HELM BANK USA

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

MBAF

MORRISON BROWN ARGIZ & FARRA, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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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, 2015 and 2014, 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, 2015 and 2014, 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
March 18, 2016

HELM BANK USA

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

ASSETS	2015	2014
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 4,452	$ 10,063
Interest-bearing cash deposits	39,899	18,454
TOTAL CASH AND CASH EQUIVALENTS	44,351	28,517
Securities available for sale	227,704	271,696
Federal Home Loan Bank stock, at cost (restricted)	1,083	714
Loans, net	440,796	418,571
Foreclosed assets	-	616
Deferred tax asset	6,128	5,660
Property and equipment, net	1,664	1,269
Other assets	3,782	3,641
TOTAL ASSETS	**$ 725,508**	**$ 730,684**
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Demand deposits	$ 309,190	$ 310,971
Savings, NOW and money-market deposits	226,316	261,360
Time deposits	80,630	61,979
TOTAL DEPOSITS	616,136	634,310
Federal Home Loan Bank advances	10,000	-
Advance payments by borrowers for taxes and insurance	4,105	2,678
Other liabilities	4,250	4,982
TOTAL LIABILITIES	634,491	641,970
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS' EQUITY:		
Common stock, $10 par value, 1,000,000 shares authorized; 900,000 shares issued and outstanding	9,000	9,000
Additional paid-in capital	8,800	8,800
Retained earnings	74,139	71,381
Accumulated other comprehensive loss, net of tax effect	(922)	(467)
TOTAL STOCKHOLDERS' EQUITY	91,017	88,714
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 725,508**	**$ 730,684**

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)

	2015	2014
INTEREST INCOME:		
Loans, including fees	$ 22,904	$ 22,687
Securities available for sale	4,152	4,520
Other	70	77
TOTAL INTEREST INCOME	27,126	27,284
INTEREST EXPENSE:		
Deposits	449	439
Other	30	5
TOTAL INTEREST EXPENSE	479	444
NET INTEREST INCOME	26,647	26,840
PROVISION FOR (REVERSAL OF) LOAN LOSSES	1,296	(511)
NET INTEREST INCOME AFTER PROVISION FOR (REVERSAL OF) LOAN LOSSES	25,351	27,351
NONINTEREST INCOME:		
Fee income on wire transfers	2,110	2,671
Service fees on customer deposit accounts	1,729	2,754
Net realized gain on sales of securities available for sales (includes $1,540 and $1,322 accumulated other comprehensive income reclassifications for unrealized net gains on securities available for sale, respectively)	1,540	1,322
Foreign currency transaction gain	472	435
Fee income on foreign currency credit card transactions	437	531
Other	565	776
TOTAL NONINTEREST INCOME	6,853	8,489
NONINTEREST EXPENSES:		
Salaries and employee benefits	11,292	10,215
Consulting fees	4,352	8,181
Representative offices	4,193	5,361
Data processing	1,458	1,387
Occupancy	1,344	1,009
Federal deposit insurance	975	980
Professional fees	653	860
Information technology support	541	683
Depreciation and amortization	514	917
Software licenses	359	208
Credit card fees	304	359
Foreclosed assets, net	65	44
Other	2,194	2,488
TOTAL NONINTEREST EXPENSES	28,244	32,692
INCOME BEFORE PROVISION FOR INCOME TAXES	3,960	3,148
PROVISION FOR INCOME TAXES (includes $585 and $497 income tax expense from reclassification items, respectively)	1,202	957
NET INCOME	**$ 2,758**	**$ 2,191**

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

HELM BANK USA

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

2015				
NET INCOME			$	2,758
OTHER COMPREHENSIVE LOSS, NET OF TAX EFFECT				
Unrealized losses on securities				
Unrealized holding losses arising during period (net of tax effect of $306)	$	500		
Less: reclassification adjustment for gains included in net income (net of tax effect of $585)		(955)		(455)
COMPREHENSIVE INCOME			**$**	**2,303**
2014				
NET INCOME			$	2,191
OTHER COMPREHENSIVE INCOME, NET OF TAX EFFECT				
Unrealized gains on securities				
Unrealized holding gains arising during period (net of tax effect of $4,058)	$	6,735		
Less: reclassification adjustment for gains included in net income (net of tax effect of $497)		(825)		5,910
COMPREHENSIVE INCOME			**$**	**8,101**

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, 2015 AND 2014
(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, 2014	$ 9,000	$ 8,800	$ 69,190	$ (6,377)	$ 80,613
Net income	-	-	2,191	-	2,191
Other comprehensive income	-	-	-	5,910	5,910
BALANCES AT DECEMBER 31, 2014	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**

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)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,758	$ 2,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (reversal of) loan losses	1,296	(511)
Write down of foreclosed assets	86	23
Net (accretion) amortization of securities	(886)	2,347
Net amortization (accretion) of loan origination costs	17	(7)
Depreciation and amortization of property and equipment	514	917
Net gain on sales of foreclosed assets	(54)	(117)
Net realized gain on sales of securities	(1,540)	(1,322)
Write down of IBB stock	14	-
Deferred income taxes	(189)	464
Deferred lease incentive	36	286
Net change in operating assets and liabilities:		
Other assets	(155)	1,343
Other liabilities	(768)	(2,376)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,129	3,238
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available for sale:		
Sales	56,847	19,180
Maturities, prepayments and calls	58,995	42,988
Purchases	(70,158)	(20,083)
Net change in Federal Home Loan Bank stock (restricted)	(369)	324
Loan principal (originations) collections, net	(24,690)	479
Proceeds from sales of foreclosed assets	1,736	1,154
Additions to property and equipment	(909)	(730)
NET CASH PROVIDED BY INVESTING ACTIVITIES	21,452	43,312
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(18,174)	(67,433)
Proceeds from Federal Home Loan Bank advances	10,000	-
Net change in advance payments by borrowers for taxes and insurance	1,427	(689)
NET CASH USED IN FINANCING ACTIVITIES	(6,747)	(68,122)
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,834	(21,572)
CASH AND CASH EQUIVALENTS, beginning of year	28,517	50,089
CASH AND CASH EQUIVALENTS, end of year	**$ 44,351**	**$ 28,517**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Change in unrealized (losses) gains on securities	**$ (734)**	**$ 9,471**
Interest paid on deposits and borrowed funds	**$ 474**	**$ 479**
Cash paid for income taxes	**$ 1,275**	**$ 1,275**
Transfer of loans to foreclosed assets	**$ 1,152**	**$ 908**

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

(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 12, "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 2015 and 2014, approximately 90% and 89%, respectively, of the Bank's loan portfolio is collateralized by residential real estate; of which approximately 84% and 80%, respectively, 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, 2015 and 2014 were $403,336 and $366,268, respectively. The following is a summary of the loan portfolio by country of customer residence at December 31:

	2015	2014
Venezuela	22%	27%
Brazil	26	16
Colombia	16	17
United States	11	13
Other	25	27
	100%	**100%**

(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, 2015 and 2014 were $534,006 and $561,758, respectively. The following is a summary of total deposits by country of customer residence at December 31:

	2015	2014
Colombia	34%	37%
Venezuela	15	18
Ecuador	13	12
United States	13	11
Other	25	22
	100%	**100%**

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, 2015 and 2014, these reserve balances amount to $23,337 and $25,878, respectively.

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, 2015 and 2014, 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, 2015 and 2014, the Bank owned 10,827 and 7,139 shares, respectively, with a carrying value of $1,083 and $714, 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.

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 $9,890 and $8,670 adequate to cover loan losses inherent in the loan portfolio at December 31, 2015 and 2014, 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.

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.

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, 2015 and 2014, the provision for unfunded lending commitments amounted to $55 and $25, respectively, and is included in other liabilities on the accompanying balance sheets.

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:

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

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, 2015 and 2014.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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, 2015 and 2014, advertising costs amounted to $236 and $169, respectively, and are included in other noninterest expenses on the accompanying statements of income.

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. 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) income. Other comprehensive (loss) income 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 15. 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 March 18, 2016, which is the date the financial statements were available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Troubled Debt Restructurings by Creditors - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which intends to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the related real estate recognized. The update also requires additional disclosures and is to be applied either prospectively or with a modified retrospective method. The update is effective for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. The Bank adopted this update during 2015; refer to NOTE 5 for expanded disclosure.

Revenue from Contracts with Customers

In May 2014, the 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.

(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

3. RELATED PARTY TRANSACTIONS

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

	2015	2014
Beginning balance	$ 441	$ 652
Advances	167	49
Repayments	(149)	(260)
Ending balance	**$ 459**	**$ 441**

Deposits from related parties held by the Bank at December 31, 2015 and 2014 were $32,552 and $5,279, respectively.

	For Year Ended December 31,	
	2015	2014
Interest earned on employee loans	$ 16	$ 19
Interest paid on related party deposits	$ 50	$ -

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

	2015	2014
Loans	4.00 - 4.38%	4.00%
Deposits	0.00 - 0.75%	0.00%

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, 2015 and 2014, the Bank incurred fees under this service agreement of $360, which are included in other noninterest expenses on the accompanying statements of income.

Directors' fees amounted to $42 and $35 for the years ended December 31, 2015, and 2014, respectively.

During 2015, the Bank subleased office space from a related party for its disaster recovery center amounting to $5. Additionally, the Bank subleases office space to a related party (NOTE 13).

(IN THOUSANDS)

4. SECURITIES

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

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
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**

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Debt securities:				
U.S. Government and federal agency	$ 47,323	$ 41	$ (955)	$ 46,409
U.S. Government-sponsored enterprises (GSEs)	87,876	25	(1,437)	86,464
Municipal bonds	20,202	1,205	-	21,407
GSE residential mortgage-backed	105,823	991	(905)	105,909
Corporate bonds	10,226	263	-	10,489
Total debt securities	271,450	2,525	(3,297)	270,678
Mutual funds	1,000	18	-	1,018
Total securities available for sale	**$ 272,450**	**$ 2,543**	**$ (3,297)**	**$ 271,696**

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

	December 31, 2015	
	Amortized Cost	Fair Value
Securities Available for Sale		
No maturity	$ 1,000	$ 1,012
Within 1 year	3,652	3,678
After 1 year through 5 years	88,526	88,061
After 5 years through 10 years	54,207	53,844
Over 10 years	81,807	81,109
Total securities available for sale	**$ 229,192**	**$ 227,704**

For the years ended December 31, 2015 and 2014, proceeds from sales of securities available for sale amounted to $56,847 and $19,180, respectively; gross realized gains were $1,651 and $1,322, respectively; gross realized losses were $111 for 2015. For the year ended December 31, 2014, there were no gross realized losses.

(IN THOUSANDS)

4. SECURITIES (CONTINUED)

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, 2015 and 2014.

	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, 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)**

	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, 2014						
U.S. Government and federal agency	$ -	$ -	$ 41,407	$ (955)	$ 41,407	$ (955)
GSEs	10,874	(26)	58,591	(1,411)	69,465	(1,437)
GSE residential mortgage-backed	3,533	(386)	28,982	(519)	32,515	(905)
Total securities available for sale	**$ 14,407**	**$ (412)**	**$ 128,980**	**$ (2,885)**	**$ 143,387**	**$ (3,297)**

U.S. Government and federal agency obligations. The unrealized losses on the thirteen 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, 2015.

GSE debt securities. The unrealized losses on the twenty-three 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, 2015.

Municipal bonds. The unrealized losses on the eleven 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, 2015.

Corporate bonds. The Bank's unrealized loss on investment in one corporate bond relates to an investment in a company within the financial services sector. The unrealized loss is primarily caused by recent decrease in profitability and profit forecasts by industry analysts. The contractual term of this investment does not permit the debtor to settle the security at a price less than the par value of the investment. The Bank currently does not expect the debtor to settle the debenture at a price less than the amortized cost basis of the investment (i.e. the Bank expects to recover the entire amortized cost basis of the security). Because the Bank does not intend to sell the investment and it is not more likely than not that the Bank will be required to sell the investment before recovery of its par value, which may be maturity, it does not consider this investment to be other-than-temporarily impaired at December 31, 2015.

(IN THOUSANDS)

4. SECURITIES (CONTINUED)

GSE residential mortgage-backed securities. The unrealized losses on the Bank's investment in thirty-one 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, 2015.

5. LOANS, NET

Loans classified by segment and class are summarized as follows:

	2015	2014
Residential real estate	$ 407,659	$ 377,082
Commercial real estate	17,906	22,356
Commercial and industrial	10,274	11,556
Consumer	14,754	16,137
	450,593	427,131
Plus: Net deferred loan costs	93	110
Less: Allowance for loan losses	(9,890)	(8,670)
	$ 440,796	**$ 418,571**

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

	2015	2014
Gross loans	$ 450,593	$ 427,131
Plus: Accrued interest receivable	2,031	1,728
Recorded investment in loans	**$ 452,624**	**$ 428,859**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

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, 2015 and 2014:

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

For the Year Ended December 31, 2014

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 7,433	$ 998	$ 375	$ 535	$ 9,341
Charge-offs	(367)	-	(47)	(74)	(488)
Recoveries	222	-	35	71	328
Reversal	(451)	(27)	(14)	(19)	(511)
Ending balance	**$ 6,837**	**$ 971**	**$ 349**	**$ 513**	**$ 8,670**
Ending balance: individually evaluated for impairment	$ 571	$ 131	$ -	$ -	$ 702
Ending balance: collectively evaluated for impairment	$ 6,266	$ 840	$ 349	$ 513	$ 7,968
Recorded investment in loans:					
Ending balance	**$ 378,582**	**$ 22,455**	**$ 11,620**	**$ 16,202**	**$ 428,859**
Ending balance: individually evaluated for impairment	$ 24,236	$ 5,571	$ -	$ 32	$ 29,839
Ending balance: collectively evaluated for impairment	$ 354,346	$ 16,884	$ 11,620	$ 16,170	$ 399,020

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables represent credit exposures by internally assigned grades for years ended December 31, 2015 and 2014:

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**

For the Year Ended December 31, 2014

	Pass	Especially Mentioned	Substandard	Total
Revolving 1-4 family	$ 1,811	$ 195	$ 136	$ 2,142
Single family residences	25,038	2,657	5,246	32,941
Condominiums	181,113	3,926	4,407	189,446
Planned unit developments	147,134	2,978	3,941	154,053
Construction and development	1,228	-	153	1,381
Multifamily residential	5,616	-	4,368	9,984
Non-residential owner occupied	4,862	1,064	1,069	6,995
Non-residential investor owned	3,229	135	731	4,095
Trucks and trailers	438	-	-	438
Secured by standby letters of credit	600	-	-	600
CD secured	10,582	-	-	10,582
Credit cards	3,767	-	-	3,767
Other consumer	12,104	299	32	12,435
Total	**$ 397,522**	**$ 11,254**	**$ 20,083**	**$ 428,859**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables present performing and nonperforming loans based on payment activity for the years ended December 31, 2015 and 2014. 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, 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**

For the Year Ended December 31, 2014

	Performing	Nonperforming	Total
Revolving 1-4 family	$ 2,099	$ 43	$ 2,142
Single family residences	29,266	3,675	32,941
Condominiums	187,545	1,901	189,446
Planned unit developments	151,471	2,582	154,053
Construction and development	1,286	95	1,381
Multifamily residential	9,984	-	9,984
Non-residential owner occupied	6,585	410	6,995
Non-residential investor owned	3,909	186	4,095
Trucks and trailers	438	-	438
Secured by standby letters of credit	600	-	600
CD secured	10,582	-	10,582
Credit cards	3,767	-	3,767
Other consumer	12,421	14	12,435
Total	**$ 419,953**	**$ 8,906**	**$ 428,859**

(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, 2015 and 2014:

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-residental 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**

For the Year Ended December 31, 2014	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Revolving 1-4 family	$ -	$ -	$ 43	$ 43	$ 2,099	$ 2,142
Single family residences	919	139	3,675	4,733	28,208	32,941
Condominiums	747	-	1,901	2,648	186,798	189,446
Planned unit developments	2,278	-	2,582	4,860	149,193	154,053
Construction and development	-	-	95	95	1,286	1,381
Multifamily residential	-	-	-	-	9,984	9,984
Non-residental owner occupied	79	-	410	489	6,506	6,995
Non-residential investor owned	-	-	186	186	3,909	4,095
Trucks and trailers	15	-	-	15	423	438
Secured by standby letters of credit	-	-	-	-	600	600
CD secured	296	-	-	296	10,286	10,582
Credit cards	-	-	-	-	3,767	3,767
Other consumer	38	-	14	52	12,383	12,435
Total	**$ 4,372**	**$ 139**	**$ 8,906**	**$ 13,417**	**$ 415,442**	**$ 428,859**

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, at December 31, 2015 and 2014. 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, 2015 and 2014 that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the loans of the period reported.

(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	$ -	$ -	$ -	$ 68	$ -
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	-
	7,949	7,929	-	12,688	20
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	-	-	-	-	-
	13,940	13,940	216	13,179	-
Total:					
Revolving 1-4 family	-	-	-	68	-
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	-
Total	**$ 21,889**	**$ 21,869**	**$ 216**	**$ 25,867**	**$ 20**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Revolving 1-4 family	$ 136	$ 135	$ -	$ 160	$ 1
Single family residences	4,918	4,908	-	4,755	10
Condominiums	3,685	3,549	-	4,057	136
Planned unit developments	3,294	3,286	-	3,350	8
Construction and development	153	154	-	296	(1)
Multifamily residential	4,368	4,358	-	4,857	10
Non-residential owner occupied	650	648	-	1,283	2
Non-residential investor owned	186	186	-	775	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	32	32	-	16	-
	17,422	17,256	-	19,549	166
With an allowance recorded:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	2,107	2,096	73	1,424	11
Condominiums	6,286	6,259	338	3,904	27
Planned unit developments	3,810	3,794	160	3,097	16
Construction and development	-	-	-	-	-
Multifamily residential	-	-	-	-	-
Non-residential owner occupied	214	213	131	177	1
Non-residential investor owned	-	-	-	69	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
	12,417	12,362	702	8,671	55
Total:					
Revolving 1-4 family	136	135	-	160	1
Single family residences	7,025	7,004	73	6,179	21
Condominiums	9,971	9,808	338	7,961	163
Planned unit developments	7,104	7,080	160	6,447	24
Construction and development	153	154	-	296	(1)
Multifamily residential	4,368	4,358	-	4,857	10
Non-residential owner occupied	864	861	131	1,460	3
Non-residential investor owned	186	186	-	844	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	32	32	-	16	-
Total	**$ 29,839**	**$ 29,618**	**$ 702**	**$ 28,220**	**$ 221**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

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

As of December 31, 2015 and 2014, there were no financing receivables modified as troubled debt restructurings within the previous twelve months.

As of December 31, 2015 and 2014, 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 expenses applicable to foreclosed assets include the following:

	Year Ended December 31	
	2015	2014
Net gain on sales of foreclosed assets	$ (54)	$ (117)
Write down of foreclosed assets	86	23
Operating expenses	33	138
	$ 65	$ 44

7. PROPERTY AND EQUIPMENT, NET

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

	2015	2014
Furniture, fixtures and equipment	$ 3,030	$ 4,203
Leasehold improvements	2,791	2,995
Construction in progress	-	609
	5,821	7,807
Less: Accumulated depreciation and amortization	(4,157)	(6,538)
	$ 1,664	**$ 1,269**

Depreciation and amortization expense amounted to $514 and $917 for the years ended December 31, 2015 and 2014, respectively. The Bank had approximately $2,895 of disposals during the year ended December 31, 2015 for which the assets' carrying amount and related accumulated depreciation were removed from the accounts. The Bank had no disposals during 2014.

8. OTHER ASSETS

Other assets consists of the following at December 31:

	2015	2014
Accrued interest receivable - loans	$ 2,031	$ 1,728
Accrued interest receivable - securities	976	1,218
Other assets	775	695
	$ 3,782	**$ 3,641**

(IN THOUSANDS)

9. DEPOSITS

The aggregate amount of time deposits in denominations of $100, or more, was approximately $64,000 and $43,000 at December 31, 2015 and 2014, respectively.

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2016	$ 68,107
2017	8,739
2018	810
2019	1,055
2020	1,919
	$ 80,630

10. BORROWINGS

FHLB Advances

FHLB advances amounting to $10,000 at December 31, 2015 with a floating weighted average rate of 0.56% mature on August 12, 2016. There were no FHLB advances outstanding at December 31, 2014.

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 15% of the Bank's total assets. 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 $337,909 and $311,894 at December 31, 2015 and 2014, respectively.

Secured Repurchases

The Bank had a secured repurchase borrowing agreement available with a depository institution with an availability of $1,250 at December 31, 2014, which could have been used to borrow against the value of its securities to buy additional securities or for other purposes. There were no outstanding balances on this agreement at December 31, 2014. No such secured repurchase borrowing agreement is available at December 31, 2015.

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 $12,000 and $9,250 at December 31, 2015 and 2014, respectively. There were no outstanding balances as of December 31, 2015 and 2014.

(IN THOUSANDS)

11. INCOME TAXES

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

	2015	2014
Current tax provision:		
Federal	$ 1,183	$ 397
State	208	96
	1,391	493
Deferred tax (benefit) provision:		
Federal	(160)	498
State	(29)	(34)
	(189)	464
Total	**$ 1,202**	**$ 957**

The actual income tax expense for 2015 and 2014 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 35% for 2015 and 2014 to net income before provision from income taxes) as follows:

	2015	2014
Federal income taxes, at statutory rate	$ 1,386	$ 1,102
State income taxes, net of federal tax benefit	120	96
Tax-exempt interest	(303)	(256)
Other permanent differences	(1)	15
Total	**$ 1,202**	**$ 957**

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

	2015	2014
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 3,968	$ 3,640
Deferred compensation	1,140	1,201
Net unrealized loss on securities available for sale	565	286
Depreciation and amortization	519	416
Foreclosed assets	-	131
Other	(64)	(14)
Deferred tax asset	**$ 6,128**	**$ 5,660**

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.

11. INCOME TAXES (CONTINUED)

The Bank files U.S. and Florida income tax returns, as those are the jurisdictions where the Bank is subject to income taxation. The Bank is no longer subject to U.S. Federal or State examinations by tax authorities for years before 2012.

For the years ended December 31, 2015 and 2014, 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.

12. 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.

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 will be 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.

(IN THOUSANDS)

12. REGULATORY MATTERS (CONTINUED)

As of December 31, 2015, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2015 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2015 and 2014 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
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%
2014						
Total risk-based capital (to risk weighted assets)	$ 91,754	28.03%	$ 26,189	8.00%	$ 32,736	10.00%
Tier 1 capital (to risk weighted assets)	87,597	26.76%	13,095	4.00%	19,642	6.00%
Tier 1 capital (to average total assets)	87,597	11.38%	30,779	4.00%	38,474	5.00%

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

13. 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, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2015	2014
Unfunded commitments under lines of credit	$ 7,080	$ 28,748
Standby letters of credit	4,271	13,439
Commitments to grant loans	789	1,773
	$ 12,140	$ 43,960

(IN THOUSANDS)

13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Financial Instruments with Off-Balance Sheet Risk (continued)

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, 2015 and 2014 such collateral amounted to $4,271 and $13,439, 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 2019 and provide for renewal options ranging from three to five 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 $1,663 and $1,573 during 2015 and 2014, respectively. Sublease income totaled $160 and $138 during 2015 and 2014, respectively.

Minimum annual rental commitments under non-cancelable leases are as follows at December 31, 2015:

Year Ended December 31,	Annual Amount	Sublease Amounts	Net Minimum Payment
2016	$ 1,020	$ 60	$ 960
2017	774	62	712
2018	662	64	598
2019	439	49	390
	$ 2,895	**$ 235**	**$ 2,660**

During 2007, the Bank received $1,500 as incentive to remove a clause within its office lease allowing the "right of first offer to purchase the building." The $1,500 was recorded in other liabilities as a deferred lease incentive, which is amortized as a reduction to rent expense over the remaining life of the lease. At December 31, 2014, deferred lease incentives aggregated $36, and is included in other liabilities in the accompanying balance sheet. At December 31, 2015, there were no deferred lease incentives.

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.

14. 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, 2015 and 2014, the Bank contributed $214 and $220, respectively, into the Plan.

15. 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.

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. There have been no changes in the methodologies used at December 31, 2015 and 2014.

15. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (continued)

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.

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.

(IN THOUSANDS)

15. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

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, 2015 Using			
Securities Available for Sale	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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**	**$ -**

	Fair Value Measurements at December 31, 2014 Using			
Securities Available for Sale	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
U.S. Government and federal agency	$ 46,409	$ 46,409	$ -	$ -
GSE's	86,464	2,944	83,520	-
Municipal bonds	21,407	-	21,407	-
GSE residential mortgage-backed	105,909	-	105,909	-
Corporate bonds	10,489	-	10,489	-
Total debt securities	270,678	49,353	221,325	-
Mutual funds	1,018	1,018	-	-
Total assets at fair value	**$ 271,696**	**$ 50,371**	**$ 221,325**	**$ -**

There were no liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014.

(IN THOUSANDS)

15. 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, 2015 and 2014, for which a nonrecurring change in fair value has been recorded:

	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**

	Fair Value Measurements at December 31, 2014 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	$ 11,660	$ -	$ -	$ 11,660
Total assets at fair value	**$ 11,660**	**$ -**	**$ -**	**$ 11,660**

Impaired Loans

In accordance with the provisions of the loan impairment guidance, individual loans with a carrying amount of $13,940 and $12,362 at December 31, 2015 and 2014, respectively, were written down to their fair value of $13,724 and $11,660, respectively, resulting in an impairment charge of $216 and $702, 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, 2015 and 2014.

(IN THOUSANDS)

15. 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, 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	14,658
Accrued interest payable	51	51

	December 31, 2014	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	$ 28,517	$ 28,517
Securities available for sale	271,696	271,696
Federal Home Loan Bank stock (restricted)	714	714
Loans, net	418,571	445,652
Accrued interest receivable	2,946	2,946
Financial Liabilities:		
Deposits	634,310	634,466
Accrued interest payable	46	46