First American International Corp.

holding company for

First American International Bank

恆通銀行

Annual Report

2013

FIRST AMERICAN INTERNATIONAL CORP.

April 22, 2014

Dear Stockholders:

2013 was an important year for First American International Corp. ("FAIC" or "the Company") and its wholly owned subsidiary, First American International Bank ("FAIB" or "the Bank"). During the year we had several significant accomplishments that we believe will better position the Company to continue to build shareholder value. Three of our more significant accomplishments are developing existing and attracting new key personnel, materially reducing non-performing loans and completing conversion of the core information technology system to a new platform. This all occurred during another challenging year in financial services, which included margin compression, increased regulatory burdens and increased competition. For the year, FAIC posted net income available to common stockholders of $2,160,000, which equates to net income per share, basic, of $1.00 and net income per share, diluted, of $0.99.

One of the key personnel actions we took in 2013 was to invigorate the Bank's commercial loan origination team and independent credit team, which has enabled the Bank to dispose of a significant portion of its problem loans as well as re-launch our commercial real estate lending program. We are very excited that we are providing commercial loans to our customers, which not only supports the communities we serve, but also enables the Bank to redeploy cash and investments into higher earning assets. We are also proud of the stellar loan origination production by our residential lending team, which provided high quality portfolio loans and fee income through our Fannie Mae conduit program. During 2013 the Bank also began a comprehensive personnel development program that involves all areas of the Bank with a focus toward enhancing customer service, both external and internal.

During 2013, we continued to make great progress in improving asset quality through working with our borrowers, litigation and the direct sale of nonperforming loans during the fourth quarter. As a result, our nonperforming loans at December 31, 2013 had been reduced to $10.4 million, compared to $22.4 million at December 31, 2012 and the Bank's peak of $52.6 million on December 31, 2010.

At the same time that we were working to reduce problem assets, we also exerted substantial effort to strengthen our infrastructure and position ourselves for the future. In September, we converted to a new core computer data processing system, which allows us to provide new products and services to our existing and prospective customers, integrate many management data collection and reporting functions and improve efficiency.

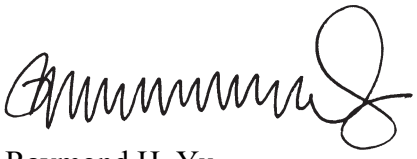
During 2013, we improved our status with state and federal bank regulators. As a result, we received permission to pay dividends on our trust preferred securities and our Troubled Asset Relief Program ("TARP") preferred stock and are current on all obligations.

The Board and management continue to be excited about the opportunities that lie ahead. However, normal business challenges remain. A continuation of low market interest rates has caused interest rate margins to continue to narrow. Competition in our community continues to

increase and regulatory burdens on all financial institutions continue to grow in the post-Dodd Frank era.

As we said to you in our 2013 letter to stockholders, last year was a transition year for us and we are pleased with many of our accomplishments. However, we still have more changes to make to ensure we remain relevant in this rapidly changing environment. We believe we continue to progress in the direction that will offer high quality, meaningful financial products and services to our customers in a cost effective manner, which we believe is the best road to improving shareholder value.

Detailed information about our financial results is included in this annual report. We urge you to read it carefully, along with our audited financial statements at the end of the annual report. At FAIB, we love banking. We recognize that it is you, our investors, who have made and continue to make this possible. For this, on behalf of your Board and management team, we thank you. We also welcome your comments about our results and we look forward to continuing to work hard to develop your shareholder value.



Raymond H. Yu
Chairman of the Board



Mark A. Ricca
President and CEO

SELECTED FINANCIAL INFORMATION

The selected data we are presenting below at and for the years ended December 31, 2012, 2011, and 2010 come from our audited consolidated financial statements.

Selected Financial Condition Data:

	At December 31,		
	2013	2012	2011
		(In thousands)	
Total assets	$552,623	$526,952	$533,036
Loans held for sale	-	12,792	13,515
Real estate - commercial	136,891	214,509	281,108
Real estate – residential	222,366	142,866	111,265
Commercial and industrial	2,703	8,699	11,265
Consumer and installment	586	539	237
Loans receivable, gross	362,546	366,613	403,875
Allowance for loan losses	7,226	10,618	15,681
Other interest-earning assets	151,335	119,608	95,219
Demand deposits	87,013	75,009	58,102
NOW accounts	2,136	2,700	1,895
Money market and savings	135,962	141,291	136,302
Certificate of deposit	186,200	222,661	255,527
Deposits	411,311	441,311	451,826
Borrowings	68,217	17,217	22,567
Stockholders' equity	65,333	62,583	52,815

Selected Operations Data:

	For the year ended December 31,		
	2013	2012	2011
		(In thousands)	
Interest income	$ 26,827	$ 30,103	$ 32,805
Interest expense	3,402	4,372	6,692
Net interest income	23,425	25,731	26,113
Provision for loan losses	488	(4,509)	3,500
Net interest income after provision for loan losses	22,937	30,240	22,613
Non-interest income	8,024	8,874	847
Non-interest expenses	26,198	22,896	21,673
BEA grant [(a)]	393	415	448
Income before income taxes	5,156	16,633	2,235
Income taxes	2,245	7,507	812
Net income	$ 2,911	$ 9,126	$ 1,423
Income available to common stockholders	$ 2,160	$ 8,409	$ 725
Earnings per share – Basic	$1.00	$3.96	$.34
Earnings per share – Diluted	$ .99	$3.90	$.34

[(a)] Represents Bank Enterprise Award grants from the Community Development Financial Institutions Fund (a federal government department) for our lending and community investment activities in the amounts shown.

Selected Financial Ratios and Other Data[1]:

	At or for the year ended December 31,		
	2013	2012	2011
Performance Ratios:			
Return on average assets (net income to average total assets)	.54%	1.58%	.19%
Return on average net worth (net income to average net worth)	4.49%	20.99%	3.07%
Average interest-earning assets to average interest-bearing liabilities	135%	126%	120%
Net interest rate spread[2]	4.44%	5.00%	4.49%
Net interest margin[3]	4.66%	5.25%	4.76%
Net interest income after provision for loan losses to total other expenses	89%	132%	104%
Non-interest income to total revenue	23.9%	26.5%	4.7%
Non-interest expense to total revenue	74.3%	65.4%	79.1%
Non-interest expense to average assets	4.90%	4.31%	3.78%
Net Worth and Asset Quality Ratios:			
Average net worth to average total assets.	12.14%	10.75%	9.10%
Total net worth to assets end of period	11.82%	11.88%	9.91%
Non-performing assets to total assets	1.88%	5.25%	5.17%
Non-performing loans to total loans	2.93%	7.51%	6.57%
Allowance for loan losses to total loans.	2.04%	2.90%	3.89%
Allowance for loan losses to non-performing loans	69.5%	47.4%	59.3%
Total Risk-Based Capital Ratio	22.70%	18.80%	13.94%
Tier 1 Risk-Based Capital Ratio	21.44%	17.53%	12.66%
Leverage Capital Ratio	13.14%	12.91%	10.33%
Book value per share	$22.28	$21.49	$16.88

(1) Asset quality and net worth ratios are at end of period. All other ratios are based on daily balances.
(2) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(3) The net interest margin, also known as the net yield on average interest-earning assets, represents net interest income as a percentage of average interest-earning assets.

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

Our Business

We are a New York-based community banking institution focused on providing full service banking to small businesses, real estate investors and consumers within the Chinese-American market located within Brooklyn, Queens and Manhattan, three of the five boroughs of New York City. The Chinese-American market consists of individuals of Chinese ancestry who were born in the United States, ethnic Chinese who have immigrated to the United States and ethnic Chinese who live abroad but conduct business in the United States. Our primary operating subsidiary, First American International Bank (the "Bank"), is a New York-chartered commercial bank. The Bank commenced operations in November 1999 and we established our bank holding company, First American International Corp., in July 2004. As of December 31, 2013, we had total assets of $552.6 million, net loans receivable of $354.6 million, total deposits of $411.3 million and total stockholders' equity of $65.3 million.

Our business strategy involves a systematic approach toward the establishment of a full service community financial services company. Since the Bank first opened for business in November 1999, our Board of Directors has developed, and management has implemented, policies to grow the size of the Bank through retail branch expansion. The Bank is based in Brooklyn and at year end 2013 it had nine branches, two in Brooklyn, four in Queens, and three in Chinatown in Manhattan. We have never paid cash dividends on our common stock to maximize retained earnings and provide capital support for growth. We have grown faster than our retained earnings would have allowed, so we have raised additional capital in stock offerings after we opened for business.

Troubled Asset Relief Program

In a transaction that closed on March 13, 2009, we issued $17 million of preferred stock under the Capital Purchase Program ("CPP") of the U.S. Government Troubled Asset Relief Program ("TARP"), supplementing our capital. The preferred stock originally had an after tax rate of 5% per year for the first five years and, if not redeemed, the dividend rate was then to increase to 9% per year. We exchanged that stock for new TARP preferred stock with a 2% per year cost for eight years effective August 16, 2010. Since the Bank is a Community Development Financial Institution ("CDFI"), we were not required to issue warrants to accompany the preferred stock, as most other non-CDFI institutions were required to do. As required by the United States Treasury Department as part of the CPP program, we agreed to dividend limits and corporate governance restrictions. These generally continue so long as we do not redeem the preferred stock and it is not sold to an independent third party not affiliated with the US Treasury.

1. We are permitted to pay dividends on our common stock each year only based upon dividends we paid in the prior year. Since we did not pay any dividends to common stockholders prior to issuing the preferred stock, no dividends on common stock will be permitted without the consent of the Treasury Department as long as we do not redeem the preferred stock and it is not sold to an independent third party.
2. We may not repurchase any of our capital stock, equity securities or trust preferred securities.
3. If the preferred stock has not all been redeemed within 10 years, all dividends and stock repurchases are prohibited until the preferred stock is redeemed.
4. Our executive compensation programs are subject to restrictions including limits on both golden parachute payments and incentive compensation or bonus payments based upon unnecessary or excessive risks. There is also a requirement that we have the right to recover back any bonuses or incentive compensation paid based upon reported earnings, gains or other criteria that are later shown to be materially incorrect. We believe that we do not have any plans, contracts or agreements that require payments that would violate these restrictions.

We have the right to defer quarterly dividend payments that we are required to make on the TARP preferred stock. We began deferring the payment of dividends in the second quarter of 2011 because the Federal Reserve refused to allow us to make the payments. We deferred payments for eight calendar quarters. Therefore,

the TARP preferred stock provides that our number of directors increased by two directors and the US Treasury had the right to elect two members of our Board of Directors. That right was never exercised. The right to elect two directors continues until we pay all past due dividends and pay four consecutive quarterly dividends on the TARP preferred stock. We received permission to begin making the dividends payments in May 2013 and continued to receive approval for each quarterly dividend payment thereafter. If, prior to our 2014 annual meeting of stockholders, we make the payment due in May 2014, which we expect to do, then the right of the US Treasury to elect two directors will terminate.

Regulatory Matters

In March 2011, we entered into an agreement (the "Agreement") with the Federal Reserve Bank of New York ("FRBNY"), acting on behalf of the Board of Governors of the Federal Reserve System, pursuant to which we agreed to certain restrictions and limitations, principally related to capital and distributions. In the Agreement, we agreed not to pay any dividends or make any distributions, including dividends on our TARP preferred stock and interest on our trust preferred securities, without advance approval from the Federal Reserve. We also agreed to act as a source of strength for the Bank. The Bank is not designated as being in "troubled condition" by the FDIC and we anticipate that the Agreement with the FRBNY will be terminated. We applied to the Federal Reserve for permission to resume paying the TARP preferred stock dividends and the trust preferred interest and we received approval to make those payments in May 2013 and for each quarterly payment thereafter.

Management believes that it is currently in substantial compliance with the requirements of the Agreement. For further information regarding regulatory matters, see Note 15 to the Consolidated Financial Statements.

Asset Quality

Non-performing loans at December 31, 2013 were $10.4 million compared to $22.4 million last year. Total delinquent loans were $9.9 million at year end 2013 compared to $24.7 million at December 31, 2012. The principal component of the decline was a sale of $13.2 million in non-performing loans during the fourth quarter of 2013. The Company monitors remaining delinquent loans closely and continues to work on improving asset quality on an overall basis. The allowance for loan losses was $7.2 million, or 2.04% of total loans, compared to $10.6 million, or 2.90%, at December 31, 2012. The reduction in the allowance was principally due to net charge offs of $3.9 million associated in large part with the sale of non-performing loans, partially offset by a provision for loan losses of $488,000. Although the amount of the allowance declined, the allowance represented 69.5% of non-performing loans at December 31, 2013 compared to 47.4% at December 31, 2012 due to the substantial reduction in the level of non-performing loans.

Comparison of Financial Condition at December 31, 2013 and December 31, 2012

Total assets were $552.6 million at December 31, 2013, an increase of $25.7 million, or 4.9%, from $526.9 million at December 31, 2012. Loans receivable, net were $354.6 million, a decrease of $605,000 compared to last year. We experienced a decline in commercial mortgage loans, which decline was substantially offset by an increase in 1-4 family residential mortgage loans. Construction loans declined from $35.5 million to $3.0 million while other commercial mortgage loans declined from $167.0 million to $119.9 million. We also had a decline of $6.0 million in commercial loans not secured by real estate from $8.7 million at year end 2012 to $2.7 million at year end 2013. These declines were the result of a temporary de-emphasis on commercial mortgage and commercial loans while we addressed asset quality and administration issues. However, loans are our highest yielding asset category, and to maintain interest income, we increased our level of 1-4 family residential loans from $143.5 million to $222.4 million. The only 1-4 family residential loan products that we offered in 2013 were fixed/adjustable loans with an initial fixed rate period of either seven years or ten years, followed by annual interest rate adjustments, known as 7/1 and 10/1 adjustable rate loans. These loans provide some protection against increases in market interest rates because of the annual interest rate adjustments after the fixed interest rate period. Securities available for sale increased by $20.3 million as we deployed available funds not used for lending into securities investments, which have higher yields than cash and cash equivalents. Cash and cash equivalents

increased by $10.0 million as we invested remaining available cash in short term overnight investments pending redeployment into loans.

Total deposits were $411.3 million at December 31, 2013, a decrease of $30.4 million, or 6.9%, from $441.7 million at December 31, 2012. The principal deposit categories at December 31, 2013 were $87.0 million in demand deposit accounts; $136.0 in money market and savings accounts; and $186.2 million in certificates of deposit. This compares to December 31, 2012 amounts of $75.0 million in demand deposit accounts; $141.3 million in money market and savings accounts; and $222.7 million in certificates of deposit. We did not aggressively compete for certificates of deposit in 2013 in an effort to reduce our cost of funds at a time when we had sufficient liquidity.

We had borrowings of $68.2 million at December 31, 2013, compared to $17.2 million at December 31, 2012. The principal reason for the $51.0 million increase in borrowings was that we adopted a funding program under which we borrowed funds from the Federal Home Loan Bank of New York ("FHLBNY") with longer terms to maturity designed to partially match the estimated expected principal payments or interest rate adjustments on our 7/1 and 10/1 residential mortgage loans. This strategy reduces interest rate risk by providing funding sources with fixed rates that reprice at or about the time that we estimate the interest rate on the related residential mortgage loans will reprice due to either repayment of the loan or the contractual adjustment of the interest rate. Of our $61.0 million of FHLBNY borrowing at year end 2013, $35.5 million mature in 2018 and $25.5 million mature in 2020.

Borrowings also include a $7.2 million junior subordinated debenture that we issued in connection with our trust preferred securities transaction in December 2004. We can use borrowings to provide funds for asset growth when sufficient funds are not available from deposit growth. We have a FHLBNY borrowing line of credit, which is a relatively low cost source of funds and provides an additional source of liquidity. We had unused availability on our line of credit with the FHLBNY of more than $12.1 million at the end of 2013.

Total stockholders' equity was $65.3 million at December 31, 2013, compared with $62.6 million at December 31, 2012. The principal reasons for the increase were $2.9 million of retained earnings and $624,000 of proceeds from the exercise of stock options. These increases were partially offset by a decline in the carrying value of securities available for sale, net of tax, of $429,000 and the payment of TARP preferred stock dividends of $355,000.

The following table shows our regulatory capital ratios and those of the Bank for the quarter ended December 31, 2013.

	FAIC	The Bank
Tier I Leverage Capital Ratio.....	13.14%	13.05%
Tier I Risk-Based Capital Ratio	21.44%	21.30%
Total Risk-Based Capital Ratio.....	22.70%	22.56%

All of the above ratios exceed the minimum ratios necessary to be considered well-capitalized under applicable federal regulations.

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

General. We had net income of $2.9 million in 2013, compared to net income of $9.1 million in 2012. The principal reason for the decline is that we had a negative provision for loan losses of $4,509,000 in 2012 as we recovered a substantial portion of our allowance for loan losses as asset quality improved, compared to a $488,000 provision for loan losses in 2013. Return on average assets decreased to .54% in 2013 compared to 1.58% in 2012. Return on average equity decreased to 4.49% compared to 20.99% last year. Excluding the $4.5 million negative provision for loan losses, the return on average assets and return on average equity would have been 1.15% and 15.3%, respectively in 2012.

Interest Income. Interest income was $26.8 million for 2013 compared to $30.1 million in 2012, a decrease of $3.3 million, or 10.9%. Interest and fees on loans decreased $2.7 million. This decrease was primarily due to a decline in the average rate we earned on loans. The yield on loans decreased 61 basis points to 6.86% as the residential mortgage loans we originated had relatively low interest rates compared to commercial mortgage loans. In addition, we had to reduce the rates on some of our maturing commercial mortgage loans to maintain loan volume in the face of competition from other lenders. We estimate that this decrease in loan yield resulted in a $2.2 million decline in interest income. The average volume of loans decreased by $6.6 million, to $363.8 million, which we estimate resulted in a decline in interest income of $488,000.

Interest income on investment securities decreased $597,000 due to a decrease in yield of 95 basis points. In 2013, we received $24.2 million of proceeds from investment securities and we purchased $45.3 million of new investment securities. Although the volume of investment securities increased, the average yield on the portfolio decreased because of the low market interest rates available to us on new securities purchased in 2013. We also elected to purchase investment securities with shorter terms to maturity to protect against the adverse effect of a potential increase in market interest rates in the future.

Interest Expense. Interest expense decreased from $4.4 million in 2012 to $3.4 million in 2013. This decrease of $969,000, or 22.2%, was principally due our decision not to compete aggressively for certificate of deposit accounts at a time of continued low market interest rates. As a result, interest expense of certificates of deposit declined by $1.0 million, of which approximately $302,000 was attributable to a decline in the average volume of certificate accounts and approximately $747,000 was attributable to a decline in the average rate we paid. Certificates of deposit represented 45% of average deposits in 2013 and 50% in 2012.

The average rate we paid on certificates of deposit declined 37 basis points, which was the principal cause of a decline in our average cost of funds by 26 basis points from 1.15% in 2012 to .89% in 2013. We also experienced a 113 basis point decline in the average cost of borrowed funds, although the average balance increased because we borrowed funds with longer maturities from the FHLBNY, as mentioned above. The average balance of deposits decreased $19.2 million, or 5.3%, offset by an increase in the average balance of FHLBNY borrowings of $21.9 million.

Net Interest Income. Net interest income for the year, before provision for loan losses, was $23.4 million. This was a decrease of $2.3 million, or 9.0% from the prior year. The two most significant causes for this decline were the decline in earnings on loans and on investment securities. For the year ended December 31, 2013, our interest rate spread of 4.44% was down 56 basis points from 5.00% for the year ended December 31, 2012; the net interest margin of 4.66% was down 59 basis points from 5.25% for the year ended December 31, 2012. In addition to the change in the mix of loans towards lower yielding residential 1-4 family loans and away from commercial mortgage loans, our average balance of loans was $363.8 million in 2013, or $6.6 million lower than the average balance in 2012. In contrast, the average volume of lower-yielding overnight investments increased from $39.4 million in 2012 to $51.4 million in 2013, which contributed to the decline in spread and margin.

Provision for Loan Losses. The provision for loan losses results from our analysis of the appropriateness of our allowance for loan losses. If we determine that an increase in the allowance is warranted, then the increase is accomplished through a provision for loan losses, which is an expense on our income statement. The provision for loan losses was $488,000 in 2013, compared to a negative provision of $4,509,000 in 2012. The provision that we record each year is the amount that we believe is necessary to maintain an allowance for loan losses that is appropriate for our loan portfolio, based upon the risks in the portfolio.

The asset quality of the loan portfolio improved significantly in 2012 when compared to previous years, which was the reason for the negative provision in 2012. This improvement was due to continuing efforts to reduce the risk profile of the loan portfolio as discussed above. The efforts to improve asset quality continued in 2013. Non-performing loans decreased from $22.4 million at the end of 2012 to $10.4 million at December 31, 2013. This decrease of $12.0 million, or 53.6% was a result of loan sales, the repayment of some non-performing loans, charge-offs, and the restoration of loans to performing status as the result of a consistent period of regular payment.

We had loan charge offs of $5.1 million in 2013 and $1.3 million in 2012. The 2013 charge offs were principally the result of the sale of $13.2 million on non-performing loans in the fourth quarter of 2013. We had recoveries of $1.2 million in 2013 and $723,000 in 2012. Recoveries are added back to the allowance for loan losses.

When a loan is categorized as non-performing, we do not return it to accruing status until the loan is brought current and the borrower makes regular and consistent payments on the loan. These regular payments must continue for at least six months and sometimes longer, depending upon the circumstances of the loan, before we treat the loan as a performing loan once again.

We evaluate the appropriateness of our allowance for loan losses by first analyzing, on a loan by loan basis for all loans in our loan portfolio, the potential loss on all "impaired" loans. Impaired loans are loans for which we believe it is probable that we will not receive all principal and interest according to the original loan terms. We calculate our expected recovery on each impaired loan based upon either the present value of expected future cash flows on the loan, the fair value of the collateral less the costs of getting control over and selling the collateral, or the observable market price (which normally applies only to loans held for sale). Residential one-to-four family consumer mortgage loans that are impaired are evaluated quarterly. All other impaired loans in the loan portfolio are also evaluated quarterly.

All unimpaired loans are evaluated collectively in homogenous groups of loans with similar characteristics. We first consider our historical loss experience for each type of loan, adjust the historical experience based upon our assessment of current environmental facts, and then we determine an appropriate percentage to apply to the amount of loans of that type in our portfolio. The process is designed to determine the appropriate allowance component for loans of that type. Once the process is completed, we add the estimated appropriate allowance for the unimpaired loans to the appropriate amount determined on a loan by loan basis for impaired loans. The result is the amount of allowance for loan losses that we consider to be appropriate. If the actual allowance on our books is less than the calculated appropriate allowance, then we record a provision for loan losses sufficient to bring the allowance up to an appropriate level. The process is repeated each calendar quarter, first with an evaluation by officers and staff, and then with a review by the Board of Directors.

At December 31, 2013, our allowance for loan losses was $7.2 million, or 2.0% of total loans, compared to $10.6 million, or 2.9% of total loans, at year end 2012. Both the dollar amount of the allowance and the percentage of total loans covered by the allowance declined from year end 2012 to year end 2013 because of continuing efforts undertaken during 2013 to resolve problem loans. We believe that during 2013, the weaknesses in the loan portfolio declined, requiring a lower allowance for loan losses. However, the allowance coverage of non-performing loans increased from 47.4% at December 31, 2012 to 69.5% at December 31, 2013.

Although we consider the allowance to be appropriate, there is uncertainty in the estimates we use to determine the magnitude of the allowance. In addition, changed circumstances in the future may adversely affect our loan portfolio, the ability of our borrowers to repay, and the value of the collateral for our loans. We can give no assurance that material additions to the allowance will not be necessary in the future, particularly if real estate market conditions deteriorate. If significant additional provisions for loan losses are required in the future, there could be a material adverse effect on net income.

Non-interest Income. Non-interest income for 2013 was $8.4 million compared to $9.3 million in 2012. The main reason for the reduction was a decrease in gains on sales of loans and real estate owned of $2.0 million, offset by an improvement of $900,000 in service and transaction fees and a decrease in loss on sale of securities of $213,000 in 2013.

We sold $129.8 million of residential mortgage loans in 2013 compared to $136.5 million in 2012. The gain on sale of these loans was $1.3 million in 2013 versus $1.5 million in 2012. In addition, we retain servicing rights when we originate residential loans for sale, which increases our portfolio of loans serviced for others. As a result, the value of our loan servicing portfolio increased by $377,000 in 2013, which is an additional component of the gain on sale of loans. In contrast, in 2012, we recorded a $133,000 decrease in the value of our portfolio of

loans serviced for others. The volume of loans sold in 2014, and thus the amount of gain on sale that we may realize, is difficult to predict because it will depend upon many uncertain factors, such as the strength of the housing market, interest rate conditions, competition, and the strength of the economy in general.

We had a $213,000 decrease in gains on sales of securities in 2013 versus 2012. In 2012, we chose to sell some seasoned performing securities that we believed had deteriorated in credit quality and could possibly have deteriorated further in value. Service and transaction fee increased by $900,000, or 19.8%, from 2012 to 2013. Our principal fee-based customer services include deposit fees, safe deposit rentals, and investment and insurance sales.

We received a Bank Enterprise Award ("BEA") of $393,000 in 2013, which decreased from the $415,000 grant received in 2012. In 2013, as in prior years, the BEA grant was awarded by an office of the United States Treasury Department for our incremental level of lending in low and moderate income census tracts in New York. We expect that we will apply for another BEA grant in 2014, but have no assurance of such award since it is dependent on various competitive factors and government budgeting and policy decisions that are not under our control.

Non-interest Expense. Non-interest expenses were $26.2 million in 2013 compared to $22.9 million in 2012, an increase of $3.3 million, or 14.4%. The increase is mainly due to increases in salaries and benefits of $1.1 million, general and administrative expenses of $1.1 million and occupancy expenses of $1.1 million. Salaries and benefits increased due to increased staffing levels, general raises and increased health insurance costs. General and administrative expenses increased due to an increase in data processing expenses of $432,000 attributable to changing our core processor, an increase in loan processing fees of $916,000, and an increase in other expenses of $289,000, which were offset by a decrease in FDIC assessment expense of $400,000 due to the improved condition of the Bank and a decrease in professional fees of $141,000.

Income Taxes. For 2013, we had income tax expense of $2.2 million, representing 43.5% of pre-tax income. For 2012, we had income tax expense of $7.5 million, or 45.1% of our pre-tax income. In the fourth quarter of 2013, we established a real estate investment trust as a subsidiary that serves to reduce our effective tax rate due to a reduction of our New York State and local income taxes. The real estate investment trust is a consolidated subsidiary for financial reporting purposes, but we receive a state and local income tax benefit on dividends the Bank receives from the real estate investment trust.

Liquidity

Liquidity represents funds available to us for operating, investing and financing activities. Our primary sources of funds are deposits, borrowings, sales of loans and other assets, and payments we receive on loans and investment securities. Our primary uses of funds are making loans and purchasing investment securities. Liquidity also provides us with the ability to meet customer withdrawals from their deposit accounts. At December 31, 2013, cash and cash equivalents, which include cash and due from banks, money market accounts, and federal funds sold, were $62.3 million, or 11.28% of total assets.

During 2013, our principal sources of cash were $51.0 million net increase in other borrowed funds, $24.2 million in principal payments, sales and calls we received on our securities portfolio, and a $4.4 million from the sale of commercial loans. These funds, combined with available cash at the beginning of 2013, were used principally to purchase $45.3 million of new securities and fund a $30.3 million decrease in deposits. As a net result of these and other transactions, we experienced a $10.0 million increase in cash and cash equivalents in 2013. We did not aggressively seek new deposits to increase funds available for investment because yields we were able to obtain on investment securities were very low due to low market interest rates and we temporarily suspended our origination of commercial loans.

At December 31, 2013, we had a line of credit with the FHLBNY with unused capacity of approximately $12.1 million, which is available to us for liquidity purposes. This line of credit can be increased by pledging additional collateral, in the form of securities, loans or cash. We currently have additional qualifying collateral that we could pledge to the FHLBNY and thereby increase the line of credit to provide short term liquidity if needed.

Certificates of deposit at December 31, 2013 that were scheduled to mature in 2014 were $91.3 million. Based on historical patterns of our depositors, we believe that we will retain a significant portion of those deposits. We also believe that sources of funds will be adequate to meet our short and long-term liquidity needs.

Forward-Looking Statements

When used in this Annual Report, or in any written or oral statement made by us or our officers, directors or employees, the words and phrases "will result," "expect," "will continue," "anticipate," "estimate," "project," "should" or similar terms are intended to identify "forward-looking statements." A variety of factors could cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in any forward-looking statements. The following is a non-exclusive list of some of the risks and uncertainties that may affect our operations, performance, development and results:

- deterioration in local, regional, national or global economic conditions which could result in, among other things, an increase in loan delinquencies, a decrease in property values, or a change in the real estate turnover rate;
- changes in market interest rates or changes in the speed at which market interest rates change;
- changes in laws and regulations affecting the financial service industry;
- changes in the public's perception of financial institutions in general and banks in particular;
- severe weather events or other catastrophes, such as terrorist events;
- changes in competition; and
- changes in consumer preferences by our customers or the customers of our business borrowers.

In addition, many important factors used to evaluate our bank's condition or results, such as the interest rate sensitivity of our assets and liabilities, and the adequacy of our loan loss allowance, inherently involve forward-looking assessments of the future and represent forward-looking statements. Whether those forward-looking assessments turn out to be correct likewise depends upon, among other factors, the risks and uncertainties set forth above.

Please do not place undue reliance on any forward-looking statement, which speaks only as of the date made. There are many factors, including those described above, that could affect our future business activities or financial performance and could cause our actual future results or circumstances to differ materially from those we anticipate or project. We do not undertake any obligation to update any forward-looking statement after it is made.

FIRST AMERICAN INTERNATIONAL CORP.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
Brooklyn, New York

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
First American International Corp. and Subsidiaries
Brooklyn, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First American International Corp. and Subsidiaries ("Company"), which comprise the consolidated statements of financial condition as of December 31, 2013 and 2012, and the related consolidated statements of operations and 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First American International Corp. and Subsidiaries 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.



Crowe Horwath LLP

New York, New York
March 31, 2014

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and due from banks – noninterest bearing	$ 6,091,764	$ 5,982,707
Due from banks – interest-bearing overnight and money market accounts	49,118,616	45,167,527
Federal funds sold – overnight	7,123,000	1,151,000
Total cash and cash equivalents	62,333,380	52,301,234
Time deposits with banks	1,837,236	1,089,806
Securities available for sale	93,545,501	73,267,943
Residential mortgage loans held for sale	-	8,376,715
Commercial loans held for sale	-	4,415,312
Loans receivable, net	354,595,807	355,201,051
Bank premises and equipment, net	18,386,031	15,603,285
Federal Home Loan Bank ("FHLB") stock, at cost	3,463,000	1,138,100
Accrued interest receivable	1,884,354	2,106,187
Other real estate owned	-	176,402
Mortgage servicing rights	7,520,707	6,159,878
Prepaid Federal Deposit Insurance Corporation ("FDIC") insurance	-	434,024
Other assets	9,056,533	6,681,828
	$ 552,622,549	$ 526,951,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	$ 87,013,260	$ 75,008,350
NOW	2,136,191	2,699,730
Money market and savings	135,961,878	141,291,312
Time deposits, less than $100,000	102,637,618	124,186,255
Time deposits, $100,000 and over	83,562,529	98,475,056
Total deposits	411,311,476	441,660,703
Other borrowed funds	61,000,000	10,000,000
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	924,123	1,538,251
Accounts payable and other liabilities	6,837,127	3,952,885
Total liabilities	487,289,726	464,368,839
Commitments and contingencies		
Stockholders' equity		
Series B preferred stock, $0.10 par value; 17,000 shares authorized; 17,000 shares issued and aggregate liquidation value of $17,000,000 and $17,595,000 at December 31, 2013 and 2012	1,700	1,700
Series A preferred stock, $0.10 par value; 750,000 shares authorized; no shares issued	-	-
Common stock, $.0001 par value; 3,000,000 shares authorized; and 2,171,711 at December 31, 2013 2,123,711 at December 2012 shares issued and outstanding	216	212
Additional paid-in capital	56,312,680	55,293,306
Treasury stock, 2,500 shares of common stock at cost	(68,000)	(68,000)
Retained earnings	8,927,277	6,767,758
Accumulated other comprehensive income	158,950	587,950
Total stockholders' equity	65,332,823	62,582,926
	$ 552,622,549	$ 526,951,765

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Years ended December 31, 2013 and 2012

	2013	2012
Interest income		
Loans, including fees	$ 24,960,917	$ 27,679,635
Securities	1,737,083	2,334,447
Due from banks and money market accounts	127,125	86,198
Federal funds sold	2,031	2,376
	26,827,156	30,102,656
Interest expense		
Deposits	2,572,196	3,812,158
Other borrowed funds	640,951	364,483
Junior subordinated debentures	189,106	194,886
	3,402,253	4,371,527
Net interest income	23,424,903	25,731,129
Provision for loan losses	488,000	(4,509,000)
Net interest income after provision for loan losses	22,936,903	30,240,129
Noninterest income		
Service and transaction fees	5,442,684	4,542,854
(Loss) on sale of securities, net	(9,421)	(222,207)
Grants from U.S. Treasury Department	393,000	415,000
Gain (loss) on sale of real estate owned	(77,513)	524,040
Gain on sale of loans, net	2,668,425	4,029,523
	8,417,175	9,289,210
Noninterest expenses		
Salaries and employee benefits	11,695,417	10,550,068
General and administrative	9,506,155	8,410,001
Depreciation, amortization and occupancy	4,996,855	3,936,204
	26,198,427	22,896,273
Income before income tax expense	5,155,651	16,633,066
Income tax expense	2,245,265	7,507,412
Net income	2,910,386	9,125,654
Preferred stock dividends and discount accretion	750,867	716,213
Net income available to common stockholders	$ 2,159,519	$ 8,409,441
Earnings per common share:		
Basic	$ 1.00	$ 3.96
Diluted	$ .99	$ 3.90
Net income	$ 2,910,386	$ 9,125,654
Other comprehensive income, net of tax:		
Change in unrealized gains (losses) on securities, net of reclassifications and taxes	(429,000)	981,950
Comprehensive income	$ 2,481,386	$ 10,107,604

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2013 and 2012

	Preferred Stock (Series A and B)		Common Stock		Additional	Treasury Stock		(Accumulated Deficit)	Accumulated Other	
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Number of Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Total
Balance at January 1, 2012	17,000	$ 1,700	2,123,711	$ 212	$ 54,917,093	(2,500)	$ (68,000)	$ (1,641,683)	$ (394,000)	$ 52,815,322
Net income	-	-	-	-	-	-	-	9,125,654	-	9,125,654
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	981,950	981,950
Total comprehensive income (loss)										10,107,604
Dividends declared, cash dividends paid, and discount accretion on U.S. Treasury "TARP" preferred stock	-	-	-	-	376,213	-	-	(716,213)	-	(340,000)
Balance at December 31, 2012	17,000	1,700	2,123,711	212	55,293,306	(2,500)	(68,000)	6,767,758	587,950	62,582,926
Net income	-	-	-	-	-	-	-	2,910,386	-	2,910,386
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(429,000)	(429,000)
Total comprehensive income (loss)										2,481,386
Stock options exercised	-	-	48,000	4	623,995	-	-	-	-	623,999
Dividends declared, cash dividends paid, and discount accretion on U.S. Treasury "TARP" preferred stock	-	-	-	-	395,379	-	-	(750,867)	-	(355,488)
Balance at December 31, 2013	17,000	$ 1,700	2,171,711	$ 216	$ 56,312,680	(2,500)	$ (68,000)	$ 8,927,277	$ 158,950	$ 65,332,823

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Net income	$ 2,910,386	$ 9,125,654
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	488,000	(4,509,000)
Loss (Gain) on sale of securities	9,421	222,207
(Gain) Loss on sale of residential mortgage and commercial loans	(2,668,425)	(4,029,523)
(Gain) Loss on sale of real estate owned	77,513	(524,040)
Change in fair value of mortgage servicing rights	(377,136)	133,166
Depreciation	935,705	790,179
Write off of fixed assets	298,189	-
Residential mortgage loans originated for sale	(117,001,573)	(130,094,374)
Proceeds from sales of residential mortgage	127,063,020	136,180,961
Decrease in accrued interest receivable	221,833	310,841
(Decrease) Increase in other assets and prepaid FDIC insurance	(1,589,681)	5,011,515
Increase (Decrease) in accrued interest payable, accounts payable and other liabilities	2,270,114	(985,808)
Net cash provided by operating activities	12,637,366	11,631,778
Cash flows from investing activities		
Proceeds from maturities, sales, and calls of securities	24,205,767	26,246,781
Purchases of securities	(45,272,746)	(52,652,239)
Redemption (purchase) of FHLB stock	(2,324,900)	299,200
Proceeds from sale of real estate owned	98,889	3,605,000
Proceeds from sales of commercial loans	4,415,312	657,215
Increase in time deposits with banks	(747,430)	(893,392)
Net decrease in loans receivable	117,244	32,398,032
Capital expenditures	(4,016,640)	(2,482,544)
Net cash provided by (used in) investing activities	(23,524,504)	7,178,053
Cash flows from financing activities		
Dividends paid on preferred stock	(355,488)	-
Proceed from issuance of stock	623,999	-
Proceeds from other borrowed funds	61,000,000	-
Repayment of other borrowed funds	(10,000,000)	(5,350,000)
Net (decrease) in deposits	(30,349,227)	(10,165,180)
Net cash provided by (used in) financing activities	20,919,284	(15,515,180)
Net increase in cash and cash equivalents	10,032,146	3,294,651
Cash and cash equivalents, beginning of year	52,301,234	49,006,583
Cash and cash equivalents, end of year	$ 62,333,380	$ 52,301,234
Supplemental disclosures of cash flow information		
Cash paid (received) for		
Interest	$ 4,016,381	$ 4,936,400
Income taxes	1,855,500	2,547,783
Supplemental non-cash disclosures		
Transfer of loans to other real estate owned	$ -	$ 2,100,000
Transfer of loans to commercial loans held for sale	-	4,415,312

See accompanying notes to the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: First American International Corp. ("Company") is a bank holding company headquartered in Sunset Park, Brooklyn, New York. Through its subsidiaries, First American International Bank ("Bank"), FAIB Capital Corp. ("REIT") and FAIC Insurance Services, Inc., the Company provides individuals, corporations and other businesses, and institutions with commercial and retail banking services, including loans and deposits, mortgage banking, insurance and other financial services.

The Bank is a New York State chartered commercial bank. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC") and provides full banking services to customers through its headquarters branch and eight other branch locations in Brooklyn, Queens and Manhattan.

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America (or with U.S. generally accepted accounting principles) management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, mortgage servicing rights, and fair value of financial instruments are particularly subject to change.

Cash Flows: For purposes of reporting cash flows, cash and cash equivalents include cash and amounts with maturities less than 90 days including due from banks, interest and noninterest bearing, overnight, money market accounts and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions, including money market funds and time deposits with other financial institutions, mature within one year and are carried at cost.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans Held for Sale: Loans intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans originated for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

At December 31, 2012, the Company held $4.4 million in commercial loans held for sale that the Company sold in 2013 for $4.3 million. Prior to the Company's intentions to sell these loans, the loans were held for investment as loans receivable.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage, commercial, and consumer loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The current factors for which the Bank evaluates, when determining adjustments to the historical loss factors, include changes to or the strength of the Bank's underwriting and related policies and procedures, economic trends within the tri-state area, changes within the composition of the portfolio, related to either changes in underlying loan types or the underlying past due or nonaccrual status within that loan type, changes in management and staff, trends within the underlying collateral values, regulatory factors, and evaluation of credit concentrations.

The following portfolio segments have been identified: Commercial and industrial loans, commercial real estate loans, residential real estate loans, and consumer and installment loans.

Commercial and industrial loans: Commercial credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. These loans are generally underwritten individually and secured with the assets of the borrower and the personal guarantee of the business owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrower.

Commercial real estate loans: Commercial real estate loans, including multifamily, are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and property type. Commercial real estate loans also include construction loans, which are primarily collateralized by the acquired land and the constructed premises. These loans require continuous attention and monitoring of the construction progress. The repayment of these loans is contingent upon the borrower's ability to complete and sell the constructed property or generate enough rental income to service the permanent debt. As a result the risk with these loans is that they are contingent upon future events whose probability at the time of origination is uncertain. Therefore these loans receive a higher risk rating than all other loan types.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Residential real estate loans: Residential mortgage loans represent loans to consumers for the purchase or refinance of a one-to-four family residence. These loans are generally financed as fifteen- to thirty-year fixed rate mortgages, and in most cases, are extended to borrowers to finance their primary residence. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values may impact the severity of losses.

Consumer and installment loans: Consumer loans are primarily comprised of lines of credit or closed-end loans secured by second mortgages. The maximum amount of a home equity line of credit is generally limited to 80% (with acceptable credit scores) of the appraised value of the property less the balance of the first mortgage. Consumer loans also include installment loans made directly to consumers. These loans have a specific matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship with the borrower.

Bank Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets, or lease term, whichever is shorter.

Federal Home Loan Bank ("FHLB") Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Servicing Rights: When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with service and transaction fees on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Earnings Per Common Share: Basic earnings per common share is net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

Comprehensive Income (Loss): Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) consists of the change in unrealized gain (loss) on securities available-for-sale, net of reclassification adjustments and tax effects.

Concentrations of Credit Risk: Financial instruments which potentially subject the Bank to concentration of credit risk consist primarily of temporary cash investments, which include due from banks, and loans receivable. As of December 31, 2013 and 2012, the Bank had approximately $2,500,000 in deposit balances at certain financial institutions which were in excess of usual federally-insured limits. Substantially all of the balances are covered by the FDIC under a Temporary Guaranty Program. The Bank also maintains due from bank accounts with various foreign financial institutions. These deposits, which are not insured, were approximately $173,000 and $143,000 at December 31, 2013 and 2012, respectively. The Bank limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to these cash investments.

The majority of the Bank's loans and loan commitments have been granted to customers in the Bank's market area. Accordingly, the collectability of loans and management's ability to increase net interest income will be impacted, to some extent, by economic conditions in Metropolitan New York.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 31, 2014, which is the date the financial statements were available to be issued.

(Continued)

NOTE 2 - SECURITIES

The amortized cost and fair value of securities available for sale, and related gross unrealized gains and losses, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
U.S. Government Agencies	$ 3,659,677	$ 39,153	$ (73,697)	$ 3,625,133
Municipal securities	17,300,033	17,825	(38,655)	17,279,203
U.S. Treasury securities	7,993,113	83,726	(7,698)	8,069,141
Mortgage backed securities – residential	9,961,915	30,982	(192,301)	9,800,596
Corporate note securities	14,277,141	268,346	(10,886)	14,534,601
Asset backed securities	11,477,862	247,765	(10,389)	11,715,238
Collateralized mortgage obligations	28,586,760	131,750	(196,921)	28,521,589
	$ 93,256,501	$ 819,547	$ (530,547)	$ 93,545,501
December 31, 2012				
U.S. Government Agencies	$ 1,699,290	$ 1,973	$ (1,115)	$ 1,700,148
Municipal securities	6,786,340	67,838	(19,712)	6,834,466
U.S. Treasury securities	7,994,489	205,667	-	8,200,156
Mortgage backed securities – residential	9,294,755	64,410	(3,071)	9,356,094
Corporate note securities	11,073,996	236,110	(43,659)	11,266,447
Asset backed securities	11,980,614	253,185	(31,418)	12,202,381
Collateralized mortgage obligations	23,369,495	405,400	(66,644)	23,708,251
	$ 72,198,979	$ 1,234,583	$ (165,619)	$ 73,267,943

The amortized cost and fair value of debt securities by contractual maturity at year-end 2013 were as follows:

	Available For Sale	
	Amortized Cost	Fair Value
Due before one year	$ 17,644,164	$ 17,672,132
Due after one year through five years	28,886,823	29,175,850
Due five years through ten years	6,840,755	6,795,565
Due over ten years	39,884,759	39,901,954
	$ 93,265,501	$ 93,545,501

Securities with carrying amounts of approximately $0 and $5,146,445 at December 31, 2013 and 2012, were pledged as collateral to secure borrowings.

During 2013, proceeds from sales of securities were $4,490,932 with gross realized gains of $28,247 and gross losses of $37,668. During 2012, proceeds from sales of securities were $11,982,043 with gross realized gains of $214,133 and gross losses of $436,340.

(Continued)

NOTE 2 - SECURITIES (Continued)

Securities with unrealized losses at year-end 2013 and 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
December 31, 2013						
U.S. Government agencies	$ 1,625,237	$ (73,696)	$ -	$ -	$ 1,625,237	$ (73,696)
Municipal securities	4,614,089	(14,682)	1,854,082	(23,973)	6,468,171	(38,655)
U.S. Treasuries	1,985,938	(7,698)	-	-	1,985,938	(7,698)
Mortgage backed securities – residential	6,837,280	(192,301)	-	-	6,837,280	(192,301)
Corporate notes	2,045,639	(8,723)	744,657	(2,163)	2,790,296	(10,886)
Asset backed securities	670,040	(2,246)	1,192,735	(8,144)	1,862,775	(10,390)
Collateralized mortgage obligations	15,952,168	(193,209)	570,966	(3,712)	16,523,134	(196,921)
Total	$ 33,730,391	$ (492,555)	$ 4,362,440	$ (37,992)	$ 38,092,831	$ (530,547)
December 31, 2012						
U.S. Government agencies	$ 997,608	$ (1,115)	$ -	$ -	$ 997,608	$ (1,115)
Municipal securities	1,888,808	(19,712)	-	-	1,888,808	(19,712)
Mortgage backed securities – residential	384,531	(3,071)	-	-	384,531	(3,071)
Corporate notes	3,416,975	(12,903)	1,994,780	(30,756)	5,411,755	(43,659)
Asset backed securities	2,031,720	(17,010)	563,948	(14,408)	2,595,668	(31,418)
Collateralized mortgage obligations	5,828,766	(62,791)	740,938	(3,853)	6,569,704	(66,644)
Total	$ 14,548,408	$ (116,602)	$ 3,299,666	$ (49,017)	$ 17,848,074	$ (165,619)

At December 31, 2013, the majority of the gross unrealized losses have existed for a period of less than twelve months. Unrealized losses on debt securities have not been realized because the issuers continue to pay interest and principal as expected and required, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, or the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when conditions warrant such evaluation. Factors considered in determining whether an impairment is other-than-temporary includes the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and whether management intends to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery.

The policies followed by Bank management limit the type of investment instruments that can be purchased. These are limited to high quality securities with a rating between AAA through a3 or BBB-. The types of securities purchased consist of U.S. Treasury bills and notes, bonds issued by Government-sponsored entities and highly rated corporate bonds and mortgage backed securities.

(Continued)

NOTE 3 - LOANS RECEIVABLE

The summary of the balance of loans receivable for December 31 were as follows:

	2013	2012
Real estate – commercial	$ 136,890,868	$ 214,508,969
Real estate – residential	222,366,141	142,866,443
Commercial and industrial	2,702,751	8,699,252
Consumer and installment	586,000	538,912
	362,545,760	366,613,576
Less: Net deferred loan fees	(723,703)	(794,956)
Allowance for loan losses	(7,226,250)	(10,617,569)
Loans receivable, net	$ 354,595,807	$ 355,201,051

Activity in the allowance for loan losses was as follows:

	2013	2012
Balance at beginning of year	$ 10,617,569	$ 15,681,396
Provision for loan losses	488,000	(4,509,000)
Charge-offs	(5,088,108)	(1,278,319)
Recoveries	1,208,791	723,492
Balance at end of year	$ 7,226,250	$ 10,617,569

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2013 and 2012:

	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Installment	Total
December 31, 2013					
Allowance for loan losses:					
Beginning balance	$ 6,466,900	$ 2,489,702	$ 1,652,516	$ 8,451	$ 10,617,569
Provision for loan losses	(648,000)	1,581,000	(445,000)	-	488,000
Loans charged-off	(2,869,373)	(1,454,062)	(761,855)	(2,820)	(5,088,110)
Recoveries	1,348	872,711	334,732	-	1,208,791
Total ending allowance balance	$ 2,950,875	$ 3,489,351	$ 780,393	$ 5,631	$ 7,226,250
December 31, 2012					
Allowance for loan losses:					
Beginning balance	$ 12,303,179	$ 1,689,820	$ 1,686,067	$ 2,330	$ 15,681,396
Provision for loan losses	(5,330,990)	789,374	24,378	8,238	(4,509,000)
Loans charged-off	(1,100,244)	(63,279)	(112,679)	(2,117)	(1,278,319)
Recoveries	594,955	73,787	54,750	-	723,492
Total ending allowance balance	$ 6,466,900	$ 2,489,702	$ 1,652,516	$ 8,451	$ 10,617,569

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2013 and 2012:

	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Installment	Total
December 31, 2013					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 134,746	$ 17,734	$ 493,039	$ -	$ 645,519
Collectively evaluated for impairment	2,816,129	3,471,617	287,354	5,631	6,580,731
Total ending allowance balance	$ 2,950,875	$ 3,489,351	$ 780,393	$ 5,631	$ 7,226,250
Loans:					
Individually evaluated for impairment	$ 9,209,497	$ 1,611,994	$ 1,184,177	$ -	$ 12,005,668
Collectively evaluated for impairment	127,681,371	220,754,147	1,518,574	586,000	350,540,092
Total ending loans balance	$ 136,890,868	$ 222,366,141	$ 2,702,751	$ 586,000	$ 362,545,760
December 31, 2012					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 1,391,422	$ 82,995	$ 1,204,470	$ -	$ 2,678,887
Collectively evaluated for impairment	5,219,478	2,274,707	436,046	8,451	7,938,682
Total ending allowance balance	$ 6,610,900	$ 2,357,702	$ 1,640,516	$ 8,451	$ 10,617,569
Loans:					
Individually evaluated for impairment	$ 25,771,033	$ 4,725,390	$ 2,652,494	$ -	$ 33,148,917
Collectively evaluated for impairment	188,737,936	138,141,053	6,046,758	538,912	333,464,659
Total ending loans balance	$ 214,508,969	$ 142,866,443	$ 8,699,252	$ 538,912	$ 366,613,576

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the years ended December 31, 2013 and 2012:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses
December 31, 2013			
With no related allowance recorded:			
Real estate - commercial	$ 10,316,789	$ 8,126,706	$ -
Real estate - residential	967,558	961,307	-
Commercial and industrial	72,427	72,427	-
Consumer and installment	-	-	-
With an allowance recorded:			
Real estate - commercial	1,105,362	1,082,792	134,746
Real estate - residential	657,583	650,687	17,734
Commercial and industrial	1,129,194	1,111,749	493,039
Consumer and installment	-	-	-
	$ 14,248,913	$ 12,005,668	$ 645,519
December 31, 2012			
With no related allowance recorded:			
Real estate - commercial	$ 15,645,824	$ 14,857,961	$ -
Real estate - residential	4,455,751	4,076,930	-
Commercial and industrial	2,246,911	915,372	-
Consumer and installment	-	-	-
With an allowance recorded:			
Real estate - commercial	10,913,072	10,913,072	1,391,422
Real estate - residential	648,460	648,460	82,995
Commercial and industrial	2,236,083	1,737,122	1,204,470
	$ 36,146,101	$ 33,148,917	$ 2,678,887

The following table presents information for loans individually evaluated for impairment as of December 31, 2013 and 2012:

	2013	2012
Average Recorded Investment:		
Real estate - commercial	$ 18,367,386	$ 32,224,139
Real estate - residential	3,354,996	4,833,691
Commercial and industrial	1,294,305	2,570,982
Consumer and installment	-	-
	$ 23,016,687	$ 39,628,812
Interest income recognized during impairment	$ 116,949	$ 738,185
Cash basis interest income recognized	-	738,185

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

The following tables present the recorded investment in nonaccrual and loans past due over 90 days with interest still on accrual by class of loans as of December 31, 2013 and 2012:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2013	2012	2013	2012
Real estate - commercial	$ 7,825,626	$ 17,512,679	$ -	$ -
Real estate - residential	1,467,064	4,241,323	-	-
Commercial and industrial	1,111,650	651,287	-	-
Consumer and installment	-	-	-	-
Total	$ 10,404,340	$ 22,405,289	$ -	$ -

Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31, 2013 and 2012:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2013						
Real estate - commercial	$ 2,643,311	$ -	$ 3,137,196	$ 5,780,507	$ 131,110,361	$ 136,890,868
Real estate - residential	1,463,313	246,918	467,500	2,177,731	220,188,410	222,366,141
Commercial and industrial	-	289,753	1,684,839	1,974,592	728,159	2,702,751
Consumer and installment	3,411	323	-	3,734	582,266	586,000
Total	$ 4,110,035	$ 536,994	$ 5,289,535	$ 9,936,564	$ 352,609,196	$ 362,545,760
December 31, 2012						
Real estate - commercial	$ 1,709,609	$ 971,791	$ 18,002,431	$ 20,683,831	$ 193,825,138	$ 214,508,969
Real estate - residential	646,053	584,318	2,094,575	3,324,946	139,541,497	142,866,443
Commercial and industrial	251,498	-	431,653	683,151	8,016,101	8,699,252
Consumer and installment	1	-	-	1	538,911	538,912
Total	$ 2,607,161	$ 1,556,109	$ 20,528,659	$ 24,691,929	$ 341,921,647	$ 366,613,576

Troubled Debt Restructurings

As of December 31, 2013 and 2012, the Company has a recorded investment in troubled debt restructurings of $4,678,067 of performing and $617,673 of nonperforming for 2013 compared to $1,475,477 of performing and $3,108,332 of nonperforming for 2012. The Company has allocated $66,120 and $1,336,733 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2013 and 2012. The Company has not committed to lend any additional amounts as of December 31, 2013 and 2012, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ending December 31, 2013 and 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

The Company will consider troubled debt restructures where: (a) the borrower is experiencing financial difficulties; (b) when adverse financial or legal events have decreased the likelihood that the Company will receive payment in full in accordance with the original loan terms; (c) troubled debt restructuring may be granted to borrowers who the Company determines are willing to work with the Company to repay their debts and the troubled debt restructuring increases the likelihood that the Company will maximize its recovery on the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from six months to three years. Modifications involving an extension of the maturity date were for periods ranging from six to thirty-six months.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2013 and 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2013			
Troubled debt restructurings:			
Real estate - commercial	1	$ 2,794,150	$ 2,794,150
Real estate - residential	-	-	-
Commercial and industrial	2	666,996	666,996
Consumer and installment	-	-	-
Total	3	$ 3,461,146	$ 3,461,146
December 31, 2012			
Troubled debt restructurings:			
Real estate - commercial	1	$ 895,935	$ 895,935
Real estate - residential	1	500,058	500,058
Commercial and industrial	-	-	-
Consumer and installment	-	-	-
Total	2	$ 1,395,993	$ 1,395,993

The troubled debt restructurings described above did not impact the allowance for loan losses during the year ending December 31, 2013. The troubled debt restructurings described above increased the allowance for loan losses by $366,446 and resulted in no charge offs or recoveries during the year ending December 31, 2012.

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2013 and 2012:

	Number of Loans	Recorded Investment
December 31, 2013		
Troubled debt restructurings that subsequently defaulted:		
Real estate - commercial	1	$ 617,673
Real estate - residential	-	-
Commercial and industrial	-	-
Consumer and installment	-	-
Total	1	$ 617,673
December 31, 2012		
Troubled debt restructurings that subsequently defaulted:		
Real estate - commercial	2	$ 366,122
Real estate - residential	1	194,724
Commercial and industrial	1	231,653
Consumer and installment	-	-
Total	4	$ 792,499

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above did not impact the allowance for loan losses during the years ending December 31, 2013 and December 31, 2012.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Certain loans, which were modified during the year ending December 31, 2013, did not meet the definition of a troubled debt restructurings as the modification was a delay in a payment that was considered to be insignificant.

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $250,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. For performing non-delinquent residential, home equity and consumer loans the Bank classifies these as pass rated loans. The Company uses the following definitions for risk ratings:

Special mention **-** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard **-** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2013 and 2012, is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2013					
Real estate - commercial	$ 119,485,098	$ 3,887,647	$ 13,518,123	$ -	$ 136,890,868
Real estate - residential	219,509,411	887,606	1,969,124	-	222,366,141
Commercial and industrial	651,883	-	2,050,868	-	2,702,751
Consumer and installment	586,000	-	-	-	586,000
Total	$ 340,232,392	$ 4,775,253	$ 17,538,115	$ -	$ 362,545,760
December 31, 2012					
Real estate - commercial	$ 174,977,954	$ 15,160,981	$ 24,370,034	$ -	$ 214,508,969
Real estate - residential	137,889,701	1,415,213	3,561,529	-	142,866,443
Commercial and industrial	6,046,758	-	1,763,500	888,994	8,699,252
Consumer and installment	538,912	-	-	-	538,912
Total	$ 319,453,325	$ 16,576,194	$ 29,695,063	$ 888,994	$ 366,613,576

(Continued)

NOTE 3 - LOANS RECEIVABLE (Continued)

For loans with an outstanding balance lower than $250,000 and homogeneous loan pools, such as residential mortgages, home equity lines of credit, and installment loans, the Company uses payment status to identify the credit risk. Payment status is reviewed on a daily basis by the Company's Credit Department and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these loans at December 31, 2013 and 2012, is included in the aging of the recorded investment of past due loans table. In addition, the total nonperforming portion of these loans at December 31, 2013 and 2012 is presented in the recorded investment in non-accrual loans table.

In the normal course of business, the Bank may make loans to officers and directors, and companies in which they have a beneficial ownership (related parties).

There were three loans in the amount of $553,224 outstanding as of December 31, 2013, to related parties. There were thirty-eight loans in the amount of $9,690,091 outstanding as of December 31, 2012, to related parties.

NOTE 4 - REAL ESTATE OWNED

Activity in real estate owned was as follows:

	2013	2012
Beginning of year	$ 176,402	$ 1,081,485
Transfer from loan portfolio	-	2,100,000
Sale of real estate owned	(176,402)	(3,005,083)
Direct write-downs	-	-
End of year	$ -	$ 176,402

Expenses related to foreclosed assets include:

	2013	2012
Net loss (gain) on sales	$ 77,513	$ (524,040)
Operating expenses, net of rental income	17,971	879,590
	$ 95,484	$ 355,550

(Continued)

NOTE 5 - BANK PREMISES AND EQUIPMENT

The cost and accumulated depreciation and amortization of bank premises and equipment at year-end were as follows:

	2013	2012
Land	$ 400,000	$ 400,000
Buildings and improvements	14,955,401	14,589,924
Furniture, fixtures, automobiles and equipment	6,107,993	5,328,324
Construction-in-progress	3,775,819	2,295,991
	25,239,213	22,614,239
Less: Accumulated depreciation	(6,853,182)	(7,010,954)
	$ 18,386,031	$ 15,603,285

Depreciation expense was $935,705 and $790,179 for 2013 and 2012, respectively.

NOTE 6 - DEPOSITS

Scheduled maturities of time deposits for the next five years were as follows:

2014	$ 91,329,581
2015	76,504,154
2016	2,238,333
2017	8,775,533
2018	7,352,546
	$ 186,200,147

Deposits at December 31, 2013 and 2012, from related parties, which include officers, directors, stockholders and companies in which Directors of the Board have a significant ownership interest, approximated to $2,662,220 and $2,694,177, respectively.

NOTE 7 - OTHER BORROWED FUNDS

The Bank is a member of the FHLB of New York. As such, it is eligible to borrow funds at various terms and maturities offered by the FHLB of New York. At December 31, 2013 and 2012, the Bank had borrowings of $61,000,000 and $10,000,000, respectively, with terms and maturities as follows:

December 31, 2013 Maturity	Amount	Interest Rate
2018	$ 35,500,000	1.88%
2020	25,500,000	2.58%
Total	$ 61,000,000	

NOTE 7 - OTHER BORROWED FUNDS (Continued)

December 31, 2012 Maturity	Amount	Interest Rate
2013	$ 10,000,000	1.85%
Total	$ 10,000,000	

The amount of loans pledged as collateral was approximately $104,000,000 and $129,000,000 at December 31, 2013 and 2012, respectively.

NOTE 8 - JUNIOR SUBORDINATED DEBENTURES

The Company formed First American International Statutory Trust I ("Trust"), a Delaware statutory trust in December 2004. The Trust issued 7,000 units of thirty-year fixed/ floating rate capital securities with an aggregate liquidation amount of $7,000,000 to an independent investor and all of its common securities, amounting to $217,000, to the Company, which is included in other assets.

The capital securities of the Trust, which were non-callable for five years until December 15, 2009, mature in 2034 and are a pooled trust preferred fund of Preferred Term Securities XVI, Ltd. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

The Company issued to the Trust a $7,217,000 thirty-year fixed/ floating rate junior subordinated deferrable interest debenture having substantially similar terms. The subordinated debenture is the sole asset of the Trust. For regulatory reporting purposes, the Federal Reserve Board has indicated that the capital securities qualify as Tier I capital of the Company subject to previously specified limitations, until further notice. If regulators make a determination that the capital securities can no longer be considered in regulatory capital, the securities become callable and the Company may redeem them.

The capital securities and the subordinated debenture pay interest and dividends, respectively, on a quarterly basis, at a fixed rate per annum of 6.25% through December 15, 2009, and thereafter at a rate per annum equal to the three-month LIBOR plus 2.25% through final maturity on December 15, 2034. The rate for the three-month period ended December 31, 2013 and 2012, were 2.50% and 2.56%, respectively. The Company had previously, deferred the interest on the junior subordinated debentures, beginning in March 2011 through December 2012. This deferred interest was brought current during the current year, with the Company paying interest of $529,104. Interest expense on the junior subordinated debentures was $189,106 and $194,886 for the years ended December 31, 2013 and 2012.

NOTE 9 - GRANTS

During the years ended December 31, 2013 and 2012, the Bank received grants of $393,000 and $415,000, respectively, from the U.S. Treasury Department as an award in recognition of its lending and community development activities under the Bank Enterprise Award Program. These grants were recorded as income during the years granted.

(Continued)

NOTE 10 - INCOME TAXES

Allocation of federal, state and local income taxes follows for the year ended December 31:

	2013	2012
Current		
Federal	$ 336,457	$ 3,414,949
State and local	55,316	1,239,692
	391,773	4,654,641
Deferred		
Federal	1,161,220	1,290,753
State and local	692,272	1,562,018
	1,853,492	2,852,771
	$ 2,245,265	$ 7,507,412

The income tax expense differs from that computed at federal statutory rates due to the following at year ended December 31:

	2013	2012
Tax at federal statutory rate of 34%	$ 1,752,921	$ 5,655,242
Increase (decrease) resulting from:		
Meals and entertainment	493,408	9,727
State and local taxes, net of federal income tax benefit	11,550	1,849,129
Other	(12,614)	(6,686)
Total income tax expense	$ 2,245,265	$ 7,507,412

The components of the net deferred tax asset are as follows:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 3,260,714	$ 4,790,985
Interest rate options	-	277,508
Rent	968,156	985,081
Accrued reserves	320,046	13,086
Nonqualified stock options	170,437	170,437
OREO write-downs	-	1,624
Accrued compensation	-	112,808
Accrued litigation	216,591	-
Nonaccrual loan interest income	659,211	-
Other	-	100,771
	5,595,155	6,452,300
Deferred tax liabilities:		
Depreciation	$ (488,892)	$ (680,605)
Prepaid expenses	(113,399)	-
Mortgage servicing rights	(1,074,134)	-
Net unrealized gain on securities	(130,050)	(481,050)
Other	(527)	-
Total deferred tax liabilities	(1,807,002)	(1,161,655)
Net deferred tax asset	$ 3,788,153	$ 5,290,645

(Continued)

NOTE 10 - INCOME TAXES (Continued)

The net deferred tax asset is included in other assets in the consolidated statements of financial condition.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the estimated reversal of deferred tax items, projected future taxable income and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Bank will realize the deferred asset recorded at December 31, 2013 and 2012.

At December 31, 2013 and 2012, the Company had no unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Company's tax returns remains subject to examination for years after 2009. The Company's policy is to recognize interest and penalties related to tax matters as a component of income tax expense.

NOTE 11 - GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2013	2012
Data processing	$ 1,637,464	$ 1,204,868
Professional fees	2,956,285	3,096,986
Office expense	832,001	613,126
Stationary and printing	298,752	193,361
Marketing and advertising	262,830	248,781
Loan processing fees	1,546,623	630,976
Staff training	110,996	62,548
FDIC assessment expense	685,705	1,086,276
Insurance	467,704	679,810
Directors fees and expenses	611,241	518,979
Other	96,554	74,290
	$ 9,506,155	$ 8,410,001

(Continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Litigation: The Company is a party to various legal actions normally associated with financial institutions, the aggregate of which, in management's opinion, would not have a material adverse effect on the financial position of the Company.

Financial Instruments with Off-Balance Sheet Risk: The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2013 and 2012, the following off-balance sheet financial instruments were outstanding whose contract amounts represent credit risk:

	2013	2012
Loan commitments	$ 25,655,800	$ 38,857,000
Unfunded commitments under lines of credit	19,776,083	31,854,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments are structured as fixed rate and tied to Prime. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Unfunded commitments under commercial lines of credit and revolving credit lines are commitments for possible future extensions of credit to existing customers.

Loan Sales Commitments to Federal Mortgage Association ("FNMA" or "Fannie Mae"): Best efforts commitments to deliver loans at fixed prices to the secondary mortgage market totaled $8,624,000 and $7,902,000 at December 31, 2013 and 2012, respectively.

Leases: The Bank leases branch and office space in Sunset Park, Brooklyn, New York; Manhattan, New York; and Queens, New York, under non-cancelable lease agreements expiring at various dates through 2023, excluding renewal options.

(Continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

At December 31, 2013, future minimum rentals under lease agreements are approximately as follows:

2014	$ 2,859,000
2015	2,868,000
2016	2,422,000
2017	2,445,000
2018	2,263,000
Thereafter	5,157,000
	$ 18,014,000

Total rental expense for the years ended December 31, 2013 and 2012, was approximately $3,098,000 and $2,523,000, respectively. The leases contain a clause providing that the Bank pay for property taxes, maintenance, and utilities for the premises.

NOTE 13 - DEFERRED COMPENSATION

Deferred Compensation Plans: The Company has unfunded deferred compensation plans for certain officers of the Bank, as defined, and all directors of the Bank and the Company. Under the program, participants, in the case of officers, may defer receipt of all or a specified portion of regular salaries or bonuses and, in the case of directors, defer all or a specified portion of fees for service as a director and earn interest on their deferred amounts as described in the plans. No compensation amounts have been deferred by eligible participants under these plans since their inception.

Salary Deferral Plan: In April 2005, the Company implemented a qualified 401(k) salary deferral plan ("Plan") for all eligible employees who are at least 21 years of age, who have been employees for one consecutive year and who are credited with 1,000 hours of service as an employee during the Plan year. Service prior to implementation of the Plan was included for the purpose of determining eligibility to participate. Each participant may elect to make salary deferral contributions to the Plan on a pretax basis. Compensation for purposes of the 401(k) was capped at $210,000 annually (subject to cost of living adjustments). Employee salary deferral contributions are immediately vested. More than 90% of all eligible employees elected to participate in the Plan. The Company does not match employee contributions.

NOTE 14 - STOCK-BASED COMPENSATION PLANS

The Company's has 3,000,000 shares of authorized common stock. The Company has reserved 600,000 shares of common stock for issuance of options under the following stock-based compensation plans and 2,400,000 shares of common stock are available for general purposes.

Under the Company's 2000 and 2005 Incentive Stock Option Plans, options to purchase 150,000 shares (for each plan) of the Company's common stock may be granted to employees. The exercise price of each option granted under the plans may not be less than 100% of the fair market value (as defined) of the Company's common stock on the date of the grant. However, for a grantee who owns stock possessing more than 10% of the total combined voting power of all classes of capital stock of the Company, the exercise price of each option granted shall not be less than 110% of the fair market value of the Company's common stock on the date of the grant. The term of each option shall be determined by a committee of the Board of Directors but in no event may an option be exercisable more than ten years after the date of grant, except for a more than 10% stockholder, whose options may be exercised no more than five years after the date of grant.

(Continued)

NOTE 14 - STOCK-BASED COMPENSATION PLANS (Continued)

Under the Company's 2000 and 2005 Directors Stock Option Plans, options to purchase up to 150,000 shares (for each plan) of the Company's common stock may be granted to directors who are not employees of the Company. The exercise price of each option granted under the plan may not be less than 100% of the fair market value (as defined) of the Company's common stock on the date of the grant. The term of each option shall be determined by a committee of the Board of Directors but in no event may an option be exercisable more than ten years after the date of grant.

The right to grant awards under the 2000 Incentive and Directors' Stock Option Plans terminated on February 22, 2010. The right to grant awards under the 2005 Incentive and Directors' Stock Option Plans will terminate on March 15, 2015.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses various assumptions including the risk-free interest, expected term, expected stock price volatility, and dividend yield rates. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

There were no options granted in 2013 and 2012. The options vested immediately upon granting.

A summary of the activity in the stock option plan for 2013 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	281,235	$ 20.55		
Granted	-			
Exercised	(48,000)	13.00		
Expired	(8,000)	13.00		
Forfeited	(600)	13.00		
Outstanding at end of year	224,635	$ 22.41	2.7	$ 374,606
Exercisable at year-end	224,635	$ 22.41	2.7	$ 374,606

As of December 31, 2013, there was no unrecognized compensation cost related to nonvested stock options granted under the Plan.

(Continued)

NOTE 15 - STOCKHOLDERS' EQUITY/REGULATORY MATTERS

The Company, on a consolidated basis, and the Bank are subject to various minimum regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the accompanying table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined). Management believes, as of December 31, 2013, that the Company and the Bank met all capital adequacy requirements to which they are subject. As described in the next paragraph, the Bank is not well capitalized at December 31, 2012, due to regulatory consent orders that the Bank has entered with its regulators.

In December 2010, the Bank entered into parallel Consent Orders (the "Consent Orders") with the FDIC and the Department of Banking of the State of New York ("NYSBD") in which it agreed among other things to improve supervision of the Bank by its Directors, develop a detailed twelve-month operating budget develop plans to reduce loan concentrations for construction and non-owner occupied commercial real estate loans, strengthen its processes for computation of allowance for loan losses, reduce the amount of classified, delinquent and nonaccrual assets, and strengthen its internal control policies and procedures.

It also agreed to maintain specified thresholds of regulatory capital ratios (generally in excess of "well capitalized" thresholds—see below for description of "well-capitalized" thresholds) of 8% for tier 1 capital to average assets, 9% for tier 1 capital to risk weighted assets and 10% for total capital to risk weighted assets and to develop capital plans if such new thresholds were breached. As of December 31, 2012, the Bank's capital ratios exceeded the thresholds established by the Consent Orders.

On January 14, 2013, the NYSBD lifted its consent order. On February 19, 2013, the FDIC terminated its consent order.

(Continued)

NOTE 15 - STOCKHOLDERS' EQUITY/REGULATORY MATTERS (Continued)

The Company's and the Bank's actual capital amounts (dollars in thousands) and ratios are also presented in the following tables:

	Actual		Minimum Capital Requirements For Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2013						
Total Capital to risk weighted assets						
Company	$ 75,451	22.70%	$ 26,585	8.00%	$ N/A	N/A
Bank	74,974	22.56	26,585	8.00	33,142	10.00%
Tier I Capital to risk weighted assets						
Company	71,250	21.44%	13,293	4.00%	N/A	N/A
Bank	70,778	21.30	13,293	4.00	19,885	6.00%
Tier I Capital to average assets						
Company	71,250	13.14%	21,692	4.00%	N/A	N/A
Bank	70,778	13.05	21,692	4.00	27,115	5.00%
2012						
Total Capital to risk weighted assets						
Company	$ 73,290	18.80%	$ 31,107	8.00%	$ N/A	N/A
Bank*	73,041	18.79	31,107	8.00	38,883	10.00%
Tier I Capital to risk weighted assets						
Company	68,353	17.53	15,553	4.00	N/A	N/A
Bank*	68,109	17.52	15,553	4.00	23,330	6.00%
Tier I Capital to average assets						
Company	68,353	12.91	21,135	4.00	N/A	N/A
Bank*	68,109	12.89	21,135	4.00	26,418	5.00%

** Pursuant to the December 2010 Consent Orders, the Bank is required to maintain total capital to risk weighted assets of 10%; tier I capital to risk weighted assets of 9%; and tier I capital to average assets of 8%.*

Dividends: The Bank is subject to various regulatory restrictions on its ability to pay dividends to the Company, including required approval by the FRB of New York prior to paying dividends. With the approval of the NYSBD, the Bank may declare and pay a dividend only out of its net profits. The approval of the NYSBD is required if the total of all dividends declared in any calendar year will exceed the Bank's net profits for that year plus the retained net profits of the preceding two years, subject to certain adjustments. In addition, the Bank may not pay any dividend if the dividend would cause its capital to be reduced so that the Bank is no longer at least adequately capitalized.

The Company is also subject to various dividend restrictions as a result of its participation in the U.S. Treasury's TARP CPP program as described more fully in Note 17.

(Continued)

NOTE 16 - DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on either recent real estate appraisals or, for loans with modification agreements in place, discounted cash flow analyses. The fair value of real estate owned ("REO") is generally based on recent real estate appraisals.

In valuing either impaired loans with specific allocations of the allowance for loan losses or real estate owned, appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

As previously disclosed in Note 1, the fair values of real estate owned are recorded at lower of cost or fair value less estimated costs to sell and loans held for sale are carried at the lower of cost or estimated fair value, as determined by outstanding commitments, from third-party investors. Also, as previously disclosed, the fair value of servicing rights is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

(Continued)

NOTE 16 - DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities Measured on a Recurring Basis

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

	Fair Value Measurements At December 31, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013			
Securities available for sale			
Corporate note securities	$ -	$ 14,534,601	$ -
Mortgage backed securities – residential	-	9,800,596	-
Collateralized mortgage obligation securities	-	28,521,589	-
Municipal securities	-	17,279,203	-
Asset back securities	-	11,715,238	-
U.S. Treasury securities	-	8,069,141	-
U.S. Government Agencies	-	3,625,133	-
Mortgage servicing rights	-	-	7,520,707
2012			
Securities available for sale			
Corporate note securities	$ -	$ 11,266,447	$ -
Mortgage backed securities – residential	-	9,356,094	-
Collateralized mortgage obligation securities	-	23,708,251	-
Municipal securities	-	6,834,466	-
Asset back securities	-	12,202,381	-
U.S. Treasury securities	-	8,200,156	-
U.S. Government Agencies	-	1,700,148	-
Mortgage servicing rights	-	-	6,159,878

Refer to Note 18 for reconciliation of mortgage servicing rights measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012.

(Continued)

NOTE 16 - DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements At December 31, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013			
Impaired loans			
Real estate - commercial	$ -	$ -	$ 948,046
Real estate - residential	-	-	632,953
Commercial and industrial	-	-	618,710
2012			
Impaired loans			
Real estate - commercial	$ -	$ -	$ 9,594,248
Real estate - residential	-	-	1,445,327
Commercial and industrial	-	-	902,197
Other real estate owned			
Real estate – commercial	-	-	176,402
Commercial loans held for sale	-	-	4,415,312

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,845,228 with a valuation allowance of $645,519 as of December 31, 2013, resulting in no additional provision for loan losses for 2013. Impaired loans had a carrying amount of $13,583,351 with a valuation allowance of $1,641,579 as of December 31, 2012, resulting in no additional provision for loan losses for 2012.

There is no other real estate owned at December 31, 2013. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $176,402 for the year ended December 31, 2012.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by management. Once received, a member of the Bank's Appraisal Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Once appraisals are considered appropriate, management discounts the appraised value for estimated selling costs, such as legal, broker, and property maintenance and insurance costs – individual properties are analyzed on a case-by-case basis with discounts ranging from 12% to 14%. In addition, management performs a tax search on the collateral property to determine if there are any unpaid taxes on the property. Any unpaid tax amounts are considered costs and are further discounted from the property value.

(Continued)

NOTE 16 - DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Residential loans held for sale, carried a fair value of $8,376,715 at December 31, 2013, resulting in no charge-off for the year ended December 31, 2013. Commercial loans held for sale, carried at fair value totaled $4,415,312 at December 31, 2012, resulting in no charge-off for the year ended December 31, 2013.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – real estate - commercial	$ 948,046	Sales comparison approach	Adjustment for differences between comparable sales	-20% to +30%
		Income approach	Capitalization rate	6% to 9%
		Contracted sale of collateral property	Contract price	N/A
Impaired loans – real estate - residential	$ 632,953	Sales comparison approach	Adjustment for differences between comparable sales	-10% to -8%
Impaired loans – commercial and industrial	$ 618,710	Business inventory	Business financial statements	N/A

Carrying amount and estimated fair values of financial instruments at year end were as follows (in thousands):

	Carrying Value	Estimated Fair Value
December 31, 2013		
Financial assets		
Cash and cash equivalents	$ 62,333	$ 62,333
Time deposits with banks	1,837	1,837
Securities available for sale	93,546	93,546
Loans receivable, net	354,637	374,725
FHLB stock	3,463	N/A
Mortgage servicing rights	7,521	7,521
Accrued interest receivable	2,431	2,431
Financial liabilities		
Deposits	$ 411,311	$ 412,950
Other borrowed funds	68,217	63,318
Accrued interest payable	924	924

(Continued)

NOTE 16 - DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Carrying Value	Estimated Fair Value
December 31, 2012		
Financial assets		
Cash and cash equivalents	$ 52,301	$ 52,301
Time deposits with banks	1,090	1,090
Securities available for sale	73,268	73,268
Residential mortgage loans held for sale	8,377	8,377
Commercial loans held for sale	4,415	4,415
Loans receivable, net	355,201	376,880
FHLB stock	1,138	N/A
Mortgage servicing rights	6,160	6,160
Accrued interest receivable	2,106	2,106
Financial liabilities		
Deposits	$ 441,661	$ 443,084
Other borrowed funds	17,217	13,885
Accrued interest payable	1,538	1,538

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The fair value of loans, not deemed to be impaired, does not consider any discounts due to market illiquidity. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not considered material.

NOTE 17 - CAPITAL PURCHASE PROGRAM

On March 13, 2009, as part of the U.S. Treasury Department Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"), the Company issued and sold 17,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, for a purchase price of $17,000,000 in cash. Cumulative dividends on the series A preferred shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter. Subject to the approval of the Board of Governors of the Federal Reserve System, the Preferred Shares are redeemable at the option of the Company at 100 percent of their liquidation preference.

(Continued)

NOTE 17 - CAPITAL PURCHASE PROGRAM (Continued)

In August 2010, the Company exchanged the 17,000 shares of TARP CPP preferred stock (Series A preferred stock) for 17,000 newly issued TARP Community Development Capital Initiative Shares ("CDCI"), shown on the balance sheet as series B preferred stock. The CDCI shares have the same liquidation preference terms as the TARP CPP preferred stock. The CDCI shares bear a dividend rate of 2% per annum for the first eight years from August 15, 2010 to August 15, 2018, and at a rate of 9% thereafter. Subject to the approval of the Board of Governors of the Federal Reserve System and U.S. Treasury Department, the preferred shares are redeemable at the option of the Company at 100% of their liquidation preference.

The Securities Purchase Agreement, pursuant to which the Preferred Shares were sold, contains limitations on the payment of dividends on the Common Stock which effectively prohibits the payment of cash dividends while the securities are outstanding and on the Company's ability to repurchase its Common Stock, equity securities, or trust preferred securities. The Company is also subject to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 which places limits on both golden parachute payments and incentive compensation or bonus payments based upon unnecessary or excessive risks. There is also a provision requiring the recovery of bonuses or incentive compensation paid based on reported earnings, gains, or other criteria that are later found to be materially inaccurate.

Beginning with the May 2011 dividend payment, the Company must obtain regulatory approval prior to payment. As of December 31, 2013, the Company declared and paid $340,000 in dividends on TARP preferred stock. See Note 15 for additional discussion of regulatory matters.

NOTE 18 – MORTGAGE SERVICING RIGHTS

Activity for loan servicing rights follows:

	2013	2012
Beginning of year	$ 6,159,878	$ 5,319,926
Additional gains	983,693	973,118
Change in fair value	377,136	(133,166)
End of Year	$ 7,520,707	$ 6,159,878

The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Fair value at year-end 2013 was determined using a discount rate of 10%, prepayment speeds ranging from 7.59 CPR to 8.04 CPR, depending on the stratification of the specific right, and a weighted average default rate of 0.61%. . Fair value at year-end 2012 was determined using a discount rate of 11%, prepayment speeds ranging from 11.34 CPR to 11.91 CPR, depending on the stratification of the specific right, and a weighted average default rate of 0.61%.

The unpaid principal balance of loans serviced for others, which are not included in the accompanying consolidated statements of financial condition, were approximately $853,899,000 and $828,656,000 at December 31, 2013 and 2012. The custodial escrow balances for loans serviced for others were $2,898,000 and $2,646,000 at December 31, 2013 and 2012

(Continued)

NOTE 18 – MORTGAGE SERVICING RIGHTS (Continued)

Servicing fee income recorded for fees earned for servicing loans, net of direct expenses, is reported on the income statement with service and transaction fees. The fees are based on a contractual percentage of the outstanding principal, and are recorded as income when earned. Net servicing fees totaled $2,088,299 and $2,021,517 for the years ended December 31, 2013 and 2012. Net servicing fees are reported within the service and transaction fees line item on the consolidated statements of operations and comprehensive income. Late fees and ancillary fees related to loan servicing are not material.

NOTE 19 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2013	2012
Basic		
Net income	$ 2,910,386	$ 9,125,654
Less TARP Preferred Stock Dividend	$ (340,000)	$ (355,488)
Less TARP Discount Accretion	(376,213)	(395,379)
Net income available to common shareholders	$ 2,159,519	$ 8,409,411
Weighted average common shares outstanding, less treasury shares	2,169,211	2,121,211
Basic earnings per common share	$ 1.00	$ 3.96
Diluted		
Net income	$ 2,910,386	$ 9,125,654
Less TARP Preferred Stock Dividend	$ (340,000)	$ (355,488)
Less TARP Discount Accretion	(376,213)	(395,379)
Net income available to common shareholders	$ 2,159,519	$ 8,409,411
Weighted average common shares outstanding for basic earnings per common share	$ 2,169,211	$ 2,121,211
Add: Dilutive effects of assumed exercises of stock options	15,191	35,462
Average shares and dilutive potential common shares	2,184,402	2,156,673
Diluted earnings per common share	$ .99	$ 3.90

As of December 31, 2013, 61,300 shares of stock options that were anti-dilutive. All common share stock options for 2012 were dilutive.