

# TGR Financial Inc. and Subsidiary

Financial Report  
12.31.2015

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**For the Years Ended December 31, 2015 and 2014**

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## Independent Auditor's Report

RSM US LLP

To the Board of Directors  
TGR Financial, Inc.  
Naples, Florida

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of TGR Financial, Inc. and its subsidiary (the Company), which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements, (collectively, financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TGR Financial, Inc. and its subsidiary as of December 31, 2015 and 2014, 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.

*RSM US LLP*

Jacksonville, FL  
March 28, 2016

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**TGR Financial, Inc. and Subsidiary**  
**Consolidated Statements of Financial Condition**

(dollars in thousands, except per share data)

	December 31, 2015	December 31, 2014
<b>Assets:</b>		
Cash and due from banks	\$ 6,999	\$ 8,543
Interest earning balances due from banks and others	28,856	10,240
<b>Total cash and cash equivalents</b>	<b>35,855</b>	<b>18,783</b>
Securities available-for-sale	262,714	260,813
Federal Reserve Bank stock	3,005	2,725
Federal Home Loan Bank stock	3,356	3,496
Loans, net of allowance for loan losses, \$8,757 and \$7,480, respectively	801,993	645,175
Premises and equipment, net	19,729	20,138
Other real estate owned, net	-	75
Accrued interest receivable	2,283	1,929
Goodwill and other intangibles	5,734	5,837
Bank owned life insurance	23,641	19,026
Deferred tax asset, net	9,734	11,533
Other assets	751	705
<b>Total assets</b>	<b>\$ 1,168,795</b>	<b>\$ 990,235</b>
<b>Liabilities and Stockholders' Equity:</b>		
<b>Liabilities:</b>		
Noninterest-bearing demand deposits	\$ 155,879	\$ 124,525
Interest-bearing liabilities:		
Money market	189,169	184,662
NOW	370,694	227,483
Savings	50,330	50,022
Certificates of deposits over \$250,000	49,448	48,914
Certificates of deposits equal or under \$250,000	77,314	116,124
<b>Total deposits</b>	<b>892,834</b>	<b>751,730</b>
Customer repurchase agreements	114,702	70,259
Short term borrowings	55,000	42,625
Long term borrowings	3,000	26,000
<b>Total borrowings</b>	<b>172,702</b>	<b>138,884</b>
Other liabilities	1,839	4,552
<b>Total liabilities</b>	<b>1,067,375</b>	<b>895,166</b>
<b>Stockholders' Equity:</b>		
Common stock, \$1 par value; 500,000,000 shares authorized, 17,227,448 and 16,788,681, issued and outstanding, respectively	17,227	16,789
Preferred stock, Nonvoting Series A Convertible, \$1 par value (liquidation preference \$0.001); 7,050,000 shares authorized, 1,037,984 issued and outstanding	1,038	1,038
Additional paid-in capital	90,874	88,592
Accumulated deficit	(6,904)	(11,581)
Accumulated other comprehensive income/(loss), net of tax	(815)	231
<b>Total stockholders' equity</b>	<b>101,420</b>	<b>95,069</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,168,795</b>	<b>\$ 990,235</b>

See Notes to Consolidated Financial Statements.

**TGR Financial, Inc. and Subsidiary**  
**Consolidated Statements of Operations**

For the Years Ended December 31,

(dollars in thousands, except per share data)

	2015		2014
Interest income:			
Loans	\$ 29,575	\$	26,045
Investment securities	4,247		3,931
Interest bearing balances due from banks and others	294		57
<b>Total interest income</b>	<b>34,116</b>		<b>30,033</b>
Interest expense:			
Deposits	3,762		3,024
Customer repurchase agreements	296		257
Other borrowed funds	221		199
<b>Total interest expense</b>	<b>4,279</b>		<b>3,480</b>
<b>Net interest income</b>	<b>29,837</b>		<b>26,553</b>
Provision for loan losses	1,070		1,720
<b>Net interest income after provision for loan losses</b>	<b>28,767</b>		<b>24,833</b>
Non-interest income:			
Service charges and fees on deposit accounts	1,060		890
Title and closing services revenue	501		432
Loss on loans held for sale	-		(322)
Loss on sale of other real estate owned	-		(28)
Gain on sale of fixed assets	-		6
Gain on sale of repossessions	-		21
Gain (loss) on sale of securities, net	32		(1,398)
Other than temporary impairment losses on securities available for sale	-		(128)
Bank owned life insurance	616		518
Bargain purchase gain (adjustment)	(79)		491
Other non-interest income	410		307
<b>Total non-interest income</b>	<b>2,540</b>		<b>789</b>
Non-interest expense:			
Salaries and employee benefits	13,960		12,882
Occupancy and equipment	3,503		3,514
Professional fees	544		600
Data processing	1,133		881
Advertising, marketing, and business development	974		659
Regulatory assessments	850		826
Merger and acquisition related expense	6		2,127
Reorganization expense	-		88
Other non-interest expense	3,052		2,544
<b>Total non-interest expense</b>	<b>24,022</b>		<b>24,121</b>
<b>Income before income taxes</b>	<b>7,285</b>		<b>1,501</b>
Provision (benefit) for income taxes	2,608		(98)
<b>Net income</b>	<b>\$ 4,677</b>	\$	<b>1,599</b>
<b>Basic income per common share</b>	<b>\$ 0.27</b>	\$	<b>0.10</b>
<b>Diluted income per common share</b>	<b>\$ 0.25</b>	\$	<b>0.09</b>
<b>Basic weighted average number of common shares outstanding</b>	<b>17,121,621</b>		<b>16,300,367</b>
<b>Diluted weighted average number of common shares outstanding</b>	<b>18,421,328</b>		<b>17,374,452</b>

See Notes to Consolidated Financial Statements.

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**TGR Financial, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income****For the Years Ended December 31,**

(dollars in thousands, except per share data)

**2015****2014**

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<b>Net income</b>	<b>\$</b>	<b>4,677</b>	<b>\$</b>	<b>1,599</b>
Other comprehensive income/(loss), net of tax:				
Unrealized holding gains/(losses) arising during the period		<b>(1,026)</b>		<b>2,253</b>
Less: Reclassification adjustment for (gains)/losses recognized in earnings		<b>(20)</b>		<b>1,526</b>
Other comprehensive income/(loss), net of tax:		<b>(1,046)</b>		<b>3,779</b>
<b>Total comprehensive income</b>	<b>\$</b>	<b>3,631</b>	<b>\$</b>	<b>5,378</b>

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See Notes to Consolidated Financial Statements.

**TGR Financial, Inc. and Subsidiary**  
**Consolidated Statements of Stockholders' Equity**

(dollars in thousands, except per share data)

	Number of Outstanding Common Stock Shares	Common Stock	Number of Outstanding Preferred Stock Shares	Preferred Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2013</b>	<b>14,333,620</b>	<b>\$ 14,334</b>	<b>126,573</b>	<b>\$ 127</b>	<b>\$ 75,614</b>	<b>\$ (13,180)</b>	<b>\$ (3,548)</b>	<b>\$ 73,347</b>
<b>Stock sale:</b>								
Pursuant to warrant exercise	1,084	1	-	-	10	-	-	11
Pursuant to private placement	1,211,733	1,212	911,411	911	7,401	-	-	9,524
Pursuant to acquisition	1,242,244	1,242	-	-	5,280	-	-	6,522
Net income	-	-	-	-	-	1,599	-	1,599
Stock compensation	-	-	-	-	287	-	-	287
Change in net unrealized gain (loss) on securities, net of reclassification and income tax	-	-	-	-	-	-	3,779	3,779
<b>Balance, December 31, 2014</b>	<b>16,788,681</b>	<b>\$ 16,789</b>	<b>1,037,984</b>	<b>\$ 1,038</b>	<b>\$ 88,592</b>	<b>\$ (11,581)</b>	<b>\$ 231</b>	<b>\$ 95,069</b>
<b>Stock sale:</b>								
Pursuant to option exercise	153	-	-	-	1	-	-	1
Pursuant to acquisition	438,614	438	-	-	1,864	-	-	2,302
Net income	-	-	-	-	-	4,677	-	4,677
Stock compensation	-	-	-	-	417	-	-	417
Change in net unrealized gain (loss) on securities, net of reclassification and income tax	-	-	-	-	-	-	(1,046)	(1,046)
<b>Balance, December 31, 2015</b>	<b>17,227,448</b>	<b>\$ 17,227</b>	<b>1,037,984</b>	<b>\$ 1,038</b>	<b>\$ 90,874</b>	<b>\$ (6,904)</b>	<b>\$ (815)</b>	<b>\$ 101,420</b>

See Notes to Consolidated Financial Statements.

**TGR Financial, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**

For the Years Ended December 31,

(dollars in thousands)

2015

2014

**Cash Flows From Operating Activities:**

Net income	\$	4,677	\$	1,599
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		1,070		1,720
Premium amortization and discount accretion on securities, net		3,019		2,013
Depreciation and amortization of premises and equipment		1,178		1,464
Amortization of net deferred loan costs		237		683
Origination of loans held for sale		-		(1,325)
Proceeds from sales of loans held for sale		-		9,222
Loss on sales of loans held for sale		-		322
Loss on sales and writedowns of other real estate owned		75		28
Gain on sale of fixed assets		-		(6)
Gain/loss on sales of securities available for sale		(32)		1,526
Deferred income tax (benefit) expense		2,476		(107)
Increase in bank owned life insurance cash surrender value		(615)		(518)
Amortization of purchase accounting adjustments		(2,308)		(3,907)
Amortization of other intangibles		103		88
Stock based compensation		417		287
Bargain purchase gain		79		(491)
Net change in:				
Accrued interest receivable		(354)		(173)
Other assets		(46)		2,605
Other liabilities		(536)		(2,702)
<b>Net cash provided by operating activities</b>		<b>9,440</b>		<b>12,328</b>

**Cash Flows From Investing Activities:**

Cash and equivalents received in acquisition		-		7,341
Purchase of premises and equipment		(769)		(1,174)
Purchase of Federal Home Loan and Federal Reserve Bank stock		(19,826)		(2,887)
Redemption of Federal Home Loan and Federal Reserve Bank stock		19,686		2,047
Purchase of bank owned life insurance		(4,000)		(8,501)
Purchase of securities available for sale		(113,620)		(153,755)
Proceeds from maturities, calls and principal repayments of securities available for sale		38,627		18,645
Proceeds from the sale of securities available for sale		68,428		83,369
Proceeds from the sale of fixed assets		-		59
Proceeds from the sale of other real estate		-		787
Originations and principal collections on loans, net		(155,951)		(109,864)
<b>Net cash used in investing activities</b>		<b>(167,425)</b>		<b>(163,933)</b>

**Cash Flows From Financing Activities:**

Net increase in deposits		141,238		128,118
Net (decrease) increase in customer repurchase agreements		44,443		(6,357)
Net increase in short term borrowings		12,375		32,625
Net (decrease) in long term borrowings		(23,000)		(10,000)
Net proceeds from exercise of options		1		-
Net proceeds from exercise of warrants		-		11
Net proceeds from private placement sale of stock		-		9,524
<b>Net cash provided by financing activities</b>		<b>175,057</b>		<b>153,921</b>

**Net increase in cash and cash equivalents**

**Cash and cash equivalents:**

Beginning of period		18,783		16,467
End of period	\$	35,855	\$	18,783

**Supplemental Disclosures of Cash Flow Information:**

Cash payments for interest	\$	4,143	\$	-
Cash payments for taxes	\$	41	\$	15
Non-cash: Stock issued in acquisition	\$	2,302	\$	6,522
Non-cash: Loans transferred to other real estate owned	\$	-	\$	234

See Notes to Consolidated Financial Statements.

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business: TGR Financial, Inc. (the “Company”) is a Florida corporation organized in November 2011 at the direction of the Board of Directors of First Florida Integrity Bank, formerly known as First National Bank of the Gulf Coast (the “Bank”) solely for the purpose of becoming a holding company for the Bank. Prior to September 25, 2012, the Company had no operating history and no business purpose other than to become a bank holding company.

The Bank commenced operations on October 23, 2009, as a federally chartered commercial bank in the State of Florida. On May 9, 2014, the Bank received approval from the Florida Officer of Financial Regulation on its application to convert from a nationally chartered bank to a Florida state chartered bank. The Federal Reserve Bank of Atlanta approved the charter conversion on June 6, 2014. Subsequent to the charter conversion, the Bank changed its name to First Florida Integrity Bank on June 28, 2014.

The Bank provides a full range of banking services to individual and corporate customers from its branch locations in Southwest Florida. All of the Bank’s activities relate to community banking and accordingly, the Bank has a single reportable segment.

On October 8, 2013, TGR Financial Inc., the Bank and Shamrock Bank of Florida (“Shamrock”) entered into an Agreement and Plan of Merger (as amended by Amendment No. 1 dated December 16, 2013). The Agreement and Plan of Merger (the “Merger”) provided for the acquisition of Shamrock by the Company by merging Shamrock with and into the Bank, with First Florida Integrity Bank as the surviving entity.

Basis of presentation: The consolidated financial statements present the years ended December 31, 2015 and 2014. The financial statements include the accounts of TGR Financial, Inc. and its wholly owned subsidiary, First Florida Integrity Bank and its wholly-owned subsidiary, First National Title and Closing Services, Inc. (“First National Title”), an entity formed to issue third-party title insurance and provide loan closing services. The operating results for First National Title are not material to the balance sheets or statements of operations. Significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Bank conform to accounting policies generally accepted in the United States of America and general practices within the financial services industry.

Use of estimates: In preparing the financial statements, management is required to make estimates and assumptions which significantly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to change in the near term include the allowance for loan losses, the valuation of loans acquired with credit deterioration, impairment of goodwill and intangibles, deferred tax asset and the fair values of financial instruments.

Cash and cash equivalents: Cash and cash equivalents includes cash on hand and amounts due from banks, including cash items in process of clearing, interest earning balances due from banks and federal funds sold. The Bank may be required to maintain reserve balances with the Federal Reserve Bank. The reserve balances required at December 31, 2015 and 2014 were \$6 million and zero, respectively. Cash flows from loans and deposits are reported net.

Securities available for sale: The Bank invests in debt securities. Management determines the appropriate classification of securities at the time of acquisition and evaluates the appropriateness of the classification at each balance sheet date. The Bank does not engage in securities trading activities and accordingly no securities are classified as trading securities. Securities available for sale consist of debt securities not classified as held to maturity or trading and are carried at fair value. Unrealized holding gains and losses on securities available for sale are excluded from earnings and reported as a separate component of accumulated other comprehensive income, net of tax.

The amortization of premiums and accretion of discounts, computed by the interest method over the contractual lives of the related securities, are recognized in interest income. Realized gains and losses on the sale of securities are recorded in earnings on the trade date and are determined on the specific identification basis.

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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On a quarterly basis, the investment portfolio is evaluated for other-than-temporary-impairment (“OTTI”) in accordance with ASC 320, “Investments – Debt and Equity Securities.” An investment security is considered impaired if the fair value of the security is less than its cost or amortized cost basis. When impairment of an equity security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded in earnings. When impairment of a debt security is considered to be other-than-temporary, the security is written down to its fair value. The amount of OTTI recorded as a loss in earnings depends on whether we intend to sell the debt security and whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If we intend to sell the debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the entire difference between the security’s amortized cost basis and its fair value is recorded as an impairment loss in earnings. If we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis, OTTI is separated into the amount representing credit loss and the amount related to all other market factors. The amount related to credit loss is recognized in earnings. The amount related to other market factors is recognized in other comprehensive income, net of applicable taxes.

The amount of OTTI recorded in earnings as a credit loss is dependent upon management’s estimate of discounted future cash flows expected from the investment security. The difference between the expected cash flows and the amortized cost basis of the security is considered to be credit loss. The remaining difference between the fair value and the amortized cost basis of the security is considered to be related to all other market factors. Our estimate of discounted future cash flows incorporates a number of assumptions based on both qualitative and quantitative factors. Performance indicators of the security’s underlying assets, including credit ratings and current and projected default and deferral rates, as well as the credit quality and capital ratios of the issuing institutions are considered in the analysis. Changes in these assumptions could impact the amount of OTTI recognized as a credit loss in earnings.

Federal Home Loan Bank and Federal Reserve Bank stock: The Bank, as a member of the Federal Home Loan Bank (“FHLB”) of Atlanta system and of the Federal Reserve Bank, is required to maintain an investment in capital stock of the FHLB and the Federal Reserve Bank. FHLB and Federal Reserve Bank stock are carried at cost. No ready market exists for this stock and it has no quoted market value. Management evaluates FHLB and Federal Reserve Bank stock for impairment based on the ultimate recoverability of its cost basis. No other than temporary write downs were recorded on these securities.

Loans: Loans originated during the period are stated at the amount of unpaid principal, reduced by deferred loan origination fees, net of direct loan origination costs, and an allowance for loan losses.

Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on loans is generally discontinued when a loan is greater than 90 days past due or when, in the opinion of management, full repayment of principal and interest is in doubt. Past due status is based on contractual terms of the loans. Interest accrued but uncollected for loans placed on nonaccrual status is reversed against interest income. Interest on these loans is accounted for on the cash or cost-recovery basis until the loans qualify for return to accrual status. Accrual of interest is generally resumed when the customer is current on all principal and interest payments and collectability of the loan is no longer in doubt.

Loans are considered impaired when, based on current information and events, it is probable the Bank will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans such as consumer and residential mortgage loans may be collectively evaluated for impairment.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount is amortized, using the effective interest method, as an adjustment of the related loan’s yield over the contractual life of the loans. Commitment fees that are based upon a percentage of a customer’s unused line of credit and fees related to standby letters of credit are recognized over the commitment period, using the straight-line method.

A loan is classified as a troubled debt restructured loan when a borrower is experiencing financial difficulties that lead to a restructuring and the Bank grants a concession it would not otherwise consider. Concessions may include rate reductions, extensions of maturities or other potential actions intended to minimize potential losses.

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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Troubled debt restructurings, by definition, are impaired loans. As such, they are measured on a loan-by-loan basis (or in pools of similar characteristics) by either the present value of expected future cash flows discounted at the loan's original contractual interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Loans held for sale: Loans held for sale include residential real estate mortgages that were originated in accordance with secondary market pricing and underwriting standards and are stated at the lower of cost or fair value determined on an aggregate basis. Gains and losses on loan sales are recorded in non-interest income. The Bank does not retain servicing responsibility on loans sold. The Bank may also classify other types of loans as held for sale on an exception basis under certain circumstances. In those instances, those loans will be recorded at the lower of cost or fair value.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Allowance for loan losses: The allowance for loan losses is maintained at a level considered adequate to absorb losses relating to specifically identified loans as well as probable credit losses inherent in the balance of the loan portfolio. The allowance is established by a provision charged to operations. Loans are charged against the allowance when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The Bank performs on-going credit reviews of individual non-homogeneous loans in the portfolio considering current economic conditions, borrower's payment history, developments in the Florida real estate market, historical loan loss experience, industry loan loss experience, specific problem loans, growth and composition of the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of underlying collateral, financial strength of guarantors, and other factors in determining the adequacy of the allowance. A loan is considered impaired if it is probable that the Bank will be unable to collect all amounts due according to the contractual loan agreement. A specific reserve may initially be established for each loan based upon impairment analyses when it is the Bank's expectation principal will be collected. While management uses the best information available to make its evaluation, the evaluation is inherently subjective and future adjustments to the allowance may be necessary.

The allowance consists of specific and general components. Specific reserves may be established for loans that management has determined to be impaired. The general component is determined by major loan category based on historical loss experience adjusted for the aforementioned qualitative factors and in certain cases, peer data.

The Bank has developed policies and procedures for evaluating the overall quality of the credit portfolio and the timely identification of loans that may pose a risk of loss. Additions to the allowance for loan losses, which are expensed as the provision for loan losses on the statement of operations, are made periodically to maintain the allowance at an appropriate level to absorb losses incurred in the portfolio based on management's analysis of collectability. Any loan losses and recoveries would be charged or credited directly to the allowance. The Bank maintains a component of the allowance for three categories of real estate secured loans in our portfolio – residential (first mortgage, second mortgage and home equity lines of credit), commercial real estate loans and construction/other real estate loans, and two other categories, commercial and industrial, and consumer loans.

Under the Bank's loan risk rating system, each loan is risk rated between one and nine by the originating loan officer, credit management, and loan review or loan committee. Loans rated one represent those loans least likely to default and a loan rated nine represents a loss. Estimated loan default factors are multiplied by individual loan balances for each loan type to determine an appropriate level of allowance by loan type. This approach is applied to all components of the loan portfolio.

The general allowance for loan losses also includes estimated losses resulting from macroeconomic factors and adjustments to account for imprecision of the loan loss model. Macroeconomic factors adjust the allowance for loan losses upward or downward based on the current point in the economic cycle and are applied to the loan loss model

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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through a separate allowance element for the commercial, commercial real estate, and residential real estate loan components. To determine the Bank's macroeconomic factors, the Bank uses specific economic data that has a correlation with loan losses. The Bank reviews this data quarterly to determine that such a correlation continues to exist. Additionally, the macroeconomic factors are reviewed quarterly in order to conclude they are appropriate based on current economic conditions. Other qualitative factors considered include, but are not limited to: recent loan loss trends, changes in portfolio composition, concentrations of credit, changes in the Bank's risk profile, current interest rates and local economic conditions and trends. Based on present information, the Bank considers the allowance for loan losses to be appropriate. Management's judgment about the appropriateness of the allowance is based on a number of assumptions about future events which the Bank believes to be reasonable, but which may or may not prove to be accurate. There can be no assurance that charge-offs in future periods will not exceed the allowance for loans losses or that additional increases in the allowance for loan losses will not be required.

Loans acquired through transfer or business combination: Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, in accordance with ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30") and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Increases in expected cash flows to be collected on these loans are recognized as an adjustment of the loan's yield over its remaining life, while decreases in expected cash flows are recognized as impairment or reduced yield over the remaining life. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans.

Premises and equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	39.5
Leasehold improvements	10 - 10.6
Furniture, fixtures and office equipment	5 - 10
Computer equipment	3 - 5
Automobiles	3

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the lease terms. The Bank establishes salvage values equal to 25% of the original cost on automobiles.

Other real estate owned: Real estate properties acquired through or in lieu of foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure establishing a new costs basis. Fair value is determined by obtaining appraisals or other market value information at least annually. Any write-downs in value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by obtaining updated appraisals or other market information. Any subsequent write-downs are recorded as a charge to operations, if necessary to reduce the carrying value of a property to the updated fair value less estimated selling cost. Net costs related to the holding of properties are included in noninterest expense.

Goodwill and other intangible assets: Goodwill and indefinite lived intangibles recognized in business combination transactions are not amortized but are evaluated at least annually for impairment. Other intangible assets with finite lives are amortized over their expected useful lives using the straight line method and are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impairment exists when the carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test. The first step includes the determination of the carrying value of the Bank's single reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. The Bank's annual impairment analysis as of December 31, 2015, indicated that the fair value of the reporting unit exceeded its carrying amount. Consequently, the second step to the impairment test was not necessary.

Income taxes: The Company files a consolidated federal tax return. Deferred taxes are determined using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating

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losses or tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the basis of assets and liabilities for income tax and financial reporting purposes. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in the valuation allowance are included in the Company's tax position within the period of change. In determining whether a valuation is warranted, the Bank evaluates factors such as expected future earnings and tax strategies.

Tax benefits are recognized if it is more-likely-than-not, based on the technical merits, the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Interest and penalties on income taxes are recognized as a component of income tax expense.

Share-based compensation: Stock-based compensation expense is measured using fair value and is recorded over the requisite service or performance period of the awards, or to an employee's eligible retirement date under the award agreement, if earlier. The Company measures stock-based compensation expense using the calculated value method. Under this method, the Company estimates the fair value of each stock option on the grant date using the Black-Scholes valuation model. The Company uses a simplified method of the midpoint between vesting date and expiration date to determine estimated term. Since there is not sufficient historical market experience for shares of the company's stock, the Company has chosen to estimate volatility, by using the average volatility of a selected peer group of publicly traded companies operating in the same industry. Expected dividends are based on the assumption that no dividends were expected to be distributed in the near future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The Company typically recognizes stock-based compensation expense for time-based awards on a straight-line basis over the requisite service period and on a graded vesting attribution model for performance-based awards when meeting the performance target is probable. Stock-based compensation expense for time-based and performance-based stock options for employee grants is recognized in personnel costs, while expense for director grants is included in other operating expenses on the Consolidated Statements of Operations. The related income tax expense (benefit) on stock-based compensation is recognized in income tax expense on the Consolidated Statements of Operations. The Company's current policy is to issue new shares upon the exercise of stock options.

Bank owned life insurance: The Bank has life insurance policies on certain key executives. Bank-owned life insurance ("BOLI") is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts likely due at settlement.

Fair value measurements: Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, unadjusted for transaction costs.

Disclosure of fair value measurements is based on a three-level valuation hierarchy. Fair value is used on a recurring basis for assets and liabilities that are elected to be accounted at fair value as well as for assets and liabilities in which fair value is the primary basis of accounting such as for securities available for sale. Fair value is used on a non-recurring basis to evaluate assets and liabilities for impairment or for disclosure purposes. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

Level I – inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

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Level II – inputs to the valuation methodology include quoted prices in markets that are not active or quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – inputs to the valuation methodology are unobservable, reflecting the entity’s own assumptions about assumptions market participants would use in pricing the asset or liability.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Depending on the nature of the asset or liability, the Bank uses a variety of valuation techniques when estimating fair value. See Note 16 for further disclosure about fair value measurements.

Income per share: Basic income per share represents net income divided by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings per share reflects additional, potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to earnings that would result from the assumed issuance, using the treasury stock method. Potentially dilutive common shares that may be issued by the Company include convertible preferred stock and outstanding stock options and warrants.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists of the net change in unrealized gains and losses on the Company’s securities available for sale, including the noncredit-related portion of unrealized gains (losses) of other than temporarily impaired securities, and the effective portion of the change in fair value of derivative instruments.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*.” ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of this standard to annual and interim periods beginning after December 15, 2017; however, early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact, if any, ASU 2014-09 will have on its financial position, results of operations, and its financial statement disclosures.

In January 2015, the FASB issued ASU 2015-01, “*Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*.” ASU 2015-01 eliminates from GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for interim and annual periods beginning after December 15, 2015. ASU 2015-01 is not expected to have a significant impact on the Company’s financial position, results of operations, or its financial statement disclosures.

In February 2015, the FASB issued ASU 2015-02, “*Consolidation (Topic 810): Amendments to the Consolidation Analysis*” which amends the consolidation requirements of ASU 810 by changing the consolidation analysis required under GAAP. The revised guidance amends the consolidation analysis based on certain fee arrangements or relationships to the reporting entity and, for limited partnerships, requires entities to consider the limited partner’s rights relative to the general partner. ASU 2015-02 is effective for annual and interim periods beginning after December 15, 2015. ASU 2015-02 is not expected to have a significant impact on the Company’s financial position, results of operations, or its financial statement disclosures.

In April 2015, the FASB issued ASU 2015-03, “*Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. In August 2015, the FASB issued ASU 2015-15 to clarify the Securities and Exchange Commission (“SEC”) staff’s position on presenting and measuring debt issue costs related to line-of-credit arrangements. ASU 2015-03 and ASU 2015-15 are effective for interim and annual periods beginning after

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December 15, 2015. ASU 2015-03 and ASU 2015-15 are not expected to have a significant impact on the Company's financial position, results of operations, or its financial statement disclosures.

In September 2015, the FASB issued ASU 2015-16 "*Simplifying the Accounting for Measurement-Period Adjustments*." ASU 2015-16 requires entities to recognize measurement period adjustments during the reporting period in which the adjustments are determined. The income effects, if any, of a measurement period adjustment are cumulative and are to be reported in the period in which the adjustment to a provisional amount is determined. Also, ASU 2015-16 requires presentation on the face of the income statement or in the notes, the effect of the measurement period adjustment as if the adjustment had been recognized at acquisition date. ASU 2015-16 is effective for fiscal periods beginning after December 15, 2016 and should be applied prospectively to measurement period adjustments that occur after the effective date.

In January 2016, FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*." ASU 2016-01 revises the accounting for the classification and measurement of investments in equity securities and revises the presentation of certain fair value changes for financial liabilities measured at fair value. For equity securities, the guidance in ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires presenting, in other comprehensive income, the change in fair value that relates to a change in instrument-specific credit risk. ASU 2016-01 also eliminates the disclosure assumptions used to estimate fair value for financial instruments measured at amortized cost and requires disclosure of an exit price notion in determining the fair value of financial instruments measured at amortized cost. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. The Company is evaluating the impact, if any, that ASU 2016-01 will have on its financial position, results of operations, and its financial statement disclosures.

In February 2016, FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" requires the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Topic 842 will be effective for the Company for reporting periods beginning January 1, 2020, with an early adoption permitted. Management is currently evaluating the impact of Topic 842 on the Company's consolidated financial statements.

Proposed Accounting Pronouncements – In December 2012, the FASB announced a project related to the impairment of financial instruments in an effort to provide new guidance that would significantly change how entities measure and recognize credit impairment for certain financial assets. While completion of the project and related guidance is still pending, it is anticipated that new guidance will replace the current incurred loss model that is utilized in estimating the ALLL with a model that requires management to estimate all contractual cash flows that are not expected to be collected over the life of the loan. The FASB describes this revised model as the current expected credit loss ("CECL") model and believes the CECL model will result in more timely recognition of credit losses since the CECL model incorporates expected credit losses versus incurred credit losses. The proposed scope of FASB's CECL model would include loans, held-to-maturity debt instruments, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value. The final issuance date and the implementation date of the CECL guidance is currently pending, and the Company will continue to monitor FASB's progress on this project.

Reclassifications: Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income or stockholders' equity.

Subsequent Events: Management has evaluated subsequent events through the date the financial statements were issued.

NOTE 2. BUSINESS COMBINATIONS

On March 14, 2014 (the “Closing Date”), the Company and the Bank completed its acquisition of Shamrock Bank of Florida. The Merger provided that all outstanding Shamrock common stock were converted into the right to receive common stock of the Company, at a conversion rate of .590 Company shares for each Shamrock share outstanding, plus a contingent right to receive additional shares of the Company upon the occurrence of certain events. On the closing date, the Company issued 1,242,244 common shares to the former Shamrock shareholders. The contingent payment rights entitled holders to additional shares upon the occurrence of any of the following events (subject to conditions further described in the Merger agreement) after the Merger closes: (a) the receipt of monies (net of related taxes and expense) related to a pending insurance claim; or (b) the receipt of monies related to pending litigation involving a title insurance dispute; or (c) the final determination by TGR of the recognizable amount, if any, of Shamrock’s deferred tax asset, not to exceed the maximum amount of \$1,313,000. The contingent payment rights automatically terminated on the March 14, 2015, the one year anniversary of the closing date of the Merger. On March 30, 2015, the Company issued Shamrock shareholders contingent consideration of 438,614 common shares.

Costs related to the acquisition were \$2.1 million and largely consisted of conversion costs and professional fees. As of the Closing Date, the Bank acquired assets with a fair value of approximately \$91.5 million and assumed liabilities of approximately \$81.8 million. The acquisition resulted in an initial pre-tax bargain purchase gain, as measured at December 31, 2014, of \$491,000. This gain is considered a bargain purchase gain under FASB ASC Topic 805, “Business Combinations”, since the total acquisition-date fair value of the identifiable net assets exceeds the fair value of the consideration transferred.

In February 2015, additional expenses associated with the receipt of the insurance claim (as discussed in the contingent payment rights, item (a) mentioned above) totaling approximately \$336,000 were identified. In accordance with this adjustment, the Contingent Consideration, bargain purchase gain and to a lesser extent, certain other assets and other liabilities were re-measured. The adjustments decreased the bargain purchase gain to \$412,000 and reduced the contingent consideration payable to 438,614 shares of common stock valued at approximately \$2.3 million. In March 2015, the contingent consideration was distributed increasing the total and final value of consideration in the Merger to approximately \$8.8 million.

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The following table sets forth the values as of the Closing Date and for the period ended December 31, 2015:

(dollars in thousands)	March 14, 2014	December 31, 2015
<b>Assets Acquired:</b>		
Cash and due from banks	\$ 1,327	\$ 1,327
Interest earning balances due from banks	6,014	6,014
<b>Total cash and cash equivalents</b>	<b>7,341</b>	<b>7,341</b>
Securities available-for-sale	26,960	26,960
Federal Home Loan Bank stock	356	356
Loans	51,516	51,516
Core deposit intangible	669	669
Interest receivable and other assets	4,639	4,685
<b>Total assets acquired</b>	<b>\$ 91,481</b>	<b>\$ 91,527</b>
<b>Liabilities Assumed:</b>		
Noninterest-bearing demand deposits	\$ 9,520	\$ 9,520
Interest-bearing liabilities:		
Money market	17,034	17,034
NOW	11,984	11,984
Savings	1,337	1,337
Certificates of deposit	41,600	41,600
<b>Total deposits</b>	<b>81,475</b>	<b>81,475</b>
Other liabilities	354	815
<b>Total liabilities assumed</b>	<b>81,829</b>	<b>82,290</b>
<b>Net Assets Acquired:</b>	<b>\$ 9,652</b>	<b>\$ 9,237</b>
Consideration (1,242,244 and 1,680,858 shares of common stock, respectively)	\$ 6,522	\$ 8,825
Contingent consideration payable	2,639	-
	<b>\$ 9,161</b>	<b>\$ 8,825</b>
<b>Bargain purchase gain</b>	<b>\$ 491</b>	<b>\$ 412</b>

The determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature.

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NOTE 3. SECURITIES

The amortized cost and fair value of securities available for sale at December 31, 2015 and 2014, respectively, are summarized as follows (dollars in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2015:</b>				
<u>Securities Available for Sale</u>				
U.S. Government agencies and government sponsored entities	\$ 79,385	\$ 214	\$ 443	\$ 79,156
Agency mortgage backed securities	144,255	117	942	143,430
Agency collateralized mortgage obligations	18,995	70	169	18,896
Corporate bonds	21,386	12	166	21,232
Total	<u>\$ 264,021</u>	<u>\$ 413</u>	<u>\$ 1,720</u>	<u>\$ 262,714</u>

<b>December 31, 2014:</b>				
<u>Securities Available for Sale</u>				
U.S. Government agencies and government sponsored entities	\$ 156,746	\$ 611	\$ 664	\$ 156,693
Agency mortgage backed securities	85,548	535	175	85,908
Agency collateralized mortgage obligations	6,693	50	5	6,738
Corporate bonds	11,456	53	35	11,474
Total	<u>\$ 260,443</u>	<u>\$ 1,249</u>	<u>\$ 879</u>	<u>\$ 260,813</u>

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2015 and 2014, respectively, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (dollars in thousands). Corporate bond investments are substantially from the financial services sector.

	Less than Twelve Months		Twelve Months or More		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value
<b>December 31, 2015:</b>						
U.S. Government agencies and government sponsored entities	\$ 146	\$ 32,625	\$ 297	\$ 23,351	\$ 443	\$ 55,976
Agency mortgage backed securities	749	109,218	193	9,687	942	118,905
Agency collateralized mortgage obligations	168	14,618	1	103	169	14,721
Corporate bonds	127	13,867	39	2,960	166	16,827
	<u>\$ 1,190</u>	<u>\$ 170,328</u>	<u>\$ 530</u>	<u>\$ 36,101</u>	<u>\$ 1,720</u>	<u>\$ 206,429</u>
<b>December 31, 2014:</b>						
U.S. Government agencies and government sponsored entities	\$ 404	\$ 52,089	\$ 260	\$ 27,051	\$ 664	\$ 79,140
Agency mortgage backed securities	7	5,078	168	11,196	175	16,274
Agency collateralized mortgage obligations	5	1,679	-	-	5	1,679
Corporate bonds	5	2,579	30	4,469	35	7,048
	<u>\$ 421</u>	<u>\$ 61,425</u>	<u>\$ 458</u>	<u>\$ 42,716</u>	<u>\$ 879</u>	<u>\$ 104,141</u>

As of December 31, 2015, a total of 96 investment securities were in unrealized loss positions. The unrealized losses resulted from fair values falling below book values due to higher levels of market interest rates on the measurement date. The fair value of fixed rate investment securities is inversely proportional to interest rates, i.e., rising market rates of interest cause reductions in the fair values assigned to investment securities. Unrealized losses, by security type, as of December 31, 2015, are further described below. Pursuant to the Bank's OTTI Policy,

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management performed OTTI assessments, however no OTTI was concluded. The primary conclusion is the Bank does not intend to sell, nor is the Bank more-likely-than-not to be required to sell these securities.

As of December 31, 2015, 42 U.S. government agency securities were in unrealized loss positions. One bond was issued by the Federal Farm Credit Bank and had remained in a loss position for two consecutive months. The remaining 41 bonds were issued by the Small Business Administration (“SBA”); the bond credit rating is implicit AAA. All market values fell within 98% of book value. Management concluded that the unrealized losses within the agency securities were not other-than-temporary based on:

- Small unrealized losses
- The issuer has not defaulted
- The unconditional full faith and credit guarantee of the U.S. Government
- AAA credit rating
- The Bank does not intend to sell, nor is the Bank more likely than not to be required to sell

As of December 31, 2015, 33 mortgage-backed securities were in unrealized loss positions. Management concluded that the unrealized losses within the MBS securities were not other-than-temporary. The Bank does not intend to sell, nor is the Bank more-likely-than-not to be required to sell these securities.

As of December 31, 2015, eleven collateralized mortgage obligation bonds issued by the Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Government National Mortgage Association (“GNMA”) were in unrealized loss positions. Management concluded that the unrealized losses within these fixed rate CMO bonds were not other-than-temporary. The Bank does not intend to sell, nor is the Bank more-likely-than-not to be required to sell these securities.

As of December 31, 2015, ten corporate bonds were in unrealized loss positions. A corporate bond issued by Goldman Sachs Group and a corporate bond issued by the Royal Bank of Canada which had each remained in unrealized loss positions for 32 consecutive months were assessed for OTTI. Management concluded that the unrealized losses within the corporate bond portfolio were not other-than-temporary based on:

- Small unrealized losses
- The issuers had not defaulted
- The issuers’ size and financial strength
- The Bank’s ability to hold the bonds to maturity on April 30, 2018 and April 30, 2020

The amortized cost and fair value of securities at December 31, 2015 by contractual maturities are shown below (dollars in thousands).

<b>December 31, 2015:</b>	<b>Securities Available for Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due within one year	\$ 1,999	\$ 2,006
Due after one year through five years	21,139	20,958
Due after five years through ten years	71,669	71,405
Due over ten years	169,214	168,345
Total	\$ 264,021	\$ 262,714

During the year ended December 31, 2015, the Bank sold securities with gross gains of \$367,000 and gross losses of \$335,000. During the year ended December 31, 2014, the Bank sold securities with gross gains of \$109,000 and gross losses of \$1.5 million and recognized an OTTI charge of \$128,000.

At December 31, 2015 and December 31, 2014, respectively, securities with a carrying value of \$84 million and \$190 million were pledged to the State of Florida as collateral for deposits of public entities. Additionally, \$23 million in cash collateral was also pledged to the State of Florida at December 31, 2015; \$10 million at December 31, 2014. On June 30, 2015, the Bank reduced its level of pledged securities by obtaining a letter of credit from the FHLB; additional details found under Note 6. At December 31, 2015 and December 31, 2014, respectively, securities with a carrying value of \$120 million and \$68.3 million were pledged as collateral for customer repurchase agreements.

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NOTE 4. LOANS, ALLOWANCE AND ASSET QUALITY

The composition of net loans is as follows at December 31, 2015 and 2014, respectively (dollars in thousands).

	<b>For the Years Ended December 31,</b>			
	<b>2015</b>		<b>2014</b>	
Residential single and multifamily	\$ 323,079	40%	\$ 281,699	43%
Commercial real estate	342,256	42%	243,590	37%
Construction loans	91,638	11%	82,343	13%
Commercial and industrial	39,458	5%	33,115	5%
Consumer installment loans	14,319	2%	11,908	2%
	<u>810,750</u>	<u>100%</u>	<u>652,655</u>	<u>100%</u>
Less allowance for loan losses	<u>(8,757)</u>		<u>(7,480)</u>	
Net loans	<u>\$ 801,993</u>		<u>\$ 645,175</u>	

Loan Origination/Risk Management

The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. Management evaluates credit risk on the following portfolio segments:

Residential Single and Multifamily Loans (including Home Equity Lines of Credit): The Bank originates fixed and adjustable rate residential real estate loans secured by one to four family and, on a very limited basis, multifamily dwellings. First mortgage loan terms range from five to thirty years. In deciding whether to make a residential real estate loan, the Bank considers the qualifications of the borrower as well as the value of the underlying property.

Commercial Real Estate Loans: The Bank's goal is to originate and maintain a high quality portfolio of commercial real estate loans with customers who meet the quality and relationship profitability objectives of the Bank. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial 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 underlying property. The Bank also looks to the sale of the underlying collateral as a means of secondary repayment. 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/or property type.

Commercial and Industrial Loans: Commercial credit is extended primarily to middle market customers. Such credits typically comprise working capital loans, loans for physical asset expansion, asset acquisition loans and other business loans. Loans to closely held businesses will generally be guaranteed in full or for a substantial amount by the businesses' majority owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Construction Loans: The Bank defines construction loans as loans where the loan proceeds are controlled by the Bank and used exclusively for the improvement of residential or commercial real estate in which the Bank holds a mortgage. These loans generally must be supported by an adequate "as completed" value of the underlying project. In addition to the underlying project, the financial history of the borrower weighs significantly in determining approval. The repayment of these loans is typically through permanent financing upon completion of the construction. Real estate construction loans are inherently more risky than loans on completed properties due to the

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unimproved nature and the financial risks of construction. Due to the inherent risk in this type of loan, they are subject to industry specific policy guidelines outlined in the Bank's Loan Policy and are monitored closely.

Consumer Installment Loans: The Bank originates consumer loans mostly comprised of automobile and light duty truck loans, lot loans and personal lines of credit, secured and unsecured. Each loan type has a separate underwriting matrix including but not limited to debt to income ratio, term requirements, type of collateral and loan to collateral value, credit history and relationship with the borrower.

Allowance For Loan Losses

The following table illustrates certain information with respect to our allowance for loan losses and the composition of charge-offs and recoveries for the years ended December 31, 2015 and 2014, respectively, (dollars in thousands).

	<b>Residential</b>					
	<b>Single &amp; Multifamily</b>	<b>Commercial Real Estate</b>	<b>Construction Loans</b>	<b>Commercial and Industrial</b>	<b>Consumer and Other</b>	<b>Total</b>
<b>The Bank's activity in the allowance for loan losses is summarized below for the year ended 12/31/15:</b>						
Originated Loans:						
Beginning Balance	\$ 1,808	\$ 3,277	\$ 1,167	\$ 627	\$ 183	\$ 7,062
Provision	71	1,135	202	(307)	(55)	1,046
Charge Offs	5	-	-	-	21	26
Recoveries	-	149	-	95	7	251
Ending Balance Originated Loans:	<u>\$ 1,874</u>	<u>\$ 4,561</u>	<u>\$ 1,369</u>	<u>\$ 415</u>	<u>\$ 114</u>	<u>\$ 8,333</u>
Acquired Loans:						
Beginning balance	147	263	1	1	6	418
Provision	31	(18)	(1)	-	12	24
Charge Offs	-	-	-	-	18	18
Recoveries	-	-	-	-	-	-
Ending Balance Acquired Loans:	<u>\$ 178</u>	<u>\$ 245</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 424</u>
Ending Balance Total Allowance:	<u><u>\$ 2,052</u></u>	<u><u>\$ 4,806</u></u>	<u><u>\$ 1,369</u></u>	<u><u>\$ 416</u></u>	<u><u>\$ 114</u></u>	<u><u>\$ 8,757</u></u>

**The Bank's activity in the allowance for loan losses is summarized below for the year ended 12/31/14:**

Originated Loans:						
Beginning Balance	\$ 1,458	\$ 3,187	\$ 584	\$ 738	\$ 137	\$ 6,104
Provision	484	89	615	448	88	1,724
Charge Offs	134	-	32	559	46	771
Recoveries	-	1	-	-	4	5
Ending Balance Originated Loans:	<u>\$ 1,808</u>	<u>\$ 3,277</u>	<u>\$ 1,167</u>	<u>\$ 627</u>	<u>\$ 183</u>	<u>\$ 7,062</u>
Acquired Loans:						
Beginning balance	150	301	4	1	-	456
Provision	31	(38)	(3)	-	6	(4)
Charge Offs	34	-	-	-	-	34
Recoveries	-	-	-	-	-	-
Ending Balance Acquired Loans:	<u>\$ 147</u>	<u>\$ 263</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ 418</u>
Ending Balance Total Allowance:	<u><u>\$ 1,955</u></u>	<u><u>\$ 3,540</u></u>	<u><u>\$ 1,168</u></u>	<u><u>\$ 628</u></u>	<u><u>\$ 189</u></u>	<u><u>\$ 7,480</u></u>

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The following tables illustrate certain information with respect to our allowance for loan losses and the composition of impaired loans as of December 31, 2015 and 2014, respectively (dollars in thousands).

	<b>Residential</b>					
	<b>Single &amp; Multifamily</b>	<b>Commercial Real Estate</b>	<b>Construction Loans</b>	<b>Commercial and Industrial</b>	<b>Consumer and Other</b>	<b>Total</b>
<b>The Bank's allowance for loan losses impairment evaluation at December 31, 2015:</b>						
Individually evaluated for impairment	\$ -	\$ 259	\$ -	\$ -	\$ 26	\$ 285
Collectively evaluated for impairment	1,874	4,302	1,369	415	88	8,048
Acquired with deteriorated credit quality	178	245	-	1	-	424
Ending Balance Total Allowance:	<u>\$ 2,052</u>	<u>\$ 4,806</u>	<u>\$ 1,369</u>	<u>\$ 416</u>	<u>\$ 114</u>	<u>\$ 8,757</u>

<b>The Bank's loan balances based on impairment evaluation at December 31, 2015:</b>						
Individually evaluated for impairment	\$ -	\$ 3,584	\$ 1,187	\$ -	\$ 29	\$ 4,800
Collectively evaluated for impairment	317,853	329,323	88,596	39,323	14,290	789,385
Acquired with deteriorated credit quality	5,226	9,349	1,855	135	-	16,565
Ending Balance Total Loans:	<u>\$ 323,079</u>	<u>\$ 342,256</u>	<u>\$ 91,638</u>	<u>\$ 39,458</u>	<u>\$ 14,319</u>	<u>\$ 810,750</u>

<b>The Bank's allowance for loan losses impairment evaluation at December 31, 2014:</b>						
Individually evaluated for impairment	\$ -	\$ 580	\$ 90	\$ -	\$ 28	\$ 698
Collectively evaluated for impairment	1,808	2,697	1,077	627	155	6,364
Acquired with deteriorated credit quality	147	263	1	1	6	418
Ending Balance Total Allowance:	<u>\$ 1,955</u>	<u>\$ 3,540</u>	<u>\$ 1,168</u>	<u>\$ 628</u>	<u>\$ 189</u>	<u>\$ 7,480</u>

<b>The Bank's loan balances based on impairment evaluation at December 31, 2014:</b>						
Individually evaluated for impairment	\$ 58	\$ 6,932	\$ 1,290	\$ 1,271	\$ 31	\$ 9,582
Collectively evaluated for impairment	276,180	228,326	78,747	31,675	11,815	626,743
Acquired with deteriorated credit quality	5,461	8,332	2,306	169	62	16,330
Ending Balance Total Loans:	<u>\$ 281,699</u>	<u>\$ 243,590</u>	<u>\$ 82,343</u>	<u>\$ 33,115</u>	<u>\$ 11,908</u>	<u>\$ 652,655</u>

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The below tables represent the loan portfolio, segmented by risk factors, as of December 31, 2015 and 2014, respectively (dollars in thousands). Categories with no assigned loans have been omitted from this table.

As of December 31, 2015	Residential Single & Multifamily	Commercial Real Estate	Construction Loans	Commercial and Industrial	Consumer and Other	Total Loans
<u>Originated Loans:</u>						
Pass Loans	\$ 317,434	\$ 328,223	\$ 88,597	\$ 38,963	\$ 14,290	\$ 787,507
OLEM	419	376	-	360	-	1,155
Substandard	-	4,308	1,186	-	29	5,523
Sub-total	317,853	332,907	89,783	39,323	14,319	794,185
<u>Purchased Impaired Loans:</u>						
Pass Loans	\$ 2,538	\$ 6,850	\$ 66	\$ 135	\$ -	\$ 9,589
OLEM	448	1,016	53	-	-	1,517
Substandard	2,240	1,483	1,736	-	-	5,459
Sub-total	5,226	9,349	1,855	135	-	16,565
Total	<b>\$ 323,079</b>	<b>\$ 342,256</b>	<b>\$ 91,638</b>	<b>\$ 39,458</b>	<b>\$ 14,319</b>	<b>\$ 810,750</b>

  

As of December 31, 2014	Residential Single & Multifamily	Commercial Real Estate	Construction Loans	Commercial and Industrial	Consumer and Other	Total Loans
<u>Originated Loans:</u>						
Pass Loans	\$ 275,758	\$ 222,716	\$ 78,028	\$ 30,722	\$ 11,810	\$ 619,034
OLEM	422	6,529	719	2,212	-	9,882
Substandard	-	6,013	1,290	12	31	7,346
Doubtful	58	-	-	-	5	63
Sub-total	276,238	235,258	80,037	32,946	11,846	636,325
<u>Purchased Impaired Loans:</u>						
Pass Loans	\$ 2,619	\$ 5,947	\$ 118	\$ 169	\$ 62	\$ 8,915
OLEM	650	1,358	55	-	-	2,063
Substandard	2,192	1,027	2,133	-	-	5,352
Sub-total	5,461	8,332	2,306	169	62	16,330
Total	<b>\$ 281,699</b>	<b>\$ 243,590</b>	<b>\$ 82,343</b>	<b>\$ 33,115</b>	<b>\$ 11,908</b>	<b>\$ 652,655</b>

The following are the definitions of the Company's credit quality indicators:

**Pass:** Loans in all classes are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

**Pass/Watch:** Loan paying as agreed with generally acceptable asset quality; however borrowers may be uncertain in their ability to maintain or improve their financial performance. Financial condition is unstable and shows minimally acceptable support for credit accommodation. Credit is expected to be strengthened through improved obligor performance and/or additional collateral within a reasonable period of time. Loans rated pass/watch are included in the above table with pass loans.

**OLEM:** Assets have potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Other Loans Especially Mentioned ("OLEM") assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

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Classified: *Classified (a) Substandard*—Loans inadequately protected by the current sound 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 Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

*Classified (b) Doubtful*—Loans that have all the weaknesses inherent in a loan classified 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. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined.

Below are the statistics for past due and non-accrual loans, by portfolio segment, as of December 31, 2015 and 2014, respectively (dollars in thousands).

	30-59 Days	60-89 Days	90 + Days	Non- Accrual	Total Past Due and Non- Accrual	Current	Total Loans	Current Non- Accrual Loans
<b>As of December 31, 2015</b>								
<u>Originated Loans:</u>								
Residential single & multifamily	\$ 14	\$ -	\$ -	\$ -	\$ 14	\$ 317,839	\$ 317,853	\$ -
Commercial real estate	-	-	-	2,451	2,451	330,456	332,907	2,451
Construction loans	-	-	-	234	234	89,549	89,783	234
Commercial and industrial	-	-	-	-	-	39,323	39,323	-
Consumer and other	22	-	-	-	22	14,297	14,319	-
<u>Purchase Impaired Loans:</u>								
Commercial real estate	-	-	-	478	478	8,871	9,349	478
All other loan categories	-	-	-	-	-	7,216	7,216	-
<b>Total Loans</b>	<b>\$ 36</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,163</b>	<b>\$ 3,199</b>	<b>\$ 807,551</b>	<b>\$ 810,750</b>	<b>\$ 3,163</b>
<b>As of December 31, 2014</b>								
<u>Originated Loans:</u>								
Residential single & multifamily	\$ 375	\$ -	\$ -	\$ 58	\$ 433	\$ 275,805	\$ 276,238	\$ -
Commercial real estate	782	-	-	4,525	5,307	229,951	235,258	2,753
Construction loans	-	-	-	255	255	79,782	80,037	255
Commercial and industrial	-	-	-	-	-	32,946	32,946	-
Consumer and other	40	5	-	5	50	11,796	11,846	5
<u>Purchase Impaired Loans:</u>								
Commercial real estate	-	-	-	536	536	7,796	8,332	536
All other loan categories	-	-	-	-	-	7,998	7,998	-
<b>Total Loans</b>	<b>\$ 1,197</b>	<b>\$ 5</b>	<b>\$ -</b>	<b>\$ 5,379</b>	<b>\$ 6,581</b>	<b>\$ 646,074</b>	<b>\$ 652,655</b>	<b>\$ 3,549</b>

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The following is a summary of information pertaining to impaired loans for the years ended December 31, 2015 and 2014, respectively (dollars in thousands). There were no new troubled debt restructurings during the years ended December 31, 2015 and 2014. There were no loans classified as troubled debt restructurings that re-defaulted during the period of 12 months from their modification date.

	As of December 31, 2015			For the Year Ended December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Accrual Basis Interest Income	Cash Basis Interest Income
<b>With No Related Allowance Recorded:</b>						
Residential single & multifamily	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	2,209	2,866	-	3,040	440	379
Construction loans	1,187	1,187	-	2,224	86	-
Commercial and industrial	-	-	-	248	130	110
Consumer and other	-	-	-	-	-	-
<b>With An Allowance Recorded:</b>						
Residential single & multifamily	-	-	-	-	-	-
Commercial real estate	1,375	1,375	259	1,867	26	-
Construction loans	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	29	29	26	30	2	-
<b>Total:</b>						
Residential single & multifamily	-	-	-	-	-	-
Commercial real estate	3,584	4,241	259	4,907	466	379
Construction loans	1,187	1,187	-	2,224	86	-
Commercial and industrial	-	-	-	248	130	110
Consumer and other	29	29	26	30	2	-
	<u>\$ 4,800</u>	<u>\$ 5,457</u>	<u>\$ 285</u>	<u>\$ 7,408</u>	<u>\$ 684</u>	<u>\$ 489</u>

**TGR Financial, Inc. and Subsidiary**  
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	As of December 31, 2014			For the Year Ended December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Accrual Basis Interest Income	Cash Basis Interest Income
<b>With No Related Allowance Recorded:</b>						
Residential single & multifamily	\$ 58	\$ 198	\$ -	\$ 55	\$ -	\$ -
Commercial real estate	3,874	5,193	-	3,891	42	-
Construction loans	-	-	-	-	-	-
Commercial and industrial	1,271	1,271	-	1,277	3	-
Consumer and other	-	-	-	14	-	-
<b>With An Allowance Recorded:</b>						
Residential single & multifamily	-	-	-	-	-	-
Commercial real estate	3,058	3,241	580	3,104	6	-
Construction loans	1,290	1,300	90	1,324	40	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	31	31	28	31	2	-
<b>Total:</b>						
Residential single & multifamily	58	198	-	55	-	-
Commercial real estate	6,932	8,434	580	6,995	48	-
Construction loans	1,290	1,300	90	1,324	40	-
Commercial and industrial	1,271	1,271	-	1,277	3	-
Consumer and other	31	31	28	45	2	-
	<u>\$ 9,582</u>	<u>\$ 11,234</u>	<u>\$ 698</u>	<u>\$ 9,696</u>	<u>\$ 93</u>	<u>\$ -</u>

The following tables illustrate information related to the Bank's other real estate owned, net of valuation allowances and direct write-downs (dollars in thousands). The Bank had no residential loans in process of foreclosure at December 31, 2015.

	December 31, 2015	December 31, 2014
Construction and land loans	-	75
Total	<u>\$ -</u>	<u>\$ 75</u>
Balance at January 1	\$ 75	\$ 656
Transfers of loans	-	234
Write downs	(75)	-
(Loss)/gain on sale	-	(28)
Dispositions	-	(787)
Balance at December 31	<u>\$ -</u>	<u>\$ 75</u>

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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Loans Acquired with Deteriorated Credit Quality

Loans acquired in business combinations that exhibited, at the time of acquisition, evidence of deterioration of the credit quality since origination, such that it was probable that all contractually required payments would not be collected, were as follows as of the dates presented:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Commercial real estate	\$ 9,349	\$ 8,332
Construction loans	1,855	2,306
Commercial and industrial	135	169
Residential single & multifamily	5,226	5,523
	<u>\$ 16,565</u>	<u>\$ 16,330</u>

The following table presents the fair value of loans determined to be impaired at the time of acquisition as of the dates presented:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Contractually required principal and interest	\$ 25,925	\$ 26,764
Nonaccretable difference	(3,862)	(5,401)
Cash flows expected to be collected	22,063	21,363
Accretable yield	(5,498)	(5,033)
Fair value	<u>\$ 16,565</u>	<u>\$ 16,330</u>

Changes in the accretable yield of loans acquired with deteriorated credit quality were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Balance at beginning of year	\$ 5,033	\$ 5,948
Additions through acquisition	-	893
Reclassification from non-accretable difference	2,621	1,921
Accretion	(1,812)	(2,234)
Other net activity (1)	(344)	(1,495)
Balance at end of year	<u>\$ 5,498</u>	<u>\$ 5,033</u>

(1) Includes impact of loan repayments and charge offs.

**TGR Financial, Inc. and Subsidiary**  
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NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill not subject to amortization of \$3.9 million was recorded in conjunction with the business combination between First National and Panther. Additionally, an indefinite lived bank charter intangible asset of \$1.2 million was recorded in conjunction with the Panther business combination. Goodwill has been assigned to the Bank's single reporting unit. Fair value of the Bank's single reporting unit is determined using either discounted cash flow analyses based on internal financial forecasts or, if available, market-based valuation multiples for comparable businesses. No impairment was identified for the Bank's goodwill as a result of the testing performed for the year ended December 31, 2015.

Intangible assets subject to amortization include the Bank's trademarked logo and core deposit intangibles recorded with bank acquisitions. The carrying amount of these assets was \$658,000 at December 31, 2015. The trademarked logo is being amortized over a period of 20 years. Core deposit intangibles are being amortized over five and ten year periods, respectively. Amortization expense on the Bank's intangibles was \$103,000 and \$88,000 for the years ended December 31, 2015 and 2014, respectively.

Future amortization of the Company's intangibles are listed in the chart below (dollars in thousands).

<u>Year Ending December 31,</u>	<u>Amount</u>	
2016	\$	101
2017		91
2018		77
2019		74
2020		71
Thereafter		244
	\$	<u>658</u>

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**NOTE 6. BORROWINGS**

**Short and Long Term Borrowings**

The FHLB of Atlanta has extended credit availability to the Bank equal to approximately 20% of total assets as of December 31, 2015. In February 2016, the FHLB approved an increase from 20% to 25% of total assets as a borrowing threshold. There was \$157 million in remaining credit availability at December 31, 2015. All borrowings must be fully secured with eligible collateral. The Bank had \$275 and \$162 million, respectively, in eligible loans pledged as collateral for advances (as of December 31, 2015 and 2014, dollars in thousands) and letters of credit described below.

In addition to advances, the Bank obtained irrevocable letters of credit from the FHLB for the purposes of establishing collateral for its qualified public funds. The letter of credit issued on June 30, 2015, maximum amount of \$60 million, will expire on June 30, 2016, and the expiration date will be automatically extended for successive one year periods until June 30, 2025. Subsequently, the Bank obtained a second irrevocable letter of credit on February 28, 2016. The second letter of credit, maximum amount of \$20 million, will expire on February 28, 2017. Identical terms for automatic successive one year extensions through the 10<sup>th</sup> anniversary apply. The annual cost of each letter of credit is 0.09%.

<b>As of December 31, 2015</b>				
	<b>Term</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Advance Amount</b>
<b>Long Term Advances</b>				
Fixed rate advance	4 years	02/03/16	0.91%	3,000
Average weighted rate			0.00%	\$ 3,000
<b>Short Term Advances</b>				
Fixed rate advance	1 day	01/01/16	0.49%	\$ 15,000
Fixed rate advance	1 month	01/22/16	0.38%	\$ 40,000
Average weighted rate			0.41%	\$ 55,000
<b>As of December 31, 2014</b>				
	<b>Term</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Advance Amount</b>
<b>Long Term Advances</b>				
Fixed rate advance	2 years	12/16/15	0.45%	20,000
Fixed rate advance	3 years	02/03/15	0.66%	3,000
Fixed rate advance	4 years	02/03/16	0.91%	3,000
Average weighted rate			0.53%	\$ 26,000
<b>Short Term Advances</b>				
Fixed rate advance	9 months	04/17/15	0.27%	\$ 10,000
Fixed rate advance	1 month	01/30/15	0.19%	\$ 25,000
Average weighted rate			0.21%	\$ 35,000

The Bank had \$70 million authorized under unsecured federal funds lines of credit with five correspondent banks at December 31, 2015. There were no advances under these lines at December 31, 2015. At December 31, 2014, there was \$7.6 million in outstanding borrowings under these lines.

The Bank has customer repurchase agreements with commercial account holders whereby the Bank sweeps the customer's accounts on a daily basis and pays interest on these amounts. These agreements are collateralized by investment securities chosen by the Bank. The Bank had approximately \$115 and \$70 million in such accounts as of December 31, 2015 and 2014, respectively.

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NOTE 7. INCOME PER SHARE

Basic income per share represents the net income divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects additional potential common stock that would have been outstanding if dilutive potential common stock had been issued, as well as any adjustment to income that would result from the assumed issuance, determined using the treasury stock method. Potential common stock that may be issued by the Company relates solely to outstanding stock options, warrants and convertible preferred stock.

There were a total of 2,509,175 and 2,190,025 outstanding warrants and options at December 31, 2015 and 2014, respectively, of which 1,305,875 and 986,725 shares were included in the calculation of diluted income per share for 2015 and 2014, respectively. The remaining 1,203,300 warrants and options were excluded from the calculation for December 31, 2015 because the effect would be anti-dilutive.

<u>Income Per Common Share</u>	<u>For the Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
<b>Basic</b>		
Weighted average number of shares of common stock outstanding - basic:	17,121,621	16,300,367
Basic income per share	<u>\$ 0.27</u>	<u>\$ 0.10</u>
<b>Diluted</b>		
Weighted average number of shares of common stock outstanding:	17,121,621	16,300,367
Effect of stock options	261,723	215,886
Effect of dilutive convertible preferred shares	<u>1,037,984</u>	<u>858,199</u>
Weighted average number of shares of common stock outstanding - diluted:	18,421,328	17,374,452
Diluted income per share	<u>\$ 0.25</u>	<u>\$ 0.09</u>

**Nonvoting Series A Convertible Preferred Stock**

The Company has authorized 20,000,000 shares of preferred stock of which 7,050,000 shares were authorized under the series designated Nonvoting Series A Convertible Preferred Stock ("preferred shares"). There were 1,037,984 preferred shares outstanding at December 31, 2015 and 2014. Each holder of preferred shares is generally not entitled to vote on any matters. Holders of preferred shares will be entitled to receive dividends and shall rank equally with the Company's holders of common stock. In the event of liquidation, each holder of preferred shares would be entitled to recover, after payment of all Company's debts and liabilities, a preferred liquidation amount equal to the greater of (i) one tenth of one cent per share and (ii) the amount the holder of such preferred share would receive if the share had been converted into common stock. Each preferred share, at the election of the holder, may be converted into an equal number of common shares, if such conversion would not cause the holder to hold greater than 9.99% of the Company's outstanding common stock at the time of such conversion. Furthermore, the preferred shares are not subject to any call or redemption rights on the part of the Company.

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NOTE 8. PREMISES AND EQUIPMENT

The major classes of premises and equipment and total accumulated depreciation and amortization at December 31, 2015 and 2014, respectively, are as follows (dollars in thousands).

	As of December 31,	
	2015	2014
Land	\$ 3,034	\$ 3,034
Buildings and improvements	14,493	14,473
Leasehold improvements	2,770	2,716
Furniture, fixtures and office equipment	2,763	2,552
Computer equipment	1,692	1,558
Computer software	1,571	1,434
Automobiles	192	192
Signs	98	39
	<u>26,613</u>	<u>25,998</u>
Less accumulated depreciation and amortization	7,053	5,890
Plus construction in progress	169	30
Premises and equipment, net	<u>\$ 19,729</u>	<u>\$ 20,138</u>

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Bank leases certain branch facilities under non-cancelable operating leases expiring from 2016 through 2020. The leases contain renewal options, generally provide for annual increases in base rent from 3% to 3.5% per annum, and require payment of the Bank's pro rata share of property taxes, normal maintenance and insurance.

Future minimum rental payments required under the operating leases at December 31, 2015 were as follows (dollars in thousands).

Year Ending December 31,	Amount
2016	\$ 732
2017	643
2018	524
2019	458
2020	303
Thereafter	-
	<u>\$ 2,660</u>

The Bank, in the normal course of business, is party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the statement of financial condition. The contractual amounts of these instruments reflect the Bank's involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the counterparty to the financial instruments for commitments to extend credit and letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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Following is a summary of off-balance sheet credit risk information (dollars in thousands).

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
Commitments to extend credit	\$	174,442	\$	123,581
Letters of credit	\$	1,393	\$	145

Commitments to extend credit are commitments 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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include cash, accounts receivable, inventory, property, plant and equipment and residential and commercial real estate.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Letters of credit are collateralized by certificates of deposit or other collateral. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank is required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount of the letter of credit. If the commitment is funded, the Bank is entitled to seek recovery from its customer. No liabilities were recorded for these guarantees at December 31, 2015.

**NOTE 10. TIME DEPOSITS**

At December 31, 2015 and 2014, respectively, the scheduled maturities of time deposits are as follows (dollars in thousands).

<b>December 31, 2015:</b>	<u>≤ 3 Mths</u>		<u>3-6 Mths</u>		<u>6 Mths-1 Yr</u>		<u>1-3 Yrs</u>		<u>&gt; 3 Yrs</u>		<u>Total</u>	
Time deposits ≤ \$250,000	\$	8,336	\$	30,138	\$	18,442	\$	20,220	\$	178	\$	77,314
Time deposits > \$250,000		3,839		6,014		14,738		24,857		-		49,448
Total	\$	12,175	\$	36,152	\$	33,180	\$	45,077	\$	178	\$	126,762

  

<b>December 31, 2014:</b>	<u>≤ 3 Mths</u>		<u>3-6 Mths</u>		<u>6 Mths-1 Yr</u>		<u>1-3 Yrs</u>		<u>&gt; 3 Yrs</u>		<u>Total</u>	
Time deposits ≤ \$250,000	\$	10,745	\$	6,751	\$	83,946	\$	14,549	\$	133	\$	116,124
Time deposits > \$250,000		4,712		6,152		34,249		3,801		-		48,914
Total	\$	15,457	\$	12,903	\$	118,195	\$	18,350	\$	133	\$	165,038

**NOTE 11. CONCENTRATIONS OF RISK**

Neither the Company nor the Bank is a party to any claim, lawsuit or other legal proceeding that might have a material adverse effect on the consolidated financial statements.

Most of the Bank's business activity is with customers located within its primary market area, generally southwest Florida. Approximately 93% of the Bank's gross loan portfolio at December 31, 2015 was concentrated in loans secured by real estate. Residential first mortgages and home equity lines of credit represent 40% of gross loans or approximately \$323 million. Commercial real estate comprises 42% of gross loans or approximately \$342 million. At December 31, 2015, the Bank had no significant concentrations of credit risk with any individual counterparty.

**TGR Financial, Inc. and Subsidiary**  
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At December 31, 2015, deposits and/or repurchase agreements of two customers individually exceeded 5% of total deposits plus costumer repurchase agreements. These deposits totaled approximately \$182 million or 18% of total deposits and repurchase agreements. Management does not view this concentration as a liquidity risk. The interest rate paid on these deposits ranges between 0.30% and 1.10%.

**NOTE 12. EMPLOYEE BENEFITS**

The Company has established a salary deferral plan under Section 401(k) of the Internal Revenue Code. The plan allows eligible employees to defer up to 100% of their compensation, up to the maximum amount permitted by law. The Bank, at its discretion, may match a portion of the employees' contributions. All employees may make contributions under the plan. Employees age 21 and over are eligible to receive matching contributions. Employer contributions vest immediately. Total expenses recorded for the years ended December 31, 2015 and 2014, related to this plan were \$478,000 and \$396,000, respectively.

**NOTE 13. STOCK OPTIONS AND WARRANTS**

The Company has two stock option plans, one for directors and one for officers and employees, with options outstanding at December 31, 2015 of 442,881 and 1,113,794, respectively.

On January 27, 2015, the Company issued nonqualified options to purchase 279,325 shares under its Amended and Restated Officers' and Employees' Stock Option Plan and 54,525 shares under its Amended and Restated Directors' Option Plan (collectively "the options"). The options were awarded at an exercise price of \$5.01 per share. The options vest equally, by month, over 36 months with a contractual term of ten years.

On January 2, 2014, the Company issued nonqualified options to purchase 786,975 shares under its Amended and Restated Officers' and Employees' Stock Option Plan and 236,250 shares under its Amended and Restated Directors' Option Plan. The options were awarded at an exercise price of \$4.71 per share. The options vest equally, per annum, over four years with a contractual term of ten years.

The Company recognized expense totaling \$417,000 and \$287,000 in connection with the option grants for the periods ended December 31, 2015 and 2014, respectively. There were options exercised to purchase 153 shares during the period ended December 31, 2015 and no options exercised during the period ended December 31, 2014.

The fair value of the 2015 and 2014 option grants were estimated on the grant date using the Black-Sholes option-pricing model with the following assumptions:

	<u>2015 Grant</u>	<u>2014 Grant</u>
Dividend yield	0.00%	0.00%
Expected volatility	20.00%	20.00%
Risk-free interest rate	1.77%	1.89%
Expected term	6 years	6.25 years
Weighted average fair value	\$1.19	\$1.16

The maximum number of options that can be granted under both plans may not exceed 10% of the aggregate of outstanding common and preferred stock, or 1,826,543. There are 269,868 options available for grant between the plans at December 31, 2015. As of December 31, 2015, there was \$831,000 in unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the two plans. The cost is expected to be recognized over a weighted average period of 2 years as of December 31, 2015.

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The following table presents the activity of the Company's outstanding stock options and warrants, for the periods ended December 31, 2015 and 2014, respectively.

	<b>For the Years Ended December 31,</b>			
	<b>2015</b>		<b>2014</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>STOCK OPTIONS:</b>				
Options outstanding, beginning of period	1,237,525	\$ 5.29	250,800	\$ 7.58
Options granted	333,850	5.01	1,023,225	4.71
Options exercised	(153)	4.62	-	-
Options repurchased	-	-	-	-
Options expired/forfeited	(14,547)	4.78	(36,500)	4.71
Options outstanding, end of period	<u>1,556,675</u>	<u>\$ 5.24</u>	<u>1,237,525</u>	<u>\$ 5.29</u>
Exercisable at end of period	<u>604,916</u>	<u>\$ 5.95</u>	<u>250,800</u>	<u>\$ 7.58</u>
Weighted Average Remaining Contractual Term		7.3 years		7.9 years
<b>STOCK WARRANTS:</b>				
Warrants outstanding, beginning of period	952,500	\$ 10.00	1,633,393	\$ 10.00
Warrants exercised	-	-	(1,084)	10.00
Warrants repurchased	-	-	-	-
Warrants expired	-	-	(679,809)	10.00
Warrants outstanding, end of period	<u>952,500</u>	<u>\$ 10.00</u>	<u>952,500</u>	<u>\$ 10.00</u>
Exercisable at end of period	<u>952,500</u>	<u>\$ 10.00</u>	<u>952,500</u>	<u>\$ 10.00</u>
Weighted Average Remaining Contractual Term		3.8 years		4.8 years

In accordance with the terms of the original offering prospectus dated July 14, 2009, and as part of the Agreement and Plan of Merger between Panther Community Bank, N.A. and First National, dated April 23, 2009, organizers and founders received organizer warrants to purchase 952,500 shares with a term of 10 years and shareholder warrants to purchase 10,020 shares of common stock with a term of five years. Additionally, all other common shareholders received warrants to purchase a total of 671,054 shares with a term of five years. All warrants were granted at an exercise price of \$10 per share and immediately exercisable. All outstanding warrants to purchase shares of the Bank's common stock were converted into warrants to purchase shares of the Company's common stock upon closing of the reorganization on September 25, 2012. On October 23, 2014, there were 679,809 shareholder warrants that expired, unexercised.

On January 26, 2016, the Company issued nonqualified options to purchase 45,243 shares under its Amended and Restated Officers' and Employees' Stock Option Plan and 19,036 shares under its Amended and Restated Directors' Option Plan. The options were awarded at an exercise price of \$5.24 per share. The options vest equally by month, over 36 months, with a term of ten years.

NOTE 14. RESTRICTIONS ON RETAINED EARNINGS AND REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2015, there were no retained earnings available for the payment of dividends.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices.

During 2013, the Federal Reserve released final United States Basel III regulatory capital rules implementing the global regulatory capital reforms of Basel III and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FDIC and OCC also approved the final rule during 2013. The rule applies to all banking organizations that are currently subject to regulatory capital requirements as well as certain savings and loan holding companies. The rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and makes selected changes to the calculation of risk-weighted assets. The rule became effective January 1, 2015, for the Bank and most banking organizations, subject to a transition period for several aspects of the rule, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Under the final rules, the minimum capital requirements included common equity Tier I (CET1) ratio of 4.5%; Tier I capital ratio of 6%; Total capital ratio of 8%; and leverage ratio of 4%. When fully phased-in on January 1, 2019, the new rules include a capital conservation buffer of 2.5% that is added on top of the minimum risk-based capital ratios. Additionally, the new rules revised "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, with the following requirements for well-capitalized status: Common Equity Tier I ("CET1") ratio of 6.5%; Tier I capital ratio of 8% (as compared to the current 6%); Total capital ratio of 10%; and leverage ratio of 5%.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total, Tier I and Common Equity Tier I capital to risk-weighted assets, and of Tier I capital to average assets (as defined by FDIC regulations). The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial condition. Management believes that the Bank met all capital adequacy requirements to which it was subject at December 31, 2015.

At December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank is additionally required to maintain reserve requirements based on its specified deposit liabilities with the Federal Reserve Bank. The reserve requirements can be satisfied in the form of vault cash or average deposit balances with the Federal Reserve Bank.

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The Company and the Bank's actual capital amounts and ratios are presented in the table below (dollars in thousands). The maximum amount of Tier II capital, contributed via the allowance for loan losses, is limited to 1.25% of gross risk weighted assets. This limitation, where applicable, is reflected in the total capital amounts listed below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
<b>As of December 31, 2015:</b>						
<b>TGR Financial, Inc.</b>						
Total capital (to risk weighted assets):	\$ 102,473	12.17 %	\$ 67,348	8.00 %	84,185	10.00 %
Tier I capital (to risk weighted assets):	93,716	11.13	50,511	6.00	67,348	8.00
Common equity tier I capital ratio:	93,716	11.13	37,883	4.50	54,720	6.50
Leverage ratio (tier I to avg assets):	93,716	8.15	46,011	4.00	57,514	5.00
<b>First Florida Integrity Bank</b>						
Total capital (to risk weighted assets):	\$ 101,656	12.08 %	\$ 67,348	8.00 %	84,185	10.00 %
Tier I capital (to risk weighted assets):	92,899	11.04	50,511	6.00	67,348	8.00
Common equity tier I capital ratio:	92,899	11.04	37,883	4.50	54,720	6.50
Leverage ratio (tier I to avg assets):	92,899	8.08	45,984	4.00	57,480	5.00
<b>As of December 31, 2014:</b>						
<b>TGR Financial, Inc.</b>						
Total capital (to risk weighted assets):	\$ 87,184	13.42 %	\$ 51,983	8.00 %	N/A	N/A %
Tier I capital (to risk weighted assets):	79,704	12.27	25,991	4.00	38,987	6.00
Leverage ratio (tier I to avg assets):	79,704	8.38	38,053	4.00	47,566	5.00
<b>First Florida Integrity Bank</b>						
Total capital (to risk weighted assets):	\$ 86,045	13.25 %	\$ 51,961	8.00 %	\$ 64,951	10.00 %
Tier I capital (to risk weighted assets):	78,565	12.10	25,981	4.00	38,971	6.00
Leverage ratio (tier I to avg assets):	78,565	8.26	38,043	4.00	47,554	5.00

**NOTE 15. RELATED PARTY TRANSACTIONS**

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers and their immediate families (commonly referred to as related parties). In management's opinion, such transactions have been made on the same terms as those for comparable transactions with unrelated parties.

Deposits and customer repurchase agreements with related parties and their interests totaled \$35.8 million and \$34.1 million at December 31, 2015 and 2014, respectively.

Related party loan activity is depicted below (dollars in thousands).

	For the Years Ended December 31,	
	2015	2014
Beginning balance	\$ 2,058	\$ 2,125
New originations	-	-
Pay downs	(83)	(67)
Ending balance	\$ 1,975	\$ 2,058

**TGR Financial, Inc. and Subsidiary**  
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NOTE 16. FAIR VALUE MEASUREMENTS

*Recurring Fair Value Measurements*

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For additional information regarding the levels of inputs, please refer to Note 1 - Description of Business and Summary of Significant Accounting Policies.

Securities available for sale: Fair value measurements are obtained from an outside pricing service. Fair values are generally estimated using matrix pricing techniques, incorporating observable data that may include reported trades of similar securities, dealer quotes, benchmark yield curves, issuer spreads, new issue data, market consensus prepayment speeds, the bonds' terms and conditions, and other relevant factors. Matrix pricing 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 II inputs).

The following table sets forth the Bank's investments which are measured at fair value on a recurring basis as of December 31, 2015 and 2014, respectively (dollars in thousands). Changes in fair value are recorded through other comprehensive income (loss), net of tax.

	<b>Quoted Prices in Active Markets for Identical Assets Level I</b>	<b>Significant Other Observable Inputs Level II</b>	<b>Significant Unobservable Inputs Level III</b>	<b>Total at Fair Value</b>
<b>December 31, 2015:</b>				
U.S. Government agencies and government sponsored entities	\$ -	\$ 79,156	\$ -	\$ 79,156
Agency mortgage backed securities	-	143,430	-	143,430
Agency collateralized mortgage obligations	-	18,896	-	18,896
Corporate bonds	-	21,232	-	21,232
<b>Total</b>	<b>\$ -</b>	<b>\$ 262,714</b>	<b>\$ -</b>	<b>\$ 262,714</b>
<b>December 31, 2014:</b>				
U.S. Government agencies and government sponsored entities	\$ -	\$ 156,693	\$ -	\$ 156,693
Agency mortgage backed securities	-	85,908	-	85,908
Agency collateralized mortgage obligations	-	6,738	-	6,738
Corporate bonds	-	11,474	-	11,474
<b>Total</b>	<b>\$ -</b>	<b>\$ 260,813</b>	<b>\$ -</b>	<b>\$ 260,813</b>

There were no transfers of investments in or out of Level III for the years ended December 31, 2015 and 2014, respectively.

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Nonrecurring Fair Value Measurements

The following table sets forth the Bank's assets which are measured at fair value on a non-recurring basis as of December 31, 2015 and 2014, respectively (dollars in thousands).

Collateral dependent impaired loans: Collateral dependent impaired loans are measured for impairment based upon externally prepared estimates of the current fair value of the underlying collateral less estimated costs to sell. The Bank uses external appraisals to estimate fair value, which generally include Level III inputs which are not observable. The fair value includes qualitative adjustments by management and estimated liquidation expenses.

Other real estate owned: Other real estate owned consists of property acquired through, or in lieu of, loan foreclosure. The Bank uses external appraisals to estimate fair value. The valuation of other real estate owned represents the fair value less estimated selling costs.

<b>Quantitative Information about Level III Fair Value Measurements</b>				
	<b>Fair Value</b>	<b>Valuation</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
	<b>Estimate</b>	<b>Techniques</b>		
<b>December 31, 2014:</b>				
Collateral dependent impaired loans	\$ 1,289	Appraisal of collateral	Appraisal and liquidation adjustments	0% to -10% (-10%)
Other real estate owned	75	Appraisal of collateral	Appraisal and liquidation adjustments	0% to -30% (-30%)
<b>Total</b>	<b>\$ 1,364</b>			

The Bank held no non-recurring measurement assets at December 31, 2015.

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2015 and 2014, respectively, including those assets and liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis, are illustrated in the table below (in thousands). The fair value estimates presented are based on pertinent information available to management at the close of each period. Although management is not aware of any factors that would significantly affect the estimated fair values, they have not been comprehensively revalued for purposes of these financial statements since the statement of financial condition date. Current estimates of fair value may differ significantly from the amounts disclosed.

Loans: The fair values of residential loans are estimated using discounted cash flow analyses, based upon available market benchmarks for rates and prepayment assumptions. The fair values of commercial and consumer loans are estimated using discounted cash flow analyses, based upon interest rates current offered for loans with similar terms and credit quality. The fair values of loans held for sale are determined based upon contractual prices for loans with similar characteristics.

Cash surrender value of BOLI: The fair value of bank-owned life insurance ("BOLI") approximates its fair value.

Deposits: The fair values of deposit accounts are estimated using a discounted cash flow based on currently effective interest rates for similar types of deposits. These deposits are classified within Level II of the fair value hierarchy.

Customer repurchase agreements: The fair value of these instruments approximates the carrying value of the amounts reported in the Consolidated Statements of Condition given the short-term nature of the liabilities.

Borrowings: Borrowings are comprised of Federal Home Loan Bank ("FHLB") advances. The fair value of FHLB advances is determined by discounting the expected future cash outflows using current market rates for similar borrowings, or Level II inputs.

	Carrying Amount	Fair Value Measurements at December 31, 2015			Total
		Level I	Level II	Level III	
<b>Financial assets:</b>					
Cash and interest bearing balances due from banks	\$ 35,855	\$ 12,600	\$ 23,255		\$ 35,855
Federal Reserve Bank and Federal Home Loan Bank stock	6,361			6,361	6,361
Loans, net	801,993		788,677	11,753	800,430
Bank owned life insurance	23,641	23,641			23,641
Accrued interest receivable	2,283		2,283		2,283
<b>Financial liabilities:</b>					
Deposits	892,834		892,606		892,606
Customer repurchase agreements	114,702		114,699		114,699
Borrowings	58,000		58,002		58,002
Accrued interest payable	520		520		520

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**Notes to Consolidated Financial Statements**

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	<b>Carrying Amount</b>	<b>Fair Value Measurements at December 31, 2014</b>			<b>Total</b>
		<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	
<b>Financial assets:</b>					
Cash and interest bearing balances due from banks	\$ 18,783	\$ 8,783	\$ 10,000		\$ 18,783
Federal Reserve Bank and Federal Home Loan Bank stock	6,221			6,221	6,221
Loans, net	645,175		627,254	16,330	643,584
Bank owned life insurance	19,026	19,026			19,026
Accrued interest receivable	1,929		1,929		1,929
<b>Financial liabilities:</b>					
Deposits	751,730		753,420		753,420
Customer repurchase agreements	70,259		70,259		70,259
Borrowings	68,625		68,644		68,644
Accrued interest payable	384		384		384

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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NOTE 17. INCOME TAXES

Income taxes for financial reporting purposes differed from the amount computed by applying the statutory federal income tax rate to the pre-tax net loss for the years ended December 31, 2015 and 2014, respectively, are as follows (dollars in thousands).

	<u>2015</u>		<u>2014</u>	
Federal statutory rate	\$ 2,477	34.0%	\$ 510	34.0%
State tax (net of federal benefit)	250	3.4%	40	2.6%
Prior year true-up adjustment	-	0.0%	(508)	-33.8%
Nondeductible transaction costs	-	0.0%	119	7.9%
Bargain purchase gain	27	0.4%	(167)	-11.1%
Cash surrender value of life insurance	(209)	-2.9%	(176)	-11.7%
Other	63	0.9%	84	5.6%
	<u>\$ 2,608</u>	<u>35.8%</u>	<u>\$ (98)</u>	<u>-6.5%</u>

The components of the provision for income taxes for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>		<u>2014</u>	
Current				
Federal	\$	132	\$	9
State		-		-
Current income tax expense/(benefit)	<u>\$</u>	<u>132</u>	<u>\$</u>	<u>9</u>
Deferred				
Federal	\$	2,369	\$	(94)
State		107		(13)
Deferred income tax expense/(benefit)	<u>\$</u>	<u>2,476</u>	<u>\$</u>	<u>(107)</u>
Total	<u>\$</u>	<u>2,608</u>	<u>\$</u>	<u>(98)</u>

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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The Company had net deferred tax assets totaling \$9.7 million and \$11.5 million as of December 31, 2015 and 2014, respectively. The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014, respectively, follow:

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Net operating loss	\$ 4,415	\$ 6,555
Alternative Minimum Tax Credit	205	71
Start-up and organizational costs	2,306	2,583
Allowance for loan losses	3,295	2,815
Branch closing costs	88	139
Stock-based compensation	289	134
Non-accrual loan interest	156	227
Net unrealized loss on securities	492	-
Net purchase price adjustments	737	790
Other	198	260
Total deferred tax assets	<u>12,181</u>	<u>13,574</u>
Deferred tax liabilities:		
Premises and equipment	(536)	(365)
Deferred loan costs	(1,911)	(1,531)
Net unrealized gain on securities	-	(139)
Other	-	(5)
Total deferred tax liabilities	<u>(2,447)</u>	<u>(2,040)</u>
Net deferred tax assets	<u>\$ 9,734</u>	<u>\$ 11,534</u>

At December 31, 2015, the Company and its subsidiary had federal and Florida net operating losses of approximately \$11.9 and \$10.6 million, respectively. Some of the Company's net operating losses are subject to the Section 382 limitations for offsetting current and future taxable income. Both the federal and Florida net operating losses will begin to expire in 2029.

The Company and its subsidiary file income tax returns in the U.S. Federal jurisdiction and the state of Florida. The Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for tax years prior to 2012.

The Company periodically evaluates our income tax positions based on tax laws and regulations as well as financial reporting requirements. Based on the evaluation, the Company did not have any uncertain tax positions at December 31, 2015.

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NOTE 18. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Below presented are the parent company only financial statements as of and for the periods ended December 31, 2015 and 2014.

**Condensed Statement of Financial Condition**

(dollars in thousands)	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>Assets:</b>		
Interest bearing balances with affiliate	\$ 377	\$ 899
Equity investment in affiliate	100,603	93,930
Other assets	499	271
<b>Total assets</b>	<u>\$ 101,479</u>	<u>\$ 95,100</u>
<b>Liabilities and Stockholders' Equity:</b>		
<b>Liabilities:</b>		
Other liabilities	\$ 59	\$ 31
Shareholders' equity	101,420	95,069
<b>Total liabilities and stockholders' equity</b>	<u>\$ 101,479</u>	<u>\$ 95,100</u>

**Condensed Statement of Operations**

(dollars in thousands)	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>Income:</b>		
Affiliate interest income	\$ 2	\$ 4
<b>Total income</b>	<u>2</u>	<u>4</u>
<b>Expense:</b>		
Intercompany salaries and services	185	250
Other expenses	419	454
<b>Total expense</b>	<u>604</u>	<u>704</u>
<b>Income (loss) before income taxes</b>	<u>(602)</u>	<u>(700)</u>
Provision (benefit) for income taxes	(229)	(267)
<b>Income (loss) before equity in undistributed affiliate earnings</b>	<u>(373)</u>	<u>(433)</u>
Equity in undistributed affiliate earnings	5,050	2,032
<b>Net income</b>	<u>\$ 4,677</u>	<u>\$ 1,599</u>

**TGR Financial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

**Condensed Statement of Cash Flows**

(dollars in thousands)

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 4,677	\$ 1,599
Adjustments to reconcile net income to net cash used in operating activities:		
Stock based compensation	417	287
Equity in undistributed affiliate earnings	(5,050)	(2,032)
Net change in other assets	(228)	33
Net change in other liabilities	(339)	(492)
<b>Net cash used in operating activities</b>	<b>(523)</b>	<b>(605)</b>
<b>Cash Flows From Investing Activities</b>		
Investment in affiliate	-	(8,500)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(8,500)</b>
<b>Cash Flows From Financing Activities</b>		
Net proceeds from private placement sale of stock	-	9,524
Net proceeds from warrant and option exercises	1	11
<b>Net cash provided by financing activities</b>	<b>1</b>	<b>9,535</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(522)</b>	<b>430</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	899	469
End of period	\$ 377	\$ 899
<b>Supplemental Disclosures of Cash Flow Information</b>		
Non-cash: Stock issued in acquisition	\$ 2,302	\$ 6,522