2014

ANNUAL REPORT

2014

ANNUAL REPORT

Banesco
Here with you

Banesco
Here with you

Banesco USA

More Than a Bank

Your Ally

We are long-term relationship bankers.
We want more than to simply give a loan.
We want to understand your business and
establish a relationship that will allow us
to serve both your business and personal
financial needs.

Florida

Puerto Rico

Annual 2014 Report

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Banesco USA

Your Long-term Relationship Bank

Locations

Coral Gables

T. 786 552 0550
Banesco Center
150 Alhambra Circle, Suite 100
Coral Gables, FL 33134

Coral Way
T. 305 858 0545
2121 SW 3rd Avenue
Miami, FL 33129

Weston
T. 954 306 7610
316 Indian Trace, Weston Lakes Plaza
Weston, FL 33326

Doral
T. 305 597 1700
9500 NW 41st Street, Suite 100
Doral, FL 33178

Palm Aire
T. 954 229 7555
6499 Powerline Road
Fort Lauderdale, FL 33309

Puerto Rico
T. 787 765 1420
255 Ponce de León Ave. Suite 124
Hato Rey, PR 00917

Banesco International Group

Multinational Loan Portfolio $56.1 billion
Multinational Deposit Portfolio $75.1 billion

More than 8.8 million customers
More than 19,000 staff members

Letter From Jorge Salas President & CEO Banesco USA

Dear Banesco USA customers, investors and friends

It is my pleasure to present to you the Banesco USA Annual Report that summarizes our performance during 2014. Without a doubt, this past year was full of challenges and achievements for Banesco USA and Banesco International.

At the end of 2014, Banesco USA posted net income of $2.2million, while total assets reached $920.3 million, representing a 12% increase compared to 2013. The loan portfolio reached $643.6 million at the close of 2014, growing $110.6 million, or 21%, compared to the previous year.

The 21% increase in the loan portfolio was primarily driven by the growth in commercial and industrial loans, trade finance, commercial and residential real estate loans. During 2015, Banesco USA will continue its growth strategy in those areas and will direct special efforts to increasing its portfolio of small & medium businesses. To achieve this goal, we will offer financial solutions tailored to meet the needs of our clients by providing access to our services in a convenient, trustworthy and consistent way.

2014 was another exceptional year for the Banesco International Group: total assets of $131,335.61 million, loan portfolio of $61,961.21 million and $4,185.39 million in Deposits were achieved. These numbers are the result of our commitment to the Values that defines us: Responsibility, Reliability, Quality and Innovation.

Throughout 2015, we will remain fully committed to maintaining the quality and efficiency of our products and services and reaffirm our heartfelt appreciation for our customers and the community we serve.

Sincerely,
Jorge Salas

“THROUGHOUT 2015, WE WILL REMAIN FULLY COMMITTED TO MAINTAINING THE QUALITY AND EFFICIENCY OF OUR PRODUCTS AND SERVICES”

Annual 2014 Report

Our Values

Giving Life to Our Values

Being part of the Banesco family carries great responsibility; every project,task, and assignment must be carried out with great enthusiasm, dedication, honesty and commitment.

Learning From Our Experiences

Years of experience have taught us that success lies in work inspired by Banesco’s values. These values have always distinguished us as a company and as individuals; they have helped us become a leading company. Today, we are recognized for the strength and charisma of our talented team.

Responsibility
We respond to our obligations with accuracy and passion. We stand by our commitment. We use our time wisely. We give the best to everyone.

Innovation
We are visionary. We offer new solutions. We seek ideas and technologies that promote change.

Reliability
We say the truth under all circumstances. We respond with honesty. We acknowledge our mistakes. We ask for assistance when necessary.

Quality
We perform every task with the utmost care. We intend to be the best. We strive to exceed the expectations of our stakeholders.

Annual 2014 Report

Our Products

Personal Banking

Banesco USA offers Domestic and International Personal Banking.

Both include personal checking accounts, interest checking, personal money market, personal savings and certificate of deposit. Moreover, Banesco USA offers individuals an array of loans to fit their needs including residential mortgage loans, home equity loans, auto loans and boat loans.

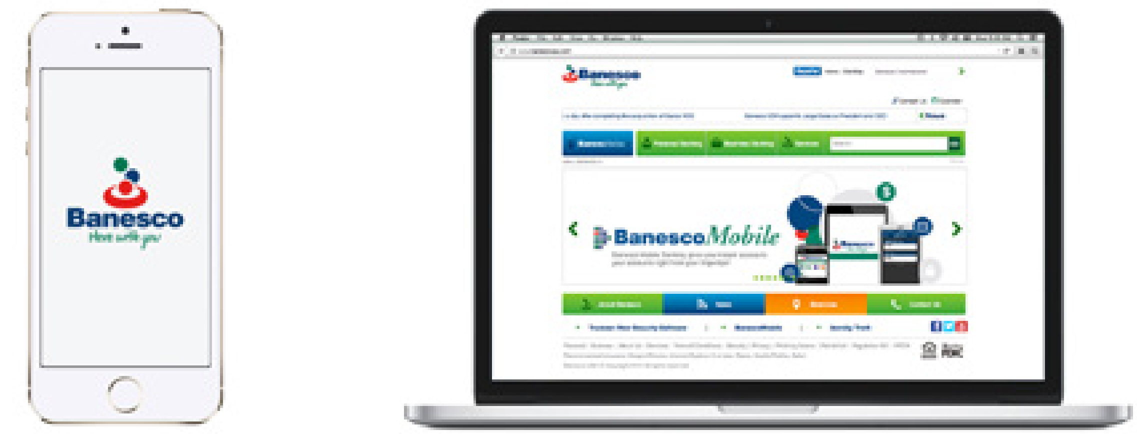
Business Banking

Banesco USA offers Domestic and International Business Banking.

Both include business checking accounts, business money market, business savings and certificate of deposit. Moreover, Banesco USA offers businesses a variety of commercial loans designed to fit their needs. These include: Commercial real estate, term commercial loans, commercial line of credit, asset guaranteed loan and owner occupied / SBA 504.

Our Services

We offer banking services that enhance the effectiveness of all your financial plans and goals through our full menu of products and services.



BanescOnline
Banesco USA offers the convenience of simple and secure access to your accounts from any computer with an Internet connection.

Banesco Mobile Banking
Banesco USA offers an application for smartphones that allows clients to access their accounts anywhere at any time.

Cash Management Services
Manage your business accounts efficiently with tools and services that give you immediate, accurate information: Remote Deposit Capture (RDC), LockBox and Fraud Prevention Services.

Merchant Services
In collaboration with First Data, one of the leading credit and debit card processors in the world, we offer a Merchant Services program for both credit and debit card processing.

Trusteer
Banesco USA offers security software called Rapport by Trusteer, which guarantees safety in online banking.

Banesco Visa® Check Card
Gives clients a wide array of services, so they can easily and safely manage their Personal and Business Accounts.


Banesco USA
Here to Help
You Succeed

BOARD OF DIRECTORS

CARLOS PALOMARES
Chairman of the Board

Banking executive with more than 40 years of experience in U.S. and international financial markets.

Former Chairman of Miami Dade County's Beacon Council, Enterprise Florida board member; member of Greater Miami Chamber of Commerce Executive Committee.

Graduate of New York University.

RICARDO AYALA
Director

Banking executive with more than 20 years of experience in the financial sector, where he has held several senior-level management positions.

Served on the Boards of several large financial institutions, Chairman of Banesco Panama.

Graduate of the University of Miami.

FREDERICK BRENNER
Director

Banking executive with more than 40 years of senior-level commercial bank management experience, holding management positions in banks in Latin America and the U.S.

Graduate of the University of California (Berkeley).

SENO BRIL
Director

Owner of real estate firm The Decorus Group, has more than 30 years of experience in senior management roles in the consumer financial services industry in the U.S. and international markets.

Graduate of the Institute of International Studies in Geneva.

FRANCISCO J. PAREDES
Director

Retired Senior Partner of Deloitte & Touche, LLP with Regional Executive responsibilities for Latin America and the Caribbean.40 years of public accounting experience serving domestic and International clients in diversified industries and with transactions in the capital markets.

Former Chairman of the State of Florida Board of Accountancy.

Graduate of Florida State University.

LUIS XAVIER LUJAN
Director and Investor

Economist with more than 25 years of experience in the financial sector.

Founding partner of the Banesco Financial Organization; currently serving as Banesco Seguros Board Chairman.

Graduate of the Universidad Católica Andrés Bello.

RAOUL ROBAU
Director

President of real estate brokerage firm Robau & Associates.

Member of the Miami Board of Realtors, La Liga Contra el Cáncer Board member and Judge for the Miami Herald's Silver Knight Awards.

Graduate of the University of Houston.

JORGE SALAS
Director, President and CEO

Banking executive with extensive experience as an international banker and a member of the Banesco Group for 16 years.

Graduate of Universidad Metropolitana, Caracas and the University of Chicago.

AUGUSTO J. SIGARRETA
Director

Banking executive with more than 40 years of experience who has held key positions at a multinational bank level.

Graduate of the University of Puerto Rico.

MERCEDES ESCOTET
Secretary of the Board and CFO

Executive with more than 25 years of executive management experience in both international and domestic banking; one of the key executives responsible for the organization of Banesco USA.

Graduate of Simón Bolivar University and the University of West Virginia.

Management Team

Jorge Salas

President and CEO

Mr. Salas has extensive experience as an international banker and has been a member of the Banesco Group for 16 years. A former executive with the Inter-American Investment Corporation, Mr. Salas holds Masters degrees in Business Administration and Public Policy from the University of Chicago.

Maritza Abadia

Executive Vice-President
Puerto Rico Country Manager

Ms. Abadia is a professional banker and certified public accountant with more than 30 years experience in Corporate Banking.

Mercedes Escotet

Executive Vice-President
Chief Financial Officer

Ms. Escotet is responsible for directing Banesco's overall financial, accounting, budget, credit, tax, and treasury functions as well as being the Secretary to the Board of Directors.

Louis M. Ferreira

Executive Vice-President
Chief Credit and Risk Officer

Mr. Ferreira is a financial industry veteran with experience as both a lender and federal banking regulator. He has held senior positions with banks in NJ and NY, as well as the Office of Comptroller of the Currency. Mr. Ferreira has been recognized for his role in examinations across all banking business lines.

Alina D. Garcia-Duany

Executive Vice-President
Chief Lending Officer

Ms. Garcia-Duany has been a Banker for over 30 years. She is responsible for the production of the Bank's commercial, residential, construction and consumer loans as well as Trade Business and Correspondent Banking.

Luis Alfredo Grau

Senior Vice-President
International Depositary Sales and Services

Mr. Grau is responsible for the relationship with all International Customers. Mr. Grau will apply his expertise in International Markets to provide the clients with financial and investment solutions that are aligned with the values of Banesco USA.

Leticia Pino

Executive Vice-President
Operations Officer

Ms. Pino currently serves as the Executive Vice President & Operations Officer who brings over 30 years of experience from both international and domestic operations. She is responsible for the daily operations of the Bank as well as Human Resources and other administrative areas.

Alba Prestamo

Executive Vice-President
Chief BSA and Compliance Officer

Ms. Prestamo brings over 36 years of experience, with vast expertise in risk management, including overseeing the Bank Secrecy Act and anti-money laundering compliance.

Banesco USA
Financial Performance

Management Discussion And Analysis

Financial Condition and Results of Operations

The following management's discussion and analysis (MD&A) is intended to assist readers in understanding the financial condition and results of operations of the Bank as of December 31, 2014 and for the year then ended. This discussion should be read in conjunction with the audited financial statements, accompanying footnotes and other supplemental financial data included in this annual report.

Total Assets

Total Assets closed the year 2014 at $920.3 million

Total assets closed the year 2014 at $920.3 million, an increase of $100.2 million, or 12 percent, compared to the previous year. The net loan portfolio, which closed the year at $643.6 million, or 70 percent of total assets, grew by 21 percent since the end of 2013. The investment securities portfolio of $225.8 million at the end of 2014, or 25 percent of total assets, decreased by 4 percent compared to the previous year. Cash and cash equivalents showed an increase of $1.3 million, or 4 percent, compared to 2013. The changes to the balance sheet composition have improved the performance of the balances when compared to earnings.

Cash And Equivalents

The Bank continues to maintain significantly high liquidity levels as part of its asset-liability management strategies. A significant part of those strategies is holding liquid assets in the form of cash and cash equivalents, primarily deposits with the Federal Reserve Bank. At the close of 2014, cash and cash equivalents reached $32.9 million, 4 percent of total assets, an increase of 4 percent compared to the close of 2013.

Investment Securities

The investment portfolio, which represents approximately 25 percent of total assets, is composed of high-quality debt instruments issued by U.S. Government Agencies (22 percent), U.S. Government Sponsored Enterprises MBSs (51 percent), U.S. Government Sponsored Enterprises CMOs (2 percent), Municipal Securities (13 percent) and Corporate Securities (12 percent).

The composition of the investment securities portfolio at December 31, 2014 is illustrated in the chart on page 12.

The Bank manages its investment portfolio with strategies designed to provide the optimum combination of liquidity, interest income, credit risk and market risk. The investment portfolio's market and credit risks are managed on a continuous basis by the Bank's Treasury Unit and monitored by the bank's ALCO Committee.

Loans, Net

The net loan portfolio reached $643.6 million at the close of 2014, growing $110.6 million, or 21 percent, compared to the previous year. This increase was primarily driven by prudent growth in Commercial and Industrial and Trade Finance loan portfolios with an increase of $61.7 million or 50 percent; Complemented by growth in Commercial and Residential Real Estate loan portfolios, which grew a total of $49.3 million, or 12 percent in 2014. Offset by higher allowance for loan losses, which increased $0.3 million, or 5 percent in 2014.

The increase in the Commercial and Industrial and Trade Finance loan portfolios is the result of the rebalancing strategy initiated during 2009, with the primary goal of reducing the Bank's concentration in real estate loans. This strategy has resulted in a decrease in the Real Estate loan portfolio concentration.

Other Assets

Other assets decreased $4.4 million compared to prior year. Other assets consist of:

$4.6 million in Property and equipment, net, which decreased $0.7 million from prior year mostly attributed to depreciation expense.

$2.2 million in accrued interest receivable which decreased $0.1 million compared to prior year.

$4.0 million in Deferred Tax Assets which was $7.9 million in the prior year. This decrease is a result of lower income before income taxes, decrease in Allowance for Loan Losses and a decreased deferred tax benefit as a result of the unrealized loss in the AFS investment portfolio, which is lower than prior year.

$2.9 million in foreclosed assets that is a net increase of $0.2 million in other real estate owned from prior year, which is a result of a new property during the year.

$1.3 million in prepaid and other assets, which remain similar to prior year.

Liabilities

Deposits And Securities Sold Under Agreement to Repurchase

Deposits and securities sold under agreements to repurchase (repo accounts, including customer's overnight sweep repo accounts) reached an all-time high of $780.7 million at the close of 2014, representing an increase of $62.4 million from 2013. This positive change was primarily driven by the growth achieved in core deposits during 2014.

Core deposits, comprised of non-interest and interest bearing (NOW) demand deposits, money market, savings and time deposit accounts with balances under $100 thousand, grew by $63.5 million, or 9 percent in 2014. Non-core deposits, essentially time deposits with balances over $100 thousand, decreased $2.4 million, or 13 percent during the year. Repo accounts increased $1.3 million, or 50 percent, compared to the previous year.

The increase in core deposits is the result of the collaboration of all business units in enriching existing customer relationships as a way of building a solid foundation on which new relationships can be identified and developed. This strategy also contributed in 2014 to the continuation of a favorable trend in the composition of the deposit balances. Non-interest bearing demand deposit accounts represented 39 percent of total deposits at the close of 2014; there was an increase in interest bearing accounts which helped stimulate the growth in 2014. At the same time, total time deposits decreased to 10 percent in 2014. The portfolio growth in interest bearing accounts partially offset by the protracted low interest rate environment, contributed to a slight increase in interest expense during the year.

Advances From The Federal Home Loan Bank

The Federal Home Loan Bank offers its member institutions fixed or variable rate secured lines of credit based on the institution's condition and creditworthiness. The Bank utilizes medium to long-term fixed rate advances as one of its pools to manage balance sheet interest rate sensitivity risk. Advances from the Federal Home Loan Bank closed the year at $50.0 million, which increased $30.0 million compared to 2013. The $50.0 million in advances mature within the next 4 years.

At December 31, 2014 the Bank had a credit line of approximately $177 million, with an unused borrowing capacity of approximately $127 million.

Stockholder's Equity

Stockholder's equity grew by $8.4 million or 11 percent during the year. Other comprehensive Income gain of $6.2 million, primarily the after-tax net unrealized fair value losses in the available for sale investment portfolio were lower than in 2013 and Net income of $2.2 million were the contributing factors for this increase in shareholder's equity.

Tier 1 Risk-Based Capital as a percentage of Risk-Weighted Assets decreased to 13.1 percent in 2014 from 13.7 percent a year earlier. Total Risk-Based Capital to Risk-Weighted Assets increased to 14.2 percent in 2014 from 15.0 percent in 2013. These decreases are the result of an increase of 17 percent in total Risk-Weighted Assets, coupled with a less proportionate increase of 11 percent in Tier 1 Risk-Based Capital and Total Risk-Based Capital.

Total Risk-Weighted Assets increased approximately $95.2 million, as a result of the growth in the portion of the loan portfolio allocated to a higher risk weight category for regulatory capital computation purposes.

Net Income

Net income of $2.2 million in 2014

Net income of $2.2 million in 2014 represents a slight decrease from the net income of $2.6 million in 2013. The main driver contributing to these results was a significant increase in the net interest margin, which improved from $31.0 million in 2013 to $33.9 million in 2014, an increase of $2.9 million or 9 percent and a provision for income taxes of $0.1 million compared to $1.6 million in 2013. This positive result was offset by a decrease of $0.7 million or 10 percent in Noninterest Income, which decreased from $7.3 million in 2013 to 6.6 million in 2014. The Bank's Total Noninterest Expenses also increased $4.9 million in 2014 or 15 percent from 2013.

Annual 2014 Report

Net Interest Income

Net interest income before provision for loan losses increased $2.9 million, or 9 percent, to $33.9 million in 2014, from $31.0 million in 2013. The higher net interest income in 2014 was due primarily an increase in average interest-earning assets of $65 million in 2014 and a slight increase in the net interest margin from 4.0 percent in 2013 to 4.1 percent in 2014, which reflects management's efforts to improve the balance sheet composition during the low-interest rate environment that existed during the year to improve earnings.

Non-interest Expense

Total non-interest expense increased by $4.9 million, or 15 percent, during the year. The bank's continued balance sheet growth and expansions of the South Florida and Puerto Rico markets attributed to the increased expenses. The Bank is also continuously preparing a solid foundation for diversified growth with the purpose of sustainable profitability.

Non-interest Income

In 2014, total non-interest income decreased by $0.7 million, or 10 percent. The factors leading to this result were lower gain on securities, gain on acquired assets and loan fees; partially offset by the improved level of fees on deposit accounts and other services as the bank diversified revenue streams with Trade Finance and Exim Bank lending.

Gain on securities for 2014 was $0.1 million; the sales of investment securities available for sale stem from the Treasury Unit's ongoing assessment of the total return profile of each security versus the market for investments of similar risk, the mitigation of the significant risk to equity arising from prepayments (beyond contractual) on investment securities with material market appreciation, and management of the duration of the balance sheet.

Provision For Loan Losses

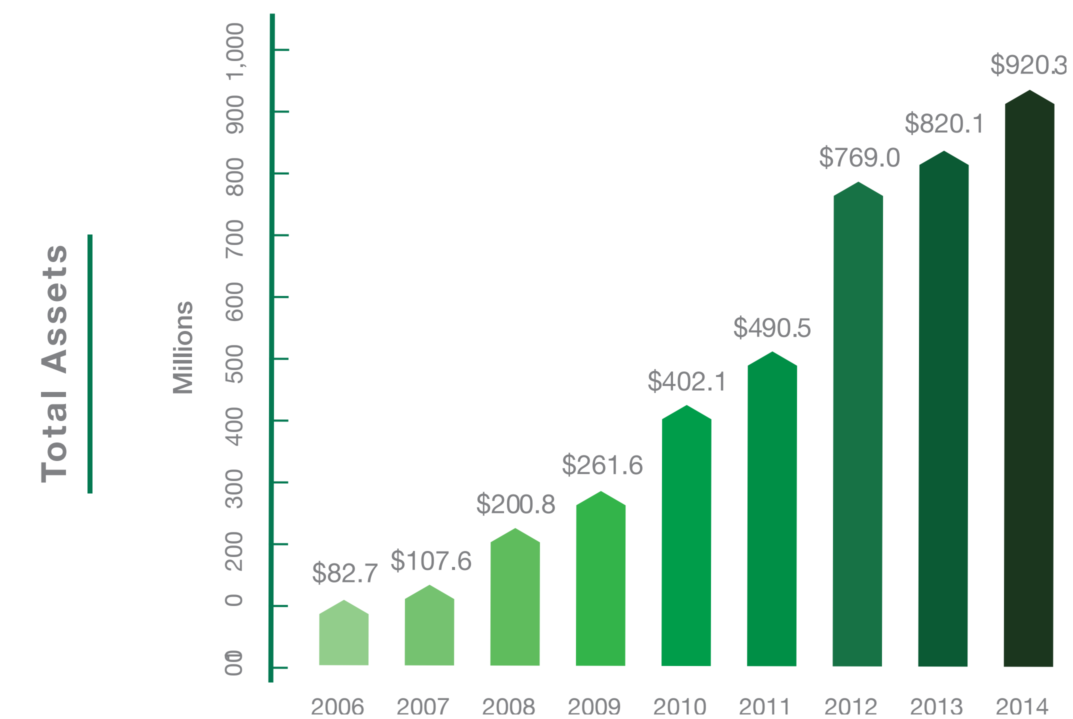
The provision for loan losses totaled $0.1 million in 2014, a decrease of 95 percent from $1.6 million in 2013. Most of the decrease is attributed to the decrease in the loan loss rates. In 2014, the Bank charged-off a net $0.3 million in impairments primarily associated with commercial and industrial loans, compared to net charge-offs of $0.5 million in 2013.

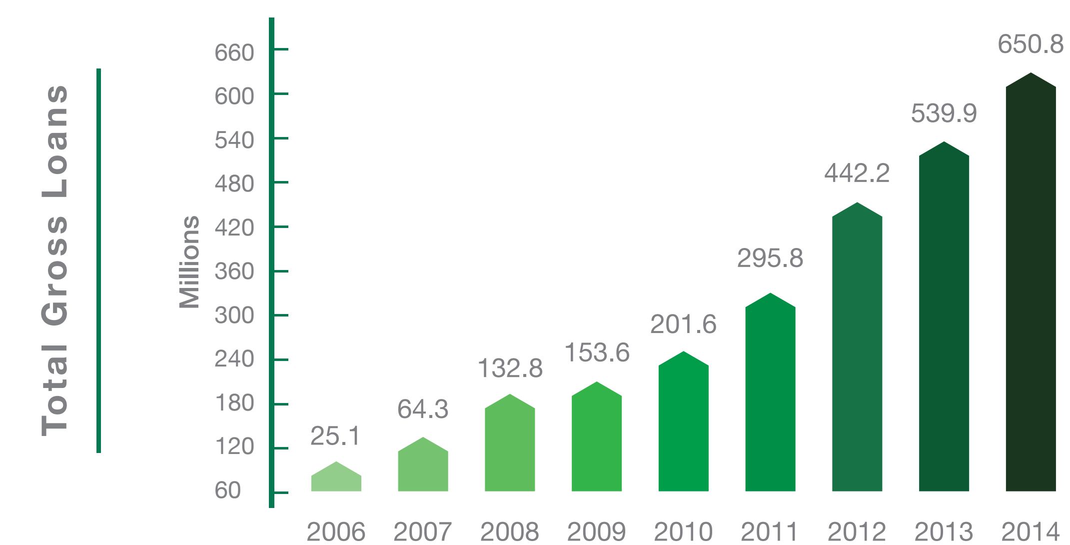
The South Florida real estate sector continued to show signs of improvement and unemployment is stabilizing, however challenges persist. The Bank has required significantly lower provisions to the allowance for loan losses and was able to achieve a continued low level of non-performing loans throughout the current real estate market cycle.

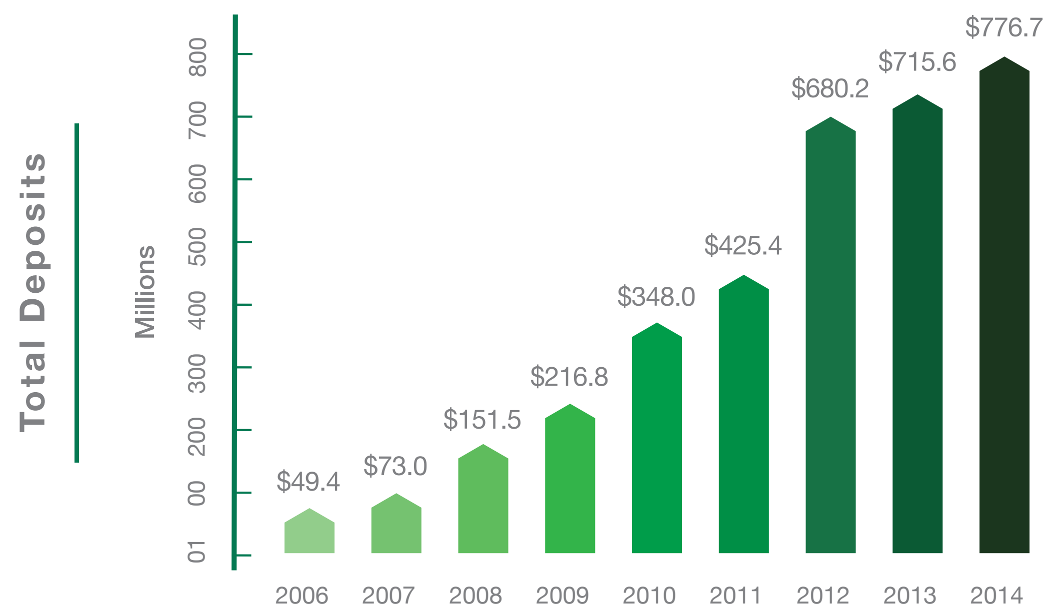
Income Taxes

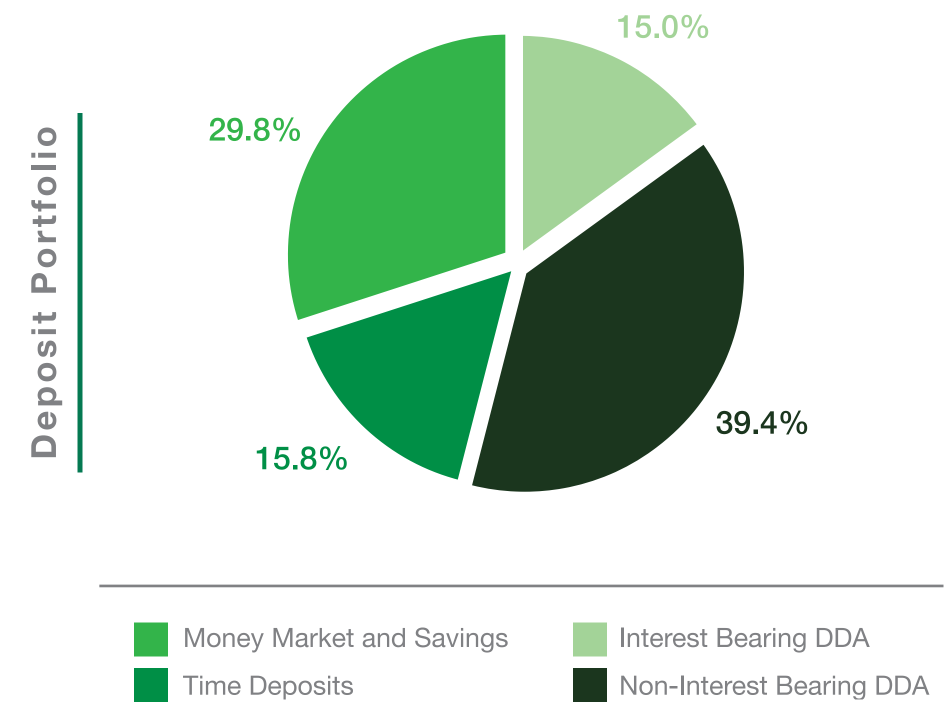
In 2014, the Bank recorded an income tax expense of $1.1 million, compared to $1.8 million the prior year. This change is mainly associated to lower income before taxes.

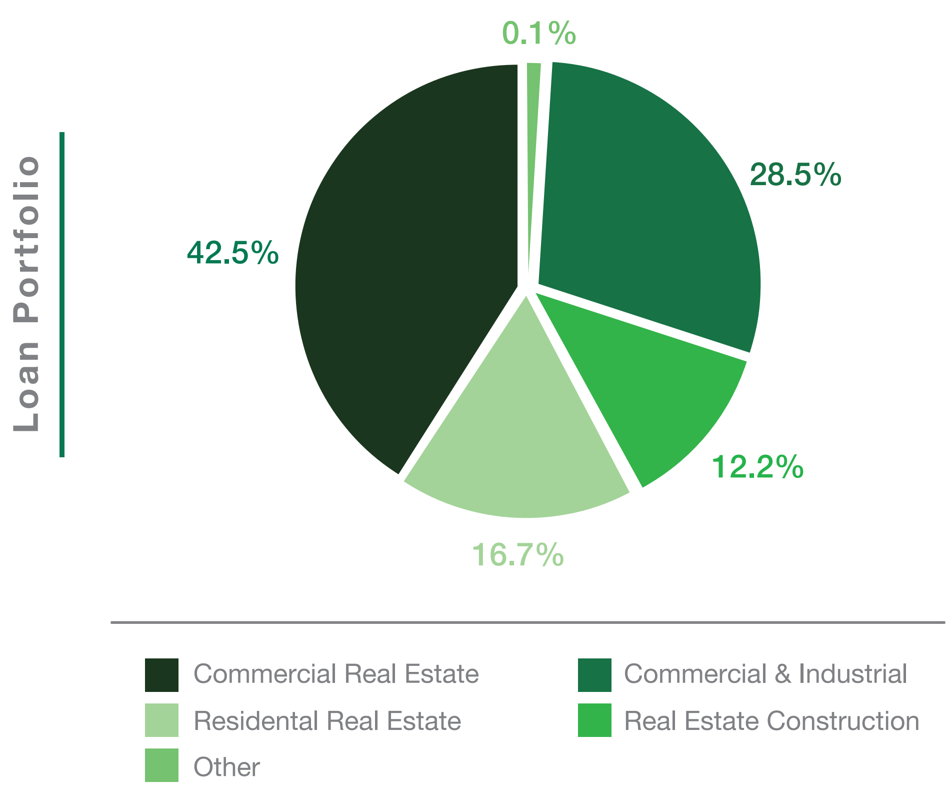
Charts

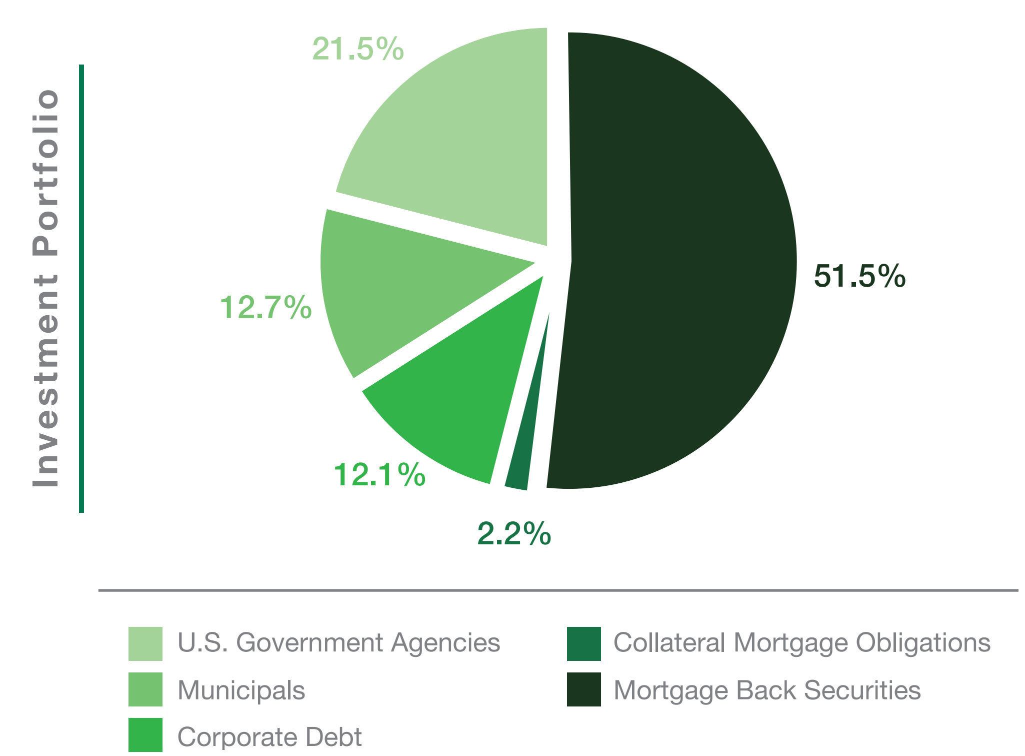





Total Deposits
Millions
200
300
400
500
600
700
800
$49.4
$73.0
$151.5
$216.8
$348.0
$425.4
$680.2
$715.6
$776.7
2006
2007
2008
2009
2010
2011
2012
2013
2014


Deposit Portfolio
15.0%
29.8%
15.8%
39.4%
Money Market and Savings
Interest Bearing DDA
Time Deposits
Non-Interest Bearing DDA


Loan Portfolio
0.1%
28.5%
42.5%
12.2%
16.7%
Commercial Real Estate
Commercial & Industrial
Residental Real Estate
Real Estate Construction
Other


Investment Portfolio
21.5%
51.5%
12.7%
12.1%
2.2%
U.S. Government Agencies
Collateral Mortgage Obligations
Municipals
Mortgage Back Securities
Corporate Debt

Banesco USA Financial Statements

December 31, 2014 and 2013

The Bank prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. In this section, we review the main variations of the summary balance sheets and statements of operations at the close of 2014 with respect to the amounts presented at the close of 2013.

BANESCO USA

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

BANESCO USA

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MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Banesco USA

We have audited the accompanying financial statements of Banesco USA (the "Bank") (a Florida corporation), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, statements of comprehensive (loss) income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banesco USA as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in NOTE 1, in December 2013, the Bank entered into a Consent Agreement with the Federal Deposit Insurance Corporation (FDIC) and the Florida Office of Financial Regulation (OFR), in connection with certain deficiencies in its compliance with the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) laws and regulations. The Bank entered into the Consent Agreement with its regulators, without admitting or denying the allegations, and has been diligently working to implement a program to correct these deficiencies and non-compliance. The Bank has been cooperating with its regulators concerning these deficiencies and the actions being taken to comply with the terms of the Consent Agreement. The Bank has not received any monetary enforcement action from the regulatory agencies, but it cannot predict whether or to what extent monetary or other penalties may be imposed by its regulators or other agencies relating to these matters.

Morrison, Brown, Argiz & Farra

Miami, Florida
March 13, 2015

An Independent Member of Baker Tilly International

MIAMI 1450 Brickell Avenue, 18th Floor, Miami FL 33131 | T 305 373 5500 F 305 373 0056 | www.mbafcpa.com

BANESCO USA

BALANCE SHEETS
DECEMBER 31,

ASSETS	2014	2013
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 4,789,758	$ 6,752,848
Interest bearing deposits in other financial institutions	28,100,295	24,802,146
TOTAL CASH AND CASH EQUIVALENTS	32,890,053	31,554,994
Investment securities available for sale	225,840,368	234,341,356
Federal Home Loan Bank stock, at cost	2,988,300	1,823,300
Loans, net	643,582,475	533,000,501
Property and equipment, net	4,565,982	5,246,553
Accrued interest receivable	2,168,692	2,225,001
Foreclosed assets, net	2,850,721	2,612,500
Deferred tax assets	4,022,832	7,925,946
Prepaid expenses and other assets	1,376,009	1,339,338
TOTAL ASSETS	**$ 920,285,432**	**$ 820,069,489**
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Noninterest bearing demand deposits	$ 306,133,012	$ 257,118,499
Interest bearing demand deposits	116,759,510	105,574,861
Money market and savings accounts	231,160,831	217,074,354
Time deposits of $100,000 or more	16,639,770	19,039,199
Time deposits of less than $100,000	106,047,380	116,823,053
TOTAL DEPOSITS	776,740,503	715,629,966
Securities sold under agreements to repurchase	3,950,013	2,624,871
Federal Home Loan Bank advances	50,000,000	20,000,000
Accrued interest payable	572,782	417,896
Accrued expenses and other liabilities	3,241,309	3,986,212
TOTAL LIABILITIES	834,504,607	742,658,945
COMMITMENTS AND CONTINGENCIES (NOTES 14 AND 16)		
STOCKHOLDERS' EQUITY:		
Common stock, $5 par value; 6,000,000 shares authorized; 5,926,304 shares issued and outstanding in 2014 and 2013	29,631,520	29,631,520
Additional paid-in capital	50,842,927	50,842,927
Retained earnings	7,049,084	4,871,164
Accumulated other comprehensive loss, net of taxes	(1,742,706)	(7,935,067)
TOTAL STOCKHOLDERS' EQUITY	85,780,825	77,410,544
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 920,285,432**	**$ 820,069,489**

The accompanying notes are an integral part of these financial statements.

BANESCO USA

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2014	2013
INTEREST AND DIVIDEND INCOME:		
Loan and fees on loans	$ 31,890,957	$ 28,391,661
Investment securities	5,187,479	5,648,769
Federal funds sold	109,511	111,633
Federal Home Loan Bank stock	53,127	45,599
TOTAL INTEREST AND DIVIDEND INCOME	37,241,074	34,197,662
INTEREST EXPENSES:		
Deposits	2,991,684	2,693,277
Federal Home Loan Bank advances	394,752	520,927
TOTAL INTEREST EXPENSES	3,386,436	3,214,204
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	33,854,638	30,983,458
PROVISION FOR LOAN LOSSES	85,860	1,647,166
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,768,778	29,336,292
NONINTEREST INCOME:		
Service fees on loans and deposits	3,134,025	3,389,683
Gain on sales of investment securities, (includes $146,319 and 686,806 accumulated other comprehensive income (loss) reclassifications for unrealized net gains on available for sale securities, respectively.)	146,319	686,806
Gain on resolution of acquired assets	1,585,891	1,817,516
Commissions and other	1,731,001	1,426,948
TOTAL NONINTEREST INCOME	6,597,236	7,320,953
NONINTEREST EXPENSES:		
Salaries and employee benefits	22,578,530	18,891,598
Occupancy	3,117,935	3,192,389
Professional fees	4,176,359	3,064,744
Electronic data processing	1,691,284	1,782,625
FDIC insurance	1,244,378	660,379
Depreciation and amortization	1,553,744	1,339,238
Advertising	351,500	572,559
Communication	705,548	695,136
Travel and entertainment	263,537	412,908
Insurance and license fees	357,219	300,237
Office supplies	113,484	171,288
Foreclosed assets, net	88,091	2,387
Special assets real estate taxes expenses	(32,103)	16,000
Other	878,784	1,101,292
TOTAL NONINTEREST EXPENSES	37,088,290	32,202,780
INCOME BEFORE INCOME TAXES	3,277,724	4,454,465
PROVISION FOR INCOME TAXES, (includes approximately $55,000 and $258,000 of income tax expenses from reclassification items, respectively.)	1,099,804	1,844,967
NET INCOME	**$ 2,177,920**	**$ 2,609,498**

The accompanying notes are an integral part of these financial statements.

BANESCO USA

STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

2014		
NET INCOME		$ 2,177,920
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding gains arising during period (net of income taxes of approximately $3,681,000)	$ 6,283,620	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $55,000)	(91,259)	6,192,361
COMPREHENSIVE INCOME		**$ 8,370,281**
2013		
NET INCOME		$ 2,609,498
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding losses arising during period (net of income taxes of approximately $4,891,000)	$ (8,106,457)	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $258,000)	(428,361)	(8,534,818)
COMPREHENSIVE LOSS		**$ (5,925,320)**

The accompanying notes are an integral part of these financial statements.

BANESCO USA

Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2014 and 2013

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
BALANCES AT JANUARY 1, 2013	4,637,824	$ 23,189,120	$ 40,285,327	$ 2,261,666	$ 599,751	$ 66,335,864
Net income	-	-	-	2,609,498	-	2,609,498
Proceeds from the issuance of common stock	1,288,480	6,442,400	10,557,600	-	-	17,000,000
Other comprehensive loss	-	-	-	-	(8,534,818)	(8,534,818)
BALANCES AT DECEMBER 31, 2013	5,926,304	29,631,520	50,842,927	4,871,164	(7,935,067)	77,410,544
Net income	-	-	-	2,177,920	-	2,177,920
Other comprehensive income	-	-	-	-	6,192,361	6,192,361
BALANCES AT DECEMBER 31, 2014	**5,926,304**	**$ 29,631,520**	**$ 50,842,927**	**$ 7,049,084**	**$ (1,742,706)**	**$ 85,780,825**

The accompanying notes are an integral part of these financial statements.

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BANESCO USA

Statements of Cash Flows
For the Years Ended December 31,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,177,920	$ 2,609,498
Adjustments to reconcile net income to net cash provided by		
Operating activities:		
Provision for loan losses	85,860	1,647,166
Provision for foreclosed assets	-	159,970
Depreciation and amortization	1,553,744	1,339,238
Net amortization of discounts on investment securities available for sale	1,498,959	2,598,008
Gain on sales of investment securities	(146,319)	(686,806)
Gain on sales of foreclosed assets	-	(405,471)
Amortization of deferred loan fees	(123,420)	(199,257)
Amortization of intangible assets	93,670	93,670
Deferred income tax benefit	167,046	(748,813)
Changes in operating assets and liabilities:		
Accrued interest receivable	56,309	53,227
Prepaid expenses and other assets	(130,341)	(191,306)
Foreclosed assets	-	-
Accrued interest payable	154,886	2,772
Accrued expenses and other liabilities	(744,903)	1,046,319
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,643,411	7,318,215
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(53,889,406)	(95,222,094)
Purchase of Federal Home Loan Bank stock	(1,165,000)	(269,400)
Maturities and principal repayments on investment securities available for sale	16,625,244	28,948,776
Proceeds from sales of investment securities available for sale	54,340,939	84,597,840
Maturities and principal repayment on investment securities held to maturity	-	2,000,000
Net increase in loans	(110,782,635)	(101,976,089)
Proceeds from sales of foreclosed assets	-	7,779,438
Purchase of property and equipment	(873,173)	(2,027,674)
NET CASH USED IN INVESTING ACTIVITIES	(95,744,031)	(76,169,203)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	61,110,537	35,395,401
Net increase (decrease) in securities sold under agreements to repurchase	1,325,142	(1,407,648)
Net increase in Federal Home Loan Bank advances	30,000,000	5,000,000
Proceeds from the issuance of common stock	-	17,000,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	92,435,679	55,987,753
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,335,059	(12,863,235)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,554,994	44,418,229
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 32,890,053**	**$ 31,554,994**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Change in unrealized gains on available for sale securities, net of tax	**$ 6,192,361**	**$ (8,534,818)**
Transfer of loans to foreclosed assets	**$ -**	**$ 3,981,470**
Interest paid on deposits and borrowed funds	**$ 3,231,550**	**$ 3,211,432**
Cash paid for income taxes	**$ 1,946,057**	**$ 1,812,000**

The accompanying notes are an integral part of these financial statements.

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1. GENERAL

Banesco USA (the "Bank"), a state-chartered bank, incorporated in the State of Florida. The Bank currently operates in Southeast Florida and Puerto Rico, having seven offices in operation at December 31, 2014 and 2013. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC"), is supervised and regulated by the Office of the Financial Regulation of the State of Florida and by the FDIC.

The Bank offers a variety of banking services to individual and corporate customers through its banking offices located in South Florida and Puerto Rico.

In December 2013, the Bank entered into a Consent Agreement with the Federal Deposit Insurance Corporation (FDIC) and the Florida Office of Financial Regulation (OFR), in connection with certain deficiencies in its compliance with the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) laws and regulations. The Bank entered into the Consent Agreement with its regulators, without admitting or denying the allegations, and has been diligently working to implement a program to correct these deficiencies and non-compliance. The Bank has been cooperating with its regulators concerning these deficiencies and the actions being taken to comply with the terms of the Consent Agreement. The Bank has not received any monetary enforcement action from the regulatory agencies, but it cannot predict whether or to what extent monetary or other penalties may be imposed by its regulators or other agencies relating to these matters (NOTE 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The following is a summary of the significant accounting policies followed by the Bank.

The accounting policies and reporting practices of the Bank conform to the predominant practices in the banking industry and are based on accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, determination of fair values of acquired assets and assumed liabilities, loss estimates related to acquired loans and foreclosed assets, and the fair value of financial instruments.

Acquisitions

Banesco USA accounts for all business combinations under the acquisition method of accounting in accordance with Accounting Standard Codification ("ASC") Topic 805. Accordingly, the acquiring institution should recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in the acquiree, if any. The application of the acquisition method may result in the acquirer recognizing some assets and liabilities not previously recognized by the acquiree. The acquiring institution should then recognize and measure either goodwill or a gain on bargain purchase. In addition, acquisition-related costs and restructuring costs are recognized as period expenses as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquisitions (continued)

As discussed in NOTE 3, Banesco USA purchased substantially all the assets and assumed substantially all the liabilities of Security Bank, N.A (SBNA) headquartered in Fort Lauderdale, Florida on May 4, 2012. This transaction was completed with the assistance of the FDIC, which had been appointed receiver by the applicable banking authority prior to consummation. The acquired assets and assumed liabilities of this transaction were measured at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for this transaction. Management judgmentally stratified the loan portfolio based on similar risk characteristics and engaged an independent third party to estimate collateral values, calculate expected cash flows, and derive loss factors to measure fair values for loans. Foreclosed assets were valued based upon pending sales contracts or appraised values, adjusted for current market conditions. Management used quoted or current market prices to determine the fair value of investment securities, short term borrowings and long term obligations that were assumed in this transaction.

Bargain Purchase and Intangible Assets

Bargain purchase represents the excess of the fair value of net assets acquired over cost of the acquired assets. Intangible assets consist primarily of core deposit intangibles, which represent the excess of the fair value of deposits acquired over their carrying values and are amortized over the period in which the Bank expects to derive benefit from the deposits. Intangible assets other than goodwill, which are determined to have finite lives, are amortized over the period benefited, generally five to fifteen years and are periodically reviewed for reasonableness. The recoverability of other intangibles is evaluated if events or circumstances indicate possible impairment. Intangible assets amounted to $221,388 and $315,058, as of December 31, 2014 and 2013, respectively, and are included in prepaid expenses and other assets on the accompanying balance sheets.

Cash and Cash Equivalents

The Bank considers cash and cash equivalents with a maturity of three months or less from their original purchase date to be cash equivalents. Cash equivalents include cash and due from banks and interest bearing deposits in other financial institutions.

Investment Securities

Investment securities consist of U.S. government agencies issued securities, U.S. government agencies sponsored, collateralized mortgage obligations, mortgage-backed securities, corporate bonds, and municipal securities. Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive (loss) income. As of December 31, 2014 and 2013 the Bank investment securities were all classified as available for sale.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is a restricted asset, carried at cost, and evaluated for impairment. As of December 31, 2014 and 2013, FHLB stock amounted to $2,988,300 and $1,823,300, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

The Bank's accounting methods for loans differ depending on whether the loans are originated or purchased, and for purchased loans, whether the loans were acquired as a result of a business combination or purchased individually or as a portfolio.

Legacy Loans and Leases:

Loans are reported at their principal outstanding balance net of deferred loan fees or costs, unearned income and the allowance for loan losses. Loan origination and commitment fees and the costs associated with the origination of loans are deferred and amortized using the interest method over the life of the related loan. Interest income is generally recognized when income is earned using the simple interest or effective yield method.

In many lending transactions, collateral is obtained to provide an additional measure of security. Generally, the cash flow and earnings power of the borrower represent the primary source of repayment and collateral is considered as an additional safeguard on an acceptable credit risk. The need for collateral is determined on a case by case basis after considering the current and prospective creditworthiness of the borrower, terms of the lending transaction and economic conditions.

The Bank classifies all loans and leases past due when the payment of principal and interest, based upon contractual terms, is not made as of its due date. Charge offs on commercial loans are recorded when available information confirms the loan is not fully collectible and the loss is reasonably quantifiable. Consumer loans are subject to mandatory charge off at a specified delinquency date consistent with regulatory guidelines.

Purchased Loans:

Loans acquired in a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

In determining the fair value of purchased loans at acquisition date, and in subsequent accounting, the Bank aggregates purchased loans into pools of loans with common characteristics. The Bank reviews each loan at acquisition to determine if it should be accounted for as a loan that has experienced credit deterioration and is probable that at acquisition, the Bank will not be able to collect all the contractual principal and interest due from the borrower. The Bank considers substantially all loans acquired via FDIC assisted transactions to meet the criteria of loans acquired with evidence of impairment, unless the loan type is specifically excluded from the scope of Accounting Standards Codification ("ASC") 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality, such as loans with active revolver features or because management has minimal doubt of the collection of the loan. This policy is based on the following general themes surrounding an FDIC assisted transaction:

1) There is a high degree of uncertainty surrounding the quality of underwriting of the failed institutions that made the original loan,
2) Management of the Bank has limited due diligence time prior to deal execution, and
3) In many instances, loans were made in geographical areas that have experienced significant economic hardships as well as significant deterioration in collateral values. Loans acquired with evidence of impairment are classified as Purchased Credit Impaired ("PCI") loans.

The Bank makes an estimate of the loans' contractual principal and contractual interest payments as well as the total cash flows it expects to collect from the pools of loans, which includes undiscounted expected principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

Purchased Loans: (continued)

The excess of contractual amounts over the total cash flows expected to be collected from the loans is referred to as non-accretable difference, which is not accreted into income. The excess of the expected undiscounted cash flows over the fair value of the loans is referred to as accretable discount. Accretable discount is recognized as interest income on a level-yield basis over the life of the loans. Management has not included prepayment assumptions in its modeling of contractual or expected cash flows. The Bank continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows expected to be collected are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through allowance for loan losses. Gain on resolution of acquired assets represents the net settlement amount between the proceeds received and the carrying amount of the loans.

Non-accrual Loans, Impaired Loans and Restructured Loans:

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off, the loan has been restructured but is not meeting the terms of the restructure, or the loan reaches 90 days past due. All interest accrued but not collected for loans that are placed on non-accrual status or loans that are charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying to return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into non-accrual status, if applicable.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less selling costs, if the loan is collateral dependent. If management determines that the value of the impaired loan is less than the recorded investment in the loan (outstanding principal balance, net of previous charge-offs, and net of deferred loan fees or cost), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is doubtful and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

Non-accrual Loans, Impaired Loans and Restructured Loans: (continued)

In situations where, due to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be granted, the loan is classified as a troubled debt restructuring ("TDR"). Management attempts to identify borrowers in financial difficulty early and work with them to modify terms before their loan reaches nonaccrual status. However, due to the complexity of modifying terms, many loans are modified after nonaccrual status has been established. The modified terms may include rate reductions, payment forbearance, principal forbearance, principal forgiveness and other actions intended to minimize the economic loss to the Bank and avoid foreclosure of the collateral. In cases where the borrowers are granted new terms that provide for a reduction of either interest or principal, management measures the impairment on the restructuring as detailed above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR and is included in the Bank's allowance for loan losses. These loans are excluded from pooled loss forecast and a separate reserve is provided under the accounting guidance for loan impairment. Residential loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Allowance for Loan Losses ("ALL")

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

In determining the balance of the allowance account, loans are pooled by portfolio segment and management evaluates the allowance for loan losses on each segment and as a whole on a regular basis to maintain the allowance at an adequate level based on factors which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include changes in prevailing economic conditions, historical experience, changes in the character and size of the loan portfolio and the overall credit worthiness of the borrowers.

The following is how management determines the balance of the general component for the allowance for loan losses account for each segment of the loans:

Land and Land Development; Real Estate Construction; Commercial Real Estate; Commercial and Industrial Loans; Residential Real Estate, and Other Loans.

All loans are grouped by collateral type with similar risk characteristics and a historical charge-off rate for the last eight quarters is used. A weighted average loss factor is calculated and applied to the loan balance for each group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL") (continued)

Qualitative factors are applied to historical loss rate based on management's experience. Due to the static nature of the portfolio, the nine factors used are:

- Lending Policies and Procedures
- International, National, Regional, and Local Economic Conditions
- Nature or Volume of the Portfolio and Terms of Loans
- Experience, Ability, and Depth of Lending and Credit Management
- Levels and trends in delinquencies, non-accruals, and Risk Rating
- Quality of Loan Review System
- Value of Underlying Collateral
- Existences and Effect of Credit Concentrations
- Other External Consequences

The adjusted loss rates are applied to the outstanding balances of each loan grouping.

Changes in these factors could result in material adjustments to the allowance for loan losses and provision for loan losses. The losses the Bank may ultimately incur could differ materially from the amounts assumed in arriving at the allowance for loan losses.

The Bank provides for loan losses through a provision for loan losses charged to operations. When management believes that a loan balance is uncollectible, the loan balance is charged against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance for loan losses.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and the Bank applies the same adjusted loss rates as those applied to similar loan pools based on risk classification in calculating the overall allowance for loan losses. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the statements of operations. At December 31, 2014 and 2013, the allowance for unfunded lending commitments amounts to $440,603 and $578,471 respectively, and is included in Loans, net on the accompanying balance sheets.

Also, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

For PCI loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from PCI loans reflect a decrease in those estimates. The Bank reassesses cash flows on its loan portfolio based on current circumstances and events. Occasionally, external factors non-controllable by the Bank could result in cash flows not performing in line with expectations. If a pool of loans has paid in excess of its carrying value and management considers that the information on the pool is such that it can no longer estimate an expectation of cash flows in a manner that is reliable, the Bank discontinues the accrual of income on that portfolio and recognizes income on a cash basis based on the payments of interest for the pool. A gain is recognized for the amount of excess cash collected on the pool when all loans in the pool have been disposed of.

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to PCI loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL") (continued)

Risk grading:

The grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreement as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades for classified loans are refreshed each quarter, and pass grades are done annually.

The Bank's internally assigned grades are as follows:

Pass – Loans indicate different levels of satisfactory financial condition and performance.
Special Mention – Loans are exhibiting potential weaknesses deserving management's close attention.
Substandard – Loans are exhibiting well-defined weaknesses that jeopardize repayment of the debt.
Doubtful – Loans where the possibility of loss is extremely high.
Loss – Loans are considered uncollectible.

Interest Income

Interest income is recognized as earned, based upon the principal amount outstanding, on an accrual basis.

Property and Equipment, Net

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Estimated useful lives of these assets are as follows:

Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of life or term of lease

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When items are retired or are otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to income.

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. At December 31, 2014 and 2013, foreclosed assets amounted to $2,850,721 and $2,612,500, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities (NOTE 9).

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

The Bank recognizes positions taken or expected to be taken in a tax return in accordance with existing accounting guidance on income taxes which prescribes a recognition threshold and measurement process. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively.

Impairment of Long-Lived Assets

The Bank's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Bank did not recognize an impairment charge during the years ended December 31, 2014 and 2013.

Advertising Costs

Advertising Costs are expenses as incurred. At December 31, 2014 and 2013, advertising costs amounted to $351,500 and $572,560, respectively.

Interest Rate Risk

The Bank's performance is dependent to a large extent on its net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities (the interest rate sensitivity gap). More liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Bank has attempted to implement asset and liability management strategies to mitigate the impact to net interest income resulting from changes in market interest rates.

Concentration of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty.

Most of the Bank's business activity is with customers located within its primary market area, which includes Miami-Dade and Broward Counties, Florida. The Bank's loan portfolio is concentrated largely in real estate and commercial loans in South Florida. Circumstances, which negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

At various times during the year, the Bank has maintained deposits with other financial institutions in excess of amounts received. The exposure to the Bank from these transactions is solely dependent upon daily balances and the financial strength of the respective institution.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on debt securities.

Fair Value Measurement

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

The Bank has evaluated subsequent events through March 13, 2015 which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to improve the transparency of reporting reclassifications out of accumulated other comprehensive income (loss). The update is effective prospectively for reporting periods beginning after December 15, 2013 with early application permitted. The adoption of this accounting standard update did not have a material impact on the Bank's financial statements.

Troubled Debt Restructurings by Creditors - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued an accounting standard update which intends to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the related real estate recognized. The update also requires additional disclosures and is to be applied either prospectively or with a modified retrospective method. The update is effective for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. The Bank is currently evaluating the effect the update will have on its financial statements.

Reclassification

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

3. FEDERALLY ASSISTED ACQUISITION

On May 4, 2012, Banesco USA purchased substantially all the assets and assumed substantially all the liabilities of SBNA from the FDIC, as receiver of SBNA. SBNA operated three branches located in the cities of North Lauderdale, Doral and Miami, Florida.

The acquisitions of SBNA were accounted for under the acquisition method of accounting. The net assets acquired and bargain purchase gain are presented in the following table. The purchased assets and assumed liabilities were recorded at acquisition date at their respective fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date if additional information regarding the closing date fair values becomes available.

The Statement of operations includes bargain purchase gain of $2,116,370 that resulted from the SBNA acquisitions.

The following table presents the assets acquired and liabilities assumed, as recorded by SBNA on the acquisition date and adjusted for purchase accounting adjustments.

	May 4, 2012			
	As Recorded by SBNA	Fair Value Adjustments		As recorded by Banesco USA
Assets:				
Cash and due from banks	$ 24,750,257	$ -		$ 24,750,257
Investment securities, at fair value	3,445,940	-		3,445,940
Loans	69,613,202	(15,828,233)	a	53,784,969
Foreclosed assets	4,395,818	(111,245)	b	4,284,573
Intangible assets	-	300,000	c	300,000
Other assets	608,719	(144,152)	d	464,567
Total assets	$ 102,813,938	$ (15,783,630)		$ 87,030,306
Liabilities:				
Deposits				
Noninterest bearing	$ 39,547,917	$ -		$ 39,547,917
Interest bearing	58,171,906	-		58,171,906
Total deposits	97,719,823	-		97,719,823
Other liabilities	641,590	-		641,590
Total liabilities	$ 98,361,413	$ -		$ 98,361,413
Bargain Purchase Gain Reconciliation:				
Excess of assets acquired over liabilities assumed	$ 4,452,523			$ 4,452,523
Aggregate fair value adjustment		$ (15,783,630)		$ (15,783,630)
Cash received from the FDIC				$ 13,447,477
Bargin Purchase Gain on Acquisition of SBNA				**$ 2,116,370**

Explanation of fair value adjustments:

a- Adjustment reflects the fair value adjustment based on Banesco USA's evaluation of the acquired loan portfolio and window period charge-offs of $322,861.

b- Adjustment reflects the estimated foreclosed asset losses based on Banesco USA's evaluation of the acquired foreclosed asset portfolio.

c- Adjustment reflects the core deposit intangible on deposits acquired as of the acquisition date.

d- Adjustment reflects the reversal of accrued interest receivable on the acquired loan portfolio as of the acquisition date.

3. FEDERALLY ASSISTED ACQUISITION (CONTINUED)

Results of operations for SBNA prior to the acquisition date are not included in the statement of operations. Due to the significant amount of fair value adjustments and the resulting accretion of those fair value adjustments, historical results of SBNA are not relevant to Banesco USA's results of operations. Therefore, no pro forma information is presented.

Accounting standards prohibit carrying over an allowance for loan losses on acquired loans. However, the fair value adjustments recorded on the loan portfolio at the date of the acquisition take into consideration estimated losses inherent in the loan portfolio.

4. INVESTMENT SECURITIES

Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities available for sale, by major security, as of December 31, 2014 and 2013 are as follows:

December 31, 2014	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 35,317,508	$ 60,792	$ (451,516)	$ 34,926,784
U.S. government agencies sponsored	13,952,145	440	(249,340)	13,703,245
Collateralized mortgage obligations	5,117,502	-	(151,508)	4,965,994
Mortgage-backed securities	117,505,391	61,685	(1,286,494)	116,280,582
Municipals	28,818,239	266,072	(353,682)	28,730,629
Corporate bonds	27,923,724	58,253	(748,843)	27,233,134
	$ 228,634,509	$ 447,242	$ (3,241,383)	$ 225,840,368

December 31, 2013	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 6,878,946	$ -	$ (562,184)	$ 6,316,762
U.S. government agencies sponsored	12,991,630	-	(1,037,039)	11,954,591
Collateralized mortgage obligations	6,038,287	-	(290,422)	5,747,865
Mortgage-backed securities	154,055,379	39,526	(6,445,274)	147,649,631
Municipals	29,867,909	249,593	(3,224,203)	26,893,299
Corporate bonds	37,231,775	45,890	(1,498,457)	35,779,208
	$ 247,063,926	$ 335,009	$ (13,057,579)	$ 234,341,356

Investment securities pledged to secure borrowings under securities sold under agreements to repurchase had a fair value of approximately $7,940,000 and $8,376,000 at December 31, 2014 and 2013, respectively.

Proceeds from the sales of investment securities available for sale for the years ended December 31, 2014 and 2013 amounted to $54,340,939 and $84,597,840, respectively. For the years ended December 31, 2014 and 2013, there were net gains of $146,319 and $686,806, respectively.

4. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

Expected maturities of securities available for sale will differ from contractual maturities because borrowers have the right to call or repay obligations with or without call or repayment penalties. The amortized cost and fair value of securities available for sale by contractual maturity are as follows, as of December 31:

	2014 Securities Available for Sale: Amortized Cost	Fair Value
Due after one year through five years	$ 5,016,074	$ 4,965,403
Due after five years through ten years	38,906,245	37,980,618
Due after ten years	184,712,190	182,894,347
	$ 228,634,508	$ 225,840,368

Information pertaining to securities with gross unrealized holding losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31 follows:

	Less than Twelve Months: Fair Value	Gross Unrealized Holding Losses	Twelve Months or More: Fair Value	Gross Unrealized Holding Losses	Total: Fair Value	Gross Unrealized Holding Losses
December 31, 2014						
U.S. government agencies issued securities	$ 24,296,025	$ (172,192)	$ 6,210,537	$ (279,324)	$ 30,506,562	$ (451,516)
U.S. government agencies sponsored	-	-	8,750,660	(249,340)	8,750,660	(249,340)
Collateralized mortgage obligations	-	-	4,965,994	(151,508)	4,965,994	(151,508)
Mortgage-backed securities	19,538,958	(119,018)	83,861,897	(1,167,476)	103,400,855	(1,286,494)
Municipals	891,793	(13,668)	11,069,934	(340,014)	11,961,727	(353,682)
Corporate bonds	9,579,466	(340,299)	11,780,226	(408,544)	21,359,692	(748,843)
	$ 54,306,242	$ (645,177)	$ 126,659,246	$ (2,596,206)	$ 180,965,488	$ (3,241,383)

	Less than Twelve Months: Fair Value	Gross Unrealized Holding Losses	Twelve Months or More: Fair Value	Gross Unrealized Holding Losses	Total: Fair Value	Gross Unrealized Holding Losses
December 31, 2013						
U.S. government agencies issued securities	$ -	$ -	$ 6,316,762	$ (562,184)	$ 6,316,762	$ (562,184)
U.S. government agencies sponsored	11,954,591	(1,037,039)	-	-	11,954,591	(1,037,039)
Collateralized mortgage obligations	4,134,365	(190,213)	1,613,500	(100,209)	5,747,865	(290,422)
Mortgage-backed securities	112,573,229	(4,459,213)	33,293,421	(1,986,061)	145,866,650	(6,445,274)
Municipals	17,495,179	(2,569,731)	3,363,728	(654,472)	20,858,907	(3,224,203)
Corporate bonds	28,171,999	(1,131,177)	4,118,553	(367,280)	32,290,552	(1,498,457)
	$ 174,329,383	$ (9,387,373)	$ 48,705,984	$ (3,670,206)	$ 223,035,327	$ (13,057,579)

The Bank is proactive in determining what possible negative effects could impact their investment portfolio. The Bank performs assessments to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. Management considers many factors in their analysis including the (1) severity and duration of the impairment, (2) the specific credit rating of the security, (3) the intent and ability to hold these securities for a period of time until the value of the security recovers, (4) whether the current market is considered an inactive market where most sales are considered distressed sales or disorderly transactions, and most importantly (5) management estimates the portion of loss attributable to credit using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates. Based on the expected cash flows derived from the model, the Bank expects to recover the remaining unrealized losses on the securities.

4. INVESTMENT SECURITIES (CONTINUED)

Available for sale (continued)

As of December 31, 2014 and 2013, the Bank had $1,286,494 and $6,445,274, respectively, in unrealized losses relating to its mortgage-backed securities. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of mortgage backed securities to fluctuate unsteadily. The contractual cash flows of these securities are from U.S. government sponsored agencies. As of December 31, 2014 and 2013, the Bank does not consider those investments to be other-than-temporary impaired because the Bank does not intend to sell the securities before recovery of their amortized cost bases, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2014 and 2013, the unrealized losses noted in the Bank's U.S. government agencies issued securities, U.S. government agencies sponsored and collateralized mortgage obligations; relate principally to interest rate changes, credit spread widening and reduced liquidity in applicable markets. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, other-than-temporary impairments may occur in future periods. The contractual cash flows of these securities are guaranteed by an agency of the U.S. government. As of December 31, 2014 and 2013, the Bank does not consider those investments to be other-than-temporarily impaired because he Bank does not intend to sell the securities before recovery of their amortized cost bases, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2014 and 2013, the Bank had an unrealized loss on all corporate bonds totaling $748,843 and $1,498,457 respectively. As of December 31, 2014 and 2013, the Bank does not consider the corporate bonds to be other-than-temporary impaired because the decline in market value is attributable to changes in interest rates and not credit quality, he Bank does not intend to sell the securities before recovery of their amortized cost bases, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2014 and 2013, the Bank had an unrealized loss on all municipal bonds totaling $353,682 and $3,224,203 respectively. As of December 31, 2014 and 2013, excluding one municipal bond from the Highway & Transportation agency of Puerto Rico, which has a book value of $42,206 and has been written down to the current fair market value, the Bank does not consider the municipal bonds to be other-than-temporarily impaired because the decline in market value is attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost bases, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans outstanding as of December 31:

	2014					2013
	Legacy Loans	PNCI (1)	Total Loans	PCI (2)	Grand Total	
Land and land development	$ 3,444,668	$ -	$ 3,444,668	$ -	$ 3,444,668	$ 6,706,892
Real estate construction	79,486,888	-	79,486,888	-	79,486,888	51,131,732
Residential real estate	95,629,226	1,514,904	97,144,130	11,655,442	108,799,572	98,009,262
Commercial real estate	267,435,964	533,283	267,969,247	6,180,204	274,149,451	260,643,052
Commercial and Industrial	185,350,304	84,873	185,435,177	-	185,435,177	123,712,667
Consumer	694,721	-	694,721	-	694,721	798,370
	632,041,771	2,133,060	634,174,831	17,835,646	652,010,477	541,001,775
Less:						
Allowance for loan and lease losses	(7,201,646)	-	(7,201,646)	(42,916)	(7,244,562)	(6,929,190)
Deferred loan fees/unamortized discount	(1,183,440)	-	(1,183,440)	-	(1,183,440)	(1,072,084)
Net Loans	$ 623,656,685	$ 2,133,060	$ 625,789,745	$ 17,792,730	$ 643,582,475	$ 533,000,501

The Bank had pledged approximately $140,548,530 and $123,235,001 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2014 and 2013, respectively.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented the loans in the portfolio by product type. Loans are segmented into the following pools: land and land development, real estate construction, residential real estate, commercial real estate, commercial and industrial, consumer and other.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $7,244,562 and $6,929,190 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2014 and 2013, respectively.

(1) Purchase Non-Credit Impaired Loans; (2) Purchased Credit Impaired Loans.

The following table summarizes the Bank's loans acquired during 2012, the contractually required payments receivable, cash flows expected to be collected, and fair value at the acquisition date, May 4, 2012.

	PCI			PNCI	At Acquisition Total Portfolio
	Carrying Value Closing Balance	Additional Contractual Cash Flows	Total Contractual Cash Flows	Carrying Value Closing Balance	
Real Estate					
1-4 single family residential	$ 32,369,882	$ 27,848,394	$ 60,218,276	$ 2,993,970	$ 63,212,246
Commercial real estate	24,489,397	12,019,552	36,508,949	1,276,669	37,785,618
Total real estate	56,859,279	39,867,946	96,727,225	4,270,639	100,997,864
Other Loans					
Cash collateral loans	-	-	-	3,622,081	3,622,081
Commercial loans	4,510,482	2,271,654	6,782,136	-	6,782,136
Consumer loans	25,451	2,566	28,017	-	28,017
Overdrafts	-	-	-	2,409	2,409
Total other loans	4,535,933	2,274,220	6,810,153	3,624,490	10,434,643
Subtotal	$ 61,395,212	$ 42,142,166	103,537,378	7,895,129	111,432,507
Non-accretable difference			(32,025,976)	-	(32,025,976)
Subtotal			71,511,402	7,895,129	79,406,531
Accretable discount			(25,216,042)	(405,520)	(25,621,562)
Fair value			$ 46,295,360	$ 7,489,609	$ 53,784,969

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table summarizes the Bank's loans acquired during 2012, the outstanding balance and related carrying amount at the acquisition date, May 4, 2012.

	PCI		PNCI		At Acquisition Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 32,369,882	$ 26,877,945	$ 2,993,970	$ 2,723,779	$ 35,363,852	$ 29,601,724
Commercial real estate	24,489,397	16,088,081	1,276,669	1,156,485	25,766,066	17,244,566
Total real estate	56,859,279	42,966,026	4,270,639	3,880,264	61,129,918	46,846,290
Other Loans						
Cash collateral loans	-	-	3,622,081	3,606,936	3,622,081	3,606,936
Commercial loans	4,510,482	3,306,012	-	-	4,510,482	3,306,012
Consumer and other	25,451	23,322	2,409	2,409	27,860	25,731
Total other loans	4,535,933	3,329,334	3,624,490	3,609,345	8,160,423	6,938,679
Total PCI loans	$ 61,395,212	$ 46,295,360	$ 7,895,129	$ 7,489,609	$ 69,290,341	$ 53,784,969

The following tables summarize the Bank's loans acquired during 2013, the outstanding balance and related carrying amount as of December 31, 2014 and 2013.

December 31, 2014

	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 14,056,556	$ 11,655,442	$ 1,672,852	$ 1,514,904	$ 15,729,408	$ 13,170,346
Commercial real estate	7,281,830	6,180,204	534,693	533,283	7,816,523	6,713,487
Total real estate	21,338,386	17,835,646	2,207,545	2,048,187	23,545,931	19,883,833
Other Loans						
Cash collateral loans	-	-	84,873	84,873	84,873	84,873
Consumer and other	1,391	-	-	-	1,391	-
Total other loans	1,391	-	84,873	84,873	86,264	84,873
Total PCI loans	$ 21,339,777	$ 17,835,646	$ 2,292,418	$ 2,133,060	$ 23,632,195	$ 19,968,706

December 31, 2013

	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 18,032,867	$ 13,259,581	$ 1,941,138	$ 1,769,981	$ 19,974,005	$ 15,029,562
Commercial real estate	14,151,115	10,685,239	609,009	599,377	14,760,124	11,284,616
Total real estate	32,183,982	23,944,820	2,550,147	2,369,358	34,734,129	26,314,178
Other Loans						
Cash collateral loans	-	-	184,124	184,124	184,124	184,124
Commercial loans	901,050	815,276	-	-	901,050	815,276
Consumer and other	6,360	4,895	-	-	6,360	4,895
Total other loans	907,410	820,171	184,124	184,124	1,091,534	1,004,295
Total PCI loans	$ 33,091,392	$ 24,764,991	$ 2,734,271	$ 2,553,482	$ 35,825,663	$ 27,318,473

The following table summarizes the Bank's amount of accretable yield discount at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from "non-accretable difference" as of December 31, 2014:

	PCI	PNCI	Total
Accretable discount on PCI loans at December 31, 2013	$ 16,656,939	$ 180,790	$ 16,837,729
Accretable discount arising from acquisition of PCI loans	-	-	-
Accretion during the period	(4,147,552)	(17,654)	(4,165,206)
Reclassification from non-accretable difference	1,198,477	-	1,198,477
Loan resolution	(2,953,790)	(3,777)	(2,957,567)
Balance as of December 31, 2014	**$ 10,754,074**	**$ 159,359**	**$ 10,913,433**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table summarizes the Bank's allowance for loan losses associated with PCI loans as of December 31, 2014.

Beginning Balance	$ 316,229
Provision for loan losses	(255,777)
Charge-offs	(17,536)
Allowance for PCI loans at December 31, 2014	**$ 42,916**

Changes in the allowance for loan losses and the recorded investment in Legacy and PNCI loans are as follows for:

For the Year Ended December 31, 2014

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 116,915	$ 520,911	$ 157,850	$ 4,387,504	$ 1,428,657	$ 1,124	$ -	$ 6,612,961
Provision for loan losses	59,542	835,179	(157,850)	(1,561,167)	716,495	(1,124)	450,257	341,332
Recoveries	-	-	-	489,769	6,427	-	-	496,196
Chargeoffs	-	-	-	-	(248,823)	-	-	(248,823)
Ending Balance	**$ 176,457**	**$ 1,356,090**	**$ -**	**$ 3,316,106**	**$ 1,902,756**	**$ -**	**$ 450,257**	**$ 7,201,666**
Ending balance: individually evaluated for impairment	$ 157,561	$ -	$ -	$ 15,332	$ 267,791	$ -	$ -	$ 440,684
Ending balance: collectively evaluated for impairment	$ 18,896	$ 1,356,090	$ -	$ 3,300,774	$ 1,634,965	$ -	$ 450,257	$ 6,760,982
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ 42,916	$ 42,916
Loans:								
Ending balance	$ 3,444,668	$ 79,486,888	$ 97,144,130	$ 267,909,247	$ 185,435,177	$ 694,721	$ -	$ 634,174,831
Ending balance: individually evaluated for impairment	$ 1,815,739	$ 257,524	$ 198,488	$ 6,060,822	$ 1,103,799	$ -	$ -	$ 9,456,382
Ending balance: collectively evaluated for impairment	$ 1,628,929	$ 79,229,364	$ 96,945,642	$ 261,668,425	$ 184,331,388	$ 694,721	$ -	$ 624,718,469
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ 11,655,442	$ 6,180,204	$ -	$ -	$ -	$ 17,835,646

For the Year Ended December 31, 2013

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 104,544	$ 255,176	$ 310,874	$ 3,897,169	$ 1,192,091	$ 3,820	$ -	$ 5,763,674
Provision for loan losses	12,371	265,735	(153,024)	793,491	415,057	(2,696)	-	1,330,934
Recoveries	-	-	-	6,672	12,623	-	-	19,295
Chargeoffs	-	-	-	(309,828)	(191,114)	-	-	(500,942)
Ending Balance	**$ 116,915**	**$ 520,911**	**$ 157,850**	**$ 4,387,504**	**$ 1,428,657**	**$ 1,124**	**$ -**	**$ 6,612,961**
Ending balance: individually evaluated for impairment	$ 41,641	$ -	$ -	$ 221,408	$ 88,959	$ -	$ -	$ 352,008
Ending balance: collectively evaluated for impairment	$ 75,274	$ 520,911	$ 157,850	$ 4,166,096	$ 1,339,698	$ 1,124	$ -	$ 6,260,953
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ 66,835	$ 201,604	$ 47,790	$ -	$ -	$ 316,229
Loans:								
Ending balance	$ 6,708,692	$ 51,131,732	$ 84,749,881	$ 249,967,813	$ 122,807,391	$ 791,475	$ -	$ 516,236,784
Ending balance: individually evaluated for impairment	$ 2,306,731	$ 288,174	$ 231,857	$ 9,916,198	$ 1,057,215	$ -	$ -	$ 13,800,175
Ending balance: collectively evaluated for impairment	$ 4,401,961	$ 50,843,558	$ 84,517,824	$ 240,041,617	$ 121,840,176	$ 791,475	$ -	$ 502,436,611
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ 13,259,581	$ 10,685,239	$ 815,276	$ 4,895	$ -	$ 24,764,991

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Legacy and PNCI loan credit exposures by internally assigned grades are as follows:

December 31, 2014				
Land and land development and real estate construction	Pass	Special Mention	Substandard	Total
Land and land development	$ 1,628,929	$ -	$ 1,815,739	$ 3,444,668
Real estate construction	79,229,364	-	257,524	79,486,888
Residential real estate				
1-4 family first lien	95,043,818	-	406,793	95,450,611
1-4 family second lien	1,693,519	-	-	1,693,519
Commercial real estate				
Commercial real estate term	238,234,092	1,583,466	4,323,204	244,140,762
Owner occupied commercial real estate	22,154,714	1,673,771	-	23,828,485
Commercial and industrial	179,720,295	4,611,094	1,103,788	185,435,177
Other Loans				
Secured	665,994	-	28,727	694,721
Total loans	$ 618,370,725	$ 7,868,331	$ 7,935,775	$ 634,174,831

December 31, 2013				
Land and land development and real estate construction	Pass	Special Mention	Substandard	Total
Land and land development	$ 4,593,117	$ 2,115,575	$ -	$ 6,708,692
Real estate construction	50,843,559	-	288,173	51,131,732
Residential real estate				
1-4 family first lien	82,908,004	-	231,857	83,139,861
1-4 family second lien	1,609,820	-	-	1,609,820
Commercial real estate				
Commercial real estate term	194,437,135	4,741,605	3,832,983	203,011,723
Owner occupied commercial real estate	46,946,090	-	-	46,946,090
Commercial and industrial	121,840,176	-	1,057,215	122,897,391
Other Loans				
Secured	791,475	-	-	791,475
Total loans	$ 503,969,276	$ 6,857,180	$ 5,410,228	$ 516,236,784

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Performing and nonperforming Legacy and PNCI loans based on payment activity are as follows:

December 31, 2014			
Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 3,444,668	$ -	$ 3,444,668
Real estate construction	79,229,364	257,524	79,486,888
Residential real estate			
1-4 family first lien	95,252,123	198,488	95,450,611
1-4 family second lien	1,693,519	-	1,693,519
Commercial real estate			
Commercial real estate term	243,894,293	246,469	244,140,762
Owner occupied commercial real estate	23,828,485	-	23,828,485
Commercial and industrial	184,331,389	1,103,788	185,435,177
Other Loans			
Secured	694,721	-	694,721
Total loans	$ 632,368,562	$ 1,806,269	$ 634,174,831

December 31, 2013			
Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 6,708,692	$ -	$ 6,708,692
Real Estate Construction	50,843,559	288,173	51,131,732
Residential real estate			
1-4 family first lien	82,908,004	231,857	83,139,861
1-4 family second lien	1,609,820	-	1,609,820
Commercial real estate			
Commercial real estate term	199,178,740	3,832,983	203,011,723
Owner occupied commercial real estate	46,946,090	-	46,946,090
Commercial and industrial	121,840,176	1,057,215	122,897,391
Other Loans			
Secured	791,475	-	791,475
Total loans	$ 510,826,556	$ 5,410,228	$ 516,236,784

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced financial difficulties.

Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when the loan is greater than 90 days delinquent. Certain TDR's that are greater than 90 days past due are considered performing, based on their adherence with their modified terms.

Nonperforming loans, non-accrual loans and 90 days or more past due loans represent 0.28% and 1.67% of total loans as of December 31, 2014 and 2013. Management believes the likelihood of loss for nonperforming loans has decreased for the current period due to improvements in the economy.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables includes an aging analysis of the recorded investment of past due Legacy and PNCI loans as of December 31, 2014 and 2013. Certain loans over 90 days or more past due with interest and principal are still accruing.

As of December 31, 2014

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ -	$ -	$ -	$ 3,444,668	$ 3,444,668	$ -
Real estate construction	-	-	-	79,486,888	79,486,888	-
Residential real estate						
1-4 family first lien	3,482,600	-	3,482,600	91,968,011	95,450,611	-
1-4 family second lien	-	-	-	1,693,519	1,693,519	-
Commercial real estate						
Commercial real estate term	5,226,404		5,226,404	238,914,358	244,140,762	-
Owner occupied commercial real estate	1,895,405	-	1,895,405	21,933,080	23,828,485	-
Commercial and industrial	8,339,482	1,097,719	9,437,201	175,997,976	185,435,177	-
Other Loans						
Secured	-	-	-	694,721	694,721	-
Total loans	**$ 18,943,891**	**$ 1,097,719**	**$ 20,041,610**	**$ 614,133,221**	**$ 634,174,831**	**$ -**

As of December 31, 2013

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ 1,875,610	$ -	$ 1,875,610	$ 4,833,082	$ 6,708,692	$ -
Real estate construction	-	-	-	51,131,732	51,131,732	-
Residential real estate						
1-4 family first lien	64,747	-	64,747	83,075,113	83,139,860	-
1-4 family second lien	-	-	-	1,609,821	1,609,821	-
Commercial real estate						
Commercial real estate term	-	6,241,592	6,241,592	196,770,131	203,011,723	2,676,216
Owner occupied commercial real estate	2,438,993	-	2,438,993	44,507,097	46,946,090	-
Commercial and industrial	228,366	499,656	728,022	122,169,369	122,897,391	499,656
Other Loans						
Secured	-	-	-	791,475	791,475	-
Total loans	**$ 4,607,716**	**$ 6,741,248**	**$ 11,348,964**	**$ 504,887,820**	**$ 516,236,784**	**$ 3,175,872**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table includes the recorded investment and unpaid principal balances for impaired Legacy loans with the associated allowance amount, if applicable. Management determined the specific valuation allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific valuation allowance recorded.

Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

December 31, 2014

Impaired Loans by Class With No Specific Allowance Recorded:	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Land and land development	$ -	$ -	$ -	$ 199,463	$ -	$ 3,226
Real estate construction	257,524	257,524	-	271,388	-	26,694
1-4 family first lien	198,488	198,488	-	213,550	-	22,960
Commercial real estate term	5,081,603	5,066,029	-	6,014,951	236,716	21,138
Owner occupied commercial real estate	-	-	-	-	-	-
Commercial and industrial	-	-	-	219,373	4,130	-
Total	**$ 5,537,615**	**$ 5,522,041**	**$ -**	**$ 6,918,726**	**$ 240,846**	**$ 68,018**
with an allowance recorded:						
Land and land development	$ 1,817,353	$ 1,815,739	$ 157,561	$ 1,967,395	$ 87,335	$ -
Commercial real estate term	-	-	-	2,478,387	-	-
Owner occupied commercial real estate	1,018,251	1,012,795	15,332	1,030,880	70,756	-
Commercial and industrial	1,108,034	1,105,789	267,791	686,947	-	53,083
Total	**$ 3,943,638**	**$ 3,934,321**	**$ 440,684**	**$ 6,163,609**	**$ 158,091**	**$ 53,083**
Impaired Loans by Class Total						
Land and land development	$ 1,817,353	$ 1,815,739	$ 157,561	$ 2,166,858	$ 87,335	$ 3,226
Real estate construction and residential real estate	456,012	456,012	-	484,939	-	43,654
Commercial real estate	6,099,854	6,078,822	15,332	9,524,218	307,472	21,138
Commercial and industrial	1,108,034	1,105,789	267,791	906,320	4,130	53,083
Total loans	**$ 9,481,253**	**$ 9,456,362**	**$ 440,684**	**$ 13,082,335**	**$ 398,937**	**$ 121,098**

December 31, 2013

Impaired Loans by Class With No Specific Allowance Recorded:	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Land and land development	$ 239,965	$ 239,965	$ -	$ 1,526,756	$ 9,732	$ -
Real estate construction	268,174	268,174	-	296,833	-	20,364
1-4 family first lien	231,857	231,857	-	246,883	-	22,394
Commercial real estate term	6,569,900	6,569,900	-	6,308,849	126,308	73,790
Owner occupied commercial real estate	-	-	-	-	-	-
Commercial and industrial	-	-	-	179,243	-	-
Total	**$ 7,309,896**	**$ 7,309,896**	**$ -**	**$ 8,558,564**	**$ 136,040**	**$ 117,558**
with an allowance recorded:						
Land and land development	$ 2,066,786	$ 2,057,507	$ 41,641	$ 1,920,377	$ 65,345	$ -
Commercial real estate term	2,321,911	2,319,313	166,362	2,739,008	121,628	42,353
Owner occupied commercial real estate	1,044,365	1,044,365	55,048	-	-	-
Commercial and industrial	1,057,215	1,057,215	88,959	1,458,309	304,434	1,155
Total	**$ 6,490,277**	**$ 6,478,420**	**$ 352,008**	**$ 6,117,694**	**$ 491,407**	**$ 43,508**
Impaired Loans by Class Total						
Land and land development	$ 2,306,751	$ 2,297,472	$ 41,641	$ 3,447,133	$ 75,077	$ -
Real estate construction and residential real estate	520,031	520,031	-	543,716	-	43,378
Commercial real estate	9,916,196	9,913,598	221,408	9,047,857	246,936	116,143
Commercial and industrial	1,057,215	1,057,215	88,959	1,647,552	304,434	1,155
Total loans	**$ 13,800,173**	**$ 13,788,316**	**$ 352,008**	**$ 14,686,258**	**$ 626,447**	**$ 160,676**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Legacy and PNCI loans on non-accrual status by loan segment are as follows:

	December 31, 2014	December 31, 2013
Land and land development and real estate construction		
Real estate construction	$ 257,524	$ 288,173
Residential real estate		
1-4 family first lien	198,488	231,857
Commercial real estate		
Commercial real estate term	246,469	3,832,983
Commercial and industrial	1,103,788	1,057,215
Total loans	**$ 1,806,269**	**$ 5,410,228**

The following tables present troubled debt restructurings as of December 31, 2014 and 2013:

2014	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Land and land development and real estate construction			
Land and land development	$ 1,815,739	$ -	$ 1,815,739
Residential real estate			
1-4 family first lien	-	198,488	198,488
Commercial real estate			
Commercial real estate term	3,868,532	246,469	4,115,001
Owner occupied commercial real estate	1,012,793	-	1,012,793
Total	**$ 6,697,064**	**$ 444,957**	**$ 7,142,021**

2013	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Land and land development and real estate construction			
Land and land development	$ 2,066,766	$ -	$ 2,066,766
Residential real estate			
1-4 family first lien	-	231,857	231,857
Commercial real estate			
Commercial real estate term	3,200,143	3,852,553	7,052,696
Owner occupied commercial real estate	1,044,385	-	1,044,385
Commercial and industrial	-	48,618	48,618
Total	**$ 6,311,294**	**$ 4,133,028**	**$ 10,444,322**

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NOTES TO FINANCIAL STATEMENTS
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5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table presents newly restructured Legacy and PNCI loans that occurred during the year ended December 31, 2014 and 2013.

2014	Number of Modifications	Investment Prior to Modification	Investment After Modification
Land and land development and real estate construction			
Land and land development	$ -	$ -	$ -
Commercial real estate			
Commercial real estate term	-	-	-
Commercial and industrial	-	-	-
Total	**$ -**	**$ -**	**$ -**

2013	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Land and land development and real estate construction			
Land and land development	-	$ -	$ -
Commercial real estate			
Commercial real estate term	-	-	-
Commercial and industrial	1	48,618	48,618
Total	**1**	**$ 48,618**	**$ 48,618**

As of December 31, 2014 and 2013, there were no recorded investment and modifications for troubled debt restructuring within the last year where a concession has been made, that then defaulted during the year.

As of December 31, 2014 and 2013, there were no commitments to lend additional funds to borrowers with an impaired loan.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, is summarized as follows at December 31:

	2014	2013
Leasehold improvements	$ 4,316,707	$ 4,047,394
Furniture and equipment	3,244,483	3,094,756
Computer equipment and software	2,550,789	1,964,194
Work in progress	13,376	258,124
Art work	12,911	12,911
	10,138,266	9,377,379
Less:		
Accumulated depreciation and amortization	5,572,284	4,130,826
Property and equipment, net	**$ 4,565,982**	**$ 5,246,553**

Depreciation and amortization of property and equipment amounted to $1,553,744 and $1,339,238 for the years ended December 31, 2014 and 2013, respectively.

7. FORECLOSED ASSETS, NET

The Bank's inventory of foreclosed assets, net by property type, is listed below at December 31, 2014 and 2013:

	2014 Amount	2013 Amount
Land and land development	$ 2,850,721	$ 2,612,500
Balance at end of year	**$ 2,850,721**	**$ 2,612,500**

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets is as follows at December 31:

	2014	2013
Balance at beginning of year	$ 159,970	$ 278,544
Provision for losses	-	159,970
Recovery on sales of foreclosed assets	-	(278,544)
Charge offs	-	-
Balance at end of year	**$ 159,970**	**$ 159,970**

Expenses applicable to foreclosed assets include the following at December 31:

	2014	2013
Provision for losses	$ -	$ 159,970
Recovery on sales of foreclosed assets	-	(278,544)
Operating expenses	88,091	120,961
Balance at end of year	**$ 88,091**	**$ 2,387**

8. DEPOSITS

At December 31, 2014, the scheduled maturities of time deposits are as follows:

2015	$ 79,523,026
2016	29,827,910
2017	2,578,498
2018	6,767,869
2019	896,420
Thereafter	3,093,428
	$ 122,687,151

At December 31, 2014 and 2013, overdrafts amounting to $436,012 and $387,470, respectively, were reclassified from demand deposits to loans on the balance sheets.

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9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The following sets forth information concerning securities sold under agreements to repurchase as of December 31:

	2014	2013
Securities sold under agreements to repurchase	$ 3,950,013	$ 2,624,871
Fair value of securities pledged for repurchase agreements	$ 7,940,337	$ 8,375,931
Maximum amount outstanding at any month-end during the year	$ 3,195,479	$ 13,413,858
Average amount outstanding during the year	$ 2,185,214	$ 3,349,887
Weighted-average interest rate for the year	0.07%	0.07%

All securities sold under agreements to repurchase matured within 30 days of December 31, 2014 and 2013.

10. FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2014 and 2013, the Bank had Federal Home Loan Bank ("FHLB") advances were as follows:

Year of Maturity	Interest Rate	2014	2013
2014	0.36%	$ -	$ 10,000,000
2015	0.21%	40,000,000	-
2017	3.90%	5,000,000	5,000,000
2018	3.64%	5,000,000	5,000,000
		$ 50,000,000	**$ 20,000,000**

The FHLB advances agreement requires the Bank to maintain certain loans as collateral for these advances (NOTE 5). At December 31, 2014 and 2013, the Bank was in compliance with this requirement of the FHLB membership agreement. At December 31, 2014 and 2013, FHLB stock held by the Bank amounted to $2,988,300 and $1,823,300, respectively.

The Bank has a line of credit with FHLB of Atlanta that allows drawing up to 20% of total assets. As of December 31, 2014 and 2013, the unused portion of the line amounted to approximately $127,030,000 and $103,235,001, respectively. Additionally, the Bank maintains unused lines of credits with other financial institutions for approximately $10,000,000.

11. INCOME TAXES

The provision for (benefit from) income taxes is as follows as of December 31:

	2014	2013
Current:		
Federal	$ 757,902	$ 2,187,735
State	174,856	406,045
	932,758	2,593,780
Deferred:		
Federal	$ 155,560	$ (693,319)
State	11,486	(55,494)
	167,046	(748,813)
Total	**$ 1,099,804**	**$ 1,844,967**

The actual income tax expense for 2014 and 2013 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 34% to income before provision for (benefit from) income taxes) as follows:

	2014	Effective Tax Rate
Federal taxes at statutory rate	$ 1,114,426	34.0%
State income taxes, net of federal tax benefit	118,872	3.6%
Change in valuation allowance on expired carryforward	(57,451)	(1.8%)
Other permanent differences	(76,043)	(2.3%)
Total	**$ 1,099,804**	**33.5%**

	2013	Effective Tax Rate
Federal taxes at statutory rate	$ 1,514,518	34.0%
State income taxes, net of federal tax benefit	162,113	3.6%
Other permanent differences	168,336	3.8%
Total	**$ 1,844,967**	**41.4%**

11. INCOME TAXES (CONTINUED)

The Bank's deferred tax assets and deferred tax liabilities are as follows as of December 31:

	2014	2013
Deferred tax assets:		
Net unrealized loss on securities available-for-sale	$ 1,051,435	$ 4,787,503
Allowance for loan losses	2,539,264	2,393,573
Other real estate owned	207,484	183,616
Accruals	-	100,471
Loan fees	425,439	335,027
Organizational and start-up costs	84,612	98,714
Capital loss carryforward	-	57,451
Non-accrual interest	16,079	72,290
Provision for off balance sheet risk	165,799	217,679
	4,490,112	8,246,324
Less valuation allowance	-	(57,451)
Deferred tax assets	4,490,112	8,188,873
Deferred tax liabilities:		
Core deposit intangibles	30,983	62,017
Depreciable property	436,297	200,910
Deferred tax liability	467,280	262,927
Net deferred tax asset	**$ 4,022,832**	**$ 7,925,946**

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

The U.S. Federal jurisdiction, Florida, and Puerto Rico are the major tax jurisdictions where the Bank files income tax returns. The Bank is generally no longer subject to U.S. Federal, State, or foreign examinations by tax authorities for years before 2011.

For the year ended December 31, 2014 and 2013, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank grants loans to and accepts deposits from its executive officers, principal shareholders, directors, and its affiliates. At December 31, these amounts are summarized as follows:

	2014	
	Range of Interest Rate	Balance
Loans	4.50% to 5.13%	$ 1,167,299
Deposits	0.05% to 1.00%	$ 2,885,888
Securities sold under agreements to repurchase	0.01% to 0.10%	$ 148,014

	2013	
	Range of Interest Rate	Balance
Loans	4.75% to 5.13%	$ 760,972
Deposits	0.05% to 1.00%	$ 5,263,540
Securities sold under agreements to repurchase	0.01% to 0.10%	$ 1,329,600

As of December 31, 2014 and 2013, the aggregate amount of accrued interest receivable from affiliates of the Bank totaled $23 and $7, respectively. Interest income and interest expense for the years ended December 31, 2014 and 2013 amounted to $55,600 and $36,207 and $23,625 and $19,813, respectively.

13. EMPLOYEE BENEFIT PLAN

The Bank has adopted a retirement savings plan (the "Retirement Plan") (a 401k plan) covering substantially all eligible employees effective January 1, 2005. The Retirement Plan includes a provision that the Bank may contribute to the accounts of eligible employees for whom a salary deferral is made. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank contributed $337,105 and $230,932 towards the Retirement Plan in 2014 and 2013, respectively.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, unused lines of credit, standby letters of credit are represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance-sheet instruments.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are usually collateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Bank is committed.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's standby letters of credit are secured by cash collateral at December 31, 2014 and 2013. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	2014 Contract Amount	2013 Contract Amount
Unused lines of credit	$ 101,777,492	$ 95,420,570
Commitment to extend credit	$ 12,920,000	$ 31,250,000
Standby letters of credit	$ 27,637,601	$ 47,356,387

15. REGULATORY MATTERS

The Bank, as a state-chartered bank, is subject to various 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). In addition, the regulators require that the Bank maintain an 8% Tier 1 capital to average assets ratio for the first three years of operations. Management believes, as of December 31, 2014 and 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014 and 2013, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage percentages as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category.

15. REGULATORY MATTERS (CONTINUED)

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total capital ratio	$ 94,987,309	14.2%	$ 53,381,578	8.0%	$ 66,726,973	10.0%
Tier 1 capital ratio	$ 87,302,144	13.1%	$ 26,690,789	4.0%	$ 40,036,184	6.0%
Tier 1 leverage ratio	$ 87,302,144	10.2%	$ 68,639,452	8.0%	$ 68,639,452	8.0%

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013						
Total capital ratio	$ 85,891,055	15.0%	$ 45,840,659	8.0%	$ 57,300,823	10.0%
Tier 1 capital ratio	$ 78,735,864	13.7%	$ 22,920,329	4.0%	$ 34,380,494	6.0%
Tier 1 leverage ratio	$ 78,735,864	10.0%	$ 63,265,780	8.0%	$ 63,265,780	8.0%

Bank regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agency. Payment of dividends is restricted for a minimum of three years from the commencement date of operations.

In December 2013, the Bank entered into a Consent Agreement with the Federal Deposit Insurance Corporation (FDIC) and the Florida Office of Financial Regulation (OFR), in connection with certain deficiencies in its compliance with the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) laws and regulations. The Bank entered into the Consent Agreement with its regulators, without admitting or denying the allegations, and has been diligently working to implement a program to correct these deficiencies and non-compliance. The Bank has been cooperating with its regulators concerning these deficiencies and the actions being taken to comply with the terms of the Consent Agreement. The Bank has not received any monetary enforcement action from the regulatory agencies, but it cannot predict whether or to what extent monetary or other penalties may be imposed by its regulators or other agencies relating to these matters.

The Bank believes that it is taking all appropriate steps to achieve compliance with the terms of the Consent Order with respect to the issues involving the Bank Secrecy Act. While the Bank believes that it has appropriate policies and procedures in place, or will implement such policies and procedures, to achieve full compliance with the Consent Agreement, there is no assurance when the Bank will be in full compliance with the terms of the Consent Agreement with the FDIC and OFR.

Regulatory Capital Developments

The final Basel III rules, which include certain transition provisions, will become effective for community banks on January 1, 2015. Basel III changes Tier 1 and total capital calculations and formally establishes a common equity Tier 1 capital ratio. Basel III introduces new minimum capital ratios and buffer requirements and a supplementary leverage ratio; changes the composition of regulatory capital; revises the adequately capitalized minimum requirements under the Prompt Corrective Action framework; and introduces a standardized approach for the calculation of risk-weighted assets. Basel III will replace the Bank's current regulatory capital requirements effective January 1, 2015.

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank is obligated under noncancellable operating leases for office space and for the rental of office equipment expiring on various date through 2019. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. These leases contain escalation clauses providing for increased rent expense based on either a fixed rate or an increase in the average consumer price index. Rental expense for office space and for office equipment was $2,697,782 and $2,821,025 for the years ended December 31, 2014 and 2013, respectively, and is included in occupancy expense in the accompanying statements of operations.

At December 31, 2014, future minimum rental commitments under these noncancellable leases were approximately as follows:

Year ending December 31,	
2015	$ 1,914,202
2016	1,781,197
2017	1,713,349
2018	1,690,552
2019	1,319,071
Thereafter	2,551,535
	$ 10,969,906

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

17. FAIR VALUE MEASUREMENTS

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the fair value measurements accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities - When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third party broker-dealers. Management reviews pricing methodologies provided by the vendors and third party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available. The specific investment holdings which are included in the Level 2 classification are U.S government issued securities; U.S. government agencies collateralized mortgage obligations, mortgage-backed securities, corporate bonds and municipal securities.

FHLB Stock - The carrying value of the FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable and Payable - Carrying amounts of accrued interest receivable and payable approximates its fair value due to the short-term nature of these financial instruments.

Deposits - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2014 and 2013. The fair value of fixed-maturity time deposits are estimated using discounted cash flow analyses, using the rates currently offered for deposits of similar remaining maturities.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (continued)

Borrowed Funds - Borrowings under repurchase agreements and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other long-term borrowings are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Unused Lines of Credit, Commitments to Extend Credit, and Standby Letters of Credit - The fair value of off-balance-sheet, credit-related financial instruments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

Items Measured at Fair Value on a Recurring Basis

The following table represents the Bank's financial instruments measured at fair value on a recurring basis for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
December 31, 2014				
U.S. government agencies issued securities	$ -	$ 45,677,884	$ -	$ 45,677,884
U.S. government agencies collateralized mortgage obligations	-	119,232,727	-	119,232,727
Mortgage-backed securities	-	4,965,994	-	4,965,994
Corporate bond	-	27,233,134	-	27,233,134
Municipal securities	-	28,730,629	-	28,730,629
	$ -	$ 225,840,368	$ -	$ 225,840,368

	Level 1	Level 2	Level 3	Total
December 31, 2013				
U.S. government agencies issued securities	$ -	$ 18,271,353	$ -	$ 18,271,353
U.S. government agencies collateralized mortgage obligations	-	5,747,865	-	5,747,865
Mortgage-backed securities	-	147,649,631	-	147,649,631
Corporate bond	-	34,053,462	-	34,053,462
Municipal securities	-	28,619,045	-	28,619,045
	$ -	$ 234,341,356	$ -	$ 234,341,356

There were no financial liabilities measured at fair value on a recurring basis at December 31, 2014 and 2013.

Items Measured at Fair Value on a Nonrecurring Basis

Impaired Loans

Certain assets that are considered impaired are not measured at fair value on an ongoing basis but are subject to fair value measurements. These instruments are measured at fair value on a nonrecurring basis and include certain loans that have been deemed to necessitate an impairment analysis.

When a loan is deemed impaired, the Bank's management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical method, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral dependent. As of December 31, 2014 and 2013, loans deemed to be impaired based on fair value measurement totaled $9,481,253 and $6,490,277, respectively, with the portion deemed to be impaired included in the allowance for loan losses.

Collateral dependent loans and loans based on the present value of expected future cash flows discounted at the loan's effective interest rate are classified in Level 3 of the fair value hierarchy as the valuation technique requires inputs that are both significant and unobservable.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Items Measured at Fair Value on a Nonrecurring Basis (continued)

Foreclosed Assets

Foreclosed assets are valued at the lesser of the third party appraisals less management's estimate of the costs to sell or the carrying cost of the foreclosed asset. Appraisals generally use the market approach valuation technique and use market observable data to formulate an opinion of the fair value of the properties. However, the appraiser uses professional judgment in determining the fair value of the property and the Bank may also adjust the value for changes in market conditions subsequent to the valuation date when current appraisals are not available. As a consequence of the carrying cost or the third party appraisal and adjustments therein, the fair values of the properties are considered a Level 3 valuation.

The following table represents the Bank's financial instruments measured at fair value on a nonrecurring for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Impaired loans	$ -	$ -	$ 9,481,253	$ 9,481,253
Foreclosed assets	-	-	2,850,721	$ 2,850,721
	$ -	$ -	$ 12,331,974	$ 12,331,974

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Impaired loans	$ -	$ -	$ 6,490,277	$ 6,490,277
Foreclosed assets	-	-	2,615,200	2,615,200
	$ -	$ -	$ 9,105,477	$ 9,105,477

There were no financial liabilities measured at fair value on a nonrecurring basis at December 31, 2014 and 2013.

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2014:

	2014	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 32,890,053	$ 32,890,053
Investment securities available for sale	225,840,368	225,840,368
Federal Home Loan Bank stock	2,988,300	2,988,300
Loans, net	643,582,475	655,219,829
Accrued interest receivable	2,168,692	2,168,692
Financial liabilities:		
Demand, money market and saving accounts	$ 654,053,353	$ 654,053,353
Time deposits	122,687,150	123,194,198
Securities sold under agreements to repurchase	3,950,013	3,950,013
Federal Home Loan Bank advance	50,000,000	50,419,110
Accrued interest payable	572,782	572,782

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Items Measured at Fair Value on a Nonrecurring Basis (continued)

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

	2013	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 31,554,994	$ 31,554,994
Investment securities available for sale	234,341,356	234,341,356
Federal Home Loan Bank stock	1,823,300	1,823,300
Loans, net	533,000,501	541,943,926
Accrued interest receivable	2,225,001	2,225,001
Financial liabilities:		
Demand, money market and saving accounts	$ 579,767,714	$ 579,767,714
Time deposits	135,862,252	136,271,869
Securities sold under agreements to repurchase	2,624,871	2,624,871
Federal Home Loan Bank advance	20,000,000	20,907,646
Accrued interest payable	417,896	417,896

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