First American International Corp.

holding company for

First American International Bank

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Annual Report

2015

FIRST AMERICAN INTERNATIONAL CORP.

April 28, 2016

Dear Stockholders:

Enclosed is First American International Corp's ("FAIC" or "the Company") and its wholly owned subsidiary, First American International Bank ("FAIB" or "the Bank"), 2015 Annual Report. During the year the Company continued its focus on enhancing loan generation capabilities and improving operating efficiencies. The Bank made progress in both areas, as evidenced by $110 million, or 27% loan growth, which we expect to generate approximately $4 million in interest income during 2016. Asset quality also continued to improve with past due loans declining 52% to $1.9 million at December 31, 2015.

2015 net income, however, does not reflect the progress the Bank has made, declining to $166,000, after deduction of $777,000 in Troubled Asset Relief Program ("TARP") costs, consisting of preferred stock dividends ($340,000) and discount accretion ($437,000). This compares to net income of $1,066,000 for the year ended December 31, 2014, also after deduction of $755,000 of TARP dividends ($340,000) and discount accretion ($415,000). This reduction in net income is due principally to a $1.0 million increase in compensation and benefit expense, principally associated with hiring lending related personnel, salary adjustments and increased benefit costs, a $471,000 increase in the loan loss provision in connection with the larger loan portfolio and a $335,000 increase in general and administrative expenses.

The Board of Directors and management remain committed to growing shareholder value. In this regard, the Company has taken, and will continue to take, measures to grow earning assets and reduce operating expenses. Further, the Company continues to remain well capitalized, which provides a base to enable further loan growth and enhanced shareholder value.

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

Raymond H. Yu
Chairman of the Board

Mark A. Ricca
President and CEO

SELECTED FINANCIAL INFORMATION

The selected data we are presenting below at and for the years ended December 31, 2015, 2014, and 2013 come from our audited consolidated financial statements.

Selected Financial Condition Data:

	At December 31,		
	2015	2014	2013
	(In thousands, except EPS data)		
Total assets	$642,669	$576,454	$552,623
Loans held for sale	4,723	4,984	3,575
Real estate - commercial	207,095	129,193	136,891
Real estate – residential	307,732	273,941	222,366
Commercial and industrial	577	1,805	2,703
Consumer and installment	485	665	586
Unearned loan fees	(599)	(851)	(724)
Loans receivable, gross	515,290	404,753	361,822
Allowance for loan losses	8,730	7,981	7,226
Other interest-earning assets	98,507	130,371	151,624
Demand deposits	121,502	99,452	87,013
NOW accounts	3,281	2,403	2,136
Money market and savings	128,150	138,158	135,962
Certificate of deposit	192,538	195,550	186,200
Deposits	445,471	435,563	411,311
Borrowings	124,217	68,217	68,217
Stockholders' equity	$ 67,595	$ 67,293	$ 65,333

Selected Operations Data:

	For the year ended December 31,		
	2015	2014	2013
	(In thousands)		
Interest income	$25,093	$25,208	$24,726
Interest expense	4,024	3,898	3,402
Net interest income	21,069	21,310	21,324
Provision for loan losses	628	157	488
Net interest income after provision for loan losses	20,441	21,153	20,836
Non-interest income	7,610	7,514	8,731
Non-interest expenses	26,169	25,483	24,804
BEA grant (a)	162	355	393
Income before income taxes	2,044	3,538	5,156
Income taxes	1,095	1,710	2,245
Net income	$949	$1,828	$2,911
Income available to common stockholder	$166	$1,066	$2,160
Earnings per share – Basic	$0.08	$0.48	$1.00
Earnings per share – Diluted	$0.08	$0.48	$0.99

(a) Represents Bank Enterprise Award grants from the Community Development Financial Institutions Fund (a federal government department) for our lending and community investment activities in the amounts shown. The BEA grant is included as a component of non-interest income in the audited financial statements.

Selected Financial Ratios and Other Data[1]:

	At or for the year ended December 31,		
	2015	2014	2013
Performance Ratios:			
Return on average assets (net income available to common shareholders to average total assets)	0.03%	0.19%	0.40%
Return on average net worth (net income available to common shareholders to average net worth)	0.32%	2.11%	4.51%
Average interest-earning assets to average interest-bearing liabilities	108%	107%	132%
Net interest rate spread (2)	3.46%	3.79%	4.01%
Net interest margin (3)	3.74%	4.03%	4.22%
Net interest income after provision for loan losses to total other expenses	77%	83%	81%
Non-interest income to total revenue	24.50%	23.79%	25.40%
Non-interest expense to total revenue	79.76%	77.04%	79.05%
Non-interest expense to average assets	4.47%	4.51%	4.90%
Net Worth and Asset Quality Ratios:			
Average net worth to average total assets	8.84%	8.96%	8.96%
Total net worth to assets end of period	10.52%	11.67%	11.82%
Non-performing assets to total assets	0.76%	1.02%	1.88%
Non-performing loans to total loans	0.95%	1.45%	2.93%
Allowance for loan losses to total loans	1.69%	1.97%	1.99%
Allowance for loan losses to non-performing loans	177.58%	136.16%	69.45%
Bank Only			
Total Risk-Based Capital Ratio	18.03%	21.16%	22.56%
Tier 1 Risk-Based Capital Ratio	16.77%	19.90%	21.30%
Leverage Capital Ratio	12.07%	12.51%	13.05%
Consolidated			
Total Risk-Based Capital Ratio	18.21%	21.39%	22.70%
Tier 1 Risk-Based Capital Ratio	16.94%	20.13%	21.44%
Leverage Capital Ratio	12.19%	12.66%	13.14%
Book value per share	$23.55	$22.87	$22.28

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

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

Our Business

We are a New York-based community banking institution focused on providing full service banking to consumers, small businesses and real estate investors, principally within the Chinese-American market located within Brooklyn, Queens and Manhattan, three of the five boroughs of New York City. The Chinese-American market consists of individuals of Chinese ancestry who were born in the United States, ethnic Chinese who have immigrated to the United States and ethnic Chinese who live abroad but conduct business in the United States. Our primary operating subsidiary, First American International Bank (the "Bank"), is a New York-chartered commercial bank. The Bank commenced operations in November 1999 and we established our bank holding company, First American International Corp. ("FAIC", "us", "we", "our"), in July 2004. As of December 31, 2015, we had total assets of $642.7 million, net loans receivable of $506.6 million, total deposits of $445.5 million and total stockholders' equity of $67.6 million.

Our business strategy involves a systematic approach toward the establishment of a full service community financial services company. When the Bank opened for business in November 1999 and for a number of years thereafter, our Board of Directors developed, and management implemented, policies to grow the size of the Bank through retail branch expansion. In 2015, to reduce expenses, the Bank took action to close its Forest Hills, Queens, NY branch The Bank is based in Brooklyn and at year end 2015 it had eight branches, two in Brooklyn, three in Queens, and three in Chinatown in Manhattan. We have not paid cash dividends on our common stock to maximize retained earnings and provide capital support for growth.

U. S. Treasury Preferred Stock Purchase

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

1. We may pay common stock dividends only in the amount we paid in the prior year. Since we did not pay any dividends to common stockholders prior to issuing the preferred stock, any dividends on common stock are subject to the consent of the prior Treasury Department.
2. If the preferred stock has not all been redeemed within 10 years, all dividends and stock repurchases are prohibited until the preferred stock is redeemed.
3. Our executive compensation programs are subject to restrictions including limits on both golden parachute payments and incentive compensation or bonus payments. We must also retain the right to recover any bonuses or incentive compensation paid based upon reported earnings, gains or other criteria that are later shown to be materially incorrect. We believe that we do not have any plans, contracts or agreements that require payments that would violate these restrictions.

Improved Asset Quality

Our overall asset quality improved significantly over the last few years and continued to improve in 2015. Non-performing loans at December 31, 2015 were $4.9 million compared to $5.9 million the previous year. The Company monitors remaining delinquent loans closely and continues to work on improving asset quality on an overall basis. The allowance for loan losses was $8.7 million, or 1.69% of total loans at year end 2015, compared to $8.0 million, or 1.97% at December 31, 2014. The allowance represented 177.6% of non-performing loans at December 31, 2015 compared to 136.1% at December 31, 2014. Although the amount of the allowance increased, the allowance as a percentage of total loans decreased due to the reduction in the level of non-performing loans and an improvement in historical loan loss experience, which is based upon the last twelve quarters of loan losses. The allowance coverage of non-performing loans increased from 133.4% at year-end 2014 to 167.7% at year-end 2015. We are working to continue to improve the quality of our assets.

Comparison of Financial Condition at December 31, 2015 and December 31, 2014

Total assets were $642.7 million at December 31, 2015, an increase of $66.2 million, or 11.5%, from $576.5 million at December 31, 2014. Total assets increased as we increased our residential loan portfolio through direct originations and our commercial mortgage loan portfolio through both direct originations and the purchase of commercial mortgage loans. We purchased $49.0 million of commercial mortgage loan participations in December 2015. Loans receivable, net were $506.6 million, an increase of $109.8 million, or 27.7%, compared to last year. We increased our residential mortgage loans by $33.8 million and our commercial real estate loans by $29.3 million through our own originations in addition to the $49.0 million of purchased loan participations that have a net yield, after amortization of the origination fee and the servicing fee, of approximately 3.3%. Total securities declined $32.0 million or 30.5% as we let our short-term municipal securities roll off and we sold approximately $11.0 million of low dollar amount securities to simplify portfolio monitoring activities. Cash and cash equivalents decreased slightly from $27.7 million to $27.1 million.

Total deposits were $445.5 million at December 31, 2015, an increase of $9.9 million, or 2.3%, from $435.6 million at December 31, 2014. The principal deposit categories at December 31, 2015 were $121.5 million in demand deposit accounts; $131.4 in money market and savings accounts; and $192.5 million in certificates of deposit. This compares to December 31, 2014 amounts of $99.5 million in demand deposit accounts; $140.6 million in money market and savings accounts; and $195.6 million in certificates of deposit. We increased our deposits to have the funds available to make additional loans in our community while maintaining an adequate level of liquidity. We made a particular effort to increase demand deposits as a low cost funding source through various strategies such as seeking demand deposit relationships with our residential and commercial borrowers, which contributed to a 21% increase in that deposit category.

Borrowings increased $56.0 million from $68.2 million to $124.2 during the year. We borrowed $117 million of term loans from the Federal Home Loan Bank of New York ("FHLBNY") of which $45 million was borrowed in December 2015 at a cost of 1.59% to help fund the $49.0 million loan participation. Borrowings also include a $7.2 million junior subordinated debenture that we issued in connection with our trust preferred securities transaction in December 2004.

In addition to term loan availability with the FHLBNY, we have a FHLBNY secured borrowing line of credit, which is a relatively low cost source of funds and provides an additional source of liquidity. We had unused availability on that line of credit of $32.8 million at the end of 2015 and $11.6 million at the end of 2014. This line of credit, along with our cash and available for sales securities, continue to provide us with liquidity we believe is sufficient to satisfy both regular liquidity needs and potential severe liquidity demands.

Total stockholders' equity was $67.6 million at December 31, 2015, compared with $67.3 million at December 31, 2014. The principal reasons for the increase were $949,000 of retained earnings, partially offset by the payment of TARP preferred stock dividends of $340,000.

The following table shows our regulatory capital ratios and those of the Bank for the quarter ended December 31, 2015

	FAIC	The Bank
Tier I Leverage Capital Ratio	12.19%	12.07%
Tier I Risk-Based Capital Ratio	16.94%	16.77%
Total Risk-Based Capital Ratio	18.21%	18.03%

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

Comparison of Operating Results for the Years Ended December 31, 2015 and 2014

General. We had net income of $949,000 in 2015, compared to net income of $1.8 million in 2014. The principal reasons for the decline were that noninterest expense increased by $0.9 million and the provision for loan losses increased by $471,000. Income taxes, as a percent of pretax income, remained high due to tax law changes that required a write off of our $0.4 million New York City deferred tax asset. This increased our effective tax rate from 48.3% in 2014 to 53.6% in 2015. This change in tax law should reduce our effective tax rate to 34% in the future. Return on average assets after preferred stock dividends and discount accretion decreased to 0.03% in 2015 compared to 0.19% in 2014. Return on average equity decreased to 0.32% compared to 2.11% last year.

Interest Income. Interest income was $25.0 million for 2015 compared to $25.2 million in 2014, a decrease of $0.2 million, or 0.9%. Interest and fees on loans remained flat at $22.9 million. This is the result of a lower yield on loans offset by an increase in average loans during the year. The yield on loans decreased 79 basis points to 5.26%. This is mostly due to a one-time event of recognizing $1.3 million in past due interest in 2014 when a non-performing loan repaid. In addition, some higher yielding loans were replaced by lower yielding loans as market rates for loans declined.

Interest income on investment securities decreased $0.2 million because the average balance was $10.1 million lower in 2015 and there was a 4 basis point decrease in yield.

Interest Expense. Interest expense increased from $3.9 million in 2014 to $4.0 million in 2015. This increase of $0.1 million, or 3.2%, was principally due to our decision to partially mitigate our interest rate risk to a rising rate environment by borrowing from the FHLBNY for relatively longer terms at fixed interest rates and increasing the term of our average CD.

Interest expense on deposits increased 1.5%, or $36,000, from 2014 to 2015. Certificates of deposit represented 59% of average interest-bearing deposits in 2015, up slightly from 57% in 2014. The average rate we paid on certificates of deposit increased 1 basis point. The increase in the volume of CDs and the higher interest rate was the principal cause of an increase in our average cost of interest-bearing deposits by 2 basis points from 0.72% in 2014 to 0.74% in 2015. However, due to a 26% increase in average non-interest demand deposits, our overall cost of deposits, including non-interest BEARING deposits, declined 2 basis points from 0.57% in 2014 to 0.55% in 2015. Interest on our borrowings from the FHLBNY increased $84,000 while the average rate paid declined from 2.17% to 2.07%. The average balance increased from $61.0 million to $68.1 million during 2015. To lengthen the average maturity of our deposits and to fund the purchase of commercial mortgage loan participations, we borrowed $45 million from the FHLBNY in December 2015, which did not significantly affect the average balance during 2015.

Net Interest Income. Net interest income for 2015, before provision for loan losses, was $20.9 million. This was a decrease of $358,000, or 1.7%, from the prior year. The two most significant causes for this decline were the decline in the yield on loans and the decline in the volume of investment securities, as discussed above. For the year ended December 31, 2015, our interest rate spread of 3.46% was down 33 basis points from 3.79% for the year ended December 31, 2014; the net interest margin of 3.74% was down 29 basis points from 4.03% for the year ended December 31, 2014.

Our average balance of loans was $434.7 million in 2015, or $55.6 million higher than the average balance in 2014. In contrast, the average balance of lower-yielding overnight investments decreased $14.0 million from $43.7 million in 2014 to $29.7 million in 2015 and the average balance of securities, also lower-yielding than loans, decreased by $10.4 million from 2014 to 2015.

Provision for Loan Losses. The provision for loan losses results from our analysis of the appropriateness of our allowance for loan losses. If we determine that an increase in the allowance is warranted, then the increase is accomplished through a provision for loan losses, which is reflected as an expense on our income statement. The provision for loan losses was $628,000 in 2015, compared to a provision of $157,000 in 2014. The provision that we record each year is the amount that we believe is necessary to maintain an allowance for loan losses that is appropriate for our loan portfolio, based upon the risks in the portfolio.

We made a substantial provision for loan losses in December 2015 to account for the increase of $68 million in loans during December. The provision expense was recognized entirely in 2015, while the new loans generated little interest income in 2015. We expect that the loans booked in December will generate approximately $1.3 million on net interest income in 2016.

The asset quality of the loan portfolio continued to improve in 2015 when compared to previous years. This improvement was due to continuing efforts to reduce the risk profile of the loan portfolio as discussed above. Non-performing loans decreased from $5.9 million at the end of 2014 to $4.9 million at December 31, 2015. This decrease of $0.9 million, or 16.1% was a result of the repayment of some non-performing loans, charge-offs, and the restoration of loans to performing status as the result of a consistent period of regular payment.

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

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

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

At December 31, 2015, our allowance for loan losses was $8.7 million, or 1.69% of total loans, compared to $8.0 million, or 1.97% of total loans, at year end 2014. The allowance coverage of non-performing loans increased from 136.2% at December 31, 2014 to 177.6% at December 31, 2015.

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

Non-interest Income. Non-interest income was $8.1 million for the year ended December 31, 2015, an increase of $235,000 compared to the year ended December 31, 2014. The increase is mainly due to a gain on the sale of real property at 135 Bowery of $1.3 million, and an increase in gains on sale of loans of $644,000, partially offset by $859,000 in 2014 miscellaneous income in connection with resolving prior year expense accruals that did not repeat in 2015, a $295,000 reduction in the gain on sale of securities and a $193,000 reduction in the Bank Enterprise Award ("BEA").

We acquired the real property at 135 Bowery with the expectation that we would use a portion of it for bank premises, but we subsequently concluded that the building was not necessary for that purpose, so we sold it. We expect to recognize a $750,000 additional gain in connection with the sale of that property during 2016. That amount is being held in escrow pending satisfaction of certain conditions that we believe will be fully satisfied during the second quarter of 2016.

We received a BEA grant of $162,000 in 2015, down from a $355,000 BEA grant received in 2014. In 2015, as in prior years, the BEA grant was awarded by an office of the United States Treasury Department for our incremental level of lending in low and moderate income census tracts in New York. We expect that we will apply for another BEA grant in 2016, but have no assurance of such award since it is dependent on various competitive factors and government budgeting and policy decisions that are not under our control. We continue to exert appropriate efforts as a community development financial institution to assist in the development of our local communities, including low and moderate income geographies.

Non-interest Expenses. Non-interest expenses were $26.4 million for the year ended December 31, 2015 compared to $25.5 million in 2014, an increase of $900,000, or 3.5%. The increase is mainly due to an increase in salaries and benefits of $1.0 million, an increase in alternative minimum and occupancy taxes paid to New York State and New York City of $317,000, an increase in FDIC insurance premiums of $128,000 and an increase in other loan expenses of $101,000, partially offset by a decrease in occupancy expenses of $479,000 and a decrease in professional fees of $246,000. During 2015, we closed our Forest Hills branch to reduce expenses and improve efficiencies. We incurred approximately $250,000 of expenses in connection with the branch closing.

Salaries and benefits increased due to higher staffing levels, principally in the loan department, salary increases for existing employees and rising health insurance costs. The decrease in occupancy expenses is primarily due to a $408,000 lease accounting charge in 2014.

Income Taxes. The effective tax rate for 2015 was 53.6% which was higher than the 48.3% in 2014. The main reason for this increase was a change in New York City tax law in 2015 and a New York State tax law in 2014, which made it unlikely we will be able to realize the value of our city and state deferred tax assets. Therefore, we established a valuation allowance against those deferred tax assets of $326,000, net of federal taxes in 2015 and $432,000, net of federal taxes, in 2014. In the fourth quarter of 2013, we established a real estate investment trust as a subsidiary that serves to reduce our effective tax rate due to a reduction of our New York State and local income taxes. The real estate investment trust is a consolidated subsidiary for financial reporting purposes, but we receive a state and local income tax benefit on dividends the Bank receives from the real estate investment trust.

In the future, our New York State and New York City taxes will no longer be based on income in most cases and will be included in other expenses rather than income tax expense. $220,000 of capital taxes were expensed in 2015 and included in non-interest expense. We expect our overall effective income tax rate to be the federal rate, currently 34%, in the future.

Liquidity

Liquidity represents funds available to us for operating, investing and financing activities. Our primary sources of funds are deposits, borrowings, sales of loans and other assets, and payments we receive on loans and investment securities. Our primary uses of funds are making loans and purchasing investment securities. Liquidity also provides us with the ability to meet customer withdrawals from their deposit accounts. At December 31, 2015, cash and cash equivalents, which include cash and due from banks, money market accounts, and federal funds sold, were $27.0 million, or 4.2% of total assets compared to $27.7 million, or 4.8% of total assets at December 31, 2014.

At December 31, 2015, we had a line of credit with the FHLBNY with unused capacity of approximately $32.8 million, which is available to us for liquidity purposes. This line of credit can be increased by pledging additional collateral, in the form of securities, loans or cash. We currently have additional qualifying collateral that we have not pledged to the FHLBNY that is available to pledge, in order to increase the line of credit to provide short-term and long-term liquidity if needed.

Forward-Looking Statements

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

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

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

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

FIRST AMERICAN INTERNATIONAL CORP.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
Brooklyn, New York

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of First American International Corp. and subsidiaries, which comprise the consolidated statement of financial condition as of December 31, 2015, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First American International Corp. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2014 consolidated financial statements of First American International Corp. and subsidiaries were audited by other auditors, whose report dated March 31, 2015 expressed an unmodified opinion on those statements.

BDO USA, LLP

New York, New York
April 20, 2016

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and due from banks – noninterest bearing	$ 5,315,858	$ 5,624,781
Due from banks – interest-bearing overnight and		
money market accounts	20,927,419	20,736,451
Federal funds sold – overnight	809,000	1,333,000
Cash and cash equivalents	27,052,277	27,694,232
Time deposits with banks	3,946,764	3,455,896
Securities available for sale	50,546,206	85,507,436
Securities held to maturity (fair value of $22,247,137 and $19,412,038		
at December 31, 2015 and 2014, respectively)	22,277,837	19,338,930
Loans held for sale	4,722,632	4,983,500
Loans receivable, net	506,560,567	396,771,666
Bank premises and equipment, net	7,318,758	7,811,617
Fixed assets held for sale	-	12,870,961
Federal Home Loan Bank ("FHLB") stock, at cost	5,898,900	3,321,800
Accrued interest receivable	2,180,557	2,097,146
Mortgage servicing rights	7,379,079	7,245,842
Other assets	4,785,397	5,355,056
	$ 642,668,974	$ 576,454,082
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	$ 121,502,390	$ 99,451,880
NOW	3,280,734	2,403,386
Money market and savings	128,150,205	138,158,363
Time deposits	192,538,129	195,550,413
	445,471,458	435,564,042
Other borrowed funds	117,000,000	61,000,000
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	1,062,980	1,038,876
Accounts payable and other liabilities	4,322,956	4,341,055
Total liabilities	575,074,394	509,160,973
Commitments and contingencies	-	-
Stockholders' equity		
Series B preferred stock, $0.10 par value; 17,000 shares authorized; 17,000 shares		
issued and aggregate liquidation value of $17,000,000 at December 31,		
2015 and 2014, respectively	1,700	1,700
Series A preferred stock, $0.10 par value; 750,000 shares	-	-
authorized; no shares issued		
Common stock, $.0001 par value; 3,000,000 shares authorized; and 2,201,946 shares		
issued and 2,199,446 outstanding at December 31, 2015 and 2014	220	220
Non-controlling interest	72,000	72,000
Additional paid-in capital	54,212,180	57,121,251
Treasury stock, 2,500 shares of common stock at cost	(68,000)	(68,000)
Retained earnings	13,504,520	9,993,238
Accumulated other comprehensive (loss) income	(128,040)	172,700
Total stockholders' equity	67,594,580	67,293,109
	$ 642,668,974	$ 576,454,082

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Years ended December 31, 2015 and 2014

	2015	2014
Interest and dividend income		
Loans, including fees	$ 22,851,900	$ 22,909,490
Securities	1,861,047	2,031,144
FHLB Stock	148,648	143,227
Due from banks and money market accounts	111,665	120,806
Federal funds sold	2,276	3,552
	24,975,536	25,208,219
Interest expense		
Deposits	2,433,541	2,397,678
Other borrowed funds	1,408,085	1,324,250
Junior subordinated debentures	182,413	175,925
	4,024,039	3,897,853
Net interest income	20,951,497	21,310,366
Provision for loan losses	628,000	157,374
Net interest income after provision for loan losses	20,323,497	21,152,992
Noninterest income		
Service and transaction fees	4,896,208	6,069,341
Gain on sale of fixed assets held of sale	1,252,146	-
(Loss) gain on sale of securities, net	(74,935)	219,755
Grants from U.S. Treasury Department	162,000	355,000
Gain on sale of loans, net	1,868,349	1,224,324
	8,103,768	7,868,420
Noninterest expenses		
Salaries and employee benefits	13,476,757	12,432,753
General and administrative	8,001,878	7,666,758
Depreciation, amortization and occupancy	4,904,650	5,383,343
	26,383,285	25,482,854
Income before income tax expense	2,043,980	3,538,558
Income tax expense	1,094,561	1,710,447
Net income	949,419	1,828,111
Preferred stock dividends and discount accretion	783,899	762,150
Net income available to common stockholders	$ 165,520	$ 1,065,961
Earnings per common share:		
Basic	$ 0.08	$ 0.48
Diluted	$ 0.08	$ 0.48
Net income	$ 949,419	$ 1,828,111
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) gain on securities, net of reclassifications and taxes	(300,740)	13,750
Comprehensive income	$ 648,679	$ 1,841,861

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2015 and 2014

	Preferred Stock (Series B)		Common Stock			Non-	Additional	Treasury Stock			Accumulated Other	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Controlling Interest	Paid-in Capital	Number of Shares	Amount	Retained Earnings	Comprehensive Income (loss)	Total
Balance at January 1, 2014	17,000	$ 1,700	2,171,711	$ 216	-	$ -	$56,312,680	(2,500)	$ (68,000)	$ 8,927,277	$ 158,950	$ 65,332,823
Net Income	-	-	-	-	-	-	-	-	-	1,828,111	-	1,828,111
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	13,750	13,750
FAIB Capital Corp Minority stock issued	-	-	-	-	144	72,000	-	-	-	-	-	72,000
Dividends FAIB Capital Corp	-	-	-	-	-	-	-	-	-	(6,620)	-	(6,620)
Stock Options exercised	-	-	30,235	4	-	-	393,049	-	-	-	-	393,053
Preferred stock cash dividends and discount accretion	-	-	-	-	-	-	415,522	-	-	(755,530)	-	(340,008)
Balance at December 31, 2014	17,000	1,700	2,201,946	220	144	72,000	57,121,251	(2,500)	(68,000)	9,993,238	172,700	67,293,109
Exchange of preferred stock in a prior year	-	-	-	-	-	-	(3,345,762)	-	-	3,345,762	-	-
Net Income	-	-	-	-	-	-	-	-	-	949,419	-	949,419
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(300,740)	(300,740)
Dividends FAIB Capital Corp	-	-	-	-	-	-	-	-	-	(7,200)	-	(7,200)
Preferred stock cash dividends and discount accretion	-	-	-	-	-	-	436,691	-	-	(776,699)	-	(340,008)
Balance at December 31, 2015	17,000	$ 1,700	2,201,946	$ 220	144	$ 72,000	$54,212,180	(2,500)	$ (68,000)	$13,504,520	$ (128,040)	$ 67,594,580

See accompanying notes to the consolidated financial statements.

FIRST AMERICAN INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 949,419	$ 1,828,111
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Provision for loan losses	628,000	157,374
(Gain) loss on sale of securities, net	74,935	(219,755)
Gain on sale of residential mortgage and commercial loans	(2,473,297)	(1,224,324)
Change in fair value of mortgage servicing rights	604,948	1,160,128
Depreciation	1,136,042	983,627
Write off of fixed assets	190,902	1,122,560
Gain on sale of fixed assets	(1,252,146)	-
Deferred tax expense	73,600	551,639
Residential mortgage loans originated for sale	(83,985,857)	(100,935,049)
Proceeds from sales of residential mortgage loans	85,981,837	101,274,110
Increase decrease in accrued interest receivable	(83,411)	(212,792)
Decrease (increase) in other assets	703,319	(2,276,900)
Increase (decrease) in accrued interest payable, accounts payable and other liabilities	6,005	(2,932,958)
Net cash provided by (used in) operating activities	2,554,296	(724,229)
Cash flows from investing activities		
Proceeds from maturities, sales, and calls of securities AFS	55,652,460	45,602,547
Proceeds from maturities and calls of securities HTM	3,115,857	10,941
Purchases of securities AFS	(21,274,165)	(52,467,868)
Purchases of securities HTM	(6,054,764)	(4,201,730)
Redemption (purchase) of FHLB stock	(2,577,100)	141,200
Increase in time deposits with banks	(490,868)	(1,618,660)
Net (increase) decrease in loans receivable	(61,653,421)	(42,333,233)
Purchase of loan participations	(48,763,480)	-
Proceeds from sale of fixed assets	14,664,000	-
Capital expenditures	(834,085)	-
Additions to fixed assets held for sale	(540,893)	(3,419,107)
Net cash used in investing activities	(68,756,459)	(58,285,910)
Cash flows from financing activities		
Dividends paid on Series B preferred stock	(340,008)	(340,008)
Dividends paid on REIT preferred stock	(7,200)	(6,620)
Proceeds from issuance of stock	-	393,053
Proceeds from issuance of minority REIT stock	-	72,000
Proceeds from other borrowed funds	88,000,000	-
Repayment of other borrowed funds	(32,000,000)	-
Net increase in deposits	9,907,416	24,252,566
Net cash provided by financing activities	65,560,208	24,370,991
Net decrease in cash and cash equivalents	(641,955)	(34,639,148)
Cash and cash equivalents, beginning of year	27,694,232	62,333,380
Cash and cash equivalents, end of year	$ 27,052,277	$ 27,694,232
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 3,999,935	$ 3,783,100
Income taxes	200,000	630,000
Supplemental non-cash disclosures		
Transfer of securities from AFS to HTM	$ -	$ 15,148,141
Transfer of building to fixed assets held for sale	-	12,870,961

See accompanying note to the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America (with U.S. generally accepted accounting principles) management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of mortgage servicing rights and the valuation of deferred tax assets.

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

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

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

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

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other

(Continued)

comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

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

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

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

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

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

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

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

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

(Continued)

loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. There was no other real estate owned as of December 31, 2015 or 2014.

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

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

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

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

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

(Continued)

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

Concentrations of Credit Risk: Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of temporary cash investments, which include due from banks, and loans receivable. As of December 31, 2015 and 2014, the Company had approximately $2,250,000 and $2,870,000, respectively, in deposit balances at certain financial institutions which were in excess of usual federally-insured limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to these cash investments.

There are no significant concentrations of loans to any one industry or customer. However, the majority of the Company's loans and loan commitments have been granted to customers in the Company's market area. Accordingly, the collectability of loans and management's ability to increase net interest income will be impacted, to some extent, by economic conditions in the New York metropolitan area.

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

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

In addition, during 2015 there was a reclassification reflected on the statement of stockholders' equity increasing retained earnings and decreasing additional paid-in capital by $3,345,762. The reclassification was treated as a correction of an immaterial prior year error related to the initial recording of preferred stock at fair in August 2010, which is discussed in Note 16. The reclassification had no impact on total stockholders' equity and net income.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 20, 2016, which is the date the financial statements were available to be issued.

NOTE 2 – SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Municipal securities	$ 2,254,211	$ 3,613	$ (4,327)	$ 2,253,497
U.S. Treasury securities	4,000,053	6,769	(612)	$ 4,006,210
Mortgage backed securities – residential	5,077,148	25,737	(23,983)	$ 5,078,902
Mortgage backed securities – commercial	7,527,948	6,123	(41,707)	$ 7,492,364
Corporate note securities	27,037,316	134,446	(323,494)	26,848,268
Asset backed securities	-	-	-	-
Collateralized mortgage obligations	4,843,530	36,648	(13,213)	4,866,965
	$ 50,740,206	$ 213,336	$ (407,336)	$ 50,546,206
December 31, 2014				
Municipal securities	$ 34,873,763	$ 7,786	$ (9,438)	$ 34,872,111
U.S. Treasury securities	4,000,510	47,459	-	4,047,969
Mortgage backed securities – residential	5,738,390	45,178	(12,863)	5,770,705
Mortgage backed securities – commercial	14,869,233	10,425	(84,660)	14,794,999
Corporate note securities	10,049,055	160,176	(13,225)	10,196,006
Asset backed securities	6,856,692	117,729	(17,660)	6,956,760
Collateralized mortgage obligations	8,805,793	82,991	(19,898)	8,868,886
	$ 85,193,436	$ 471,744	$ (157,744)	$ 85,507,436

(Continued)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U.S. Government Agencies	$ 1,699,362	$ -	$ (16,643)	$ 1,682,719
Municipal securities	1,364,397	41,655	(2,966)	1,403,086
U.S. Treasury securities	994,990	7,119	-	1,002,109
Mortgage backed securities – residential	4,510,017	6,987	(48,020)	4,468,984
Mortgage backed securities – commercial	3,267,551	4,457	(14,220)	3,257,788
Corporate note securities	9,208,640	18,671	(35,805)	9,191,506
Collateralized mortgage obligations	1,232,880	9,273	(1,209)	1,240,944
	$ 22,277,837	$ 88,162	$ (118,863)	$ 22,247,137
December 31, 2014				
U.S. Government Agencies	$ 3,661,906	$ 37,440	$ (22,758)	$ 3,676,588
Municipal securities	1,373,012	35,101	(5,742)	1,402,371
U.S. Treasury securities	993,324	4,723	-	998,047
Mortgage backed securities – residential	3,973,599	16,314	(33,771)	3,956,142
Mortgage backed securities – commercial	3,617,749	5,489	(16,711)	3,606,527
Corporate note securities	4,190,789	33,507	-	4,224,296
Collateralized mortgage obligations	1,528,551	19,514	-	1,548,065
	$ 19,338,930	$ 152,088	$ (78,982)	$ 19,412,036

(Continued)

The amortized cost and fair value of debt securities by final contractual maturity at year-end 2015 were as follows:

	Available For Sale	
	Amortized Cost	Fair Value
Due before one year	$ 3,911,282	$ 3,932,273
Due after one year through five years	26,373,727	26,197,760
Due five years through ten years	7,064,310	6,953,291
Due over ten years	13,390,887	13,462,882
	$ 50,740,206	$ 50,546,206

	Held To Maturity	
	Amortized Cost	Fair Value
Due before one year	$ -	$ -
Due after one year through five years	10,021,741	9,992,663
Due five years through ten years	5,980,595	6,025,093
Due over ten years	6,275,501	6,229,381
	$ 22,277,837	$ 22,247,137

Securities with carrying amounts of approximately $5,000,000 and $6,957,000 were pledged as collateral to secure borrowings as of December 31, 2015 and 2014, respectively.

During 2015, proceeds from sales of securities were $10,515,480 with gross realized gains of $63,139 and gross losses of $138,074. During 2014, proceeds from sales of securities were $13,208,725 with gross realized gains of $229,635 and gross losses of $9,880.

(Continued)

Securities with unrealized losses at year-end 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Available for sale:

	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
December 31, 2015						
Municipal securities	$ -	$ -	$ 1,221,678	$ (4,327)	$ 1,221,678	$ (4,327)
U.S. Treasuries	1,000,878	(612)	-	-	1,000,878	(612)
Mortgage backed securities – residential	1,439,461	(6,878)	902,711	(17,105)	2,342,172	(23,983)
Mortgage backed securities – commercial	5,447,966	(21,578)	774,942	(20,129)	6,222,908	(41,707)
Corporate notes	19,185,080	(306,262)	2,297,262	(17,232)	21,482,342	(323,494)
Asset backed securities						
Collateralized mortgage obligations	2,405,547	(9,851)	177,053	(3,362)	2,582,600	(13,213)
Total	$ 29,478,932	$ (345,181)	$ 5,373,646	$ (62,155)	$ 34,852,578	$ (407,336)
December 31, 2014						
Municipal securities	$ 10,026,310	$ (1,446)	$ 1,243,449	$ (7,992)	$ 11,269,759	$ (9,438)
Mortgage backed securities – residential	1,003,087	(7,689)	685,980	(5,174)	1,689,067	(12,863)
Mortgage backed securities – commercial	5,793,795	(14,503)	4,250,364	(70,157)	10,044,159	(84,660)
Corporate notes	2,597,243	(13,225)	-	-	2,597,243	(13,225)
Asset backed securities	1,005,604	(8,500)	910,985	(9,160)	1,916,589	(17,660)
Collateralized mortgage obligations	3,166,973	(15,859)	401,010	(4,039)	3,567,983	(19,898)
Total	$ 23,593,012	$ (61,222)	$ 7,491,788	$ (96,522)	$ 31,084,800	$ (157,744)

(Continued)

Held to maturity:

	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
December 31, 2015						
U.S. Government agencies	$ 1,682,719	$ (16,643)	$ -	$ -	$ 1,682,719	$ (16,643)
Municipal securities	587,351	(2,966)	-	-	587,351	(2,966)
U.S. Treasuries	-	-	-	-	-	-
Mortgage backed securities – residential	2,127,149	(17,174)	1,384,822	(30,846)	3,511,971	(48,020)
Mortgage backed securities – commercial	2,335,733	(14,220)	-	-	2,335,733	(14,220)
Corporate notes	7,112,948	(35,805)	-	-	7,112,948	(35,805)
Asset backed securities	-	-	-	-	-	-
Collateralized mortgage obligations	310,655	(1,209)	-	-	310,655	(1,209)
Total	$ 14,156,555	$ (88,017)	$ 1,384,822	$ (30,846)	$ 15,541,377	$ (118,863)
December 31, 2014						
U.S. Government agencies	$ -	$ -	$ 1,676,389	$ (22,758)	$ 1,676,389	$ (22,758)
Municipal securities	-	-	590,135	(5,741)	590,135	(5,741)
Mortgage backed securities – residential	766,460	(1,403)	1,563,736	(32,368)	2,330,196	(33,771)
Mortgage backed securities – commercial	1,797,861	(7,081)	839,401	(9,629)	2,637,262	(16,710)
Total	$ 2,564,321	$ (8,484)	$ 4,669,661	$ (70,496)	$ 7,233,982	$ (78,980)

Unrealized losses on debt securities have not been realized because the issuers continue to pay interest and principal as expected and required, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

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

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

(Continued)

NOTE 3 – LOANS RECEIVABLE

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

	2015	2014
Real estate - commercial	$ 207,094,605	$ 129,193,238
Real estate - residential	307,732,518	273,941,008
Commercial and industrial	577,155	1,805,325
Consumer and installment	484,953	664,714
	515,889,231	405,604,285
Less: Net deferred loan fees	(598,878)	(851,308)
Allowance for loan losses	(8,729,786)	(7,981,311)
Loans receivable, net	$ 506,560,567	$ 396,771,666

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2015 and 2014:

	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Installment	Total
December 31, 2015					
Allowance for loan losses:					
Beginning balance	$ 3,263,446	$ 4,673,638	$ 36,748	$ 7,479	$ 7,981,311
Provision for loan losses	1,111,153	(120,769)	(359,328)	(3,056)	628,000
Loans charged-off	(290,240)	-	-	(2,239)	(292,479)
Recoveries	51,913	17,307	341,246	2,488	412,954
Total ending allowance balance	$ 4,136,272	$ 4,570,176	$ 18,666	$ 4,672	$ 8,729,786
December 31, 2014					
Allowance for loan losses:					
Beginning balance	$ 2,950,875	$ 3,489,351	$ 780,393	$ 5,631	$ 7,226,250
Provision for loan losses	290,010	1,172,501	(1,302,786)	(2,351)	157,374
Loans charged-off	(131,607)	(3,467)	-	(1,122)	(136,196)
Recoveries	154,168	15,253	559,141	5,321	733,883
Total ending allowance balance	$ 3,263,446	$ 4,673,638	$ 36,748	$ 7,479	$ 7,981,311

(Continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the years ended December 31, 2015 and 2014:

	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Installment	Total
December 31, 2015					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ -	$ 50,463	$ -	$ -	$ 50,463
Collectively evaluated for impairment	4,136,272	4,519,713	18,666	4,672	8,679,323
Total ending allowance balance	$ 4,136,272	$ 4,570,176	$ 18,666	$ 4,672	$ 8,729,786
Loans:					
Individually evaluated for impairment	$ 2,247,268	$ 1,836,247	$ -	$ -	$ 4,083,515
Collectively evaluated for impairment	204,847,337	305,896,271	577,155	484,953	511,805,716
Total ending loan receivable balance	$ 207,094,605	$ 307,732,518	$ 577,155	$ 484,953	$ 515,889,231
December 31, 2014					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 115,037	$ 82,604	$ -	$ -	$ 197,641
Collectively evaluated for impairment	3,148,409	4,591,034	36,748	7,479	7,783,670
Total ending allowance balance	$ 3,263,446	$ 4,673,638	$ 36,748	$ 7,479	$ 7,981,311
Loans:					
Individually evaluated for impairment	$ 3,750,703	$ 2,309,233	$ 595,265	$ -	$ 6,655,201
Collectively evaluated for impairment	125,442,535	271,631,775	1,210,060	664,714	398,949,084
Total ending loan receivable balance	$ 129,193,238	$ 273,941,008	$ 1,805,325	$ 664,714	$ 405,604,285

(Continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the years ended December 31, 2015 and 2014:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses
December 31, 2015			
With no related allowance recorded:			
Real estate - commercial	$ 3,215,891	$ 2,247,268	$ -
Real estate - residential	1,634,088	1,248,502	-
Commercial and industrial	1,466,611	-	-
Consumer	74,014	-	-
With an allowance recorded:			
Real estate - commercial	-	-	-
Real estate - residential	649,805	587,745	50,463
Commercial and industrial	-	-	-
Consumer	-	-	-
	$ 7,040,409	$ 4,083,515	$ 50,463
December 31, 2014			
With no related allowance recorded:			
Real estate - commercial	$ 3,803,370	$ 2,984,145	$ -
Real estate - residential	2,018,229	1,689,484	-
Commercial and industrial	2,627,138	595,265	-
With an allowance recorded:			
Real estate - commercial	811,850	766,558	115,037
Real estate - residential	654,227	619,749	82,604
	$ 9,914,814	$ 6,655,201	$ 197,641

The following table presents information for loans individually evaluated for impairment as of December 31, 2015 and 2014:

	2015	2014
Average recorded investment:		
Real estate - commercial	$ 3,359,765	$ 6,339,522
Real estate - residential	1,836,756	2,147,791
Commercial and industrial	139,986	861,151
	$ 5,336,507	$ 9,348,464
Interest income recognized during impairment	$ 292,305	$ 1,360,832
Cash basis interest income recognized	$ 292,305	$ 1,360,832

(Continued)

The following tables present the recorded investment in nonaccrual and loans past due over 90 days with interest still on accrual by class of loans as of December 31, 2015 and 2014:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2015	2014	2015	2014
Real estate - commercial	$ 2,188,108	$ 3,196,116	$ -	$ -
Real estate - residential	1,627,760	2,096,323	-	-
Commercial and industrial	-	569,491	-	-
Consumer and installment	-	-	-	-
	$ 3,815,868	$ 5,861,930	$ -	$ -

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

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31, 2015 and 2014:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2015						
Real estate - commercial	$ 179,474	$ -	$ 392,274	$ 571,748	$ 206,522,857	$ 207,094,605
Real estate - residential	8,011	664,524	671,890	1,344,425	306,388,093	307,732,518
Commercial and industrial	-	-	-	-	577,155	577,155
Consumer and installment	591	426	-	1,017	483,936	484,953
Total	$ 188,076	$ 664,950	$ 1,064,164	$ 1,917,190	$ 513,972,041	$ 515,889,231
December 31, 2014						
Real estate - commercial	$ 166,205	$ 553,805	$ 1,461,432	$ 2,181,442	$ 127,011,796	$ 129,193,238
Real estate - residential	1,059,072	714,856	-	1,773,928	272,167,080	273,941,008
Commercial and industrial	-	-	-	-	1,805,325	1,805,325
Consumer and installment	2,030	1,565	-	3,595	661,119	664,714
Total	$ 1,227,307	$ 1,270,226	$ 1,461,432	$ 3,958,965	$ 401,645,320	$ 405,604,285

Troubled Debt Restructurings

The Company has a recorded investment in troubled debt restructurings of $1,040,592 of performing and $431,459 of nonperforming as of December 31, 2015 compared to $2,176,489 of performing and $71,192 of nonperforming as of December 31, 2014. The Company has allocated $50,463 and $82,604 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and 2014. The Company has not committed to lend any additional amounts as of December 31, 2015 and 2014, to customers with outstanding loans that are classified as troubled debt restructurings.

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

There were no troubled debt restructurings modified during the year ended December 31, 2015 nor 2014.

There were no troubled debt restructurings during the previous 12 months for which there was a payment default during the years ended December 31, 2015 and 2014.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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

Credit Quality Indicators

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2015 and 2014, is as follows:

(Continued)

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2015					
Real estate - commercial	$ 200,526,228	$ 1,508,096	$ 5,060,281	$ -	$ 207,094,605
Real estate - residential	305,552,246	-	2,180,272	-	307,732,518
Commercial and industrial	577,155	-	-	-	577,155
Consumer and installment	484,953	-	-	-	484,953
Total	$ 507,140,582	$ 1,508,096	$ 7,240,553	$ -	$ 515,889,231
December 31, 2014					
Real estate - commercial	$ 116,754,004	$ 5,132,232	$ 7,307,002	$ -	$ 129,193,238
Real estate - residential	270,726,066	397,032	2,817,910	-	273,941,008
Commercial and industrial	1,235,834	-	569,491	-	1,805,325
Consumer and installment	664,714	-	-	-	664,714
Total	$ 389,380,618	$ 5,529,264	$ 10,694,403	$ -	$ 405,604,285

For loans with an outstanding balance lower than $250,000 and homogeneous loan pools, such as residential mortgages, home equity lines of credit, and installment loans, the Company uses payment status to identify the credit risk. Payment status is reviewed on a daily basis by the Company's Credit Department and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these loans at December 31, 2015 and 2014, is included in the aging of the recorded investment of past due loans table. In addition, the total nonperforming portion of these loans at December 31, 2015 and 2014 is presented in the recorded investment in nonaccrual loans table.

The Company did have a loan held for sale with a book value of $1,100,000 that was classified as substandard on December 31, 2015. There was a signed contract to sell the loan at $1,100,000 at December 31, 2015 and the loan was sold in January 2016 for $1,100,000 resulting in no gain or loss.

The Company does not make loans to executive officers and directors, and companies in which they have a beneficial ownership (related parties) in the normal course of business. During 2015 or 2014, there were no material related party loans.

NOTE 4 – BANK PREMISES AND EQUIPMENT

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

	2015	2014
Land	$ 400,000	$ 400,000
Buildings and improvements	9,214,841	9,067,215
Furniture, fixtures, automobiles and equipment	6,792,034	6,316,192
	16,406,875	15,783,407
Less: Accumulated depreciation	(9,088,117)	(7,971,790)
	$ 7,318,758	$ 7,811,617

Depreciation expense was $1,136,042 and $1,122,560 for 2015 and 2014, respectively.

During 2014, $12,870,961 was transferred from buildings and improvements to fixed assets available for sale when it was determined to sell a building that had been intended to be a new branch office. The asset was sold during 2015 for a gain of $1,252,146. As of December 31, 2015, $750,000 is being held in escrow for a contingency related to the sale and will be recognized into income when the contingency is resolved, which management expects to occur during the second quarter 2016.

During the fourth quarter of 2015 the lease for the Bank’s Forest Hills branch expired and the Bank closed the branch, charging off the unamortized portion of leasehold improvements totaling $190,902.

NOTE 5 – DEPOSITS

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

2016	$ 109,972,160
2017	57,308,546
2018	17,920,894
2019	5,412,013
2020	1,924,516
	$ 192,538,129

Deposits at December 31, 2015 and 2014, from related parties, which include officers, directors, stockholders and companies in which Directors of the Board have a significant ownership interest, approximated to $639,781 and $994,540, respectively.

Time deposits over $250,000 were $17,320,868 and $18,708,184 at December 31, 2015 and 2014, respectively.

(Continued)

NOTE 6 – OTHER BORROWED FUNDS

The Bank is a member of the FHLB of New York. As such, it is eligible to borrow funds at various terms and maturities offered by the FHLB of New York. At December 31, 2015 and 2014, the Company had borrowings of $117,000,000 and $61,000,000, respectively, with terms and maturities as follows:

	2015		2014	
Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2016	$ 5,000,000	0.55%	$ -	-
2017	6,000,000	1.07%	-	-
2018	80,500,000	1.72%	35,500,000	1.88%
2020	25,500,000	2.58%	25,500,000	2.58%
Total	$ 117,000,000	1.82%	$ 61,000,000	1.82%

The amount of loans pledged as collateral was approximately $177,400,000 and $99,000,000 at December 31, 2015 and 2014, respectively.

NOTE 7 – JUNIOR SUBORDINATED DEBENTURES

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

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

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

The capital securities and the subordinated debenture pay interest and dividends, respectively, on a quarterly basis, at a fixed rate per annum of 6.25% through December 15, 2009, and thereafter at a rate per annum equal to the three-month LIBOR plus 2.25% through final maturity on December 15, 2034. The rates at December 31, 2015 and 2014, were 2.76% and 2.49%, respectively. Interest expense on the junior subordinated debentures was $182,413 and $175,925 for the years ended December 31, 2015 and 2014.

(Continued)

NOTE 8 – GRANTS

During the years ended December 31, 2015 and 2014, the Bank received grants of $162,000 and $355,000, respectively, from the U.S. Treasury Department as an award in recognition of its lending and community development activities under the Bank Enterprise Award Program. These grants were recorded as income during the years granted.

NOTE 9 – INCOME TAXES

Allocation of federal, state and local income tax expense (benefit) follows for the year ended December 31:

	2015	2014
Current		
Federal	$ 422,682	$ 656,621
State and local	(159,821)	70,199
	262,861	726,820
Deferred		
Federal	495,399	510,904
State and local	(421,799)	40,735
	73,600	551,639
Change in valuation Allowance	758,100	431,988
	$ 1,094,561	$ 1,710,447

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

	2015	2014
Tax at federal statutory rate of 34%	$ 694,953	$ 1,203,110
Increase (decrease) resulting from:		
Meals and entertainment	43,930	26,576
State and local taxes, net of federal income tax	(383,868)	73,216
Valuation allowance	758,100	431,988
Other	(18,554)	(24,443)
	$ 1,094,561	$ 1,710,447

(Continued)

The component of the net deferred tax assets are as follows:

	2015	2014
Deferred tax assets		
Allowance for loan losses	$ 3,900,860	$ 3,602,865
Deferred rent	912,946	1,018,604
Accrued reserves	190,356	192,302
Nonqualified stock options	168,780	170,505
Accrued litigation	178,738	180,565
Nonaccrual loan interest income	347,446	323,869
Net operating loss carryforwards	488,721	-
Net unrealized loss on securities	65,960	-
Other	55,857	24,827
Total deferred tax assets	6,309,664	5,513,537
Deferred tax liabilities		
Depreciation	$ (822,907)	$ (602,821)
Prepaid expenses	(201,051)	(99,722)
Mortgage servicing rights	(1,656,663)	(1,281,970)
Net unrealized gain on securities	-	(141,300)
Other	(270,119)	(162,460)
Total deferred tax liabilities	(2,950,740)	(2,288,273)
Valuation Allowance	(1,190,088)	(431,988)
Net deferred tax asset	$ 2,168,836	$ 2,793,276

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those deferred tax assets become deductible. Management considers the estimated reversal of deferred tax items, projected future taxable income and tax planning strategies in making this assessment.

Recent New York State and New York City tax law changes make it unlikely that the Company will be paying any significant New York State or New York City income taxes in the future. Therefore, the Company has established a valuation allowance against its New York State deferred tax assets in 2014 and against its New York State and New York City deferred tax assets in 2015. Based upon projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the federal deferred tax assets recorded at December 31, 2015 and 2014.

The Company is generating loss carryforwards in New York State and New York City due to the law changes. The New York State apportioned net operating loss carryforward is approximately $4,300,000

(Continued)

and the New York City apportioned net operating loss carryforward is $4,200,000. These net operating loss carryforwards begin to expire in 2035. These loss carryfowards have a valuation allowance established against them as management believes it is more likely than not the benefit will not be realized in the future.

At December 31, 2015 and 2014, the Company had no unrecognized tax benefits. The Company does not expect the amount of unrecognized tax benefits to change significantly in the next twelve months.

The Company's tax returns remain subject to examination for years after 2012. The Company's policy is to recognize interest and penalties related to tax matters as a component of income tax expense.

NOTE 10 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2015	2014
Professional fees	$ 2,236,144	$ 2,455,861
Data processing	1,480,876	1,360,314
Office expense	941,345	1,053,433
Directors fees and expenses	622,204	638,771
FDIC assessment expense	471,558	343,168
Marketing and advertising	448,442	523,983
Stationary and printing	412,481	303,623
Loan processing fees	346,607	209,651
Non-income taxes	317,000	-
Staff training	270,633	300,711
Other	234,513	180,099
Insurance	220,075	297,144
	$ 8,001,878	$ 7,666,758

Due to changes in New York City and New York State tax law, the Company no longer pays income taxes to New York City or New York State. The Company started paying taxes based on capital to New York City and New York State in 2015 and records those taxes as general and administrative expenses.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

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

(Continued)

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

At December 31, 2015 and 2014, the following off-balance sheet financial instruments were outstanding whose contract amounts represent credit risk:

	2015	2014
Loan commitments	$ 41,790,000	$ 24,450,000
Unfunded commitments under lines of credit	17,533,000	17,765,000

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

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

Loan Sales Commitments to Federal Mortgage Association (”FNMA” or “Fannie Mae”): Best efforts commitments to deliver loans at fixed prices to the secondary mortgage market totaled $12,115,000 and $11,980,000 at December 31, 2015 and 2014, respectively.

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

At December 31, 2015, future minimum rentals under lease agreements are approximately as follows:

2016	$ 2,699,000
2017	2,646,000
2018	2,478,000
2019	2,339,000
2020	1,760,000
Thereafter	1,533,000
	$ 13,455,000

Total rental expense for the years ended December 31, 2015 and 2014, was approximately $2,664,000 and $3,255,785, respectively. The leases contain a clause providing that the Company pay for property taxes, maintenance, and utilities for the premises.

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NOTE 12 – DEFERRED COMPENSATION

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

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

NOTE 13 – STOCK-BASED COMPENSATION PLANS

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

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

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

The right to grant awards under the 2000 Incentive and Directors' Stock Option Plans terminated on February 22, 2010. The right to grant awards under the 2005 Incentive and Directors' Stock Option Plans terminated on March 15, 2015. No options were granted from December 31, 2014 through March 15, 2015.

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

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transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

There were no options granted in 2015 and 2014.

A summary of the activity in the stock option plan for 2015 and 2014 follows:

December 31, 2015	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	170,400	$ 23.64		
Granted	-	-		
Exercised	-	-		
Expired	(93,900)	22.91		
Forfeited	-	-		
Outstanding at end of year	76,500	$ 24.53	1.33	$ -
Exercisable at year-end	76,500	$ 24.53	1.33	$ -

December 31, 2014	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	224,635	$ 22.41		
Granted	-	-		
Exercised	(30,235)	13.00		
Expired	-	-		
Forfeited	(24,000)	25.50		
Outstanding at end of year	170,400	$ 23.64	2.00	$ 110,000
Exercisable at year-end	170,400	$ 23.64	2.00	$ 110,000

As of December 31, 2015, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan.

NOTE 14 – STOCKHOLDERS' EQUITY/REGULATORY MATTERS

The Company, on a consolidated basis, and the Bank are subject to various minimum regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the

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regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Federal banking agencies have adopted proposals that have substantially amended the regulatory capital rules applicable to the Company and the Bank. The amendments implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. The amended rules establish new higher capital ratio requirements, narrow the definitions of capital, impose new operating restrictions on banking organizations with insufficient capital buffers and increase the risk weighting of certain assets. The amended rules were effective with respect to Company and the Bank in January 2015, with certain requirements to be phased in beginning in 2016.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the accompanying table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined). Management believes that the Company and the Bank met all capital adequacy requirements to which they are subject.

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

	Actual		Minimum Capital Requirements For Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Regulations	
December 31, 2015	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Tier 1 leverage ratio						
Bank	$ 73,245	12.07%	$ 24,270	≥4.00%	$ 30,337	≥5.00%
Company	74,047	12.19%	24,301	≥4.00%	N/A	N/A
Common equity tier 1 ratio						
Bank	56,173	12.86%	19,655	≥4.50%	28,391	≥6.50%
Company	56,975	13.04%	19,665	≥4.50%	N/A	N/A
Tier 1 capital ratio						
Bank	73,245	16.77%	26,207	≥6.00%	34,942	≥8.00%
Company	74,047	16.94%	26,220	≥6.00%	N/A	N/A
Total capital ratio						
Bank	78,758	18.03%	34,942	≥8.00%	43,678	≥10.00%
Company	79,560	18.21%	34,960	≥8.00%	N/A	N/A
December 31, 2014						
Tier 1 leverage ratio						
Bank	$ 72,265	12.51%	$ 23,114	≥4.00%	$ 28,892	≥5.00%
Company	73,186	12.66%	23,130	≥4.00%	N/A	N/A
Tier 1 capital ratio						
Bank	72,265	19.90%	14,529	≥4.00%	21,794	≥6.00%
Company	73,186	20.13%	14,545	≥4.00%	N/A	N/A
Total capital ratio						
Bank	76,853	21.16%	29,058	≥8.00%	36,323	≥10.00%
Company	77,779	21.39%	29,090	≥8.00%	N/A	N/A

The Company is also subject to various dividend restrictions as a result of its participation in the U.S. Treasury's TARP CPP program as described more fully in Note 16.

NOTE 15 – DISCLOSURES ABOUT ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

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

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

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

As previously disclosed in Note 1, the fair value of servicing rights is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

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Assets and Liabilities Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015			
Securities available for sale			
Municipal securities	$ -	$ 2,253,497	$ -
U.S. Treasury securities	-	4,006,210	-
Mortgage backed securities – residential	-	5,078,902	-
Mortgage backed securities – commercial	-	7,492,364	-
Corporate note securities	-	26,848,268	-
Collateralized mortgage obligations	-	4,866,965	-
Mortgage servicing rights	-	-	7,379,079
2014			
Securities available for sale			
Municipal securities	$ -	$ 34,872,112	$ -
U.S. Treasury securities	-	4,048,204	-
Mortgage backed securities – residential	-	5,768,530	-
Mortgage backed securities – commercial	-	14,794,999	-
Corporate note securities	-	10,196,006	-
Asset backed securities	-	6,956,760	-
Collateralized mortgage obligations	-	8,868,886	-
Mortgage servicing rights	-	-	7,245,842

Refer to Note 17 for reconciliation of mortgage servicing rights measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2015 and 2014.

(Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements At December 31, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015			
Impaired loans			
Real estate - residential	$ -	$ -	$ 537,282
Commercial loans held for sale	-	1,100,000	-
2014			
Impaired loans			
Real estate – commercial	$ -	$ -	$ 2,112,953
Real estate - residential	-	-	537,145

Impaired loans are carried at the lower of cost or the present value of expected future cash flows of the loan. If it is determined that the repayment of the loan will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment, the loan is considered collateral dependent. Impaired loans that are considered collateral dependent are carried at the lower of cost or the fair value of the underlying collateral. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The use of independent appraisals and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and impaired loans are therefore classified within level 3 of the fair value hierarchy.

For such loans that are classified as impaired, an allowance is established when the present value of the expected future cash flows of the impaired loan is lower than the carrying value of that loan. For such loans that are classified as collateral dependent impaired loans, an allowance is established when the current market value of the underlying collateral less its estimated disposal costs has not been finalized, but management determines that it is likely that the value is lower than the carrying value of that loan. Once the net collateral value has been determined, a charge-off is taken for the difference between the net collateral value and the carrying value of the loan.

Impaired loans, which are measured for impairment based on the present value of expected cash flows or on the fair value of the collateral for collateral dependent loans, had a carrying amount of $537,282 net of valuation allowance of $50,463 as of December 31, 2015. Impaired loans had a carrying amount of $2,227,990 with a valuation allowance of $115,037 as of December 31, 2014.

Loans held for sale, carried at fair value totaled $1,100,000, resulting in charge-offs of $290,240 during the year ended December 31, 2015. The loan was under contract at December 31, 2015 and was sold for $1,100,000 in January 2016.

There was no other real estate owned as of December 31, 2015 and 2014.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by management. Once received, a member of the Bank's Appraisal Department reviews the assumptions and approaches

(Continued)

utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Once appraisals are considered appropriate, management discounts the appraised value for estimated selling costs, such as legal, broker, and property maintenance and insurance costs. Individual properties are analyzed on a case-by-case basis with discounts ranging from 12% to 14%. In addition, management performs a tax search on the collateral property to determine if there are any unpaid taxes on the property. Any unpaid tax amounts are considered costs and are further discounted from the property value.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2015:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – real estate - residential	$ 537,282	Present value of expected future cash flows	Adjustment for differences between present value of expected cash flows and carrying value of the loan	0%

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – real estate - commercial	$ 2,112,953	Sales comparison approach	Adjustment for differences between comparable sales	-35% to 0%
		Income approach	Capitalization rate	6% to 10%
Impaired loans – real estate - residential	$ 537,145	Sales comparison approach	Adjustment for differences between comparable sales	-10% to -20%

(Continued)

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

	Carrying Value	Estimated Fair Value
December 31, 2015		
Financial assets		
Cash and cash equivalents	$ 27,052	$ 27,052
Time deposits with banks	3,947	3,947
Securities available for sale	50,546	50,546
Securities held to maturity	22,278	22,247
Loans held for sale	4,723	4,723
Loans receivable, net	506,561	508,868
FHLB stock	5,899	N/A
Mortgage servicing rights	7,379	7,379
Accrued interest receivable	2,181	2,181
Financial liabilities		
Deposits	$ 445,471	$ 446,587
Other borrowed funds	117,000	117,611
Junior subordinated debentures	7,217	4,415
Accrued interest payable	1,063	1,063
December 31, 2014		
Financial assets		
Cash and cash equivalents	$ 27,694	$ 27,694
Time deposits with banks	3,456	3,456
Securities available for sale	85,507	85,507
Securities held to maturity	19,339	19,412
Loans held for sale	4,984	4,984
Loans receivable, net	396,772	415,953
FHLB stock	3,322	N/A
Mortgage servicing rights	7,246	7,246
Accrued interest receivable	2,097	2,097
Financial liabilities		
Deposits	$ 435,564	$ 436,941
Other borrowed funds	61,000	61,660
Junior subordinated debentures	7,217	4,339
Accrued interest payable	1,039	1,039

The methods and assumptions, not previously presented, used to estimate fair values are described as follows: Carrying amount is the estimated fair value for cash and cash equivalents, time deposits with

(Continued)

banks, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Similar to securities available for sale described previously, the fair value of securities held to maturity are determined by matrix pricing, utilizing an independent pricing service for significantly similar securities and relying on the securities' relationship to other benchmark quoted securities. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The fair value of loans, not deemed to be impaired, does not consider any discounts due to market illiquidity. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not considered material

NOTE 16 – CAPITAL PURCHASE PROGRAM

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

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

The fair value of CDCI shares at time of the exchange was determined to be $13,654,238 using a discounted cash flow analysis which resulted in a discount of $3,345,762. Accretion of the discount associated with the CDCI preferred stock is recognized as an increase to preferred stock dividends in determining net income available to common shareholders.

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

From May 2011 through July 2014, the Company had to obtain regulatory approval prior to payment of any dividends. The Company declared and paid $340,000 in dividends on TARP preferred stock in 2015 and 2014.

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NOTE 17 – MORTGAGE SERVICING RIGHTS

Activity for loan servicing rights follows:

	2015	2014
Beginning of year	$ 7,245,842	$ 7,520,707
Additional gains	738,185	885,263
Change in fair value	(604,948)	(1,160,128)
	$ 7,379,079	$ 7,245,842

The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses and interest rates, among other factors. Fair value at December 31, 2015 was determined using a discount rate of 10%, prepayment speeds ranging from 6.91 CPR to 8.39 CPR, depending on the stratification of the specific right, and a weighted average default rate of 0.34%. Fair value at December 31, 2014 was determined using a discount rate of 10%, prepayment speeds ranging from 8.03 CPR to 9.56 CPR, depending on the stratification of the specific right, and a weighted average default rate of 0.28%.

The unpaid principal balance of loans serviced for others, which are not included in the accompanying consolidated statements of financial condition, were approximately $858,432,000 and $863,937,000 at December 31, 2015 and 2014. The custodial escrow balances for loans serviced for others were $3,090,309 and $3,078,594 at December 31, 2015 and 2014.

Servicing fee income recorded for fees earned for servicing loans, net of direct expenses, is reported on the consolidated statements of operations and comprehensive income with service and transaction fees. The fees are based on a contractual percentage of the outstanding principal, and are recorded as income when earned. Net servicing fees totaled $1,946,371 and $2,007,324 for the years ended December 31, 2015 and 2014. Net servicing fees are reported within the service and transaction fees line item on the consolidated statements of operations and comprehensive income. Late fees and ancillary fees related to loan servicing are not material.

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NOTE 18 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2015	2014
Basic		
Net income	$ 949,419	$ 1,828,111
Less TARP Preferred Stock Dividend	(340,008)	(340,008)
Less TARP Discount Accretion	(436,691)	(415,522)
Less FAIB Capital Corp Preferred Stock Dividend	(7,200)	(6,620)
Net income available to common shareholders	$ 165,520	$ 1,065,961
Weighted average common shares outstanding	2,199,446	2,198,946
Basic earnings per common share	$ 0.08	$ 0.48
Diluted		
Net income	$ 949,419	$ 1,828,111
Less TARP Preferred Stock Dividend	(340,008)	(340,008)
Less TARP Discount Accretion	(436,691)	(415,522)
Less Dividend on noncontrolling interest	(7,200)	(6,620)
Net income available to common shareholders	$ 165,520	$ 1,065,961
Weighted average common shares outstanding for basic earnings per common share	2,199,446	2,198,946
Add: Dilutive effects of assumed exercises of stock options	-	4,975
Average shares and dilutive potential common shares	2,199,446	2,203,921
Diluted earnings per common share	$ 0.08	$ 0.48

As of December 31, 2015 and 2014 there were 76,500 and 109,100 stock options that were anti-dilutive.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2015	2014
Net unrealized gains (losses) on securities	$ (194,000)	$ 314,000
Tax effect	65,960	(141,300)
Accumulated other comprehensive income (loss)	$ (128,040)	$ 172,700

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

	2015	2014
Net unrealized gain (loss) on securities available for sale:		
Unrealized holding (loss) gain arising during the period	$ (582,935)	$ 244,755
Reclassification adjustment for loss (gain) included in (loss) gain on sale of securities, net in the statements of operations and comprehensive income	74,935	(219,755)
Tax effect	207,260	(11,250)
Other comprehensive income (loss)	$ (300,740)	$ 13,750