periodic basis.

Banks also may be restricted in their ability to accept brokered deposits, depending on their capital classification. “Well capitalized” banks are permitted to accept brokered deposits, but all banks that are not well capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

State Regulation

As a North Carolina-chartered bank, the Bank is also subject to extensive supervision and regulation by the Commissioner. Effective October 1, 2013, the North Carolina banking laws were rewritten and recodified. Under the revised banking laws, the Commissioner continues to enforce specific requirements for bank capital, the payment of dividends, loans to officers and directors, record keeping, and types and amounts of loans and investments made by commercial banks. Among other things, the approval of the Commissioner is generally required before a North Carolina-chartered commercial bank may establish branch offices, merge with another financial institution, or liquidate or sell substantially all of its assets.

Change of control. North Carolina banking laws provide that no person may directly or indirectly purchase or acquire voting stock of the Bank that would result in the change in control of the Bank unless the Commissioner has approved the acquisition. A person will be deemed to have acquired "control" of the Bank if that person directly or indirectly (i) owns, controls or has power to vote 10% or more of the voting stock of the Bank, or (ii) otherwise possesses the power to direct or cause the direction of the management and policy of the Bank.

Loans. In its lending activities, the Bank is subject to North Carolina usury laws which generally limit or restrict the rates of interest, fees and charges and other terms and conditions in connection with various types of loans. North Carolina banking law also limits the amount that may be loaned to any one borrower.

Dividends. The ability of the Bank to pay dividends is restricted under applicable law and regulations. North Carolina banking law permits the payment of dividends if the distribution will not reduce the bank’s capital below applicable capital requirements.

Holding companies. North Carolina banking law requires that bank holding companies register with the Commissioner and maintain that registration annually. The Commissioner must also approve any acquisition of control of a state-chartered bank by a bank holding company.

Recent Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Act has had and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes as such, including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act established a new framework for 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 Office of the Comptroller of the Currency, and the FDIC. A summary of certain provisions of the Dodd-Frank Act that are expected to have an effect on the Company is set forth below.

- Increased Capital Standards and Enhanced Supervision. In July 2015, the Board of Governors of the Federal Reserve System announced its approval of a final rule to implement the Basel III regulatory capital reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rule requires banking organizations to hold more and higher quality capital to act as a financial cushion to absorb losses, taking into account the impact of risk. The rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% as well as a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking institutions. In terms of quality of capital, the rule emphasizes common equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments. It also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. The phase-in for smaller banking organizations, such as the Company and the Bank, will not begin until January 2015, while the phase-in period for larger banks starts in January 2015. Increases in capital requirements could result in a material impact on the Company and the Bank.

- The Consumer Financial Protection Bureau ("Bureau"). The Dodd-Frank Act created the Bureau within the Federal Reserve. The Bureau 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 Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers, and is expected to standardize certain consumer products and to require banks to provide expanded access to account, transaction and fee information. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the Bureau and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against state-chartered institutions.

- Deposit Insurance. The Dodd-Frank Act makes permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the Deposit Insurance Fund ("DIF") will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The Dodd- Frank Act also allows depository institutions to pay interest on demand deposits.

- Transactions with Affiliates. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

- Transactions with Insiders. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

- Enhanced Lending Limits. The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower. Current banking law limits a depository institution's ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

- Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other "covered financial institution" that provides an insider or other employee with "excessive compensation" or could lead to a material financial loss to such firm. The Company does not believe the Dodd-Frank Act will materially impact the current compensation policies at the Company and Bank.

- Holding Company Capital Levels. The Dodd-Frank Act requires bank regulators to establish minimum capital levels for holding companies that are at least of the same nature as those applicable to financial institutions. All trust preferred securities, or TRUPs, issued by bank or thrift holding companies after May 19, 2010 will be counted as Tier II Capital (with an exception for certain small bank holding companies). TRUPs issued prior to May 19, 2010 by bank holding companies with less than $15 billion in assets as of December 31, 2009, such as the Company, are exempt from these capital deductions.

- De Novo Interstate Branching. The Dodd-Frank Act removes restrictions on interstate branching and allows banks to establish branch offices in any state if the laws of that state permit a bank chartered in that state to establish the branch office. This provision may increase competition with the Bank by out-of-state financial institutions.

- Shareholder Voting. The Dodd-Frank Act requires, at least once every three years, a non-binding shareholder vote on executive compensation. Shareholders must also be given a non-binding vote on the frequency of such "say-on-pay" votes. If shareholders are asked to vote on a merger transaction, they must also be permitted a non-binding vote on any compensation paid to the company's named executive officers in connection with the transaction. The Act also prohibits brokers from voting on any of these proposals without customer instructions.

- *Volker Rule*. On December 13, 2013, the Federal Reserve, the FDIC, and other regulatory agencies adopted the final rule implementing Section 13 of the Bank Holding Company Act. The so-called Volcker Rule generally prohibits, subject to exceptions, certain banking entities from (i) engaging in proprietary trading and (ii) acquiring or retaining ownership interests in, or acting as sponsors to, certain hedge funds and private equity funds. Certain trading and fund activity is expressly permitted – notably, underwriting activities, market-making related activities, and risk-mitigating hedging activities. The Volker Rule is not expected to have any impact on the Company since it does not engage in any trading or fund activity.

While approximately two thirds of the required regulations have been adopted, drafting the rules called for in the Dodd-Frank Act remains in process and the associated rule-making process will likely take place over the course of several more 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 regulations will have on the operations of financial institutions generally and the Company, specifically, is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of the Company's business activities, require changes to certain of the Company's business practices, impose upon the Company and Bank more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect the Company's business. These changes may also require the Company to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Basel III capital framework

In 2013, the Federal Reserve approved a final rule that establishes an integrated regulatory capital framework that addresses shortcomings in certain capital requirements. The rule implements in the United States the regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act.

The major provisions of the new rule applicable to the Company and the Bank are:

- The new rule implements higher minimum capital requirements, includes a new common equity tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity tier 1 capital, additional tier 1 capital, or tier 2 capital. These enhancements will both improve the quality and increase the quantity of capital required to be held by banking organizations with the intended purpose of better equipping the U.S. banking system to deal with adverse economic conditions. The new minimum capital to risk-weighted assets requirements are a common equity tier 1 capital ratio of 4.5 percent and a tier 1 capital ratio of 6.0 percent, which is an increase from 4.0 percent, and a total capital ratio that remains at 8.0 percent. The minimum leverage ratio (tier 1 capital to total assets) is 4.0 percent.

- The new rule improves the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments such as trust preferred securities in tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets, and certain investments in the capital of unconsolidated financial institutions. In addition, the new rule requires that most regulatory capital deductions be made from common equity tier 1 capital.

- Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk-weighted assets. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016. A banking organization with a buffer greater than 2.5 percent would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5 percent would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. When the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the well-capitalized thresholds.

- The new rule also increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

Subsequently, the FDIC issued an “interim final rule” applicable to the Bank that is identical in substance to the final rules issued by the Federal Reserve described above. The Bank is required to begin compliance with the interim final rule on January 1, 2015. Full implementation of the new capital framework must occur by 2018.

Compliance by the Company and the Bank with these new capital requirements will likely affect their respective operations. However, the extent of that impact cannot be known until there is greater clarity regarding the specific requirements applicable to them.

Future Legislation and Regulations

The Company cannot predict what new legislation might be enacted or what regulations might be adopted or amended, or if enacted, adopted or amended, their effect on its operations. Any change in applicable law or regulation, state or federal, may have a material adverse effect on its business.

Environmental Laws

Compliance with federal, state, or local provisions regulating the discharge of materials into the environment has not had, nor is it expected to have in the future, a material effect upon the Bank's capital expenditures, earnings or competitive position.

Employees

All employees of the Company are compensated by the Company's subsidiary, the Bank. The Bank had ten (10) officers, fifty-nine (64) full-time employees (including the officers), and fourteen (14) part-time employees as of December 31, 2015.

ITEM 1A. RISK FACTORS

Not Applicable as a "Smaller Reporting Company."

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's permanent headquarters is a two-story brick building, with approximately 8,500 square feet of space located at 145 North Renfro Street, Mount Airy, North Carolina, which is also the headquarters of the Bank. The building has drive-up facilities. The Bank's finance, operations, mortgage lending and insurance departments are housed in a one-story brick building with approximately 7,500 square feet of space located at 199 North Renfro Street in Mount Airy, North Carolina.

The Company has a modular training facility located at 143 North Renfro Street, Mount Airy, North Carolina. The modular unit has approximately 1,600 square feet of floor space.

The Bank owns a one-story brick building at 165 North Renfro Street that serves as the offices for its sales finance subsidiary, Freedom Finance, LLC. The building has approximately 1,600 square feet of floor space.

The Bank has two branch locations in Mount Airy, North Carolina. The 1280 West Pine Street branch is a two-story brick building with approximately 4,500 square feet of floor space. The branch also has drive-up facilities and is leased under a five-year agreement, which extends through March of 2020. The 2050 Rockford Street branch is a one-story brick building with approximately 2,400 square feet of floor space with drive-up facilities.

The Bank has a branch location in Stuart, Virginia located at 940 Woodland Drive. The branch is a one-story brick building with approximately 2,800 square feet of floor space. The building has drive-up facilities.

The Bank has a branch location in Pilot Mountain, North Carolina at 653 South Key Street. The branch is a one-story brick building with approximately 2,800 square feet of floor space. The building has drive-up facilities.

The Bank has a branch location in Elkin, North Carolina located at 393 CC Camp Road. The branch is a one-story brick building with approximately 2,400 square feet of floor space. The building has drive-up facilities.

The Bank has a Loan Production Office (LPO) in North Wilkesboro, North Carolina at 717 Main Street. The LPO office space is approximately 800 square feet and is leased under a renewal six-month agreement with an option to extend the lease until November 2016.

The Bank owns all of its facilities except for the West Pine Street branch and the North Wilkesboro Loan Production Office, which are leased as described above.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved a as plaintiff or defendant in various legal actions arising in the course of business. It is the opinion of management, after consultation with counsel, that the resolution of these legal actions will not have a material adverse effect on the Company's financial condition and results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s common stock is traded in the over the counter market, and is listed in the National Daily Quotation Service “Bulletin Board” under the symbol “SRYB.” The following table shows the high and low prices for each quarter of the fiscal years, and reflects inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions:

	2015– Price Per Share		2014 – Price Per Share	
	High	Low	High	Low
First Quarter	$ 16.49	$ 13.40	$ 12.75	$ 10.40
Second Quarter	$ 16.00	$ 13.55	$ 13.00	$ 12.00
Third Quarter	$ 14.00	$ 11.15	$ 14.75	$ 12.00
Fourth Quarter	$ 12.74	$ 11.00	$ 15.50	$ 13.00

The last sales price of the common stock on March 14, 2016 was $10.85. The approximate number of holders of the Company’s 3,549,665 shares of Common Stock as of December 31, 2015 is 1,400. There are 189,356 shares of the Company’s Series A Preferred Stock issued and outstanding as of December 31, 2015. The preferred stock is non-cumulative and each share is convertible into 2.2955 shares of common stock. The preferred stock carries a dividend rate of 4.5% and has a liquidation value of $14.00 per share. The preferred stock was issued under a private placement in the second quarter of 2003. There are 181,154 shares of the Company’s Series D Preferred Stock issued and outstanding as of December 31, 2015. The preferred stock is non-cumulative and each share is convertible into 1.1000 shares of common stock. The preferred stock carries a dividend rate of 5.0% and has a liquidation value of $7.08 per share. The preferred stock was issued under a private placement in the fourth quarter of 2010.

Each holder of Common Stock is entitled to dividends paid by the Company when and if declared by the Board of Directors from funds legally available. The determination and declaration of dividends is within the discretion of the Board of Directors subject to legal conditions. As a bank holding company that does not, as an entity, currently engage in separate business activities of a material nature, the ability to pay cash dividends depends upon the cash dividends received from the subsidiary bank (Surrey Bank & Trust). The Company's only source of income is dividends paid by the Bank and interest income from excess funds invested in time deposits with the Bank. The Company must pay all of its operating expenses from funds that are received from the Bank. North Carolina banking requires that dividends from a bank be paid out of the Bank's retained earnings and prohibits the payment of cash dividends if payment of the dividend would cause the Bank's surplus to be less than 50% of its paid-in capital. Also, under federal banking law, no cash dividend may be paid if the Bank is undercapitalized or insolvent or if payment of the cash dividend would render the Bank undercapitalized or insolvent, and no cash dividend may be paid by the Bank if it is in default of any deposit insurance assessment due to the FDIC. Therefore, shareholders may receive dividends from the Company only to the extent that funds are available from the Bank. In addition, the Federal Reserve generally prohibits bank holding companies from paying dividends except out of operating earnings, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition. Subject to these restrictions, the Board of Directors will consider the payment of dividends when it is deemed prudent to do so.

On December 15, 2015, the Company declared a special cash dividend of $0.27 per share on its common stock, payable January 12, 2016, to shareholders of record as of the close of business on December 28, 2015. This dividend was paid out of a $1,190,000 dividend payment to the Company from Surrey Bank & Trust.

On December 16, 2014, the Company declared a special cash dividend of $0.22 per share on its common stock, payable January 12, 2015, to shareholders of record as of the close of business on December 29, 2014. This dividend was paid out of a $930,000 dividend payment to the Company from Surrey Bank & Trust.

On December 17, 2013, the Company declared a special cash dividend of $0.21 per share on its common stock, payable January 8, 2014, to shareholders of record as of the close of business on December 27, 2013. This dividend was paid out of an $867,000 dividend payment to the Company from Surrey Bank & Trust.

On November 28, 2012, the Company declared a special cash dividend of $0.18 per share on its common stock, payable December 27, 2012, to shareholders of record as of the close of business on December 7, 2012. This dividend was paid out of a $686,000 dividend payment to the Company from Surrey Bank & Trust.

On December 16, 2011, the Company declared a special cash dividend of $0.15 per share on its common stock, payable January 6, 2012, to shareholders of record as of the close of business on December 27, 2011. This dividend was paid out of excess funds in the bank holding company and a $350,000 dividend payment to the Company from Surrey Bank & Trust.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference from the registrant's annual report to security holders for the fiscal year ended December 31, 2015 attached as Exhibit 15 to this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference from the registrant's annual report to security holders for the fiscal year ended December 31, 2015 attached as Exhibit 15 to this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable as a "Smaller Reporting Company."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference from the registrant's annual report to security holders for the fiscal year ended December 31, 2015 attached as Exhibit 15 to this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goal under every potential condition, regardless of how remote. In addition, the operation of any system of controls and procedures is dependent upon the employees responsible for executing it. While we have evaluated the operation of our disclosure controls and procedures and found them effective, there can be no assurance that they will succeed in every instance to achieve their objective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the effectiveness of our system of internal control over financial reporting as of December 31, 2015, based on the 2013 framework set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of December 31, 2015, Surrey Bancorp's internal control over financial reporting was effective.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to a provision in the Dodd-Frank Act that exempts smaller reporting companies, like the Company, from the requirement to provide the auditor's attestation report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal controls over financial reporting during the fourth fiscal quarter of the fiscal year covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Incorporated by reference from the registrant's definitive proxy statement to be filed with the SEC by April 30, 2016.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the registrant's definitive proxy statement to be filed with the SEC by April 30, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from the registrant's definitive proxy statement to be filed with the SEC by April 30, 2016.

The following table sets forth equity compensation plan information at December 31, 2015.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	22,187	$ 12.06	-
Equity compensation plans not approved by security holders	NA	NA	NA
Total	22,187	$ 12.06	-

A description of the Company's equity compensation plans is presented in Note 15 to the financial statements in the Registrant's annual report to shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the registrant's definitive proxy statement to be filed with the SEC by April 30, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from the registrant’s definitive proxy statement to be filed with the SEC by April 30, 2016.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of the report:

	2015 Annual Report To Stockholders Pages*
1. Consolidated Financial Statements	
Consolidated Balance Sheets December 31, 2015 and 2014	3
Consolidated Statements of Income Years ended December 31, 2015 and 2014	4
Consolidated Statements of Comprehensive Income Years ended December 31, 2015 and 2014	5
Consolidated Statements of Changes in Stockholders' Equity Years ended December 31, 2015 and 2014	6
Consolidated Statements of Cash Flows Years ended December 31, 2015 and 2014	7 – 8
Notes to Consolidated Financial Statements	9 – 38
Report of Independent Registered Public Accounting Firm	39

* Incorporated by reference from the indicated pages of the 2015 Annual Report to Stockholders

2. Consolidated Financial Statement Schedules

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

3. Exhibits

Exhibit	Description	
3.1	Surrey Bancorp Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registrant's form 10K dated March 28, 2011.
3.2	Surrey Bancorp Bylaws	Incorporated by reference to Exhibit 3(i) to the Registrant's form 8K dated May 1, 2003
10.1	1997 Incentive Stock Option Plan	Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-8 dated September 11, 2003
10.2	1997 Nonstatutory Stock Option Plan	Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-8 dated September 11, 2003

10.3	Executive Salary Continuation Agreement of Edward C. Ashby, III	Incorporated by reference to Exhibit 10.1 to the Registrant's 2005 2nd Quarter Form 10Q

10.4	Executive Salary Continuation Agreement of Mark H. Towe	Incorporated by reference to Exhibit 10.3 to the Registrant's 2005 2nd Quarter Form 10Q
10.5	Executive Salary Continuation Agreement of Pedro A. Pequeno, II	Incorporated by reference to Exhibit 10.2 to the Registrant's 2005 2nd Quarter Form 10Q
10.6	409A Amendment to Surrey Bank & Trust Executive Salary Continuation Plan between the Bank and Edward C. Ashby, III	Incorporated by reference to Exhibit 10.3 to the Registrant's 2008 2nd Quarter Form 10Q
10.7	409A Amendment to Surrey Bank & Trust Executive Salary Continuation Plan between the Bank and Mark H. Towe	Incorporated by reference to Exhibit 10.3 to the Registrant's 2008 2nd Quarter Form 10Q
10.8	409A Amendment to Surrey Bank & Trust Executive Salary Continuation Plan between the Bank and Pedro A. Pequeno, II	Incorporated by reference to Exhibit 10.3 to the Registrant's 2008 2nd Quarter Form 10Q
10.9	Amendment No. One to Employment Agreement of Edward C. Ashby, III	Incorporated by reference to Exhibit 10.3 to the Registrant's 2007 Form 10-K
10.10	Amendment No. One to Employment Agreement of Mark H. Towe	Incorporated by reference to Exhibit 10.4 to the Registrant's 2007 Form 10-K
10.11	Amendment No. One to Employment Agreement of Pedro A. Pequeno, II	Incorporated by reference to Exhibit 10.6 to the Registrant's 2007 Form 10-K
10.12	Amendment No. Two to Employment Agreement of Edward C. Ashby, III	Incorporated by reference to Exhibit 10.12 to the Registrant's 2008 Form 10-K
10.13	Amendment No. Two to Employment Agreement of Mark H. Towe	Incorporated by reference to Exhibit 10.13 to the Registrant's 2008 Form 10-K
10.14	Amendment No. Two to Employment Agreement of Pedro A. Pequeno, II	Incorporated by reference to Exhibit 10.14 to the Registrant's 2008 Form 10-K
13.1	2015 Annual Report to Stockholders (such report, except to the extent incorporated herein by reference, is being furnished for the information of the SEC only and is not deemed to be filed as part of the Report on Form 10-K)	Filed herewith
21	Subsidiaries of the Registrant	Filed herewith

23	Consent of Elliott Davis, PLLC	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer	Filed herewith
32	Section 1350 Certifications	Filed herewith
101	Interactive Data Files	Filed herewith

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on behalf by the undersigned, thereunto duly authorized

SURREY BANCORP

3/23/16 s/ Edward C. Ashby, III
Date Edward C. Ashby, III
President and Chief Executive Officer
(Principal Executive Officer)

In accordance with the Exchange Act, this report has to be signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Signature	Title	Date
s/ Edward C. Ashby, III Edward C. Ashby, III	Director, President and Chief Executive Officer (Principal Executive Officer)	3/23/16
s/ Mark H. Towe Mark H. Towe	Sr. Vice President and Chief Financial Officer (Principal Financial Officer)	3/23/16
s/ Robert H. Moody Robert H. Moody	Chairman of the Board	3/23/16
s/ Elizabeth Johnson Lovill Elizabeth Johnson Lovill	Director	3/23/16
s/ Gene Rees Gene Rees	Director	3/23/16
s/ Tamra W. Thomas Tamra W. Thomas	Director	3/23/16
s/ Tom G. Webb Tom G. Webb	Director	3/23/16
s/ Buddy Williams Buddy Williams	Director	3/23/16