First American International Corp.

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First American International Bank

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Annual Report

2014

FIRST AMERICAN INTERNATIONAL CORP.

April 21, 2015

Dear Stockholders:

We are pleased to bring you this 2014 Annual Report for First American International Corp. This has been a year of important accomplishments for us and for First American International Bank as it celebrated its 15th anniversary serving its local communities in Manhattan, Brooklyn and Queens. Highlights for the past year include:

- As the economy began to strengthen, we reactivated our commercial mortgage loan origination engine and supplemented our residential lending with community-based commercial mortgage loans to retain in our portfolio.

- We continued to improve the quality of our loan portfolio, reducing delinquent loans by 54% during 2014 to 1.2% of assets.

- We enhanced the use of our new core information technology system, after a data conversion in late 2013, to provide a superior customer experience as well as improved operating efficiency and internal reporting capabilities.

- We received a $355,000 Bank Enterprise Award from the federal government as evidence of our commitment to provide for the credit needs of our local communities.

- We acknowledged our 15th anniversary of service with celebrations in all our branches. This provided an opportunity to honor the many loyal customers, community groups and local leaders who have made First American International Bank the leading Asian locally-managed, community-oriented success story.

- We arranged to have our common stock quoted on the OTC QB quotation system to facilitate your ability to buy or sell shares of our stock.

- We took the steps necessary to qualify our common stock with Depository Trust Company so that you can now deposit your certificates to be held in street name with your stock broker, making it easier for you to manage your stock holdings.

- We continued to add to our value by increasing book value per share to $22.80 by the end of 2014.

While we are confident with the actions we have and are taking to build shareholder value, we realize the results are not yet where we want them to be and we have much more to do. Our 2014 net income available to common stockholders of $1,066,000, or net income per share, both basic and diluted, of $0.48, is a 2.14% return on average equity, below peers. This is attributable in large part to continued margin compression, some one-time charges, such as the elimination of our $762M New York State deferred tax asset and a $499M rental expense in accordance with accounting guidance, and increased compensation and benefit expenses associated with our investment in employee development, including expanding our lending operation.

We also recognize that there are challenges ahead for our Company and our Bank. The Federal Reserve has indicated a willingness to begin the process of increasing market interest rates, hopefully, later this year. As with other rate increases, this should initially place margin pressure as cost of funds tends to rise faster than earning assets, but we also expect spread will improve over time, allowing the Bank to increase its interest margin. We also recognize that we will need to adjust our deposit and loan pricing carefully to address interest rate mismatches that can occur as interest rates fluctuate and ensure we maintain adequate liquidity to fund our loan growth. We also recognize the need to continue to be vigilant with our credit underwriting of loans and to continue to focus on reducing our operating expense base. Further, we will continue to implement new products and services as technology inevitably marches forward, so that we strengthen existing customer relationships and attract new customers in one of the world's most competitive banking markets.

We are proud of our Board of Directors and management team. Our Board consists of dedicated professionals with broad expertise in a wide range of commercial endeavors. Our directors work tirelessly to chart a course for our company and to oversee its implementation. Our management team executes the Board's strategic plans and policy initiatives with a view to providing superior customer service and results. We believe that providing the best possible customer experience will help build our franchise throughout the communities that we serve and redound to your benefit as our shareholders.

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 First American International Bank, 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, 2014, 2013, and 2012 come from our audited consolidated financial statements.

Selected Financial Condition Data:

	2014	2013	2012
		(In thousands)	
Total assets	$576,454	$552,623	$526,952
Loans held for sale	4,984	3,575	12,792
Real estate - commercial	129,193	136,891	214,509
Real estate – residential	273,941	222,366	142,866
Commercial and industrial	1,805	2,703	8,699
Consumer and installment	665	586	539
Loans receivable, gross	405,604	362,546	366,613
Unearned loan fees	(851)	(724)	(795)
Allowance for loan losses	7,981	7,226	10,618
Other interest-earning assets	130,371	151,624	119,608
Demand deposits	99,452	87,013	75,009
NOW accounts	2,403	2,136	2,700
Money market and savings	138,159	135,962	141,291
Certificate of deposit	195,550	186,200	222,661
Deposits	435,564	411,311	441,311
Borrowings	68,217	68,217	17,217
Stockholders' equity	67,293	65,333	62,583

Selected Operations Data:

	For the year ended December 31,		
	2014	2013	2012
		(In thousands)	
Interest income	$25,208	$24,726	$30,103
Interest expense	3,898	3,402	4,372
Net interest income	21,310	21,324	25,731
Provision for loan losses	157	488	(4,509)
Net interest income after provision for loan losses	21,153	20,836	30,240
Non-interest income	7,513	8,731	8,874
Non-interest expenses	25,483	24,804	22,896
BEA grant (a)	355	393	415
Income before income taxes	3,538	5,156	16,633
Income taxes	1,710	2,245	7,507
Net income	$1,828	$2,911	$9,126
Income available to common stockholders	$1,066	$2,160	$8,409
Earnings per share – Basic	$0.48	$1.00	$3.96
Earnings per share – Diluted	$0.48	$0.99	$3.90

(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. The BEA grant is included as a component of non-interest income in the audited financial statements.

Selected Financial Ratios and Other Data[1]:

	At or for the year ended December 31,		
	2014	2013	2012
Performance Ratios:			
Return on average assets (net income to average total assets)	0.19%	0.40%	1.58%
Return on average net worth (net income to average net worth)	2.14%	4.51%	20.99%
Average interest-earning assets to average interest-bearing liabilities	131%	132%	126%
Net interest rate spread (2)	3.82%	4.01%	5.00%
Net interest margin (3)	4.05%	4.22%	5.25%
Net interest income after provision for loan losses to total other expenses	83%	81%	132%
Non-interest income to total revenue	23.79%	25.40%	26.50%
Non-interest expense to total revenue	77.04%	79.05%	65.40%
Non-interest expense to average assets	4.53%	4.90%	4.31%
Net Worth and Asset Quality Ratios:			
Average net worth to average total assets	8.86%	8.96%	10.75%
Total net worth to assets end of period	11.67%	11.82%	11.88%
Non-performing assets to total assets	1.02%	1.88%	5.25%
Non-performing loans to total loans	1.45%	2.93%	7.51%
Allowance for loan losses to total loans	1.97%	2.04%	2.90%
Allowance for loan losses to non-performing loans	136.16%	69.45%	47.40%
Bank Only			
Total Risk-Based Capital Ratio	21.16%	22.56%	18.79%
Tier 1 Risk-Based Capital Ratio	19.90%	21.30%	17.52%
Leverage Capital Ratio	12.51%	13.05%	12.89%
Consolidated			
Total Risk-Based Capital Ratio	21.39%	22.49%	18.80%
Tier 1 Risk-Based Capital Ratio	20.13%	21.23%	17.53%
Leverage Capital Ratio	12.66%	13.14%	12.91%
Book value per share	$22.87	$22.28	$21.49

(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, 2014, we had total assets of $576.5 million, net loans receivable of $396.8 million, total deposits of $435.6 million and total stockholders' equity of $67.3 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 2014 it had nine branches, two in Brooklyn, four in Queens, and three in Chinatown in Manhattan. We have not paid cash dividends on our common stock to maximize retained earnings and provide capital support for growth.

U. S. Treasury Preferred Stock Purchase

In 2009, we issued $17 million of preferred stock under the Capital Purchase Program of the U.S. Government Troubled Asset Relief Program ("TARP"). Effective August 16, 2010, we exchanged that stock with the U.S. Treasury for preferred stock with a 2% per year dividend for the first eight years. If we do not redeem the preferred stock, the dividend rate then increases to 9% per year. As required by the Treasury Department, we agreed to dividend limits and corporate governance restrictions. These generally continue until we redeem the preferred stock or it is sold to an independent third party not affiliated with the U.S. Treasury.

1. We may pay common stock dividends only in the amount we paid in the prior year. Since we did not pay any dividends to common stockholders prior to issuing the preferred stock, any dividends on common stock are subject to the consent of the prior Treasury Department.
2. 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.
3. Our executive compensation programs are subject to restrictions including limits on both golden parachute payments and incentive compensation or bonus payments. We must also retain the right to recover 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.

Improved Asset Quality

Non-performing loans at December 31, 2014 were $5.9 million compared to $10.4 million last year. Total delinquent loans were $6.9 million at year end 2014 compared to $15.1 million at December 31, 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 $8.0 million, or 1.97% of total loans, compared to $7.2 million, or 1.99% at December 31, 2013. The allowance represented 136.2% of non-performing loans at December 31, 2014 compared to 69.5% at December 31, 2013 due to the substantial reduction in the level of non-performing loans. We strengthened our underwriting standards for future loan originations and we are working to continue to improve the quality of our assets as we work our way out of our problem loans. Our overall asset quality significantly improved in 2013 and continued to improve in 2014.

Comparison of Financial Condition at December 31, 2014 and December 31, 2013

Total assets were $576.5 million at December 31, 2014, an increase of $23.8 million, or 4.3%, from $552.6 million at December 31, 2013. Total assets increased as we deliberately increased our residential loan portfolio and we successfully restarted our commercial loan origination business with a view towards increasing interest income. Loans receivable, net were $396.8 million, an increase of $42.2 million, or 11.9%, compared to last year. We increased our residential mortgage loans by $51.6 million while commercial real estate loans declined by $7.7 million. Securities available for sale decreased by $8.0 million during the year, primarily because we reclassified $15.1 million from available for sale to held to maturity. We also purchased $4.2 million of securities and classified them as held to maturity. Cash and cash equivalents decreased by $34.6 million as we redeployed the funds into loans.

Total deposits were $435.6 million at December 31, 2014, an increase of $24.3 million, or 5.9%, from $411.3 million at December 31, 2013. The principal deposit categories at December 31, 2014 were $99.5 million in demand deposit accounts; $138.2 in money market and savings accounts; and $195.6 million in certificates of deposit. This compares to December 31, 2013 amounts of $87.0 million in demand deposit accounts; $136.0 million in money market and savings accounts; and $186.2 million in certificates of deposit. We increased our deposits in order to have the funds available to make additional loans in our community while maintaining an adequate level of liquidity.

Borrowings of $68.2 million remained unchanged during the year. We borrowed $61 million from the Federal Home Loan Bank of New York ("FHLBNY") in 2013 and earlier with longer terms to maturity designed to partially match the estimated expected principal payments on our mortgage loan portfolio. 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 2014, $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 have a FHLBNY secured 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 $11.6 million at the end of 2014 and $12.1 million at the end of 2013. This line of credit, along with our cash and available for sales securities continue to provide us with liquidity we believe is sufficient to satisfy both regular liquidity needs and potential severe liquidity demands.

Total stockholders' equity was $67.3 million at December 31, 2014, compared with $65.3 million at December 31, 2013. The principal reasons for the increase were $1.8 million of retained earnings, $393,000 of proceeds from the exercise of stock options and the issuance of $72,000 of preferred stock in connection with our creation of a real estate investment trust subsidiary. These increases were partially offset by the payment of TARP preferred stock dividends of $340,000.

The following table shows our regulatory capital ratios and those of the Bank for the quarter ended December 31, 2014

	FAIC	The Bank
Tier I Leverage Capital Ratio	12.66%	12.51%
Tier I Risk-Based Capital Ratio	20.13%	19.90%
Total Risk-Based Capital Ratio	21.39%	21.16%

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, 2014 and 2013

General. We had net income of $1.8 million in 2014, compared to net income of $2.9 million in 2013. The principal reasons for the decline were that noninterest income declined $1.3 million and noninterest expense increased by $0.7 million. Income taxes, as a percent of pretax income also increased due to tax law changes that required the $0.4 million write-off of our New York State deferred tax asset. This resulted in our effective tax rate increasing from 43.5% in 2013 to 48.3% in 2014. This change in tax law should reduce our effective tax rate in the future. Return on average assets decreased to 0.19% in 2014 compared to 0.40% in 2013. Return on average equity decreased to 2.14% compared to 3.33% last year.

Interest Income. Interest income was $25.2 million for 2014 compared to $24.7 million in 2013, an increase of $0.5 million, or 2.0%. Interest and fees on loans remained flat at $22.9 million. This is the result of a lower yield on loans coupled with an increase in average loans during the year. The yield on loans decreased 21 basis points to 6.07%. This is mostly due to higher yielding loans being replaced by lower yielding loans as market rates for loans declined and our stricter underwriting standards attracted loans which commanded lower yields in the face of competition from other lenders.

Interest income on investment securities increased $0.4 million despite a decrease in yield of 2 basis points. 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 2014. We also elected to purchase investment securities with shorter terms to maturity and correspondingly lower yields to protect against the adverse effect of a potential increase in interest rates in the future.

Interest Expense. Interest expense increased from $3.4 million in 2013 to $3.9 million in 2014. This increase of $0.5 million, or 14.6%, was principally due our decision to hedge our interest rate risk by borrowing from the FHLB in late 2013 at longer terms and higher rates than our normal deposit mix. The higher cost borrowings were outstanding for all of 2014 but for only a portion of 2013.

Interest expense on deposits decreased by $0.2 million or 6.8%. Certificates of deposit represented 45% of average deposits in both 2014 and 2013. The average rate we paid on certificates of deposit declined 3 basis points, which was the principal cause of a decline in our average cost of funds by 3 basis points from .75% in 2013 to .72% in 2014. Interest rates on deposits declined during the year in line with lower market rates. The average balance of deposits decreased $11.0 million, or 3.2%, but was more than offset by an increase in the average balance of FHLBNY borrowings of $29.1 million.

Net Interest Income. Net interest income for the year, before provision for loan losses, was $21.3 million. This was a decrease of $14 thousand, or 0.1% from the prior year. The two most significant causes for this decline were the decline in the yield on loans and the decline in the yield on investment securities, as discussed above. For the year ended December 31, 2014, our interest rate spread of 3.82% was down 19 basis points from 4.01% for the year ended December 31, 2013; the net interest margin of 4.05% was down 17 basis points from 4.22% for the year ended December 31, 2013. In addition, the mix of loans continued to shift away from older, higher yielding commercial loans towards lower yielding residential 1-4 family loans.

Our average balance of loans was $377.2 million in 2014, or $13.4 million higher than the average balance in 2013. In contrast, the average volume of lower-yielding overnight investments decreased from $57.3 million in 2013 to $42.2 million in 2014.

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 $157,000 in 2014, compared to a provision of $488,000 in 2013. 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 continued to improve in 2014 when compared to previous years. This improvement was due to continuing efforts to reduce the risk profile of the loan portfolio as discussed above. Non-performing loans decreased from $10.4 million at the end of 2013 to $5.9 million at December 31, 2014. This decrease of $4.5 million, or 43.7% was a result of 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.

Our hard work on improving the quality of our loan portfolio showed results in many ways as we experienced material decreases in loan delinquencies and we had net recoveries of $0.6 million in 2014 compared to net charge offs of $3.9 million in 2013. The net recoveries are added back to the allowance for loan losses, thereby reducing the amount of the provision for loan losses we might otherwise be required to record as our gross loan portfolio increased by $43.1 million.

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, 2014, our allowance for loan losses was $8.0 million, or 1.97% of total loans, compared to $7.2 million, or 1.99% of total loans, at year end 2013. The allowance coverage of non-performing loans increased from 69.5% at December 31, 2013 to 136.2% at December 31, 2014.

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 was $7.9 million for the year ended December 31, 2014, a decrease of $1,256,000 compared to the year ended December 31, 2013. The decrease is mainly due to a decrease of $2,151,000 in the gain on sale of mortgage loans, offset by a $627,000 increase in service and transaction fees, and an increase in gain on sale of securities of $229,000. We sold $100.9 million of residential mortgage loans in 2014 compared to $129.8 million in 2013. The gain on sale of these loans was $1.2 million in 2014 versus $3.4 million in 2013. In addition, we retain servicing rights when we originate residential loans for sale, which increases our portfolio of loans serviced for others. The principal reason for the decrease in the gain on sale of mortgage loans was a change in the value of mortgage servicing rights. Changes in the value of mortgage servicing rights are a component of the gain on the sale of loans. The value of the servicing rights decreased by $1.2 million in 2014, but had increased by $0.4 million in 2013, for a net difference in that component of non-interest income of $1.6 million. The volume of loans sold in 2015, 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 received a Bank Enterprise Award ("BEA") of $355,000 in 2014, which decreased from the $393,000 grant received in 2013. In 2014, 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 2015, 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. We continue to exert appropriate efforts as a community development financial institution to assist in the development of our local communities, including low and moderate income geographies.

Non-interest Expense. Non-interest expenses were $25.5 million for the year ended December 31, 2014 compared to $24.8 million in 2013, an increase of $679,000, or 2.70%. The increase is mainly due to an increase in salaries and benefits of $1,453,000 and an increase in occupancy expenses of $387,000, offset by a decrease in general administrative expenses of $1,161,000. Salaries and benefits increased due to higher staffing levels, principally in the loan department, salary increases for existing employees and rising health insurance costs. Occupancy expenses increased $521,000 primarily due to a $500,000 adjustment of lease accounting. The decrease in general and administrative expenses is mainly due to decreases in loan related expenses of $659,000 and professional fees of $500,000, both of which are due to our improved underwriting standards and the overall increase in the quality of the loan portfolio. FDIC insurance premiums decreased by $343,000 as our improved condition resulted in lower premiums.

Income Taxes. The effective tax rate for 2014 was 48.3% which was substantially higher than prior years. The main reason for this increase was a change in New York State tax law which makes it unlikely we will be able to realize the value of the deferred tax asset that was on our books at year end 2013. Therefore, we established a valuation allowance of $432,000, net of federal taxes, in 2014. For 2013, we had income tax expense of $2.2 million, representing 43.5% of 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.

New York City tax law was changed in April 2015 and will result in a change to our City income tax expense in 2015, similar to the New York State change in 2014. This will require a similar valuation allowance which will inflate our effective tax rate in 2015. Our New York State and New York City taxes will thereafter no longer be based on income in most cases and will be included in other expenses rather than income tax expense. We expect our overall effective income tax rate to be the federal rate of 34% in the future.

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, 2014, cash and cash equivalents, which include cash and due from banks, money market accounts, and federal funds sold, were $27.7 million, or 4.8% of total assets compared to $62.3 million, or 11.3% of total assets at December 31, 2013.

During 2013, our principal sources of cash were $45.6 million in principal payments, sales and calls we received on our securities portfolio, and an increase of $24.3 million in deposits. These funds, combined with available cash at the beginning of 2014, were used principally to purchase $56.7 million of new securities and fund $42.3 million in new loans. As a net result of these and other transactions, we experienced a $34.6 million decrease in cash and cash equivalents in 2014. As a result of these activities, we were able to reduce our low-yielding liquid assets and not aggressively seek new deposits.

At December 31, 2014, we had a line of credit with the FHLBNY with unused capacity of approximately $11.6 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 have pledged to the FHLBNY and which will increase the line of credit to provide short term liquidity if needed. Certificates of deposit at December 31, 2014 that were scheduled to mature in 2014 were $116.3 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 government policy regarding interest rates, inflation or other economic factors;
- changes in federal policy or budgetary allocations related to community development financial institutions;
- 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, 2014 and 2013

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
Brooklyn, New York

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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, 2015

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and due from banks – noninterest bearing	$ 5,624,781	$ 6,091,764
Due from banks – interest-bearing overnight and money market accounts	20,736,451	49,118,616
Federal funds sold – overnight	1,333,000	7,123,000
Total cash and cash equivalents	27,694,232	62,333,380
Time deposits with banks	3,455,896	1,837,236
Securities available for sale	85,507,436	93,545,501
Securities held to maturity (fair value of $19,412,038 as of December 31, 2014)	19,338,930	-
Loans held for sale	4,983,500	3,575,000
Loans receivable, net	396,771,666	354,595,807
Bank premises and equipment, net	7,811,617	18,386,031
Fixed assets held for sale	12,870,961	-
Federal Home Loan Bank (“FHLB”) stock, at cost	3,321,800	3,463,000
Accrued interest receivable	2,097,146	1,884,354
Mortgage servicing rights	7,245,842	7,520,707
Other assets	5,355,056	5,481,533
	$ 576,454,082	$ 552,622,549
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Deposits		
Demand	$ 99,451,880	$ 87,013,260
NOW	2,403,386	2,136,191
Money market and savings	138,158,363	135,961,878
Time deposits, less than $100,000	100,354,740	102,637,618
Time deposits, $100,000 and over	95,195,673	83,562,529
Total deposits	435,564,042	411,311,476
Other borrowed funds	61,000,000	61,000,000
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	1,038,876	924,123
Accounts payable and other liabilities	4,341,055	6,837,127
Total liabilities	509,160,973	487,289,726
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 at December 31, 2014 and 2013, respectively	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 2,201,946 and 2,171,711 shares issued and outstanding at December 31, 2014 and 2013	220	216
Non-controlling interest	72,000	-
Additional paid-in capital	57,121,251	56,312,680
Treasury stock, 3,000 shares of common stock at cost	(68,000)	(68,000)
Retained earnings	9,993,238	8,927,277
Accumulated other comprehensive income	172,700	158,950
Total stockholders’ equity	67,293,109	65,332,823
	$ 576,454,082	$ 552,622,549

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, 2014 and 2013

	2014	2013
Interest and dividend income		
Loans, including fees	$ 22,909,490	$ 22,859,917
Securities	2,031,144	1,671,895
FHLB Stock	143,227	65,188
Due from banks and money market accounts	120,806	127,125
Federal funds sold	3,552	2,031
	25,208,219	24,726,156
Interest expense		
Deposits	2,397,678	2,572,196
Other borrowed funds	1,324,250	640,951
Junior subordinated debentures	175,925	189,106
	3,897,853	3,402,253
Net interest income	21,310,366	21,323,903
Provision for loan losses	157,374	488,000
Net interest income after provision for loan losses	21,152,992	20,835,903
Noninterest income		
Service and transaction fees	6,069,341	5,442,684
Gain (loss) on sale of securities, net	219,755	(9,421)
Grants from U.S. Treasury Department	355,000	393,000
Loss on sale of real estate owned	-	(77,513)
Gain on sale of loans, net	1,224,324	3,375,425
	7,868,420	9,124,175
Noninterest expenses		
Salaries and employee benefits	12,432,753	10,979,417
General and administrative	7,666,758	8,828,155
Depreciation, amortization and occupancy	5,383,343	4,996,855
	25,482,854	24,804,427
Income before income tax expense	3,538,558	5,155,651
Income tax expense	1,710,447	2,245,265
Net income	1,828,111	2,910,386
Preferred stock dividends and discount accretion	762,150	750,867
Net income available to common stockholders	$ 1,065,961	$ 2,159,519
Earnings per common share:		
Basic	$ 0.48	$ 1.00
Diluted	$ 0.48	$ .99
Net income	$ 1,828,111	$ 2,910,386
Other comprehensive income, net of tax:		
Change in unrealized gains (losses) on securities, net of reclassifications and taxes	13,750	(429,000)
Comprehensive income	$ 1,841,861	$ 2,481,386

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2014 and 2013

	Preferred Stock (Series A and B) Number of Shares	Preferred Stock (Series A and B) Amount	Common Stock Number of Shares	Common Stock Amount	Number of Shares	Preferred Stock	Additional Paid-in Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013	17,000	1,700	2,123,711	212	-	-	55,293,306	(3,000)	(68,000)	6,767,758	587,950	62,582,926
Net income	-	-	-	-	-	-	-	-	-	2,910,386	-	2,910,386
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(429,000)	(429,000)
Total comprehensive income	-	-	-	-	-	-	-	-	-	2,910,386	(429,000)	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	(3,000)	(68,000)	8,927,277	158,950	65,332,823
Net income	-	-	-	-	-	-	-	-	-	1,828,111	-	1,828,111
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	13,750	13,750
Total comprehensive income	-	-	-	-	-	-	-	-	-	1,828,111	13,750	1,841,861
Stock options exercised	-	-	30,235	4	-	-	393,049	-	-	-	-	393,053
Dividends FAIB Capital Corp	-	-	-	-	-	-	-	-	-	(6,620)	-	(6,620)
FAIB Capital Corp minority stock issued	-	-	-	-	144	72,000	-	-	-	-	-	72,000
Dividends declared, cash dividends paid, and discount accretion on U.S. Treasury "TARP" preferred stock	-	-	-	-	-	-	415,522	-	-	(755,530)	-	(340,008)
Balance at December 31, 2014	17,000	1,700	2,201,946	220	144	72,000	57,121,251	(3,000)	(68,000)	9,993,238	172,700	67,293,109

See accompanying notes to the consolidated financial statements.

	2014	2013
Cash flows from operating activities		
Net income	$ 1,828,111	$ 2,910,386
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Provision for loan losses	157,374	488,000
(Gain) loss on sale of securities, net	(219,755)	9,421
Gain on sale of loans, net	(1,224,324)	(3,375,425)
Loss on sale of real estate owned	-	77,513
Change in fair value of mortgage servicing rights	1,160,128	(377,136)
Depreciation	1,122,560	935,705
Write off of fixed assets	-	298,189
Residential mortgage loans originated for sale	(102,343,549)	(120,576,573)
Proceeds from sales of residential mortgage loans	101,274,110	127,770,020
(Increase) decrease in accrued interest receivable	(212,792)	221,833
(Increase) in other assets	(115,227)	(1,985,319)
(Decrease) increase in accrued interest payable, accounts payable and other liabilities	(2,381,319)	2,270,114
Net cash (used in) provided by operating activities	(724,229)	12,637,366
Cash flows from investing activities		
Proceeds from maturities, sales, and calls of securities AFS	45,602,547	24,205,767
Proceeds from maturities, sales, and calls of securities HTM	10,941	-
Purchases of securities AFS	(52,467,868)	(45,272,746)
Purchases of securities HTM	(4,201,730)	-
Redemption (purchase) of FHLB stock	141,200	(2,324,900)
Proceeds from sale of real estate owned	-	98,889
Proceeds from sales of commercial loans	-	4,415,312
Increase in time deposits with banks	(1,618,660)	(747,430)
Net (increase) decrease in loans receivable	(42,333,233)	117,244
Capital expenditures	(3,419,107)	(4,016,640)
Net cash used in investing activities	(58,285,910)	(23,524,504)
Cash flows from financing activities		
Dividends paid on Series B preferred stock	(340,008)	(355,488)
Dividends paid on REIT preferred stock	(6,620)	-
Proceeds from issuance of stock	393,053	623,999
Proceeds from issuance of minority REIT stock	72,000	-
Proceeds from other borrowed funds	-	61,000,000
Repayment of other borrowed funds	-	(10,000,000)
Net increase (decrease) in deposits	24,252,566	(30,349,227)
Net cash provided by financing activities	24,370,991	20,919,284
Net increase (decrease) in cash and cash equivalents	(34,639,148)	10,032,146
Cash and cash equivalents, beginning of year	62,333,380	52,301,234
Cash and cash equivalents, end of year	$ 27,694,232	$ 62,333,380

(Continued)

	2014	2013
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 3,783,100	$ 4,016,381
Income taxes	630,000	1,855,500
Supplemental non-cash disclosures		
Transfer of securities AFS to HTM	$ 15,148,141	$ -
Transfer of building to fixed assets held for sale	12,870,961	-

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 (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.

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 non-interest-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 banks 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 meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must 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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 is 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.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Company evaluates when determining adjustments to the historical loss factors include changes to, or the strength of the Company'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.

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 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fixed Assets Held for Sale: The assets are recorded at lower of cost or market.

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 gain on sale 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 Consolidated Statements of Operations and Comprehensive Income. 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.

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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: Comprehensive income 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 Company to concentration of credit risk consist primarily of temporary cash investments, which include due from banks, and loans receivable. As of December 31, 2014 and 2013, the Company had approximately $2,870,000 and $3,050,000, respectively, in deposit balances at certain financial institutions which were in excess of usual federally-insured limits. The Company 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.

There are no significant concentrations of loans to any one industry or customer. However, the majority of the Company's loans and loan commitments have been granted to customers in the Company'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 the New York metropolitan area.

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 Company has evaluated subsequent events for recognition and disclosure through <>, 2015, 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, 2014				
Municipal securities	$ 34,873,763	$ 7,786	$ (9,438)	$ 34,872,111
U.S. Treasury securities	4,000,510	47,459		4,047,969
Mortgage backed securities – residential	5,738,390	45,178	(12,863)	5,770,705
Mortgage backed securities – commercial	14,869,233	10,425	(84,660)	14,794,998
Corporate note securities	10,049,055	160,176	(13,225)	10,196,006
Asset backed securities	6,856,692	117,729	(17,660)	6,956,761
Collateralized mortgage obligations	8,805,793	82,991	(19,898)	8,868,886
	$ 85,193,436	$ 471,744	$ (157,744)	$ 85,507,436
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

The amortized cost and fair value of securities held to maturity, and related gross unrecognized gains and losses, were as follows:

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2014				
U.S. Government Agencies	$ 3,661,906	$ 37,440	$ (22,758)	$ 3,676,588
Municipal securities	1,373,012	35,101	(5,741)	1,402,372
U.S. Treasury securities	993,324	4,723	-	998,047
Mortgage backed securities – residential	3,973,599	16,314	(33,771)	3,956,142
Mortgage backed securities – commercial	3,617,749	5,489	(16,710)	3,606,528
Corporate note securities	4,190,789	33,507	-	4,224,296
Collateralized mortgage obligations	1,528,551	19,514	-	1,548,065
	$ 19,338,930	$ 152,088	$ (78,980)	$ 19,412,038

(Continued)

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair value of debt securities by contractual maturity at year-end 2014 were as follows:

	Available For Sale	
	Amortized Cost	Fair Value
Due before one year	$ 34,715,894	$ 34,724,866
Due after one year through five years	17,190,818	17,318,545
Due five years through ten years	5,389,845	5,367,264
Due over ten years	27,896,879	28,096,761
	$ 85,193,436	$ 85,507,436

	Held To Maturity	
	Amortized Cost	Fair Value
Due before one year	$ -	$ -
Due after one year through five years	5,093,289	5,062,432
Due five years through ten years	5,944,503	6,025,892
Due over ten years	8,301,138	8,323,714
	$ 19,338,930	$ 19,412,038

Securities with carrying amounts of approximately $6,957,000 as of December 31, 2014 were pledged as collateral to secure borrowings. There were no securities pledged as of December 31, 2013.

During 2014, proceeds from sales of securities were $13,208,725 with gross realized gains of $229,635 and gross losses of $9,880. During 2013, proceeds from sales of securities were $4,490,932 with gross realized gains of $28,247 and gross losses of $37,668.

Securities with unrealized losses at year-end 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Available for sale:

	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
December 31, 2014						
Municipal securities	$ 10,026,310	$ (1,446)	$ 1,243,449	$ (7,992)	$ 11,269,759	$ (9,438)
Mortgage backed securities – residential	1,003,087	(7,689)	685,980	(5,174)	1,689,067	(12,863)
Mortgage backed securities – Commercial	5,793,795	(14,503)	4,250,364	(70,157)	10,044,159	(84,660)
Corporate notes securities	2,597,243	(13,225)	-	-	2,597,243	(13,225)
Asset backed securities	1,005,604	(8,500)	910,985	(9,160)	1,916,589	(17,660)
Collateralized mortgage obligations	3,166,973	(15,859)	401,010	(4,039)	3,567,983	(19,898)
Total	$ 23,593,012	$ (61,222)	$ 7,491,788	$ (96,522)	$ 31,084,900	$ (157,744)

(Continued)

NOTE 2 – SECURITIES (Continued)

	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	$ (73,697)	$ -	$ -	$ 1,625,237	$ (73,697)
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 note securities	2,045,639	(8,723)	744,657	(2,163)	2,790,296	(10,886)
Asset backed securities	670,040	(2,245)	1,192,735	(8,144)	1,862,775	(10,389)
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)

Held to maturity:

	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
December 31, 2014						
U.S. Government agencies	$ -	$ -	$ 1,676,389	$ (22,758)	$ 1,676,389	$ (22,758)
Municipal securities	-	-	590,135	(5,741)	590,135	(5,741)
Mortgage backed securities – Residential	766,460	(1,403)	1,563,736	(32,368)	2,330,196	(33,771)
Mortgage backed securities – commercial	1,797,861	(7,081)	839,401	(9,629)	2,637,262	(16,710)
Total	$ 2,564,321	$ (8,484)	$ 4,669,661	$ (70,496)	$ 7,233,982	$ (78,980)

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 likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. 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.

At December 31, 2014, approximately $15.1 million were transferred from available for sale to held to maturity. At the time of transfer, the unrealized gain on those securities was not considered material.

NOTE 3 – LOANS RECEIVABLE

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

	2014	2013
Real estate – commercial	$ 129,193,238	$ 136,890,868
Real estate – residential	273,941,008	222,366,141
Commercial and industrial	1,805,325	2,702,751
Consumer and installment	664,714	586,000
	405,604,285	362,545,760
Less: Net deferred loan fees	(851,308)	(723,703)
Allowance for loan losses	(7,981,311)	(7,226,250)
Loans receivable, net	$ 396,771,666	$ 354,595,807

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2014 and 2013:

	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Installment	Total
December 31, 2014					
Allowance for loan losses:					
Beginning balance	$ 2,950,875	$ 3,489,351	$ 780,393	$ 5,631	$ 7,226,250
Provision for loan losses	290,010	1,172,501	(1,302,786)	(2,351)	157,374
Loans charged-off	(131,607)	(3,467)	-	(1,122)	(136,196)
Recoveries	154,168	15,253	559,141	5,321	733,883
Total ending allowance balance	$ 3,263,446	$ 4,673,638	$ 36,748	$ 7,479	$ 7,981,311
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

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, 2014 and 2013:

	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Installment	Total
December 31, 2014					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 115,037	$ 82,604	$ -	$ -	$ 197,641
Collectively evaluated for impairment	3,148,409	4,591,034	36,748	7,479	7,783,670
Total ending allowance balance	$ 3,263,446	$ 4,673,638	$ 36,748	$ 7,479	$ 7,981,311
Loans:					
Individually evaluated for impairment	$ 3,750,703	$ 2,309,233	$ 595,265	$ -	$ 6,655,201
Collectively evaluated for impairment	125,442,535	271,631,775	1,210,060	664,714	398,949,084
Total ending loans balance	$ 129,193,238	$ 273,941,008	$ 1,805,325	$ 664,714	$ 405,604,285
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

(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, 2014 and 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses
December 31, 2014			
With no related allowance recorded:			
Real estate - commercial	$ 3,803,370	$ 2,984,145	$ -
Real estate - residential	2,018,229	1,689,484	-
Commercial and industrial	2,627,138	595,265	-
With an allowance recorded:			
Real estate - commercial	811,850	766,558	115,037
Real estate - residential	654,227	619,749	82,604
	$ 9,914,814	$ 6,655,201	$ 197,641
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	-
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
	$ 14,248,913	$ 12,005,668	$ 645,519

The following table presents information for loans individually evaluated for impairment as of December 31, 2014 and 2013:

	2014	2013
Average recorded investment:		
Real estate - commercial	$ 6,339,522	$ 18,367,386
Real estate - residential	2,147,791	3,354,996
Commercial and industrial	861,151	1,294,305
	$ 9,348,464	$ 23,016,687
Interest income recognized during impairment	$ 1,360,832	$ 116,949
Cash basis interest income recognized	1,360,832	-

(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, 2014 and 2013:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2014	2013	2014	2013
Real estate - commercial	$ 3,196,116	$ 7,825,626	$ -	$ -
Real estate - residential	2,096,323	1,467,064	-	-
Commercial and industrial	569,491	1,111,650	-	-
Consumer and installment	-	-	-	-
Total	$ 5,861,930	$ 10,404,340	$ -	$ -

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, 2014 and 2013:

	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, 2014						
Real estate - commercial	$ 166,205	$ 553,805	$ 1,461,432	$ 2,181,442	$ 127,011,796	$ 129,193,238
Real estate - residential	1,059,072	714,856	-	1,773,928	272,167,080	273,941,008
Commercial and industrial	-	-	-	-	1,805,325	1,805,325
Consumer and installment	2,030	1,565	-	3,595	661,119	664,714
Total	$ 1,227,307	$ 1,270,226	$ 1,461,432	$ 3,958,965	$ 401,645,320	$ 405,604,285
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

Troubled Debt Restructurings

The Company has a recorded investment in troubled debt restructurings of $2,176,489 of performing and $71,192 of nonperforming as of December 31, 2014 compared to $4,678,067 of performing and $617,673 of nonperforming as of December 31, 2013. The Company has allocated $82,604 and $66,120 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013. The Company has not committed to lend any additional amounts as of December 31, 2014 and 2013, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2014 and 2013, 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.

There were no troubled debt restructurings modified during the year ended December 31, 2014.

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

	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

The troubled debt restructurings during the year ended December 31, 2013 did not impact the allowance for loan losses and resulted in no charge offs or recoveries.

(Continued)

NOTE 3 – LOANS RECEIVABLE (Continued)

There were no troubled debt restructurings for which there was a payment default during the year ended December 31, 2014.

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 ended December 31, 2013:

	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

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, 2014 and December 31, 2013.

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, 2014, 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.

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. 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.

NOTE 3 – LOANS RECEIVABLE (Continued)

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, 2014 and 2013, is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2014					
Real estate - commercial	$ 116,754,004	$ 5,132,232	$ 7,307,002	$ -	$ 129,193,238
Real estate - residential	270,726,066	397,032	2,817,910	-	273,941,008
Commercial and industrial	1,235,834	-	569,491	-	1,805,325
Consumer and installment	664,714	-	-	-	664,714
Total	$ 389,380,618	$ 5,529,264	$ 10,694,403	$ -	$ 405,604,285
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

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, 2014 and 2013, 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, 2014 and 2013 is presented in the recorded investment in nonaccrual loans table.

The Company does not make loans to executive officers and directors, and companies in which they have a beneficial ownership (related parties) in the normal course of business. During 2014 or 2013, there were no material related party loans.

NOTE 4 – BANK PREMISES AND EQUIPMENT

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

	2014	2013
Land	$ 400,000	$ 400,000
Buildings and improvements	9,067,215	14,955,401
Furniture, fixtures, automobiles and equipment	6,316,192	6,107,993
Construction-in-progress	-	3,775,819
	15,783,407	25,239,213
Less: Accumulated depreciation	(7,971,790)	(6,853,182)
	$ 7,811,617	$ 18,386,031

Depreciation expense was $1,122,560 and $935,705 for 2014 and 2013, respectively.

During 2014, $12,870,961 was transferred from buildings and improvements to fixed assets available for sale when it was determined to sell a building that had been intended to be a new branch office.

NOTE 5 – DEPOSITS

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

2015	$ 116,300,105
2016	43,625,230
2017	22,680,540
2018	7,604,772
2019	5,339,766
	$ 195,550,413

Deposits at December 31, 2014 and 2013, from related parties, which include officers, directors, stockholders and companies in which Directors of the Board have a significant ownership interest, approximated to $994,540 and $2,662,220, respectively.

Time deposits over $250,000 were $18,708,184 and $19,720,270 at December 31, 2014 and 2013, respectively.

(Continued)

NOTE 6 – 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, 2014 and 2013, the Company had borrowings of $61,000,000 with terms and maturities as follows:

Maturity	Amount	Weighted Average Interest Rate
2018	$ 35,500,000	1.88%
2020	25,500,000	2.58%
Total	$ 61,000,000	2.17%

The amount of loans pledged as collateral was approximately $99,000,000 and $104,000,000 at December 31, 2014 and 2013, respectively.

NOTE 7 – 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 rates for the three-month period ended December 31, 2014 and 2013, were 2.49% and 2.50%, respectively. Interest expense on the junior subordinated debentures was $175,925 and $189,106 for the years ended December 31, 2014 and 2013.

NOTE 8 – GRANTS

During the years ended December 31, 2014 and 2013, the Bank received grants of $355,000 and $393,000, 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 9 – INCOME TAXES

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

	2014	2013
Current		
Federal	$ 656,621	$ 336,457
State and local	70,199	55,316
	726,820	391,773
Deferred		
Federal	510,904	1,161,220
State and local	40,735	692,272
	551,639	1,853,492
Valuation allowance	431,988	-
	$ 1,710,447	$ 2,245,265

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

	2014	2013
Tax at federal statutory rate of 34%	$ 1,203,110	$ 1,752,921
Increase (decrease) resulting from:		
Meals and entertainment	26,576	11,550
State and local taxes, net of federal income tax benefit	73,216	493,408
Valuation allowance	431,988	-
Other	(24,443)	(12,614)
Total income tax expense	$ 1,710,447	$ 2,245,265

(Continued)

NOTE 9 – INCOME TAXES (Continued)

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

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 3,602,865	$ 3,260,714
Rent	1,018,604	968,156
Accrued reserves	192,302	320,046
Nonqualified stock options	170,505	170,437
Accrued litigation	180,565	216,591
Nonaccrual loan interest income	323,869	659,211
Other	24,827	-
	5,513,537	5,595,155
Deferred tax liabilities:		
Depreciation	$ (602,821)	$ (488,892)
Prepaid expenses	(99,722)	(113,399)
Mortgage servicing rights	(1,281,970)	(1,074,134)
Net unrealized gain on securities	(141,300)	(130,050)
Other	(162,460)	(527)
Total deferred tax liabilities	(2,288,273)	(1,807,002)
Valuation allowance	(431,988)	-
Net deferred tax asset	$ 2,793,276	$ 3,788,153

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.

Recent New York State tax law changes makes it unlikely that the Company will be paying any significant New York State income taxes in the future. Therefore, the Company has established a valuation allowance of $431,988, net of federal taxes, of its New York State deferred tax asset in 2014. 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 Company will realize the deferred asset recorded at December 31, 2014 and 2013.

At December 31, 2014 and 2013, 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.

(Continued)

NOTE 10 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2014	2013
Professional fees	$ 2,455,861	$ 2,956,285
Data processing	1,360,314	1,637,464
Office expense	1,053,433	832,001
Directors fees and expenses	638,771	611,241
Marketing and advertising	523,983	262,830
FDIC assessment expense	343,168	685,705
Stationary and printing	303,623	298,752
Staff training	300,711	110,996
Insurance	297,144	467,704
Loan processing fees	209,651	868,623
Other	180,099	96,554
	$ 7,666,758	$ 8,828,155

NOTE 11 – 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 Company 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 Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2014 and 2013, the following off-balance sheet financial instruments were outstanding whose contract amounts represent credit risk:

	2014	2013
Loan commitments	$ 24,449,750	$ 25,655,800
Unfunded commitments under lines of credit	17,765,390	19,776,083

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

(Continued)

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

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 $11,980,500 and $8,624,000 at December 31, 2014 and 2013, respectively.

Leases: The Company 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.

At December 31, 2014, future minimum rentals under lease agreements are approximately as follows:

2015	$ 2,979,000
2016	2,525,000
2017	2,448,000
2018	2,273,000
2019	2,125,000
Thereafter	2,716,000
	$ 15,066,000

Total rental expense for the years ended December 31, 2014 and 2013, was approximately $3,255,785 and $3,098,000, respectively. The leases contain a clause providing that the Company pay for property taxes, maintenance, and utilities for the premises.

NOTE 12 – 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. Employee salary deferral contributions are immediately vested. The Company does not match employee contributions.

NOTE 13 – STOCK-BASED COMPENSATION PLANS

The Company 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.

(Continued)

NOTE 13 – STOCK-BASED COMPENSATION PLANS (Continued)

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.

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 terminated on March 15, 2015. No options were granted from December 31, 2014 through 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 director 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 2014 and 2013.

A summary of the activity in the stock option plan for 2014 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	224,635	$ 22.41		
Granted	-	-		
Exercised	(30,235)	13.00		
Expired	-	-		
Forfeited	(24,000)	25.50		
Outstanding at end of year	170,400	$ 23.64	2.0	$ 110,000
Exercisable at year-end	170,400	$ 23.64	2.0	$ 110,000

(Continued)

NOTE 13 – STOCK-BASED COMPENSATION PLANS (Continued)

As of December 31, 2014, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan.

NOTE 14 – 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 that the Company and the Bank met all capital adequacy requirements to which they are subject.

(Continued)

NOTE 14 – 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
2014						
Total Capital to risk weighted assets						
Company	$ 77,779	21.39%	$ 29,090	8.00%	$ N/A	N/A
Bank	76,853	21.16%	29,058	8.00	36,323	10.00%
Tier I Capital to risk weighted assets						
Company	73,186	20.13%	14,545	4.00%	N/A	N/A
Bank	72,265	19.90%	14,529	4.00	21,794	6.00%
Tier I Capital to average assets						
Company	73,186	12.66%	23,130	4.00%	N/A	N/A
Bank	72,265	12.51%	23,114	4.00	28,892	5.00%
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%

Dividends: The Bank was 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. This restriction was lifted on October 7, 2014.

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 16.

NOTE 15 – 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.

NOTE 15 – DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS
(Continued)

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 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.

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 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.

NOTE 15 – 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)
2014			
Securities available for sale			
Corporate note securities	$ -	$ 10,196,006	$ -
Mortgage backed securities – residential	-	5,770,705	-
Mortgage backed securities – commercial	-	14,794,998	-
Collateralized mortgage obligations	-	8,868,886	-
Municipal securities	-	34,872,111	-
Asset back securities	-	6,956,761	-
U.S. Treasury securities	-	4,047,969	-
Mortgage servicing rights	-	-	7,245,842
2013			
Securities available for sale			
Corporate note securities	$ -	$ 14,534,601	$ -
Mortgage backed securities – residential	-	9,800,596	-
Collateralized mortgage obligations	-	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

Refer to Note 17 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, 2014 and 2013.

NOTE 15 – 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)
2014			
Impaired loans			
Real estate - commercial	$ -	$ -	$ 2,112,953
2013			
Impaired loans			
Real estate - commercial	$ -	$ -	$ 948,046
Real estate - residential	-	-	632,953
Commercial and industrial	-	-	618,710

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,227,990 with a valuation allowance of $115,037 as of December 31, 2014, resulting in no additional provision for loan losses for 2014. Impaired loans had a carrying amount of $2,789,108 with a valuation allowance of $589,399 as of December 31, 2013, resulting in no additional provision for loan losses for 2013.

There was no Other real estate owned as of December 31, 2014 and 2013.

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 15 – DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2014:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – real estate - commercial	$ 2,112,953	Sales comparison approach	Adjustment for differences between comparable sales	-35% to +5%
		Income approach	Capitalization rate	6% to 10%
Impaired loans – real estate - residential	$ 537,145	Sales comparison approach	Adjustment for differences between comparable sales	-10% to -20%

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

(Continued)

NOTE 15 – DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS
(Continued)

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

	Carrying Value	Estimated Fair Value
December 31, 2014		
Financial assets		
Cash and cash equivalents	$ 27,694	$ 27,694
Time deposits with banks	3,456	3,456
Securities available for sale	85,507	85,507
Securities held to maturity	19,339	19,412
Loans held for sale	4,984	4,984
Loans receivable, net	396,772	415,953
FHLB stock	3,322	N/A
Mortgage servicing rights	7,246	7,246
Accrued interest receivable	2,097	2,097
Financial liabilities		
Deposits	$ 435,564	$ 436,941
Other borrowed funds	61,000	61,660
Junior subordinated debentures	7,217	4,339
Accrued interest payable	1,039	1,039

	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 held for sale	3,575	3,575
Loans receivable, net	354,637	374,725
FHLB stock	3,463	N/A
Mortgage servicing rights	7,521	7,521
Accrued interest receivable	1,884	1,844
Financial liabilities		
Deposits	$ 411,311	$ 412,950
Other borrowed funds	61,000	59,685
Junior subordinated debentures	7,217	3,633
Accrued interest payable	924	924

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, time deposits with banks, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Similar to securities available for sale described previously, the fair value of securities held to maturity are determined by matrix pricing, utilizing an independent pricing service for significantly similar securities and relying on the securities' relationship to other benchmark quoted securities. 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

(Continued)

NOTE 15 – DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 16 – 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% of their liquidation preference.

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.

From the May 2011 through July 2014, the Company had to obtain regulatory approval prior to payment. The Company declared and paid $340,000 in dividends on TARP preferred stock in 2014 and 2013.

NOTE 17 – MORTGAGE SERVICING RIGHTS

Activity for loan servicing rights follows:

	2014	2013
Beginning of year	$ 7,520,707	$ 6,159,878
Additional gains	885,263	983,693
Change in fair value	(1,160,128)	377,136
End of year	$ 7,245,842	$ 7,520,707

(Continued)

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 2014 was determined using a discount rate of 10%, prepayment speeds ranging from 8.03 CPR to 9.56 CPR, depending on the stratification of the specific right, and a weighted average default rate of 0.28%. 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%.

The unpaid principal balance of loans serviced for others, which are not included in the accompanying consolidated statements of financial condition, were approximately $863,937,000 and $853,899,000 at December 31, 2014 and 2013. The custodial escrow balances for loans serviced for others were $3,078,594 and $3,024,641 at December 31, 2014 and 2013.

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 $2,007,324 and $1,532,680 for the years ended December 31, 2014 and 2013. 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.

(Continued)

NOTE 18 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2014	2013
Basic		
Net income	$ 1,828,111	$ 2,910,386
Less TARP Preferred Stock Dividend	$ (340,008)	$ (340,000)
Less TARP Discount Accretion	(415,522)	(410,867)
Less FAIB Capital Corp Preferred Stock Dividend	(6,620)	-
Net income available to common shareholders	$ 1,065,961	$ 2,159,519
Weighted average common shares outstanding, less treasury shares	2,198,946	2,169,211
Basic earnings per common share	$ 0.48	$ 1.00
Diluted		
Net income	$ 1,828,111	$ 2,910,386
Less TARP Preferred Stock Dividend	$ (340,008)	$ (340,000)
Less TARP Discount Accretion	(415,522)	(410,867)
Less Dividend on noncontrolling interest	(6,620)	-
Net income available to common shareholders	$ 1,065,961	$ 2,159,519
Weighted average common shares outstanding for basic earnings per common share	2,198,946	2,169,211
Add: Dilutive effects of assumed exercises of stock options	4,975	15,191
Average shares and dilutive potential common shares	2,203,921	2,184,402
Diluted earnings per common share	$ 0.48	$ 0.99

As of December 31, 2014 and 2013 there were 109,100 and 131,000 stock options that were anti-dilutive.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income, with related tax effects, included in total equity are as follows:

	2014	2013
Net unrealized gains (losses) on securities	$ 314,000	$ 289,000
Tax effect	(141,300)	(130,050)
Accumulated other comprehensive income (loss)	$ 172,700	$ 158,950

The components of other comprehensive income, with related tax effects, included in total comprehensive income are as follows:

	2014	2013
Net unrealized gain (loss) on securities available for sale:		
Unrealized holding gain (loss) arising during the period	$ (194,755)	$ (770,543)
Reclassification adjustment for losses included in gain (loss) on sale of securities, net in the statements of operations and comprehensive income	219,755	(9,421)
Tax effect	(11,250)	350,964
Other comprehensive income (loss)	$ 13,750	$ (429,000)