

PASCACK BANCORP INC ANNUAL REPORT 2013

Leadership
Building Shareholder Value
Relationships
Community

Select Financial Highlights

	ACTUAL 2013	ACTUAL 2012	ACTUAL 2011	ACTUAL 2010	ACTUAL 2009
BALANCE SHEET DATA ($000)					
TOTAL ASSETS	371,495	373,780	330,876	297,994	277,521
INVESTMENTS	-	1,325	13,976	29,422	40,262
TOTAL LOANS (NET)	302,007	321,545	265,297	236,423	192,396
ALLOWANCE FOR LOAN LOSSES	5,065	4,419	3,635	2,872	2,304
TOTAL DEPOSITS	309,646	314,536	275,033	244,219	231,534
SHAREHOLDER'S EQUITY	29,830	26,537	25,879	20,218	18,271
INCOME STATEMENT DATA ($000)					
NET INTEREST INCOME	16,139	14,138	12,145	10,262	5,540
PROVISION FOR LOAN LOSSES	674	2,601	966	1,750	1,450
NET INCOME (LOSS)	2,380	1,218	1,862	1,855	(2,526)
NET INCOME (LOSS) TO COMMON STOCKHOLDERS	1,837	730	1,354	1,613	(2,743)
PER SHARE DATA					
EARNINGS PER SHARE (BASIC)	$ 0.79	$ 0.32	$ 0.61	$ 0.71	$ (1.29)
BOOK VALUE	$ 8.88	$ 8.02	$ 7.90	$ 7.24	$ 6.40
OPERATING RATIOS (%)					
RETURN ON ASSETS	0.64	0.30	0.63	0.67	(1.05)
RETURN ON EQUITY	7.98	4.59	8.01	9.22	(14.91)
NET INTEREST MARGIN	4.40	4.34	4.29	3.82	2.51
ASSET QUALITY RATIOS (%)					
EQUITY CAPITAL TO ASSETS	8.03	7.10	7.82	6.79	6.58
ALLOWANCE FOR LOAN LOSSES TO TOTAL LOANS	1.65	1.36	1.35	1.20	1.18
NON-PERFORMING LOANS TO TOTAL LOANS	0.89	0.61	0.91	1.01	2.13



CORPORATE PROFILE

Pascack Bancorp, Inc. headquartered in Waldwick, New Jersey is the Holding Company for Pascack Community Bank. All Directors of Pascack Bancorp, Inc. are also Directors of Pascack Community Bank.

Leadership

Building Shareholder Value

Relationships

Community

BOARD OF DIRECTORS

Jon F. Hanson
Chairman of the Board
Chairman, The Hampshire Companies

Bruce M. Meisel
Vice Chairman of the Board
Managing Member
First Westwood Realty, LLC

Nancy E. Graves
President & Chief Executive Officer
Pascack Community Bank

Paul C. Baker
Managing Partner
PCB Associates, LLC

Salvatore Cocco, Jr.
Financial Consultant
AXA Advisors, LLC

Daniel J. Geltrude
CPA & Managing Partner
Geltrude & Company

Jerrold B. Grossman
President & Chief Executive Officer
Genesis Bio-Pharmaceuticals

Mary Jane Hekemian
Vice President & Director
Hekemian Co., Inc.

Lawrence R. Inserra, Jr.
President
Inserra Supermarkets, Inc.

Martin J. Levine
President
Audubon Management Company

Jerome J. Lombardo
President
C.J. Lombardo Company

James M. Piro, Esq.
Piro, Zinna, Cifelli, Paris & Genitempo

Message to Our Shareholders

Dear Shareholders:

Two thousand thirteen was a year of change for Pascack Community Bank, as our Board of Directors selected an experienced bank executive to lead the Bank. New leadership brings change; it has been energizing, and together, we delivered excellent results. Our Board of Directors stand committed to performance that benefits us all.

Community banking demands performance at all levels; it also requires ongoing assessment of our core strengths and strategic direction. Our Board of Directors welcomes the challenge, focusing on our commitment to our constituents, shareholders, customers, employees, and the communities we serve.

We are pleased to report record earnings for 2013: Net income was $2,380,000 in 2013, an increase of 95.4% over the prior year. Earnings per share increased to $0.79 in 2013 from $0.32 in 2012. The 2013 peer data reflects the Bank's top tier ranking in Asset Quality and Net Interest Margin.

We are a relationship driven bank. The value we place on our relationships with our customers represents the core of our banking philosophy. We recognize that ours is not just a loan portfolio, but rather more than 300 businesses that are the fabric of New Jersey. Our customers support job growth and expansion in the community.

Interest rate pressure is intense as banks compete for loans. In this environment of heightened competition, we continue to compete based on value, not price. Commercial customers choose us because we know their business and they know our capabilities.

We lead the Bank with a core strategy—build upon, and then retain, our relationships, one at a time. Recognizing the value and integral nature of relationships guides our culture.



Jon F. Hanson, Chairman of the Board

Our branch network now stands at eight outstanding locations. We will build our core deposits and continue our commitment to our communities. Our community initiatives bring value to the many organizations and people we reach every year. We encourage our employees to be involved which enriches and inspires us all.

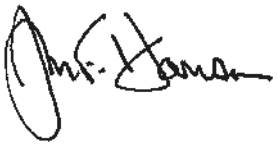
Our Board of Directors developed a 2014 strategic plan that calls for deposit and commercial loan growth.

We will also continue to enhance our operations and stand apart from the competition with our knowledge and accessibility. We believe we have the right leadership, people, and strategic plan, to continue distinguishing ourselves in the community banking arena.

On behalf of our Board of Directors and our employees, thank you. We appreciate and value the ongoing support of our shareholders, customers, and communities, and look forward to continuing to work on your behalf.



Nancy E. Graves, President & Chief Executive Officer



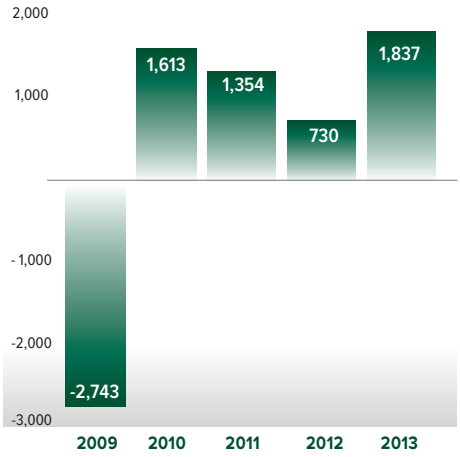
Jon F. Hanson
Chairman of the Board



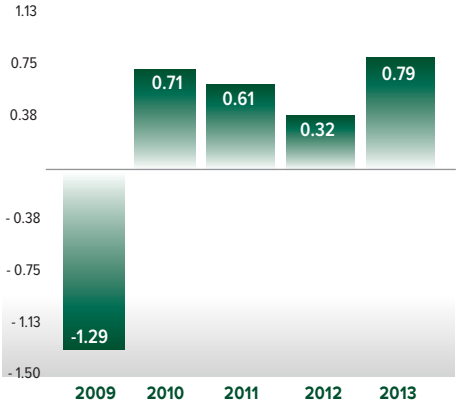
Nancy E. Graves
President & Chief Executive Officer

Net Income To Common Stockholders

Thousands ($)



Earnings Per Share (Basic)

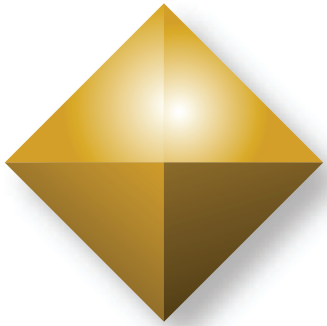


Financial Statements



PASCACK
BANCORP INC

December 31, 2013 and 2012



ParenteBeard

Independent Auditors' Report

Board of Directors
Pascack Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Pascack Bancorp, Inc. and its subsidiary, Pascack Community Bank, which comprise the consolidated balance sheet as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pascack Bancorp, Inc. and its subsidiary, Pascack Community Bank as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the 2012 financial statements have been restated. Our opinion is not modified with respect to this matter.

ParenteBeard LLC

Allentown, Pennsylvania
March 10, 2014

Pascack Bancorp, Inc.

Consolidated Balance Sheet
(In Thousands, Except Share Data)
December 31, 2013 and 2012

	2013	2012 (Restated)
Assets		
Cash and due from banks	$ 21,459	$ 13,589
Federal funds sold	19,609	8,810
Cash and cash equivalents	41,068	22,399
Interest-bearing time deposits	3,350	3,600
Securities available-for-sale	-	1,325
Loans receivable, net of allowance for loan losses 2013 $5,065; 2012 $4,419	302,007	321,545
Investment in restricted stock	1,717	1,614
Premises and equipment, net	21,069	19,624
Accrued interest receivable	1,373	1,333
Other assets	911	2,340
Total assets	$ 371,495	$ 373,780
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	$ 58,314	$ 54,215
Interest bearing	251,332	260,321
Total deposits	309,646	314,536
Long-term borrowings	28,500	28,000
Subordinated notes payable	1,600	-
Capital lease obligation	937	2,179
Accrued interest payable	337	328
Other liabilities	645	2,200
Total liabilities	341,665	347,243
Stockholders' Equity		
Preferred stock, Series C, no par value, liquidation preference $20 per share; authorized 1,000,000 shares; issued and outstanding 2013 455,500 shares; 2012 400,000 shares	9,110	8,000
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2013 2,334,143 shares; 2012 2,310,810 shares	18,512	18,352
Retained earnings	2,208	371
Accumulated other comprehensive loss	-	(186)
Total stockholders' equity	29,830	26,537
Total liabilities and stockholders' equity	$ 371,495	$ 373,780

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Income
(In Thousands)
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Interest Income		
Loans receivable, including fees	$ 19,234	$ 17,403
Securities	33	134
Other	154	147
Total interest income	19,421	17,684
Interest Expense		
Deposits	2,073	2,447
Borrowings	1,209	1,099
Total interest expense	3,282	3,546
Net interest income	16,139	14,138
Provision for Loan Losses	674	2,601
Net interest income after provision for loan losses	15,465	11,537
Other Income		
Gain (loss) on sale of securities	(185)	190
Service charges on deposit accounts	131	118
Other service charges, commissions and fees	188	275
Gain on sale of foreclosed real estate owned	100	-
Total other-than-temporary impairment gain (losses)	262	(411)
Less portion of (gain) loss recognized in other comprehensive loss (before taxes)	(310)	310
Net other-than-temporary impairment losses	(48)	(101)
Total other income	186	482
Other Expenses		
Salaries and employee benefits	5,032	4,164
Occupancy	2,093	2,196
Data processing	840	594
Furniture, fixtures, and equipment	700	606
Professional fees	746	469
Stationary, supplies, and printing	215	229
Advertising and public relations	156	207
FDIC insurance and assessments	419	216
Other	1,370	1,220
Total other expenses	11,571	9,901
Income before income tax	4,080	2,118
Income Tax Expense	1,700	900
Net income	2,380	1,218
Preferred Stock Dividends and Accretion	(543)	(488)
Net income attributed to common stockholders	$ 1,837	$ 730

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Comprehensive Income
(In Thousands)
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Net Income	$ 2,380	$ 1,218
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on securities available-for-sale	77	(380)
Less reclassification adjustment for credit related other-than-temporary impairment losses (i)	48	101
Less reclassification adjustment for losses (gains) included in net income (ii)	185	(31)
Net unrealized gains (losses)	310	(310)
Tax Effect (iii)	(124)	124
Total other comprehensive income (loss)	186	(186)
Total comprehensive income	$ 2,566	$ 1,032

(i) Amounts are included in net other-than-temporary impairment lossses on securities on the Consolidated Statement of Income as a separate element of Other Income.

(ii) Amounts are included in gain (loss) on sale of securities on the Consolidated Statement of Income as a separate element of Other Income.

(iii) Income tax effect on credit related other-than-temporary impairment losses of $19 and $40 for the years ended December 31, 2013 and 2012, respectively are included in Income Tax Expense on the Consoldiated Statement of Income. Income tax effect of losses (gains) on sales of securities of $74 and $12 for the years ended December 31, 2013 and 2012, respectively are included in Income Tax Expense on the Consolidated Statement of Income.

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Stockholders' Equity
(In Thousands)
Years Ended December 31, 2013 and 2012

	Preferred Stock	Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2011	$ 8,000	$ 18,238	$ (359)	$ -	$ 25,879
Net income (as restated)	-	-	1,218	-	1,218
Other comprehensive loss	-	-	-	(186)	(186)
Dividends on preferred stock, Series C	-	-	(488)	-	(488)
Stock-based compensation expense	-	114	-	-	114
Balance, December 31, 2012 (as restated)	8,000	18,352	371	(186)	26,537
Net income	-	-	2,380	-	2,380
Other comprehensive income	-	-	-	186	186
Issuance of preferred stock, Series C (55,500 shares)	1,110	-	-	-	1,110
Dividends on preferred stock, Series C	-	-	(543)	-	(543)
Stock-based compensation expense	-	160	-	-	160
Balance, December 31, 2013	$ 9,110	$ 18,512	$ 2,208	$ -	$ 29,830

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Cash Flows
(In Thousands)
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Cash Flows from Operating Activities		
Net income	$ 2,380	$ 1,218
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	674	2,601
Depreciation	1,121	1,211
Net amortization of premiums and accretion of discounts	-	(9)
Loss (gain) on sale of securities	185	(190)
Other-than-temporary impairment on securities	48	101
Gain on sale of foreclosed real estate owned	(100)	-
Stock-based compensation	160	114
Provision for deferred income taxes	(223)	82
(Increase) decrease in accrued interest receivable	(40)	24
Decrease in other assets	728	79
Increase (decrease) in accrued interest payable	138	(12)
Increase (decrease) in other liabilities	(794)	98
Net cash provided by operating activities	4,277	5,317
Cash Flows from Investing Activities		
Purchase of securities available-for-sale	-	(3,352)
Proceeds from maturities of and principal repayments on securities available-for-sale	40	2,040
Proceeds from maturities of and principal repayments on securities held-to-maturity	-	8,064
Proceeds from the sale of securities	1,362	5,687
Net decrease (increase) in loans	18,864	(59,649)
Proceeds from the sale of foreclosed real estate owned	900	-
Net maturity (purchases) of interest bearing time deposits	250	(3,224)
Net increase in investments in restricted stock	(103)	(44)
Purchases of premises and equipment	(3,778)	(6,065)
Net cash provided by (used in) investing activities	17,535	(56,543)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(4,890)	39,503
Principal payments on capitalized lease obligation	(30)	(178)
Proceeds from long-term borrowings	500	4,000
Proceeds from subordinated notes payable	1,600	-
Proceeds from issuance of preferred stock, Series C	220	890
Dividends on preferred stock	(543)	(484)
Net cash provided by (used in) financing activities	(3,143)	43,731
Net increase (decrease) in cash and cash equivalents	18,669	(7,495)
Cash and Cash Equivalents, Beginning of Year	22,399	29,894
Cash and Cash Equivalents, End of Year	$ 41,068	$ 22,399
Supplementary Cash Flows Information		
Interest paid	$ 3,144	$ 3,559
Income taxes paid	$ 1,576	$ 1,048
Supplementary Schedule of NonCash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$ -	$ 800
Transfer of securities held-to-maturity to securities available for sale	$ -	$ 3,942
Reduction of capital lease obligation resulting from purchase of premises	$ 1,212	$ 2,059

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of Pascack Bancorp, Inc., a bank holding company, and its subsidiary, Pascack Community Bank. All intercompany accounts and transactions have been eliminated in consolidation.

Pascack Bancorp, Inc. (the "Company") was incorporated on June 11, 2009 under the laws of the State of New Jersey. The Company's activity consists of owning and supervising its subsidiary, Pascack Community Bank (the "Bank"), which provides a full range of banking services to customers primarily in the Bergen, and the northern portion of Essex Counties, New Jersey.

The Bank commenced business on February 19, 2002 and is subject to Federal and New Jersey statutes applicable to banks chartered under the New Jersey banking laws. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). As a state-chartered bank, the Bank is subject to regulations by the New Jersey State Department of Banking and Insurance and the FDIC. The Company, as a holding company, is subject to regulations of the Federal Reserve Board.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ 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, determination of other-than-temporary impairment of investment securities, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within northern New Jersey. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant loan concentrations to any one industry or customer. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, with maturities of ninety days or less. The Company maintains cash deposits in other depository institutions that may exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal. Generally, federal funds are purchased and sold for one-day periods.

Investment Securities

Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the term of the securities. Gains and losses on the sale of securities available-for-sale are recorded on the trade date and are determined using the specific identification method. The Company had no securities classified as available-for-sale at December 31, 2013.

Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over their contractual lives. The Company had no securities classified as held-to-maturity at December 31, 2013.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Declines in the fair value of securities below their cost that are deemed to be other-than-temporary impairments ("OTTI") are reflected in earnings as realized losses. In estimating OTTI under the rules for accounting for certain debt and equity securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more-likely-than-not will be required to sell the debt security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more-likely-than-not that it will be required to sell the debt security prior to anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the timing of future estimated cash flows of the security.

The Company has recognized other-than-temporary impairment losses in the years ended December 31, 2013 and 2012 of $48,000 and $101,000, respectively.

Investment in Restricted Stock, at Cost

Equity securities are principally comprised of restricted stock in the Federal Home Loan Bank of New York ("FHLB") and Atlantic Community Bankers Bank ("ACBB"), which are carried at cost. Federal law requires a member institution of the FHLB to hold stock according to a predetermined formula. The FHLB stock was carried at $1,677,000 and $1,574,000 for the years ended December 31, 2013 and 2012, respectively. The ACBB stock was carried at $40,000 for the years ended December 31, 2013 and 2012, respectively. Management does evaluate the restricted stock for impairment and believes no impairment charge is necessary related to the stock at December 31, 2013 and 2012, respectively.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and commercial construction. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and second mortgages and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans including impaired loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.

6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.

7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

8. Effect of external factors, such as competition and legal and regulatory requirements.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The Company engages in a variety of lending activities, including commercial, construction, residential real estate and consumer/installment transactions. The Company focuses its lending activities on individuals, professionals and small to medium sized businesses.

Commercial and Industrial Loans and Commercial Real Estate Loans - The commercial loan portfolio consists primarily of commercial loans to small and medium sized businesses and individuals for general business and real estate uses. The commercial and industrial loans are generally secured by real estate and/or the guarantees of the principal borrowers. Commercial loans that exceed the Company's legal limits are participated with other commercial banks. Commercial loans are made on a line of credit and fixed basis to finance inventory, equipment or short-term working capital. The loans are generally made on a secured basis with the personal guarantees of the principal owners with occasional policy exceptions. Fixed loans are generally made on a one to five year duration. Commercial real estate loans are made for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in the business or real property of the principals. Commercial real estate loans also include commercial real estate investment properties leased to third parties. The Company offers commercial loans on a fixed and variable rate basis generally on three to five year repricings and a term of 10 to 25 years.

Construction Loans - Construction loans are generally made to builders, developers and consumers who wish to build their own homes or commercial structures. These loans are secured by the real estate being developed and are generally personally guaranteed by the principals of the borrowers. The duration of our construction loans generally is limited to 12 to 18 months, although payments may be structured on a longer amortization basis. Construction loans generally carry a higher degree of risk that long-term financing of existing properties because repayment depends on the ultimate completion of the project and, on some occasions, the sale of the property.

Home Equity Loans and Second Mortgages - The Company offers home equity lines of credit and home equity loans. Risks associated with loans secured by residential properties are generally lower than commercial real estate and construction loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment.

Consumer Loans - The Company offers a variety of loans to individuals for personal and household purposes. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

Residential Mortgage Loans - Residential mortgages are secured by the borrower's residential real estate in a first lien position. These loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages have terms up to thirty years with amortizations varying from 15 to 30 years.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. The Company accrues interest on troubled debt restructurings which were performing prior to the restructure and continue to perform in accordance with their restructured terms. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations on a straight-line basis over the estimated useful lives of the assets or, in the case of leasehold improvements, the lease period, if shorter. Buildings under capital leases are amortized over the life of the related leases. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Gains or losses on dispositions are reflected in current operations. Maintenance and repairs are charged to expense as incurred.

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. Foreclosed assets are included in other assets on the accompanying balance sheet at December 31, 2013 and 2012 and were $-0- and $800,000, respectively.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income. Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Bank follows accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Company had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2013 and 2012. The Bank's policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2010.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Transfers of Financial Assets

Transfers of financial assets, including loan participation sales, 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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

Share-Based Compensation

The Company has stock-based compensation plans in place for employees and directors. The Company recognizes the cost of employee services rendered in exchange for an award of stock options or restricted stock grants based on the grant-date fair value of the award. The cost is recognized over the vesting period.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. In accordance with new Financial Accounting Standards Board guidance, the Company has shown the components of comprehensive income and other comprehensive income in the consolidated Statement of Comprehensive Income included in the accompanying financial statements.

Reclassification

To be consistent with 2013 financial statement presentation, $436,000 of loan related fees have been reclassified from “other service charges, commissions and fees” to “loans, receivables, including fees” in the 2012 Consolidated Statement of Income.

Subsequent Events

The Company has evaluated subsequent events and transactions occurring subsequent to the balance sheet date of December 31, 2013 for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through March 10, 2014, the date these financial statements were available to be issued.

2. Restatement of 2012 Financial Statements

Subsequent to the issuance of the 2012 financial statements, the Company amended its 2012 regulatory call report for certain loan charge offs, an additional provision for loan losses and a reduction of interest income. The Company has restated the 2012 financial statements for the changes as follows:

Consolidated Balance Sheet as of December 31, 2012 (in thousands):

	As Previously Stated	As Restated
Loans receivable, net	$ 322,605	$ 321,545
Accrued interest receivable	1,375	1,333
Other assets	1,906	2,340

Consolidated Statement of Income for the year ended December 31, 2012 (in thousands):

	As Previously Stated	As Restated
Interest income, loans receivable	$ 17,017	$ 16,967
Provision for loan losses	1,549	2,601
Net interest income after provision for loan losses	12,202	11,100
Income before income tax	3,220	2,118
Income tax expense	1,334	900
Net income	1,886	1,218

*As restated amount of $16,967,000 is before the effect of the $436,000 presentation reclassification noted above.

3. Securities

At December 31, 2013, the Company had no securities available-for-sale or held-to-maturity.

The amortized cost and approximate fair value of securities available-for-sale at December 31, 2012 are as follows:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale:				
Private issued collateralized mortgage obligations - residential	$ 1,595	$ -	$ (310)	$ 1,285
State and municipal securities	40	-	-	40
Total	$ 1,635	$ -	$ (310)	$ 1,325

During the year ended December 31, 2012, the Company sold $2,141,000 of securities it had classified as held-to-maturity for a gain of $159,000. At this time, the Company transferred its remaining securities to available-for-sale.

Security sales for the years ended December 31, 2013 and 2012 resulted in gross gains of $-0- and $195,000, respectively, and gross losses of $185,000 and $5,000, respectively.

At December 31, 2012 and through the date of security sale in 2013, the Company had 1 security in an unrealized loss position. The decline in fair value of the private issue collateralized mortgage obligation was due in large part to changes in market credit spreads and rating agency downgrades to CCC. For this obligation, management reviewed expected cash flows and credit support with the assistance of a third-party valuation firm to determine if it was probable that all principal and interest would be repaid. As a result of this review, the Company

recognized other-than-temporary impairment losses in the years ended December 31, 2013 and 2012 of $48,000 and $101,000, respectively.

4. Loans Receivable and Allowance for Loan Losses

Loans at December 31, 2013 and 2012 are summarized as follows:

	2013	2012 (Restated)
	(In Thousands)	
Commercial and industrial loans	$ 37,338	$ 31,459
Commercial real estate	235,493	254,645
Construction loans	1,497	298
Home equity and second mortgages	17,453	19,949
Consumer loans, other	1,057	706
Residential mortgages	14,584	19,380
	307,422	326,437
Allowance for loan losses	(5,065)	(4,419)
Unearned net loan origination (fees) costs	(350)	(473)
Net loans	$ 302,007	$ 321,545

Activity in the allowance for loan losses for the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012 (Restated)
	(In Thousands)	
Balance, beginning of year	$ 4,419	$ 3,635
Provision for loan losses	674	2,601
Charge offs, net	(28)	(1,817)
Balance, end of year	$ 5,065	$ 4,419

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2013 and 2012, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2013 and 2012:

	2013						
	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)						
Commercial and industrial	$ 421	$ -	$ 94	$ 3	$ 518	$ -	$ 518
Commercial real estate	3,517	-	-	(691)	2,826	-	2,826
Construction loans	4	-	-	27	31	-	31
Home equity and second mortgages	286	(100)	3	(20)	169	-	169
Consumer, other	16	(32)	7	39	30	-	30
Residential mortgages	175	-	-	(16)	159	-	159
Unallocated	-	-	-	1,332	1,332	-	1,332
	$ 4,419	$ (132)	$ 104	$ 674	$ 5,065	$ -	$ 5,065

	2013		
	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)		
Commercial and industrial	$ 37,338	$ -	$ 37,338
Commercial real estate	235,493	2,719	232,774
Construction loans	1,497	-	1,497
Home equity and second mortgages	17,453	35	17,418
Consumer, other	1,057	-	1,057
Residential mortgages	14,584	-	14,584
	$ 307,422	$ 2,754	$ 304,668

	2012 (Restated)						
	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)						
Commercial and industrial	$ 833	$ (1,973)	$ 167	$ 1,394	$ 421	$ -	$ 421
Commercial real estate	2,266	(152)	-	1,403	3,517	-	3,517
Construction loans	21	-	192	(209)	4	-	4
Home equity and second mortgages	229	(45)	-	102	286	-	286
Consumer, other	11	(11)	5	11	16	-	16
Residential mortgages	269	-	-	(94)	175	-	175
Unallocated	6	-	-	(6)	-	-	-
	$ 3,635	$ (2,181)	$ 364	$ 2,601	$ 4,419	$ -	$ 4,419

	2012 (Restated)		
	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)		
Commercial and industrial	$ 31,459	$ 322	$ 31,137
Commercial real estate	254,645	1,082	253,563
Construction loans	298	-	298
Home equity and second mortgages	19,949	570	19,379
Consumer, other	706	-	706
Residential mortgages	19,380	-	19,380
	$ 326,437	$ 1,974	$ 324,463

The following table present nonaccrual loans by classes of the loan portfolio as of December 31, 2013 and 2012:

	2013	2012 Restated
	(In Thousands)	
Commercial and industrial	$ -	$ 322
Commercial real estate	2,719	1,082
Home equity and second mortgage	-	570
Total	$ 2,719	$ 1,974

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2013 and 2012:

	2013		
	Commercial and Industrial	Commercial Real Estate	Construction Loans
		(In Thousands)	
Grade:			
Pass	$ 36,331	$ 231,962	$ 1,497
Special mention	1,007	812	-
Substandard	-	2,719	-
Doubtful	-	-	-
	$ 37,338	$ 235,493	$ 1,497

	2012 (Restated)		
Grade:			
Pass	$ 31,137	$ 253,235	$ 298
Special mention	-	328	-
Substandard	322	1,082	-
Doubtful	-	-	-
	$ 31,459	$ 254,645	$ 298

	2013		
	Home Equity and Second Mortgages	Consumer, Other	Residential Mortgage
		(In Thousands)	
Performing	$ 17,453	$ 1,057	$ 14,584
Nonperforming	-	-	-
	$ 17,453	$ 1,057	$ 14,584

	2012 (Restated)		
Performing	$ 19,379	$ 706	$ 19,380
Nonperforming	570	-	-
	$ 19,949	$ 706	$ 19,380

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2013 and 2012:

	2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With an allowance recorded:					
Commercial real estate	$ 2,719	$ 2,719	$ -	$ 1,700	$ -
Home equity and second mortgages	35	35	-	148	-
	2012 (Restated)				
With an allowance recorded:					
Commercial and industrial	$ 322	$ 322	$ -	$ 761	$ -
Commercial real estate	1,082	1,082	-	594	38
Home equity and second mortgages	570	570	-	342	5

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2013 and 2012:

	2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
				(In Thousands)			
Commercial and industrial	$ -	$ -	$ -	$ -	$ 37,338	$ 37,338	$ -
Commercial real estate	493	709	1,644	2,846	232,647	235,493	-
Construction loans	-	-	-	-	1,497	1,497	-
Home equity and second mortgages	-	50	-	50	17,403	17,453	-
Consumer loans, other	1	-	-	1	1,056	1,057	-
Residential mortgages	232	-	-	232	14,352	14,584	-
	$ 726	$ 759	$ 1,644	$ 3,129	$ 304,293	$ 307,422	$ -

	2012 (Restated)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
	(In Thousands)						
Commercial and industrial	$ -	$ 45	$ 322	$ 367	$ 31,092	$ 31,459	$ -
Commercial real estate	250	-	770	1,020	253,625	254,645	-
Construction loans	-	-	-	-	298	298	-
Home equity and second mortgages	-	-	570	570	19,379	19,949	-
Consumer loans, other	3	4	-	7	699	706	-
Residential mortgages	-	-	-	-	19,380	19,380	-
	$ 253	$ 49	$ 1,662	$ 1,964	$ 324,473	$ 326,437	$ -

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (“TDR”). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The Company had one credit modification for the year ended December 31, 2013 that was considered a TDR. The Company had $366,000 TDRs outstanding as of December 31, 2013. The Company had no modifications for the year ended December 31, 2012 that were considered a TDR.

5. Premises and Equipment

Premises and equipment at December 31, 2013 and 2012 is summarized as follows:

	2013	2012
	(In Thousands)	
Land and land improvements	$ 3,592	$ 2,472
Buildings	11,996	8,441
Buildings under capital lease	1,020	2,420
Leasehold improvements	3,728	5,199
Equipment	2,126	2,015
Furniture and fixtures	2,252	2,159
Software	205	200
Vehicles	32	32
	24,951	22,938
Accumulated depreciation	(3,882)	(3,314)
	$ 21,069	$ 19,624

In 2013, the Company purchased a branch premises it had been leasing under a capital lease. At the time of purchase, the net book value of the capital lease asset was $1,143,000.

Depreciation expense amounted to $1,121,000 in 2013 and $1,211,000 in 2012.

6. Deposits

Deposits at December 31, 2013 and 2012 consist of the following:

	2013	2012
	(In Thousands)	
Demand, non-interest bearing	$ 58,314	$ 54,215
Demand, interest bearing	49,294	40,564
Money market accounts	41,054	41,069
Savings	121,064	146,855
Time, $100,000 and over	27,587	19,589
Time, other	12,333	12,244
Total	$ 309,646	$ 314,536

Certificates of deposit mature as follows (in thousands):

Years ending December 31:	
2014	$ 13,860
2015	4,055
2016	1,990
2017	1,374
2018	18,641
	$ 39,920

7. Borrowings and Subordinated Notes Payable

At December 31, 2013 and 2012, the Company had $24,000,000 in fixed rate long-term advances outstanding with the FHLB which mature in 2017. The weighted average interest rate on these advances was 3.72%. These fixed rate advances originated in 2007. All advances are currently convertible by the FHLB to adjustable rates.

At December 31, 2013 and 2012, the Company had $4,500,000 and $4,000,000, respectively, in fixed rate, long-term advances outstanding with ACBB. $4,500,000 of the proceeds from this debt was contributed to the Bank as Tier 1 capital through December 31, 2013. Interest on these borrowings is 5.00% and they are scheduled to mature December 31, 2014. This borrowing is collateralized by all outstanding shares of Bank stock.

The Company also has a $4,000,000 line of credit facility for the purchase of federal funds from ACBB, expiring June 30, 2014, of which $-0- was outstanding at both December 31, 2013 and 2012.

The Company also has a $5,000,000 line of credit facility for the purchase of federal funds from First Tennessee Bank, expiring June 30, 2014, of which $-0- was outstanding at December 31, 2013 and 2012.

The Company also has an $8,000,000 line of credit facility for the purchase of federal funds from Zions Bank, with no stated maturity date, of which $-0- was outstanding at December 31, 2013 and 2012.

At December 31, 2013, the Company had $1,600,000 of subordinated notes payable with the Board of Directors and related interests. $590,000 of the proceeds from this subordinated debt was contributed to the Bank as Tier 1 capital as of December 31, 2013. Interest on these borrowings is 5.00% with an initial maturity of June 2014.

8. Capital Lease Obligations

The Company leases one of its branches under a lease which qualifies as a capital lease obligation under existing Financial Accounting Standards Board guidance for leases. This lease is with a related party. The following is a schedule by years of the future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of December 31, 2013:

	Total
	(In Thousands)
Years ending December 31:	
2014	$ 80
2015	80
2016	80
2017	80
2018	80
Thereafter	1,233
Total minimum lease payments	1,633
Amounts representing interest	(696)
Present value of net minimum lease payments	$ 937

Premises and equipment includes the following amounts related to the capital leases at December 31, 2013 and 2012:

	2013	2012
	(In Thousands)	
Buildings under capital leases	$ 1,020	$ 2,420
Accumulated depreciation	(167)	(368)
	$ 853	$ 2,052

In 2013, the Company purchased one branch premise it had been leasing under a capital lease. At the time of purchase, the capital lease obligation was $1,212,000. In 2012, the Company purchased two branch premises it had been leasing under capital leases. At the time of purchase, the capital lease obligation was $2,059,000.

9. Lease Commitments and Total Rental Expense

The Company leases certain branch locations under building and/or land operating lease agreements expiring in various years through 2034. The Company is generally responsible to pay its share of real estate taxes, insurance, utilities, and maintenance and repairs on the buildings. The Company also has options to extend the lease agreements on the branch locations.

Future minimum rental payments under the above leases will be as follows:

	Other	Related Party	Total
		(In Thousands)	
2014	$ 576	$ 359	$ 935
2015	576	359	935
2016	576	359	935
2017	487	359	846
2018	478	359	837
Thereafter	3,703	5,457	9,160
	$ 6,396	$ 7,252	$ 13,648

Total rental expense for the years ended December 31, 2013 and 2012 was $923,000 and $1,080,000, respectively. Of these totals, rental expense to related party landlords for the years ended December 31, 2013 and 2012 was $359,000 and $612,000, respectively.

10. Income Taxes

The components of income tax expense for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (Restated)
	(In Thousands)	
Current tax expense	$ 1,923	$ 818
Deferred tax expense	(223)	82
	$ 1,700	$ 900

The components of the net deferred tax asset at December 31, 2013 and 2012 are as follows:

	2013	2012 (Restated)
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,425	$ 1,322
Stock compensation expense	28	13
Nonaccrual loan interest	34	34
Other	6	-
Securities other-than-temporary impairment	-	40
Unrealized losses on securities available-for-sale	-	124
	1,493	1,533
Deferred tax liabilities:		
Loan origination costs	(131)	(135)
Securities accretion	(18)	(18)
Depreciation	(526)	(630)
Prepaid costs	(99)	(130)
	(774)	(913)
Net deferred tax assets (included in other assets)	$ 719	$ 620

11. Stock Option Plans

In 2003, the Company adopted three Stock Option Plans that were approved by stockholders on April 22, 2003. The 2003 Founders/Organizers Stock Option Plan A provided for the granting of stock options to directors and initial organizers to purchase up to 61,850 shares of the Company's common stock, as adjusted for the 10% stock dividend in 2006 and 5% stock dividend in 2011. All stock options granted vested immediately on the date of grant. This plan expired on March 19, 2013. The 2003 Directors Stock Option Plan B provided for the granting of stock options to directors to purchase up to 61,850 shares, as adjusted for the stock dividends. All stock options granted vested immediately on the date of grant. This plan expired on March 19, 2013. The 2003 Employees Stock Option Plan provided for the granting of stock options to employees to purchase up to 123,701 shares, as adjusted for the stock dividends. The vesting of employee stock options was at the discretion of the committee awarding the options. This plan expired on March 19, 2013. The shares granted under the Plans to outside directors and organizers were non-qualified options. The shares granted to employees were "incentive stock options," and are subject to the limitations under Section 422 of the Internal Revenue Code. The exercise price of options granted under the Plans could not be less than the fair market value of the Company's stock at the date of grant and the term of the options could not exceed ten years.

In 2010, the Company adopted the 2010 Equity Compensation Plan that was approved by stockholders on April 28, 2010. The 2010 Equity Compensation Plan provides for the granting of stock awards to employees and directors to purchase up to 105,000 shares of the Company's common stock as adjusted for the 5% stock dividend in 2011. The vesting of the stock awards is at the discretion of the committee awarding the options. The shares granted under the 2010 Equity Compensation Plan may be either non-qualified options, "incentive stock options," which are subject to the limitations under Section 422 of the Internal Revenue Code, or restricted stock awards. The exercise price of non-qualified options and "incentive stock options" granted under the 2010 Equity Compensation Plan shall not be less than the fair market value of the Company's stock at the grant date and the term of the awards shall not exceed ten years. No grants had been awarded under this Plan until 2012. In April 2012, the Company granted 46,500 restricted stock awards to certain employees. In 2013, the Company granted 29,167 restricted stock awards to certain employees. These restricted stock awards vest over 3 years. $160,000 and $95,000 of expense has been recognized on these awards for the years ended December 31, 2013 and 2012, respectively. There is $128,000 of future expense to be recognized on these awards.

As of December 31, 2013, the Company has outstanding stock options as follows:

	2003 Founders and Organizers	2003 Directors	2003 Employees	Weighted Average Exercise Price
Outstanding, December 31, 2011	61,850	46,835	123,543	$ 8.88
Granted in 2012	-	14,000	-	6.00
Outstanding, December 31, 2012	61,850	60,835	123,543	8.72
Stock options expired or forfeited in 2013	(61,850)	(30,028)	(103,864)	9.08
Outstanding, December 31, 2013	-	30,807	19,679	$ 8.11
Exercisable, December 31, 2013	-	30,028	19,679	$ 8.11
Shares available for future grant	-	-	-	-

The weighted average remaining contractual life of options outstanding at December 31, 2013 is 4.4 years. The weighted average remaining contractual life of options exercisable at December 31, 2013 is 4.4 years. At December 31, 2013, the aggregate intrinsic value of options outstanding was $4,000 and the aggregate intrinsic value of options exercisable was $4,000.

There were no stock options granted in 2013.

For the years ended December 31, 2013 and 2012, there was compensation expense of $-0- and $19,000, respectively, related to stock options. At December 31, 2013, there was $-0- of unrecognized compensation costs related to outstanding stock options.

12. Stockholders' Equity

On February 16, 2011, the Company declared a stock distribution in the form of a 5% stock dividend and issued 107,960 shares. If the Company had accumulated profits (retained earnings), the Company would have transferred the fair market value of the shares issued from retained earnings to common stock. Since the Company had an accumulated deficit at the time of the declaration, the Company made no entry to record the dividend.

On February 6, 2009, the Company entered into a Letter Agreement with the United States Treasury Department pursuant to which the Company issued to the Treasury (i) 3,756 shares of the Company's Series 2009A Preferred Stock with a liquidation preference of $1,000 per share and (ii) a warrant to purchase 188 shares of the Company's Series 2009B Preferred Stock with a liquidation preference of $1,000 per share for an aggregate purchase price of $3,756,000 in cash ("TARP funds"). The warrant was exercised as a cashless exercise on February 6, 2009 and 188 shares of Series 2009B Preferred Stock were issued on that date. Both series of preferred stock qualify as Tier 1 capital. On October 19, 2011, with the approval of the United States Treasury Department, both series of preferred stock were redeemed at a total price of $3,944,000. While outstanding, the Series 2009A Preferred Stock paid cumulative dividends of 5% per annum. The Series 2009B Preferred Stock paid dividends of 9% per annum.

Effective July 15, 2011, the Company completed a stock offering of non-cumulative, non-participating Preferred Stock Series C and issued 400,000 shares of preferred stock at $20.00 per share for proceeds of $8,000,000. The dividend rate will be 6.00% for the first 3 years, and thereafter the dividend rate will be variable, set quarterly, and will equal the prime rate plus 100 basis points, with a minimum rate of 5.45% and maximum rate of 7.00%. The preferred shares are convertible into shares of common stock at the election of the holder. The initial conversion ratio for the first three years through July 15, 2014 will equal 3.33 common shares for each preferred share. In year four, the conversion ratio will change to 2.86, in year five the conversion ratio will change to 2.50. Thereafter the exchange ratio will be determined by dividing the $20 by a multiple of the current book value per share beginning at 1 times and increased to 1.5 times book value after the seventh year. After the fifth anniversary, the Company will have the right to require conversion at the then applicable conversion ratio.

During 2013, the Company obtained capital through the offering of shares of Series C Convertible Preferred Stock at a price of $20.00 per share. The Company issued 55,500 shares and received proceeds of $1,110,000.

13. Transactions with Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders and their related interests on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Deposits of related parties totaled $14,865,000 and $18,994,000 at December 31, 2013 and 2012, respectively.

Loans outstanding to directors, executive officers, principal stockholders or to their affiliates totaled $12,764,000 and $15,526,000 at December 31, 2013 and 2012, respectively. Advances and repayments during 2013 totaled $6,479,000 and $5,087,000, respectively. $4,154,000 of loans outstanding at December 31, 2012 were to directors, executive officers, principal stockholders or their affiliates no longer associated with the Company.

14. Employee Benefit Plan

The Company has a 401(k) savings plan (the "Plan") for all qualified employees. Employees can contribute up to 20% of their compensation and the Company provides a 30% match of the member's contributions. The Company made a matching contribution to the 401(k) Plan totaling $55,000 and $60,000 for 2013 and 2012, respectively.

15. Financial Instruments with Off-Balance Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degree, elements of credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss from nonperformance by the other party to the above-mentioned financial instruments is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract or notional amount of financial instruments whose contract amounts represent credit risk at December 31, 2013 and 2012 is as follows:

	2013	2012
	(In Thousands)	
Commitments to grant loans	$ 17,317	$ 20,468
Unfunded commitments under lines of credit	9,653	12,444
Standby letters of credit	363	432

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2013 and 2012 was $363,000 and $432,000, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure at December 31, 2013 and 2012, was approximately $363,000 and $432,000, respectively. The current amount of the liability as of December 31, 2013 and 2012 for guarantees under standby letters of credit issued is not material.

16. Regulatory Matters

The Bank is required to maintain cash reserve balances in vault cash and with their correspondent bank. The required reserve balance at December 31, 2013 was $3,950,000.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2013, that the Bank meets all capital adequacy requirements to which it is subject.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2013 and 2012, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a "well-capitalized" institution:

	2013					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts in Thousands)					
Total capital (to risk-weighted assets)	$ 39,869	12.37 %	$ ≥25,780	≥8.00 %	$ ≥32,225	≥10.00 %
Tier 1 capital (to risk-weighted assets)	35,832	11.12	≥12,890	≥4.00	≥19,335	≥ 6.00
Tier 1 capital (to average assets)	35,832	9.25	≥15,493	≥4.00	≥19,366	≥ 5.00
	2012 (Restated)					
Total capital (to risk-weighted assets)	$ 33,558	9.98 %	$ ≥26,924	≥8.00 %	$ ≥33,655	≥10.00 %
Tier 1 capital (to risk-weighted assets)	29,351	8.73	≥13,462	≥4.00	≥20,193	≥ 6.00
Tier 1 capital (to average assets)	29,351	8.12	≥14,459	≥4.00	≥18,074	≥ 5.00

Subject to applicable law, the Board of Directors of the Company may provide for the payment of dividends. State banking statutes restrict the amount of dividends on capital stock. Accordingly, no dividends shall be paid by the Bank to the holding company unless, after the payment of such dividend, the capital stock of the Bank will not be impaired and (1) the Bank will have a statutory surplus of not less than 50% of its capital stock, or if not, (2) the payment of such dividend will not reduce the statutory surplus of the Bank. In addition, dividends would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

17. Fair Value Measurements and Disclosures

The Company 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 Company'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 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.

In accordance with this guidance, the Company 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.

At December 31, 2013, the Company had no financial assets measured at fair value on a recurring basis.

For financial assets measured at fair value on a recurring basis as of December 31, 2012, the fair value measurements by level within the fair value hierarchy used are as follows:

	2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Securities available-for-sale:				
Private issued collateralized mortgage obligations - residential	$ 1,285	$ -	$ -	$ 1,285
State and municipal securities	40	-	40	-
	$ 1,325	$ -	$ 40	$ 1,285

The following table presents a reconciliation of the securities available-for-sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012:

	Private Issued Collateralized Mortgage Obligations - Residential
	(In Thousands)
Beginning balance, January 1, 2012	$ -
Transferred to Level 3	1,696
Total losses:	
Included in earnings, realized	(101)
Included in other comprehensive income, unrealized	(310)
Ending balance, December 31, 2012	1,285
Total losses:	
Included in earnings, realized	(48)
Loss on sale, realized	(185)
Proceeds from sale	(1,052)
Ending balance, December 31, 2013	$ -

There were no impaired loans measured at fair value on a non-recurring basis at December 31, 2013 and 2012, respectively.

There were no non-financial assets measured at fair value on a non-recurring basis at December 31, 2013.

For non-financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 are as follows:

	2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Other real estate owned	$ 800	$ -	$ -	$ 800

Quantitative information about Level 3 fair value measurements at December 31, 2012 is included in the table below:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
Other real estate owned	$ 800	Appraisal of property	Appraisal adjustments	25%
			Liquidation expenses	8%
Private issued collateralized mortgage obligations - residential	$ 1,285	Estimated cash flows	Prepayments	5%
			Default rates	6.68% - 3.94%
			Loss severity	23% - 59%
			Internal rate of return	8%

In determining cash flows for the private issued collateralized mortgage obligation, the Company utilizes a third party valuation firm that will make estimates of the speeds at which the underlying loans are expected to prepay, the estimated rates at which the underlying loans are expected to default, and the severity of the losses on underlying loans that are liquidated through the foreclosure process. The calculation of present value for the security is based on its internal rate of return.

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value. The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2013 and 2012:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Interest Bearing Time Deposit (Carried at Cost)

Fair values for fixed-rate time certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Securities

The fair value of securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For the Level 3 private issue collateralized mortgage obligation, the Company utilized a cash flow model. The valuation model captures the composition of the underlying collateral and the cash flow structure of the security. Significant inputs to the model include delinquencies, collateral types and related contractual features, estimated rates of default, loss severity and prepayment assumptions.

Loans Receivable (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. At December 31, 2013 and 2012, there were no collateral dependent impaired loans for which there is a specific reserve.

Investment in Restricted Stock (Carried at Cost)

The carrying amount of investment in restricted stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB and ACBB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB and ACBB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at December 31, 2013 and 2012:

	2013				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 41,068	$ 41,068	$ 41,068	$ -	$ -
Interest bearing time deposit	3,350	3,350	-	3,350	-
Loans receivable, net	302,007	309,658	-	-	309,658
Investment in restricted stock	1,717	1,717	-	1,717	-
Accrued interest receivable	1,373	1,373	-	1,373	-
Financial liabilities:					
Deposits	309,646	310,737	-	310,737	-
Accrued interest payable	337	337	-	337	-
Long-term borrowings and subordinated debt	30,100	31,821	-	31,821	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

	2012 (Restated)				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 22,399	$ 22,399	$ 22,399	$ -	$ -
Interest bearing time deposit	3,600	3,600	-	3,600	-
Securities available-for-sale	1,325	1,325	-	40	1,285
Loans receivable, net	321,545	334,222	-	-	334,222
Investment in restricted stock	1,614	1,614	-	1,614	-
Accrued interest receivable	1,333	1,333	-	1,333	-
Financial liabilities:					
Deposits	314,536	315,105	-	315,105	-
Accrued interest payable	328	328	-	328	-
Long-term borrowings	28,000	30,739	-	30,739	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

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Market Maker
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Phone: 973-549-4000

Stock Listing
Pascack Bancorp, Inc. Common Stock is Traded on NASDAQ: PSBR

Annual Shareholders Meeting
Pascack Bancorp, Inc.
64 Crescent Avenue
Waldwick, NJ 07463

ANNUAL SHAREHOLDERS MEETING
This Annual Report serves as the Bank's Annual Disclosure Statement as required by FDIC rules. This Annual Report has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

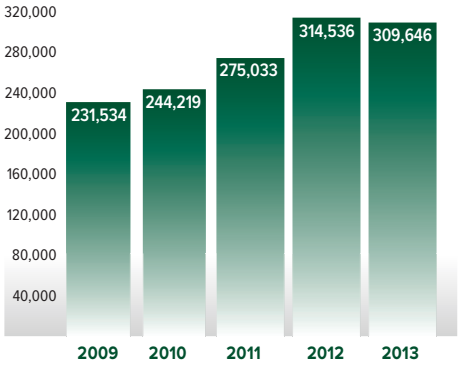
Community Banking

Pascack Community banking is local, personal and committed to the customers and communities we serve.

Our very experienced branch staffs define community banking. We provide products and services to our thriving commercial customers. Retail customers are continuing to grow as we foster our personal community banking culture.

Our core deposit strategy for 2014 will look for deposit mix to change. Currently, we have a reliance upon savings and money market deposits. We will extend our maturities into fixed CD deposits.

Total Deposits
Millions ($)



Our branch network now stands at eight outstanding locations. We will build our core deposits and continue our commitment to our communities.

We are a responsible community partner seeking to strengthen our communities through personal and financial investments. We encourage our employees to volunteer and to support organizations that matter most to them. Our senior executives, branch and corporate staff are involved in their local Chamber of Commerce and many organizations. Later in this report you will see some of the many organizations we support through our volunteer and financial contributions.



Nancy E. Graves, President & Chief Executive Officer; **Michael J. Nardino**, Executive Director of the Boys and Girls Club of Lodi & Hackensack; **John A. Scerbo**, First VP, Commercial Loan Officer

The Boys and Girls Club of Lodi & Hackensack is a valued organization and bank customer. Enabling young people to reach their potential is an investment in the future.

Community Banking
Mike Elayan, First Vice President
Retail Banking and Administrative Officer
Phone: 201-689-7777

Branch Offices



9 Polifly Road
Hackensack, NJ 07601
Michael Gambatese
VP, Branch Manager
Phone: 201-457-0400



2 Arnot Street
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Joseph Hoppe
VP, Branch Manager
Phone: 973-777-7979



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Rochelle Park, NJ 07662
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Mel Priolo
VP, Branch Manager
Phone: 973-562-0032



64 Crescent Avenue
Waldwick, NJ 07463
Michele Calise
VP, Branch Manager
Phone: 201-689-7750



Commercial Banking

COMMERCIAL LENDING

We offer a thoughtful approach to lending which creates a responsive, value-added result that our business customers recognize. Our strategy is building long-term relationships that enrich our communities, making accessibility and communication our top priorities.

Transaction driven market competitors brought interest rate pressure resulting in lower than expected net loans however, our loan portfolio strength, net interest margin and asset quality, ranked in the top 10% in New Jersey. We stay true to our relationship based strategy for sustained growth.

Commercial customers need a timely loan response. Our Board Loan Committee meets frequently to provide quick turnaround. Because we are local decision makers, our customers have confidence that we will give them an answer and that we will honor our commitment to close.

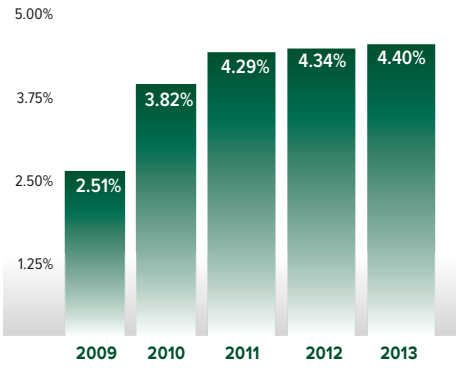
The expertise of the Board of Directors and lending team set the Bank apart from the competition; accessibility, expertise and local decision makers combine to build a value-added customer experience and high performing commercial loan portfolio.

Accessibility

Local Decision Makers

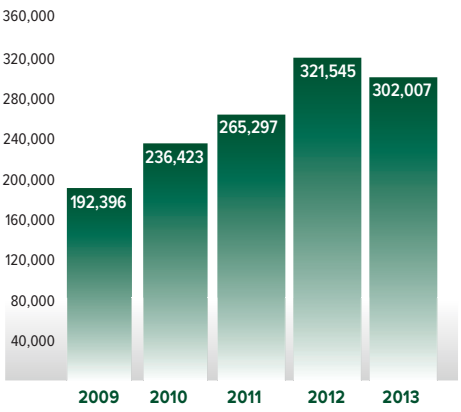
Expertise

Net Interest Margin



Total Net Loans

Millions ($)





Lending (left to right)
John A. Scerbo, First VP, Commercial Loan Officer; **Nancy E. Graves**, President & Chief Executive Officer; **Michael N. Kurzawski**, Sr. VP, Chief Lending Officer

CREDIT ADMINISTRATION

We have both the experience and infrastructure to support our growth and to manage our commercial loan portfolio.

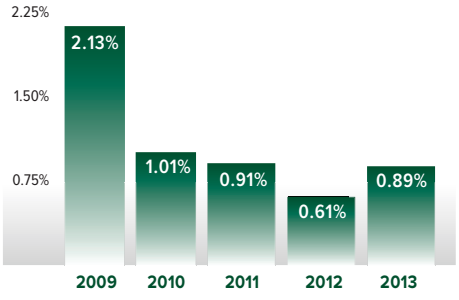
Commercial lending decision making begins with our rigorous underwriting process, followed by the steps required to close when we say we will. Our borrowers rely upon us for efficiency which resides in our ongoing communication and accessibility.

Monitoring a commercial loan portfolio for ongoing performance, including site visitations, economic changes, portfolio concentrations and the importance of rising interest rates requires a team of people who understand commercial lending, and portfolio management.

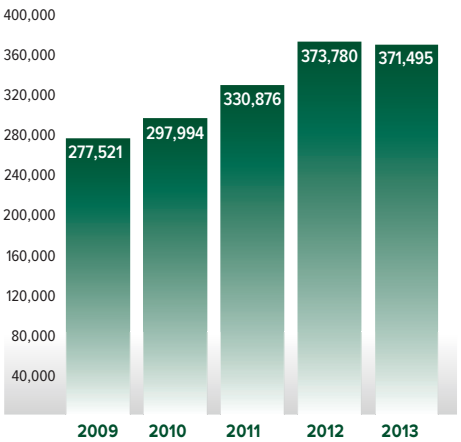


Credit Administration (left to right)
Michael J. Trepicchio, First VP, Sr. Credit Administration Officer; **Suzanne Sheerin**, AVP, Loan Administration; **Nancy E. Graves**, President & Chief Executive Officer; **Joe Paruolo**, Credit Analyst; **Brenda Rios**, Loan Administration; **Anibal M. Badim**, First VP, Sr. Credit Administration Officer

Non Performing Loans to Total Loans



Total Assets
Millions ($)



BANK ADMINISTRATION

Banking is a balance of growth as well as an infrastructure that provides a solid foundation for operating the business. Creating an excellent outcome, takes a team of people who work diligently to provide a seamless banking experience. Bank operations, finance, management information systems and information technology are integral to successful banking.

Compliance and compliance management are essential to sound banking. Our senior, experienced people and dynamic resources provide the knowledge required to meet the operating and regulatory demands.

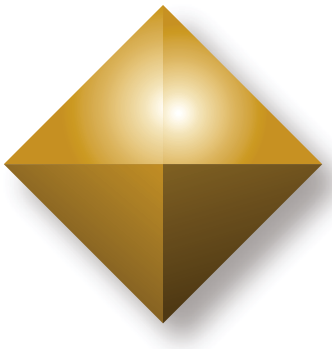
Banking, more today than ever, requires excellence in all aspects of the business. We continue to deliver the people, products and services our customers expect and deserve.



Pictured (left to right)

Mina Turelli, Sr. VP, Compliance; **Joe Paruolo**, Credit Analyst; **John Falcone**, Loan Officer; **Michael N. Kurzawski**, Sr. VP, Chief Lending Officer; **Mike Elayan**, First VP, Retail Banking & Administrative Officer; **Suzanne Sheerin**, AVP, Loan Administration

Seated: **Michael J. Trepicchio**, First VP, Sr. Credit Administration Officer; **Nancy E. Graves**, President & Chief Executive Officer; **Anibal M. Badim**, First VP, Sr. Credit Administration Officer



Leadership
Building Shareholder Value
Relationships
Community

Involvement

Nancy E. Graves Junior Achievement, State Board of Directors

Mike Kurzawski Paramus Rotary Club ■ St. Eva's Kitchen ■ Gift of Life

Mike Trepicchio Saddle River Landmarks Commission ■ Historic New Bridge Landing Park Commission ■ Bergen County Historical Society

John Scerbo Oakland Board of Education **John Messina** Elmwood Park Little League Board of Directors ■ Knights of Columbus **Stuart Milstone** Willard Elementary School ■ Makers Space-Bergen Technical Academies **Mina Turelli** Volunteer EMT, The Lyndhurst Police Emergency Squad

Michele Calise Waldwick Chamber of Commerce ■ Allendale Chamber of Commerce ■ Women United In Philanthropy **Erica Victoria** Wyckoff Chamber of Commerce **Frank DiDolci** Westwood Rotary Club ■ Westwood Chamber of Commerce ■ Westwood UNICO ■ Pascack Valley Chamber of Commerce **Christina Agugliaro** 1st Lieutenant, Waldwick Fire Department **Mel Priolo** Nutley UNICO ■ Nutley Chamber of Commerce ■ Nutley PBA Local #33 **Michael Gambatese** Business Partner Network (BPN) ■ Hackensack Chamber of Commerce

Tomorrow's Children's Fund Toy Drive Frank DiDolci ■ Mike Gambatese ■ Mike Elayan ■ Luz Sotomayor ■ Erica Victoria ■ Nancy Graves ■ Mike Trepicchio ■ Anibal Badim ■ John Falcone ■ Joe Hoppe ■ Lori Young

Center for Food Action Lori Young ■ Michele Calise ■ Mike Gambatese ■ John Messina ■ Linda Spann ■ Maureen Aherns ■ Mike Elayan ■ Debbie Callahan ■ Erica Victoria

ORGANIZATIONS

As an integral member of the growth and prosperity of the communities we serve, Pascack Community Bank is committed to the on-going support of organizations that educate, enrich or improve the lives of others.

Alzheimer's Association
Annual College Scholarships
Bergen Community College Foundation
Bergen County Bar Association
Bergen County Police Chiefs Association
Boys & Girls Club of Lodi & Hackensack
Buehler Challenger & Science Center
Carl Inserra Leukemia Fund
Center for Food Action
Cody's Foundation for Abused Children
Community Hospice of Bergen County
Eva's Village
Felician College
Foundation for Free Enterprise
Gift of Life America
Habitat for Humanity
Hackensack University Medical Center Foundation
Hillsdale K-8 Education Foundation
Hillsdale Volunteer Fire Department
Hurricane Sandy NJ Relief Fund
Joan D'Alessandro Memorial Foundation
John V. Kelly Memorial Foundation
Junior Achievement of New Jersey
Mike Geltrude Foundation
National MS Society
PAC Parents Foundation, Inc
Pascack Valley Meals on Wheels
Sgt. Christopher Hrbek Scholarship Fund
Shelter Our Sisters
The Arc of Bergen & Passaic
Volunteer Center of Bergen County
Waldwick Volunteer Fire Department
West Bergen Mental Health Organization
Westwood Volunteer Fire Department
Westwood / Washington Township Education Foundation



Pascack Community Bank

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Member FDIC

EQUAL HOUSING LENDER