

HELM BANK USA

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015



HELM BANK USA

TABLE OF CONTENTS:

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheets	2
Statements of Income	3
Statements of Comprehensive Income	4
Statements of Changes in Stockholders' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 37



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Helm Bank USA

We have audited the accompanying financial statements of Helm Bank USA (the "Bank"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helm Bank USA as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Morrison, Brown, Argiz & Farra

Miami, Florida
April 20, 2017

An Independent Member of Baker Tilly International

HELM BANK USA

BALANCE SHEETS
DECEMBER 31,
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	2016	2015
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	\$ 1,625	\$ 1,770
Interest-bearing cash deposits	15,176	42,581
TOTAL CASH AND CASH EQUIVALENTS	16,801	44,351
Securities available for sale	256,794	227,704
Federal Home Loan Bank stock, at cost (restricted)	2,183	1,083
Loans, net	465,516	440,796
Deferred tax asset	7,906	6,128
Property and equipment, net	1,576	1,664
Other assets	4,808	4,238
TOTAL ASSETS	\$ 755,584	\$ 725,964
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Demand deposits	\$ 315,772	\$ 309,190
Savings, NOW and money-market deposits	225,903	226,316
Time deposits	77,592	80,630
TOTAL DEPOSITS	619,267	616,136
Federal Home Loan Bank advances	36,000	10,000
Advance payments by borrowers for taxes and insurance	4,326	4,105
Other liabilities	4,866	4,706
TOTAL LIABILITIES	664,459	634,947
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
STOCKHOLDERS' EQUITY:		
Common stock, \$10 par value, 1,000,000 shares authorized; 900,000 shares issued and outstanding	9,000	9,000
Additional paid-in capital	8,800	8,800
Retained earnings	77,501	74,139
Accumulated other comprehensive loss, net of tax effect	(4,176)	(922)
TOTAL STOCKHOLDERS' EQUITY	91,125	91,017
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 755,584	\$ 725,964

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

HELM BANK USA

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, (IN THOUSANDS)

	2016	2015
INTEREST INCOME:		
Loans, including fees	\$ 22,851	\$ 22,904
Securities available for sale	4,252	4,152
Other	234	70
TOTAL INTEREST INCOME	27,337	27,126
INTEREST EXPENSE:		
Deposits	529	449
Other	138	30
TOTAL INTEREST EXPENSE	667	479
NET INTEREST INCOME	26,670	26,647
(REVERSAL OF) PROVISION FOR LOAN LOSSES	(270)	1,296
NET INTEREST INCOME AFTER (REVERSAL OF) PROVISION FOR LOAN LOSSES	26,940	25,351
NONINTEREST INCOME:		
Fee income on wire transfers	1,911	2,110
Service fees on customer deposit accounts	1,385	1,729
Net realized gain on sales of securities available for sales (includes \$694 and \$1,540 accumulated other comprehensive income reclassifications for unrealized net gains on securities available for sale, respectively)	694	1,540
Foreign currency transaction gain	460	472
Fee income on foreign currency credit card transactions	370	437
Other	503	565
TOTAL NONINTEREST INCOME	5,323	6,853
NONINTEREST EXPENSES:		
Salaries and employee benefits	13,124	11,292
Representative offices	4,117	4,193
Consulting fees	1,734	4,352
Occupancy	1,530	1,344
Data processing	1,497	1,458
Federal deposit insurance	243	975
Professional fees	906	653
Information technology support	556	541
Depreciation and amortization	520	514
Software licenses	435	359
Other	2,513	2,563
TOTAL NONINTEREST EXPENSES	27,175	28,244
INCOME BEFORE PROVISION FOR INCOME TAXES	5,088	3,960
PROVISION FOR INCOME TAXES (includes \$264 and \$585 income tax expense from reclassification items, respectively)	1,726	1,202
NET INCOME	\$ 3,362	\$ 2,758

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

HELM BANK USA

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2016

NET INCOME		\$	3,362
OTHER COMPREHENSIVE LOSS, NET OF TAX EFFECT			
Unrealized losses on securities			
Unrealized holding losses arising during period (net of tax effect of \$1,731)	\$	(2,824)	
Less: reclassification adjustment for gains included in net income (net of tax effect of \$264)		(430)	(3,254)
		<hr/>	<hr/>
COMPREHENSIVE INCOME		\$	108

2015

NET INCOME		\$	2,758
OTHER COMPREHENSIVE LOSS, NET OF TAX EFFECT			
Unrealized losses on securities			
Unrealized holding gains arising during period (net of tax effect of \$306)	\$	500	
Less: reclassification adjustment for gains included in net income (net of tax effect of \$585)		(955)	(455)
		<hr/>	<hr/>
COMPREHENSIVE INCOME		\$	2,303

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

HELM BANK USA

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net of tax effect	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2015	\$ 9,000	\$ 8,800	\$ 71,381	\$ (467)	\$ 88,714
Net income	-	-	2,758	-	2,758
Other comprehensive loss	-	-	-	(455)	(455)
BALANCES AT DECEMBER 31, 2015	9,000	8,800	74,139	(922)	91,017
Net income	-	-	3,362	-	3,362
Other comprehensive loss	-	-	-	(3,254)	(3,254)
BALANCES AT DECEMBER 31, 2016	\$ 9,000	\$ 8,800	\$ 77,501	\$ (4,176)	\$ 91,125

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

HELM BANK USA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(IN THOUSANDS)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,362	\$ 2,758
Adjustments to reconcile net income to net cash provided by operating activities:		
(Reversal of) provision for loan losses	(270)	1,296
Write down of foreclosed assets	-	86
Net amortization (accretion) of securities	2,016	(886)
Net amortization (accretion) of loan origination costs	48	17
Depreciation and amortization of property and equipment	520	514
Net gain on sales of foreclosed assets	(26)	(54)
Net realized gain on sales of securities	(694)	(1,540)
Write down of IBB stock	-	14
Deferred income tax provision (benefit)	217	(189)
Deferred lease incentive	-	36
Net change in operating assets and liabilities:		
Other assets	(570)	(155)
Other liabilities	160	(768)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,763	1,129
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available for sale:		
Sales	90,937	56,847
Maturities, prepayments and calls	64,437	58,995
Purchases	(191,035)	(70,158)
Net change in Federal Home Loan Bank stock (restricted)	(1,100)	(369)
Loan principal originations, net	(24,652)	(24,690)
Proceeds from sales of foreclosed assets	180	1,736
Additions to property and equipment	(432)	(909)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(61,665)	21,452
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	3,131	(18,174)
Proceeds from Federal Home Loan Bank advances	26,000	10,000
Net change in advance payments by borrowers for taxes and insurance	221	1,427
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	29,352	(6,747)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(27,550)	15,834
CASH AND CASH EQUIVALENTS, beginning of year	44,351	28,517
CASH AND CASH EQUIVALENTS, end of year	\$ 16,801	\$ 44,351
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Change in unrealized losses on securities	\$ 5,249	\$ 734
Interest paid on deposits and borrowed funds	\$ 587	\$ 474
Cash paid for income taxes	\$ 1,425	\$ 1,275
Transfer of loans to foreclosed assets	\$ 154	\$ 1,152

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

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

1. GENERAL

Nature of Operations

Helm Bank USA (the "Bank") is a State of Florida chartered commercial banking financial institution. The Bank provides a variety of financial products and services in Miami, Florida and through its representative offices in Colombia, Venezuela, Ecuador, Mexico, and Peru. The Bank is authorized by federal regulators and the State of Florida to conduct general banking business. It is a member of the Federal Deposit Insurance Corporation ("FDIC") and is supervised and regulated by the Office of Financial Regulation of the State of Florida ("OFR") and by the FDIC.

On October 17, 2012, the Bank entered into a Consent Order agreement (the "Order") with the FDIC and the OFR. During December 2015, the FDIC and the OFR terminated the Order. See NOTE 13, "Regulatory Matters," for further discussion on the Order.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accounting policies and reporting practices of the Bank conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and to predominant practices in the banking industry.

Use of Estimates

In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of foreclosed assets, valuation of deferred tax assets, and the fair value of financial instruments.

Concentrations of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty.

The Bank's loan portfolio is significantly concentrated in residential real estate loans. The Bank controls credit risk through credit approvals, credit limits, and monitoring procedures. The Bank performs ongoing credit evaluations of its customers' financial condition. During 2016 and 2015, approximately 92% and 90%, respectively, of the Bank's loan portfolio is collateralized by residential real estate; of which approximately 84% is collateralized by condominiums and planned unit developments. Loans collateralized by real estate are located primarily in South Florida. Circumstances that negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

Loans outstanding to customers whose principal residence is outside the U.S. at December 31, 2016 and 2015 were \$411,759 and \$403,336, respectively. The following is a summary of the loan portfolio by country of customer residence at December 31:

	<u>2016</u>	<u>2015</u>
Brazil	30%	26%
Venezuela	17	22
Colombia	14	16
United States	13	11
Other	26	25
	<u>100%</u>	<u>100%</u>

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk (continued)

Deposits outstanding from customers whose principal residence is outside the U.S. at December 31, 2016 and 2015 were \$528,257 and \$534,006, respectively. The following is a summary of total deposits by country of customer residence at December 31:

	<u>2016</u>	<u>2015</u>
Colombia	33%	34%
Ecuador	16	13
United States	15	13
Venezuela	14	15
Other	<u>22</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

In the ordinary course of business, the Bank maintains deposits with other qualified financial institutions. The exposure to the Bank from these transactions is dependent upon the balances it keeps and the financial strength of the respective depository institution.

Foreign Operations

The Bank's operations in various geographic regions expose the Bank to risks inherent in doing business in each of the countries in which the Bank transacts business. Operations in countries other than the United States are subject to various risks particular to each country. With respect to any particular country, these risks may include:

- Expropriation and nationalization of the Bank's assets or the Bank's customers in that country;
- Political and economic instability;
- Civil unrest, acts of terrorism, force majeure, war or other armed conflict;
- Natural disasters including those related to earthquakes, hurricanes, tsunamis and flooding;
- Inflation;
- Currency fluctuations, devaluations, conversion and expropriation restrictions;
- Confiscatory taxation or other adverse tax policies;
- Governmental activities that limit or disrupt markets, payments, or limit the movement of funds;
- Governmental activities that may result in the deprivation of contract rights; and
- Trade restrictions and economic embargoes imposed by the United States and other countries.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents includes cash and due from banks, and interest-bearing cash deposits in banks with original maturity dates of ninety days or less.

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, these reserve balances amount to \$23,674 and \$23,337, respectively.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

The Bank determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Bank has the positive intent and ability to hold the securities to maturity. Debt securities for which the Bank does not have the intent or ability to hold to maturity are classified as available for sale. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt and marketable equity securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax effect, included in the determination of comprehensive income and reported in stockholders' equity. At December 31, 2016 and 2015, all of the Bank's securities were classified as available for sale.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the interest method. Gains and losses on sales of securities are determined using the specific identification method.

The Bank recognizes other-than-temporary impairments for debt securities classified as available for sale in accordance with U.S. GAAP. Accordingly, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized costs bases, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the statements of income, but is recognized in other comprehensive (loss) income.

Federal Home Loan Bank Stock, at cost (restricted)

The Bank, as a member of the Federal Home Loan Bank ("FHLB") (Atlanta) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. At December 31, 2016 and 2015, the Bank owned 21,833 and 10,827 shares, respectively, with a carrying value of \$2,183 and \$1,083, respectively.

Loans, net

Loans are reported at their recorded investment, which is the outstanding principal balance plus accrued interest and net of any unearned income, such as deferred fees or costs, charge-offs, unamortized premiums or discounts on originated loans, and the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated on principal amounts outstanding. Certain loan origination fees and costs are deferred and the net amount is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience, quantitative and other mathematical techniques over the loss emergence period. For each class of loan, management exercises significant judgment to determine the estimated method that fits the credit risk characteristics of its portfolio segment. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: residential real estate, commercial real estate, commercial and industrial, and consumer loans. The Bank also sub-segments these segments into classes based on the associated risks within those segments. Residential real estate loans are divided into the following four classes: revolving 1-4 family, single family residences, condominiums and planned unit developments. Commercial real estate loans are divided into the following four classes: construction and development, multifamily residential, non-residential owner occupied, and non-residential investor owned. Commercial and industrial loans are divided into the following three classes: trucks and trailers, secured by standby letters of credit, and certificate of deposit ("CD") secured. Consumer loans are divided into the following two classes: credit cards and other consumer. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The following is how management determines the balance of the allowance account. The loans are pooled by class and a historical loss percentage is applied to each class. Historical loan losses are calculated by utilizing a three-year weighted average methodology, to which a weight of 50% is applied to the most recent year, as well as a weight of 30% and 20% is assigned to each previous year, respectively. Based on credit risk assessment and management's analysis of leading predictors of losses, additional loss multipliers are applied to loan balances to adjust the historical loss percentage for environmental factors.

Reflected in the portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of the Bank's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Bank's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of \$9,792 and \$9,890 adequate to cover loan losses inherent in the loan portfolio at December 31, 2016 and 2015, respectively.

Regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the recognition of additions and/or decreases to the allowance for loan losses based on their judgment of information available at the time of their examination.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

Consumer loans are generally fully or partially charged down to the fair value of the collateral securing the asset when:

- The loan is in excess of 120 days past due, unless collateral covering the loan has been repossessed;
- 90 days have lapsed since repossession of collateral;
- Management judges the asset to be uncollectible;
- Repayment is deemed to be protracted beyond reasonable time; or
- If after liquidation of the collateral, payment of any resulting deficiency by borrower or guarantor is highly improbable.

For real estate, and commercial and industrial loans the Bank's charge-off policies are as follows. A loan is charged-off when:

- The loan is classified as a loss by the Bank, and is considered uncollectible or of such little value that the continuance of the loan as an active asset is no longer warranted;
- The loan is classified as a loss by the regulatory authorities; or
- The loan is impaired and there is a known anticipated loss, the amount of the loss is charged-off.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as it does for impaired loans.

The Bank offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification - A modification in which the interest rate is changed.

Term Modification - A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification - A modification in which the loan is converted to interest only payments for a period of time.

Combination Modification - Any other type of modification, including the use of multiple categories above.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment.

The Bank's grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performances.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

The Bank's internally assigned grades are as follows:

Pass - No change in credit rating of borrower and loan-to-value ratio of asset.

Especially Mentioned - Loans to borrowers displaying a preponderance of declining trends. While the situation has not deteriorated to work-out status, its present condition is unsatisfactory. Existing loans will be included in this group if, based on actual experience and other events, it is unlikely that they would be granted on similar terms.

Substandard - Work-out and/or non-performing loans with no principal loss anticipated.

Doubtful - Work-out and/or non-performing loans with weaknesses that make collection or liquidation in full highly questionable and improbable.

Loss - Loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on a present value of expected future cash flows, discounted at the loan's effective interest rate, except when the source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged-off and no restructuring has occurred or the loans reach ninety days past due.

When management places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted on the cash or cost recovery method, until it qualifies for return to accrual status. Generally management returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the statements of income. At December 31, 2016 and 2015, the provision for unfunded lending commitments amounted to \$65 and \$55, respectively, and is included in other liabilities on the accompanying balance sheets.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Property and Equipment, net

Property and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. The estimated useful lives of these assets are as follow:

Leasehold improvements	Shorter of life or term of lease
Furniture, fixtures and equipment	3 - 7 years

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the results of operations for the respective period.

Impairment of Long-Lived Assets

The Bank's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Bank did not recognize an impairment charge during the years ended December 31, 2016 and 2015.

Interest Income

Interest income is recognized as earned, based upon the principal amount outstanding, on an accrual basis.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2016 and 2015, advertising costs amounted to \$206 and \$236, respectively, and are included in other noninterest expenses on the accompanying statements of income.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Bank recognizes positions taken or expected to be taken in a tax return in accordance with existing accounting guidance on income taxes which prescribes a recognition threshold and measurement process. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively.

Foreign Currency Adjustments

The Bank's functional currency for all operations worldwide is the U.S. dollar. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Interest Rate Risk

The Bank's performance is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its interest expense on interest-bearing liabilities. The Bank, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities (the interest rate sensitivity gap). More liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Bank has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income resulting from changes in market interest rates.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on securities.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

The Bank has evaluated subsequent events through April 20, 2017, which is the date the financial statements were available to be issued.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Bank is currently evaluating the effect the update will have on its financial statements.

Fair Value Measurement

In May 2015, the FASB issued an accounting standard update that removes the requirement to include investments in the fair value hierarchy for which fair value is measured at net asset value using the practical expedient. The update also changes certain disclosure requirements. The update is effective retrospectively for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early application is permitted. The Bank is currently evaluating the effect the update will have on its financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard update which seeks to enhance the recognition, measurement, presentation and disclosure requirements of financial instruments. The update is effective for fiscal years beginning after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019 with early adoption permitted for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank is currently evaluating the effect the update will have on its financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. The Bank is currently evaluating the effect the update will have on its financial statements, but expects upon adoption that the update will have a material effect on the Bank's financial condition due to the recognition of a right-of-use asset and related lease liability. The Bank does not anticipate the update having a material effect on the Bank's results of operations or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an accounting standard update which will replace the current incurred loss impairment methodology in U.S. GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018 including interim periods in those fiscal years. The Bank is currently evaluating the effect the update will have on its financial statements.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standards update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Bank is currently evaluating the effect the update will have on its financial statements.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued an accounting standards update which shortens the amortization period for certain callable debt securities that are held at a premium by requiring such callable debt securities to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. The update is to be applied on a modified retrospective basis as of the beginning of the period of adoption and is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Bank is currently evaluating the effect the update will have on its financial statements.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

3. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to employees. Annual activity consisted of the following:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 459	\$ 441
Advances	205	167
Repayments	(79)	(149)
Ending balance	<u>\$ 585</u>	<u>\$ 459</u>

Deposits from related parties held by the Bank at December 31, 2016 and 2015 were \$21,923 and \$32,552, respectively.

	<u>For Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Interest earned on employee loans	\$ 58	\$ 16
Interest paid on related party deposits	\$ 78	\$ 50

The interest rates on related party transactions were as follows during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Loans	4.00 - 4.38%	4.00 - 4.38%
Deposits	0.00 - 0.40%	0.00 - 0.75%

The Bank has a service agreement with an entity related by virtue of common ownership to purchase various support services, which renews annually. During the years ended December 31, 2016 and 2015, the Bank incurred fees under this service agreement of \$360, which are included in consulting fees on the accompanying statements of income.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

The Bank subleases office space from a related party for its disaster recovery center. During the years ended December 31, 2016 and 2015, the Bank incurred fees under this sublease agreement of \$13 and \$5, respectively.

The Bank subleases office space to a related party (NOTE 14).

Directors' fees amounted to \$45 and \$42 for the years ended December 31, 2016, and 2015, respectively.

4. SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows at:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available for Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 15,437	\$ 6	\$ (224)	\$ 15,219
U.S. Government-sponsored enterprises (GSEs)	35,867	-	(1,680)	34,187
Municipal bonds	40,452	457	(1,309)	39,600
GSE residential mortgage-backed	162,127	233	(4,096)	158,264
Corporate bonds	8,648	68	(188)	8,528
Total debt securities	262,531	764	(7,497)	255,798
Mutual funds	1,000	-	(4)	996
Total securities available for sale	\$ 263,531	\$ 764	\$ (7,501)	\$ 256,794
December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available for Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 39,065	\$ -	\$ (554)	\$ 38,511
U.S. Government-sponsored enterprises (GSEs)	53,500	-	(747)	52,753
Municipal bonds	25,103	729	(85)	25,747
GSE residential mortgage-backed	102,928	180	(1,070)	102,038
Corporate bonds	7,596	96	(49)	7,643
Total debt securities	228,192	1,005	(2,505)	226,692
Mutual funds	1,000	12	-	1,012
Total securities available for sale	\$ 229,192	\$ 1,017	\$ (2,505)	\$ 227,704

The amortized cost and fair value of available for sale securities by contractual maturity follows at:

	December 31, 2016	
	Amortized Cost	Fair Value
<u>Securities Available for Sale</u>		
No maturity	\$ 1,000	\$ 996
Within 1 year	340	346
After 1 year through 5 years	38,165	38,027
After 5 years through 10 years	70,672	68,683
Over 10 years	153,354	148,742
Total securities available for sale	\$ 263,531	\$ 256,794

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

4. SECURITIES (CONTINUED)

For the years ended December 31, 2016 and 2015, proceeds from sales of securities available for sale amounted to \$90,937 and \$56,847, respectively; gross realized gains were \$792 and \$1,651, respectively; gross realized losses were \$98 and \$111 for 2016 and 2015, respectively.

The following table shows the gross unrealized losses and fair value of the Bank's securities available for sale with unrealized losses that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015.

	Less than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016						
U.S. Government and federal agency	\$ 9,150	\$ (224)	\$ -	\$ -	\$ 9,150	\$ (224)
GSEs	34,187	(1,680)	-	-	34,187	(1,680)
Municipal bonds	22,626	(1,308)	170	(1)	22,796	(1,309)
GSE residential mortgage-backed	125,548	(3,887)	9,486	(209)	135,034	(4,096)
Corporate bonds	5,423	(188)	-	-	5,423	(188)
Mutual funds	996	(4)	-	-	996	(4)
Total securities available for sale	\$ 197,931	\$ (7,291)	\$ 9,656	\$ (210)	\$ 207,587	\$ (7,501)
December 31, 2015						
U.S. Government and federal agency	\$ 11,850	\$ (178)	\$ 26,661	\$ (376)	\$ 38,511	\$ (554)
GSEs	30,253	(247)	22,500	(500)	52,753	(747)
Municipal bonds	6,556	(85)	-	-	6,556	(85)
GSE residential mortgage-backed	50,289	(717)	18,104	(353)	68,393	(1,070)
Corporate bonds	1,488	(49)	-	-	1,488	(49)
Total securities available for sale	\$ 100,436	\$ (1,276)	\$ 67,265	\$ (1,229)	\$ 167,701	\$ (2,505)

U.S. Government and federal agency obligations. The unrealized losses on the three investments in U.S. Government obligations and direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

GSE debt securities. The unrealized losses on the twelve investments in GSEs were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Municipal bonds. The unrealized losses on the sixty-three investments in municipal bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

4. SECURITIES (CONTINUED)

GSE residential mortgage-backed securities. The unrealized losses on the Bank's investment in fifty-nine GSE residential mortgage-backed securities were caused by interest rate increases. The Bank purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Corporate bonds. The Bank's unrealized losses on three investments in corporate bonds relate to investments in companies in the financial services and beverage sectors. The unrealized losses are primarily caused by recent decreases in profitability and profit forecasts by industry analysts. The contractual terms of those investments do not permit the debtor to settle the securities at prices less than the par values of the investments. The Bank currently does not expect the debtors to settle the debentures at a price less than the amortized cost bases of the investments (i.e., the Bank expects to recover the entire amortized cost bases of the securities). Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their par values, which may be maturity, it does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Mutual funds. The Bank's investment in one marketable equity security consist of an investment in common stock of an entity in the financial services industry. The severity of the impairment (fair value is approximately one percent less than cost) and the duration of the impairment (less than twelve months) are driven by changes in interest rates within the financial services industry. The Bank evaluated the prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Bank's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

5. LOANS, NET

Loans classified by segment and class are summarized as follows:

	<u>2016</u>	<u>2015</u>
Residential real estate	\$ 436,724	\$ 407,659
Commercial real estate	15,720	17,906
Commercial and industrial	8,872	10,274
Consumer	13,256	14,754
	<u>474,572</u>	<u>450,593</u>
Plus: Net deferred loan costs	736	93
Less: Allowance for loan losses	<u>(9,792)</u>	<u>(9,890)</u>
	<u>\$ 465,516</u>	<u>\$ 440,796</u>

A reconciliation of the recorded investment in loans is as follows:

	<u>2016</u>	<u>2015</u>
Gross loans	\$ 474,572	\$ 450,593
Plus: Accrued interest receivable	<u>2,137</u>	<u>2,031</u>
Recorded investment in loans	<u>\$ 476,709</u>	<u>\$ 452,624</u>

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The Bank had pledged \$288,267 and \$337,909 of residential real estate loans as collateral for advances from the Federal Home Loan Bank of Atlanta at December 31, 2016 and 2015, respectively.

During 2016, the Bank purchased \$22,336 in residential real estate loans for which there was, at acquisition, no evidence of deterioration of credit quality since origination. The purchase premium amounted to \$614.

The following tables present by portfolio segment, the changes in the allowance for loan losses and recorded investment in loans for the years ended December 31, 2016 and 2015:

For the Year Ended December 31, 2016

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 7,980	\$ 1,021	\$ 378	\$ 511	\$ 9,890
Charge-offs	(154)	-	-	(51)	(205)
Recoveries	301	-	-	76	377
Reversal	(248)	(9)	(5)	(8)	(270)
Ending balance	\$ 7,879	\$ 1,012	\$ 373	\$ 528	\$ 9,792
Ending balance: individually evaluated for impairment	\$ 22	\$ 1	\$ -	\$ -	\$ 23
Ending balance: collectively evaluated for impairment	\$ 7,857	\$ 1,011	\$ 373	\$ 528	\$ 9,769
Recorded investment in loans:					
Ending balance	\$ 438,678	\$ 15,801	\$ 8,915	\$ 13,315	\$ 476,709
Ending balance: individually evaluated for impairment	\$ 16,239	\$ 1,853	\$ -	\$ 51	\$ 18,143
Ending balance: collectively evaluated for impairment	\$ 422,439	\$ 13,948	\$ 8,915	\$ 13,264	\$ 458,566

For the Year Ended December 31, 2015

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 6,837	\$ 971	\$ 349	\$ 513	\$ 8,670
Charge-offs	(192)	(1)	-	(62)	(255)
Recoveries	160	-	-	19	179
Provision	1,175	51	29	41	1,296
Ending balance	\$ 7,980	\$ 1,021	\$ 378	\$ 511	\$ 9,890
Ending balance: individually evaluated for impairment	\$ 120	\$ 96	\$ -	\$ -	\$ 216
Ending balance: collectively evaluated for impairment	\$ 7,860	\$ 925	\$ 378	\$ 511	\$ 9,674
Recorded investment in loans:					
Ending balance	\$ 409,400	\$ 18,004	\$ 10,323	\$ 14,897	\$ 452,624
Ending balance: individually evaluated for impairment	\$ 19,652	\$ 2,179	\$ -	\$ 58	\$ 21,889
Ending balance: collectively evaluated for impairment	\$ 389,748	\$ 15,825	\$ 10,323	\$ 14,839	\$ 430,735

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables represent credit exposures by internally assigned grades for years ended December 31, 2016 and 2015:

For the Year Ended December 31, 2016

	Pass	Especially Mentioned	Substandard	Total
Revolving 1-4 family	\$ 476	\$ 1	\$ 121	\$ 598
Single family residences	36,139	383	647	37,169
Condominiums	204,240	1,383	1,983	207,606
Planned unit developments	189,438	712	3,154	193,304
Construction and development	2,056	-	56	2,112
Multifamily residential	6,103	420	-	6,523
Non-residential owner occupied	3,407	751	474	4,632
Non-residential investor owned	2,035	275	225	2,535
Trucks and trailers	173	-	-	173
Secured by standby letters of credit	537	-	-	537
CD secured	8,205	-	-	8,205
Credit cards	2,848	-	-	2,848
Other consumer	10,160	256	51	10,467
Total	\$ 465,817	\$ 4,181	\$ 6,711	\$ 476,709

For the Year Ended December 31, 2015

	Pass	Especially Mentioned	Substandard	Total
Revolving 1-4 family	\$ 1,196	\$ 51	\$ -	\$ 1,247
Single family residences	25,527	1,696	1,330	28,553
Condominiums	190,447	1,892	1,591	193,930
Planned unit developments	180,604	974	4,092	185,670
Construction and development	2,109	74	57	2,240
Multifamily residential	5,909	713	433	7,055
Non-residential owner occupied	3,703	837	690	5,230
Non-residential investor owned	2,835	418	226	3,479
Trucks and trailers	389	-	-	389
Secured by standby letters of credit	561	-	-	561
CD secured	9,373	-	-	9,373
Credit cards	3,233	-	-	3,233
Other consumer	11,486	120	58	11,664
Total	\$ 437,372	\$ 6,775	\$ 8,477	\$ 452,624

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables present performing and nonperforming loans based on payment activity for the years ended December 31, 2016 and 2015. Payment activity is reviewed by management on a monthly basis to determine how loans are performing.

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

For the Year Ended December 31, 2016

	Performing	Nonperforming	Total
Revolving 1-4 family	\$ 477	\$ 121	\$ 598
Single family residences	36,522	647	37,169
Condominiums	205,871	1,735	207,606
Planned unit developments	190,436	2,868	193,304
Construction and development	2,112	-	2,112
Multifamily residential	6,523	-	6,523
Non-residential owner occupied	4,575	57	4,632
Non-residential investor owned	2,535	-	2,535
Trucks and trailers	173	-	173
Secured by standby letters of credit	537	-	537
CD secured	8,205	-	8,205
Credit cards	2,848	-	2,848
Other consumer	10,416	51	10,467
Total	\$ 471,230	\$ 5,479	\$ 476,709

For the Year Ended December 31, 2015

	Performing	Nonperforming	Total
Revolving 1-4 family	\$ 1,247	\$ -	\$ 1,247
Single family residences	27,568	985	28,553
Condominiums	192,667	1,263	193,930
Planned unit developments	182,406	3,264	185,670
Construction and development	2,240	-	2,240
Multifamily residential	7,055	-	7,055
Non-residential owner occupied	5,161	69	5,230
Non-residential investor owned	3,479	-	3,479
Trucks and trailers	389	-	389
Secured by standby letters of credit	561	-	561
CD secured	9,373	-	9,373
Credit cards	3,233	-	3,233
Other consumer	11,619	45	11,664
Total	\$ 446,998	\$ 5,626	\$ 452,624

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

Following are tables which include an aging analysis of the recorded investment in past due loans as of December 31, 2016 and 2015:

For the Year Ended December 31, 2016	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Revolving 1-4 family	\$ 10	\$ 2	\$ 121	\$ 133	\$ 465	\$ 598
Single family residences	531	-	647	1,178	35,991	37,169
Condominiums	2,433	165	1,735	4,333	203,273	207,606
Planned unit developments	2,668	180	2,868	5,716	187,588	193,304
Construction and development	-	-	-	-	2,112	2,112
Multifamily residential	-	-	-	-	6,523	6,523
Non-residential owner occupied	50	-	57	107	4,525	4,632
Non-residential investor owned	225	-	-	225	2,310	2,535
Trucks and trailers	19	-	-	19	154	173
Secured by standby letters of credit	-	-	-	-	537	537
CD secured	190	-	-	190	8,015	8,205
Credit cards	-	-	-	-	2,848	2,848
Other consumer	391	-	51	442	10,025	10,467
Total	\$ 6,517	\$ 347	\$ 5,479	\$ 12,343	\$ 464,366	\$ 476,709

For the Year Ended December 31, 2015	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Revolving 1-4 family	\$ 51	\$ -	\$ -	\$ 51	\$ 1,196	\$ 1,247
Single family residences	1,374	119	985	2,478	26,075	28,553
Condominiums	1,553	-	1,263	2,816	191,114	193,930
Planned unit developments	2,627	230	3,264	6,121	179,549	185,670
Construction and development	-	-	-	-	2,240	2,240
Multifamily residential	-	-	-	-	7,055	7,055
Non-residential owner occupied	17	-	69	86	5,144	5,230
Non-residential investor owned	-	-	-	-	3,479	3,479
Trucks and trailers	-	-	-	-	389	389
Secured by standby letters of credit	-	-	-	-	561	561
CD secured	-	-	-	-	9,373	9,373
Credit cards	-	-	-	-	3,233	3,233
Other consumer	269	-	45	314	11,350	11,664
Total	\$ 5,891	\$ 349	\$ 5,626	\$ 11,866	\$ 440,758	\$ 452,624

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, at December 31, 2016 and 2015. Also presented are the average recorded investments in the impaired loans and the related amounts of interest recognized during the time within the years ended December 31, 2016 and 2015 that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the loans of the period reported.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2016

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Revolving 1-4 family	\$ 121	\$ 121	\$ -	\$ 61	\$ -
Single family residences	649	647	-	877	2
Condominiums	1,860	1,858	-	1,663	2
Planned unit developments	3,155	3,152	-	3,627	3
Construction and development	57	57	-	58	-
Multifamily residential	-	-	-	-	-
Non-residential owner occupied	470	470	-	491	-
Non-residential investor owned	222	222	-	223	-
Trucks and trailers	51	51	-	26	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
	<u>6,585</u>	<u>6,578</u>	<u>-</u>	<u>7,026</u>	<u>7</u>
With an allowance recorded:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	2,318	2,306	2	2,477	12
Condominiums	5,724	5,695	17	6,232	29
Planned unit developments	2,412	2,400	3	3,010	12
Construction and development	-	-	-	-	-
Multifamily residential	1,104	1,100	1	907	4
Non-residential owner occupied	-	-	-	-	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
	<u>11,558</u>	<u>11,501</u>	<u>23</u>	<u>12,626</u>	<u>57</u>
Total:					
Revolving 1-4 family	121	121	-	61	-
Single family residences	2,967	2,953	2	3,354	14
Condominiums	7,584	7,553	17	7,895	31
Planned unit developments	5,567	5,552	3	6,637	15
Construction and development	57	57	-	58	-
Multifamily residential	1,104	1,100	1	907	4
Non-residential owner occupied	470	470	-	491	-
Non-residential investor owned	222	222	-	223	-
Trucks and trailers	51	51	-	26	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	<u>\$ 18,143</u>	<u>\$ 18,079</u>	<u>\$ 23</u>	<u>\$ 19,652</u>	<u>\$ 64</u>

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Revolving 1-4 family	\$ -	\$ -	\$ -	\$ -	\$ -
Single family residences	1,105	1,102	-	3,012	3
Condominiums	1,465	1,463	-	2,575	2
Planned unit developments	4,099	4,084	-	3,697	15
Construction and development	58	58	-	106	-
Multifamily residential	429	429	-	2,399	-
Non-residential owner occupied	511	511	-	581	-
Non-residential investor owned	224	224	-	205	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	58	58	-	45	-
	<u>7,949</u>	<u>7,929</u>	<u>-</u>	<u>12,620</u>	<u>20</u>
With an allowance recorded:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	2,635	2,635	28	2,371	-
Condominiums	6,740	6,740	70	6,513	-
Planned unit developments	3,608	3,608	21	3,709	-
Construction and development	73	73	1	37	-
Multifamily residential	710	710	4	355	-
Non-residential owner occupied	174	174	92	194	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
	<u>13,940</u>	<u>13,940</u>	<u>216</u>	<u>13,179</u>	<u>-</u>
Total:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	3,740	3,737	28	5,383	3
Condominiums	8,205	8,203	70	9,088	2
Planned unit developments	7,707	7,692	21	7,406	15
Construction and development	131	131	1	143	-
Multifamily residential	1,139	1,139	4	2,754	-
Non-residential owner occupied	685	685	92	775	-
Non-residential investor owned	224	224	-	205	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	58	58	-	45	-
	<u>58</u>	<u>58</u>	<u>-</u>	<u>45</u>	<u>-</u>
Total	<u>\$ 21,889</u>	<u>\$ 21,869</u>	<u>\$ 216</u>	<u>\$ 25,799</u>	<u>\$ 20</u>

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of December 31, 2016 and 2015, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process amounted to \$2,750 and \$2,958, respectively.

As of December 31, 2016 and 2015, there were no financing receivables modified as troubled debt restructurings within the previous twelve months.

As of December 31, 2016 and 2015, there were no commitments to lend additional funds to debtors owing receivables whose terms have been modified in a troubled debt restructuring.

6. FORECLOSED ASSETS

Net (proceeds) expenses applicable to foreclosed assets include the following:

	<u>Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Net gain on sales of foreclosed assets	\$ (26)	\$ (54)
Write down of foreclosed assets	-	86
Operating expenses	11	33
	<u>\$ (15)</u>	<u>\$ 65</u>

7. PROPERTY AND EQUIPMENT, NET

A summary of the cost and accumulated depreciation and amortization of property and equipment follows at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 2,806	\$ 2,791
Furniture, fixtures and equipment	2,776	3,030
	5,582	5,821
Less: Accumulated depreciation and amortization	(4,006)	(4,157)
	<u>\$ 1,576</u>	<u>\$ 1,664</u>

Depreciation and amortization expense amounted to \$520 and \$514 for the years ended December 31, 2016 and 2015, respectively. The Bank had approximately \$671 and \$2,895 of disposals during the years ended December 31, 2016 and 2015, respectively, for which the assets' carrying amount and related accumulated depreciation were removed from the accounts.

8. OTHER ASSETS

Other assets consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Accrued interest receivable - loans	\$ 2,137	\$ 2,031
Accrued interest receivable - securities	1,159	976
Prepays	641	775
Other	871	456
	<u>\$ 4,808</u>	<u>\$ 4,238</u>

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

9. DEPOSITS

The aggregate amount of time deposits in denominations of \$100, or more, was approximately \$60,000 and \$64,000 at December 31, 2016 and 2015, respectively.

Scheduled maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 67,419
2018	8,272
2019	1,557
2020	300
2021	44
	<u>\$ 77,592</u>

10. BORROWINGS

FHLB Advances

Maturities and interest rates of Federal Home Loan Bank of Atlanta ("FHLB") advances consisted of the following at December:

<u>Fixed Rate Advances</u> <u>Contractually Maturing:</u>	<u>Range of</u> <u>Interest Rates</u>	<u>2016</u>	<u>2015</u>
2016	0.56%	\$ -	\$ 10,000
2017	0.85-1.01%	7,500	-
2018	0.94-1.33%	18,500	-
2019	1.185%	10,000	-
		<u>\$ 36,000</u>	<u>\$ 10,000</u>

The Bank has an available line of credit with the FHLB of Atlanta at an interest rate that adjusts daily. Borrowings under the line are limited to 25% and 15% of the Bank's total assets at December 31, 2016 and 2015, respectively. All borrowings from the FHLB of Atlanta are secured by a blanket lien on the carrying value of first mortgage loans on residential property, which amounted to \$288,267 and \$337,909 at December 31, 2016 and 2015, respectively.

Federal Funds Purchased and Other Lines

The Bank has federal funds purchased and other unsecured lines with other depository institutions, which allow the Bank to borrow short term funds as needed to manage liquidity. The Bank's available lines totaled \$16,000 and \$12,000 at December 31, 2016 and 2015, respectively. There were no outstanding balances as of December 31, 2016 and 2015.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

11. OTHER LIABILITIES

Other liabilities consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Deferred compensation	\$ 3,300	\$ 3,000
Accruals	1,030	1,215
Other	536	491
	<u>\$ 4,866</u>	<u>\$ 4,706</u>

12. INCOME TAXES

The provision for income taxes is as follows for the year ended December 31:

	<u>2016</u>	<u>2015</u>
Current tax provision:		
Federal	\$ 1,275	\$ 1,183
State	234	208
	<u>1,509</u>	<u>1,391</u>
Deferred tax provision (benefit):		
Federal	203	(160)
State	14	(29)
	<u>217</u>	<u>(189)</u>
Total	<u>\$ 1,726</u>	<u>\$ 1,202</u>

The actual income tax expense for 2016 and 2015 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 35% for 2016 and 2015 to net income before provision from income taxes) as follows:

	<u>2016</u>	<u>2015</u>
Federal income taxes, at statutory rate	\$ 1,781	\$ 1,386
State income taxes, net of federal tax benefit	154	120
Tax-exempt interest	(290)	(303)
Other permanent differences	81	(1)
Total	<u>\$ 1,726</u>	<u>\$ 1,202</u>

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

12. INCOME TAXES (CONTINUED)

The Bank's deferred tax assets (liabilities) are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Deferred tax assets (liabilities):		
Allowance for loan losses	\$ 3,890	\$ 3,968
Net unrealized loss on securities available for sale	2,560	565
Deferred compensation	1,297	1,140
Depreciation and amortization	212	519
Other	(53)	(64)
	<u>\$ 7,906</u>	<u>\$ 6,128</u>
Deferred tax asset		

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Bank files income tax returns. The Bank is no longer subject to U.S. Federal or State examinations by tax authorities for years before 2013.

For the years ended December 31, 2016 and 2015, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

13. REGULATORY MATTERS

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

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the FDIC. These new requirements create a new required ratio for common equity tier 1 capital, increase the leverage and tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Under the new capital regulations, the minimum capital ratios are: (1) common equity tier 1 capital ratio of 4.5% of risk-weighted assets, (2) a tier 1 capital ratio of 6.0% of risk-weighted assets, (3) a total capital ratio of 8.0% of risk-weighted assets, and (4) a tier 1 capital to average assets ratio of 4.0%. Common equity tier 1 capital generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in its capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on its regulatory capital levels.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

13. REGULATORY MATTERS (CONTINUED)

The Bank will have to maintain a capital conservation buffer consisting of additional common equity tier 1 capital greater than 2.5% to risk-weighted assets above the required minimum levels. This new capital conservation buffer requirement was phased in beginning in January 2016 at 0.635% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FDIC's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Bank must have a common equity tier 1 capital ratio of 6.5% (new), a tier 1 ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a leverage ratio of 5.0% (unchanged). The Bank meets all these new requirements, including the full capital conservation buffer.

On October 17, 2012, the Bank entered into the Order with the FDIC and the OFR to enhance its Bank Secrecy Act ("BSA") program. The Order required, among other things, that (i) the Bank develop and implement a BSA Compliance Plan, (ii) the Bank enhance its existing customer due diligence program, (iii) the Bank update its BSA Risk Assessment, and (iv) the Bank obtain an annual independent audit for compliance with BSA rules. The Bank had been providing written progress reports to the FDIC and the OFR denoting the actions taken to ensure compliance with the Order. The Bank had incurred significant consulting costs to comply with the provisions of the Order. During December 2015, the FDIC and the OFR terminated the Order.

As of December 31, 2016, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2016 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Total risk-based capital (to risk weighted assets)	\$ 101,201	32.66%	\$ 24,787	8.00%	\$ 30,984	10.00%
Tier 1 capital (to risk weighted assets)	95,302	30.76%	18,590	6.00%	24,787	8.00%
Common equity tier 1 capital (to risk weighted assets)	95,302	30.76%	13,943	4.50%	20,139	6.50%
Tier 1 capital (to average total assets)	95,302	12.55%	30,386	4.00%	37,982	5.00%
2015						
Total risk-based capital (to risk weighted assets)	\$ 94,536	28.97%	\$ 26,110	8.00%	\$ 32,638	10.00%
Tier 1 capital (to risk weighted assets)	90,380	27.69%	19,583	6.00%	26,110	8.00%
Common equity tier 1 capital (to risk weighted assets)	90,380	27.69%	26,110	4.50%	32,638	6.50%
Tier 1 capital (to average total assets)	90,380	12.20%	29,629	4.00%	37,037	5.00%

The Bank's payment of dividends is subject to the limitations set by state banking regulations.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

14. COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit and commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on balance-sheet instruments. At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2016</u>	<u>2015</u>
Unfunded commitments under lines of credit	\$ 3,195	\$ 7,080
Standby letters of credit	2,971	4,271
Commitments to grant loans	<u>1,332</u>	<u>789</u>
	<u>\$ 7,498</u>	<u>\$ 12,140</u>

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. 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 amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, and at December 31, 2016 and 2015 such collateral amounted to \$2,971 and \$4,271, respectively.

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts may not necessarily represent future cash requirements.

The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Operating Leases

The Bank leases many of its operating equipment and office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2020 and provide for renewal options ranging from one to three years. In the normal course of business, it is expected that these leases will be renewed or replaced. The Bank entered into a sublease agreement with a related party for its former office space, which expires September 30, 2019.

Some of the leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Bank to pay executory costs (taxes, insurance, and repairs). Lease expense totaled \$2,016 and \$1,663 during 2016 and 2015, respectively. Sublease income totaled \$166 and \$160 during 2016 and 2015, respectively.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (continued)

Minimum annual rental commitments under non-cancelable leases are as follows at December 31, 2016:

<u>Year Ended December 31,</u>	<u>Annual Amount</u>	<u>Sublease Amounts</u>	<u>Net Minimum Payment</u>
2017	\$ 1,066	\$ 62	\$ 1,004
2018	674	64	610
2019	448	49	399
2020	6	-	6
	<u>\$ 2,194</u>	<u>\$ 175</u>	<u>\$ 2,019</u>

Litigation

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's financial statements.

15. DEFINED CONTRIBUTION RETIREMENT PLAN

The Bank has a defined contribution retirement plan (the "Plan") (a 401k plan) covering substantially all eligible employees. The Plan includes a provision that the employer may contribute to the accounts of eligible employees for whom a salary deferral is made. For the years ended December 31, 2016 and 2015, the Bank contributed \$231 and \$214, respectively, into the Plan.

16. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

16. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy

The Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Bank's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no changes in the methodologies used at December 31, 2016 and 2015.

The following methods and assumptions were used by the Bank in estimating fair value of disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair value based on the short-term nature of the assets.

Securities

Where quoted prices are available in an active market, the Bank classifies the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities included highly liquid government and corporate bonds, and marketable equity securities.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Governments-sponsored enterprise obligations, corporate and municipal bonds, and mortgage-backed securities are included in level 2 since observable inputs are available.

FHLB stock

Investment in FHLB stock is recorded at cost, which approximates fair value.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

16. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (continued)

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Deposits

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

FHLB Advances

Fair values of short-term borrowings are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter-parties' credit standing.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Securities Available for Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 15,219	\$ 15,219	\$ -	\$ -
GSE's	34,187	-	34,187	-
Municipal bonds	39,600	-	39,475	125
GSE residential mortgage-backed	158,264	-	158,264	-
Corporate bonds	8,528	6,006	2,522	-
Total debt securities	255,798	21,225	234,448	125
Mutual funds	996	996	-	-
Total assets at fair value	\$ 256,794	\$ 22,221	\$ 234,448	\$ 125

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

16. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (continued)

	Fair Value Measurements at December 31, 2015 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Securities Available for Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 38,511	\$ 38,511	\$ -	\$ -
GSE's	52,753	-	52,753	-
Municipal bonds	25,747	-	25,747	-
GSE residential mortgage-backed	102,038	-	102,038	-
Corporate bonds	7,643	-	7,643	-
Total debt securities	226,692	38,511	188,181	-
Mutual funds	1,012	1,012	-	-
Total assets at fair value	\$ 227,704	\$ 39,523	\$ 188,181	\$ -

The following is a reconciliation of the opening and closing balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period ended December 31, 2016:

	Municipal Bonds
Opening balance	\$ -
Transfers into Level 3	125 (a)
Closing balance	\$ 125

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data resulting from a decrease in market activity for the security.

There were no liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

16. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, the Bank makes adjustments to fair value for its assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the balance sheets by caption and by level in the fair value hierarchy at December 31, 2016 and 2015, for which a nonrecurring change in fair value has been recorded:

Fair Value Measurements at December 31, 2016 Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 11,478	\$ -	\$ -	\$ 11,478
Total assets at fair value	\$ 11,478	\$ -	\$ -	\$ 11,478
Fair Value Measurements at December 31, 2015 Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 13,724	\$ -	\$ -	\$ 13,724
Total assets at fair value	\$ 13,724	\$ -	\$ -	\$ 13,724

Impaired Loans

In accordance with the provisions of the loan impairment guidance, individual loans with a carrying amount of \$11,501 and \$13,940 at December 31, 2016 and 2015, respectively, were written down to their fair value of \$11,478 and \$13,724, respectively, resulting in an impairment charge of \$23 and \$216, respectively, which was included in the allowance for loan losses for the period. Loans applicable to write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions. The Bank's impaired loans are classified in Level 3 of the fair value hierarchy since the valuation technique requires inputs that are both significant and unobservable.

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2016 and 2015.

HELM BANK USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

16. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

The estimated fair values, and related carrying or notional amounts, of the Bank's financial instruments are as follows:

	December 31, 2016	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 16,801	\$ 16,801
Securities available for sale	256,794	256,794
Federal Home Loan Bank stock (restricted)	2,183	2,183
Loans, net	465,516	478,341
Accrued interest receivable	3,296	3,296
Financial Liabilities:		
Deposits	619,267	619,595
Federal Home Loan Bank advances	36,000	35,687
Accrued interest payable	131	131
Unrecognized financial instruments:		
Unfunded commitments under lines of credit	-	-
Standby letters of credit	-	-
Commitments to extend credit	-	-
	December 31, 2015	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 44,351	\$ 44,351
Securities available for sale	227,704	227,704
Federal Home Loan Bank stock (restricted)	1,083	1,083
Loans, net	440,796	453,243
Accrued interest receivable	3,007	3,007
Financial Liabilities:		
Deposits	616,136	616,591
Federal Home Loan Bank advances	10,000	9,980
Accrued interest payable	51	51
Unrecognized financial instruments:		
Unfunded commitments under lines of credit	-	-
Standby letters of credit	-	-
Commitments to extend credit	-	-