GOLD COAST BANK

"Long Island's Community Bank" SM

ANNUAL REPORT 2015

GOLD COAST BANK

COMPANY PROFILE

Headquartered in Islandia, NY, Gold Coast Bank is known as "Long Island's Community Bank"℠. With additional branches located in Huntington, Setauket, Farmingdale, Mineola and our newest in the Village of Southampton, Gold Coast Bank is a New York State chartered bank whose popularity and reputation stems from the strong, long-term relationships cultivated among its large and diverse customer base. The Bank is one of Long Island's financially strongest community banks, continually earning and using new capital to support profitability and growth.

Fulfilling a unique niche within the Long Island commercial banking sector, Gold Coast Bank delivers specialty lending capabilities in a variety of areas that include commercial and residential real estate, equipment finance and lines of credit. Gold Coast Bank prides itself on providing entrepreneurs, businesses and high net-worth individuals with exceptional personalized lending and banking services.

Gold Coast's senior banking executives are a team of devoted professionals with extensive experience in Long Island and the greater New York markets. The Bank also boasts an extremely dynamic Board of Directors made up of prestigious local business owners. With over 100 years of banking experience between them, they understand the financial needs of their customers, prospects and the ever-changing Long Island business community. Gold Coast Bank Directors are also major stockholders, ensuring their vested interest in the Bank's success.

As "Long Island's Community Bank"℠, Gold Coast Bank is deeply invested in Long Island and is dedicated to serving and supporting a growing number of individuals and businesses, helping them to become a permanent, productive part of the dynamic Long Island landscape.

DEAR SHAREHOLDERS

In 2015 Gold Coast Bank made great strides expanding our branch network, enhancing our infrastructure, adding talented banking professionals and working diligently to add value for our customers and shareholders. With each success we not only significantly strengthened our relationships and contribution to the communities we serve, but also accelerated our growth and profitability.

This year we emerged from "de novo" status. This change in status has exempted the Bank from certain New York State banking regulations which are designed to counsel and guide newly formed New York State Chartered Banks that have been in business for seven years or less.

In July, we expanded our footprint on Long Island with the opening of our sixth branch location in the historic Village of Southampton. With a state-of-the-art branch and a dedicated, experienced staff, we have become an integral part of the business and community life of Long Island's East End, renowned for commerce and tourism.

Due to our continued growth we have increased our staff in an effort to continue to provide an exemplary level of service that customers of Gold Coast Bank have come to expect. From Branch staff and Operations, to our Lending/Credit Departments and Corporate Office, we have hired talented banking professionals that have become an integral part of our winning team and in doing so have transformed our culture and elevated our dedication and expectation.

In late 2015 we welcomed three new members to our Board of Directors. With the addition of Dr. Yacov Shamash, Special Advisor to NYS Chancellor Nancy L. Zimpher and former Dean of Stony Brook University's School of Engineering, Alan"Buddy" Simmons, President of master rigging and construction company BUDCO, and Lew Meltzer, Partner at Meltzer, Lippe, Goldstein and Breitstone, LLP, the Bank has exponentially increased its sphere of influence and experience to guide us in our growth.

Our financial performance at year's end was particularly gratifying, posting an impressive fifth consecutive year of asset growth and profitability, exceptional earnings and a robust loan portfolio.

The Bank's total assets grew to $349 million, an increase of 8 percent, from $324 million on December 31, 2014. Net income for the year ended December 31, 2015 was $1,238,000, compared with net income of $328,000 for the year ended December 31, 2014. On a per-share basis, the bank earned $0.42 cents, compared with $0.11 cents the previous year. Income before income taxes was $1,904,000 in 2015 compared with $1,135,000, excluding non-recurring items, in 2014, a 68 percent increase. Net income in 2014 was affected by two non-recurring items: a $279,000 severance charge and an additional tax expense of $162,000. As a result of changes in New York State law, the bank now pays New York State taxes based on capital, instead of income. Because of the expected lower tax liabilities, the bank was required to establish a valuation allowance in 2014 of $162,000 against certain deferred tax assets, which reduced current earnings. The bank also reported net gains on the sales of securities of $39,000 in 2014.

Deposits grew in 2015, to $307 million, an increase of $13 million, or 5 percent, compared with $294 million at December. 31, 2014. Non-interest bearing demand deposits were 34 percent of the total deposit portfolio at both December 31, 2015 and 2014, respectively. The bank had borrowings of $10 million at December 31, 2015, compared with no borrowings at December 31, 2014.

We continued in 2015 to attract a strong, solid base of new borrowers. Our loan portfolio at year-end 2015 was $276 million, an increase of $66 million, or 31 percent, from $210 million at December 31, 2014. Loan originations and draws were $108 million for the year ended December 31, 2015, a 30 percent increase from $83 million for the year ended December 31, 2014, led by our entry into the Brooklyn residential investor owned market.

As we look forward into 2016 and the future of Gold Coast Bank, our aspirations are indeed grand as we have set a course for westward expansion with roots in Brooklyn and New York City. With a new, broadened customer base, improved products and services, and an elite staff of banking professionals we fully expect to fulfill our mission of becoming a "Big, Bold, Billion" dollar financial institution.

In closing, our Board of Directors, Executive Management and entire banking team would like to extend sincere thanks and gratitude to our customers and shareholders for their unyielding support and steadfast commitment to Gold Coast Bank. In working together to achieve our shared vision we will continue to meet and exceed our common goals with phenomenal, uncommon results.

Sincerely yours,

John C. Tsunis
Chairman & Chief Executive Officer

James P. Johnis
President & Chief Operating Officer

EXECUTIVE MANAGEMENT

John C. Tsunis, Chairman / Chief Executive Officer

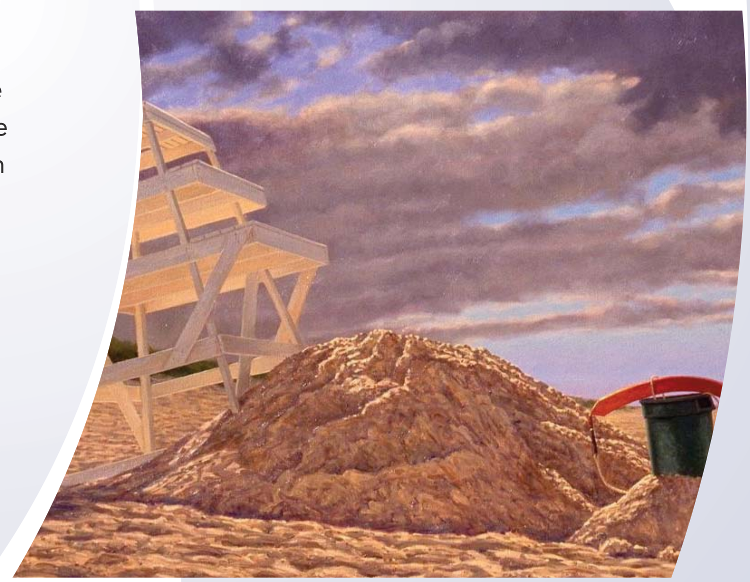
James P. Johnis, President / Chief Operating Officer

Catherine Califano, Executive Vice President / Chief Financial Officer

Thomas P. Ryan, Senior Vice President / Chief Credit Officer / Chief Loan Officer

A Tribute to Renowned
LONG ISLAND ARTIST
JOSEPH REBOLI
September 25, 1945 – June 4, 2004

Joseph Reboli, nationally acclaimed painter from Stony Brook, Long Island, was noted for his luminous rendering of everyday scenes and subjects, infusing the mundane with an aura of wonder. No object was too familiar or humble for his transforming touch and his canvases glowed with an unmistakable light. Reboli painted the Long Island area at a time in which tremendous physical changes were happening to the landscape. Because he captured the essence of what made so many fall in love with the beauty and uniqueness of Long Island, his paintings had wide appeal. The number of paintings that he created during his career was also astonishing and made his work accessible to many. Special thanks to Mrs. Lois Reboli, Joseph's wife, and friend of Gold Coast Bank, for allowing us use of these images in celebration of his iconic work and dedication to capturing the essence of Long Island. Mr. Reboli's work is showcased at the Reboli Center for Art and History in the historic village of Stony Brook which aims to enrich the historic and artistic culture of Long Island.



BRANCH LOCATIONS

BRANCH LOCATIONS

ISLANDIA
2929 Expressway Drive North, Islandia NY 11749

Our flagship branch opened in Islandia, adjacent to our Corporate Headquarters, on March 3, 2008. Conveniently located just north of the Long Island Expressway, and in the heart of the ever growing center for new and existing corporations on Long Island.

HUNTINGTON
315 Main Street, Huntington NY 11743

Opened on August 30, 2010, the branch is located in historic, downtown Huntington Village. Sitting amongst some of the village's most popular places, including restaurants, bookstores and clothing shops, this a convenient location for the thriving retail and business communities.

SETAUKET
690 Route 25A, East Setauket NY 11733

Nestled in the historic North Shore Village of Setauket our third branch, opened on April 4, 2011, fits seamlessly into the dynamic business district. Frequented by the Village's many small businesses, residents and tourists alike, the branch also caters to the diverse population of Stony Brook University, Stony Brook Hospital, countless medical practices and the surrounding villages.

BRANCH LOCATIONS

FARMINGDALE
96A Allen Boulevard, Farmingdale NY 11735

Opened on April 27, 2012, in Farmingdale, the branch is a model of efficiency within the growing business community occupying this busy crossroad between Nassau and Suffolk counties. Located squarely in Long Island's midsection, the branch is in close proximity to the famous Bethpage Black Golf Course, site of several U.S. Open tournaments, SUNY Farmingdale and Republic Airport.

MINEOLA
210 Old Country Road, Mineola NY 11501

Our first branch location in Nassau County, proudly taking root in the county seat, opened on September 24, 2012. Situated near to numerous government office buildings, state and county courthouses, as well as Hofstra University, the branch is ideally positioned to serve the dynamic population of this flourishing community.

SOUTHAMPTON
97 North Sea Road, Southampton NY 11968

Opened on July 21, 2015 our sixth and newest branch is located in the heart of the historic and iconic Village of Southampton on Long Island's famed East End. Ideally positioned, adjacent to the United States Post Office, the branch has quickly become an integral part of the business and community life of this Village with a worldwide reputation for commerce and tourism.

CLIENT TESTIMONIALS

DENNIS YOUNG / OWNER / PENTIMENTO RESTAURANT, STONY BROOK

"Three years ago, I had a problem any restaurant owner would love to have, I was getting so busy that I was having to turn customers away. Great problem sure, but I needed a solution, fast! I needed to expand my business, but in the economic environment at the time, financing wasn't easy to come by, even with a good credit record and 20 years in business.

Thanks to one of my regular customers, I was familiar with Gold Coast Bank. He suggested that I meet with the Bank to discuss my options. I found them to be very helpful and I got the financing I needed to expand my business by 50%, at a very competitive rate. I couldn't have done it without Gold Coast Bank!"

ED BELANGER / OWNER / NICOLLS PROFESSIONAL PARK, CENTEREACH

"Our company needed a loan to build a 23,000 sq/ft professional park and we immediately thought of Gold Coast Bank! A few years earlier, in an economy that was struggling, the Bank assisted us with building a medical park in Smithtown. While we were struggling then to secure tenants, Gold Coast Bank believed in us and provided us with a much needed loan.

We're in business thanks to Gold Coast! If the Bank had not given us the first loan, we definitely could not have gone forward with the second project, building the professional park. Gold Coast is like a small town, neighborhood bank, always friendly and easily accessible, even the Bank's CEO, who always returns my calls!"

CLIENT TESTIMONIALS

LOUIS BARRICELLI, JR. / MANAGING MEMBER / B. MANGREEN PROPERTIES LLC, BROOKLYN

"Property all over Brooklyn was being renovated, expanded and upgraded and it was imperative to keep up with the changing times. We needed to refinance a piece of property so we could significantly expand some retail space and we needed a loan.

A mortgage broker introduced us to Gold Coast Bank and everything went very smoothly! The experience was more personal than I was accustomed to and things went so well, in fact, that we are planning to do a second deal with Gold Coast."

CHRIS MERCOGLIANO / OWNER / PALMS HOTEL AND RESTAURANT, OCEAN BEACH

"Super Storm Sandy caused about $1 million dollars in damage to our hotel and restaurant. We never gave up hope though and knew we had to reinvest and rebuild, and we did, with the help of Gold Coast Bank!

After the repairs were completed, Gold Coast provided us with a mortgage that enabled us to pay off a prior commitment which was issued at a higher rate.

The Bank's staff are extremely business savvy and dependable! All our dealings with them were very smooth and the personal attention had us all on a first-name basis. Doing business with the Bank was a pleasure!"

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GOLD COAST BANK

FINANCIAL STATEMENTS
December 31, 2015 and 2014

GOLD COAST BANK
Islandia, New York

FINANCIAL STATEMENTS
December 31, 2015 and 2014

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gold Coast Bank
Islandia, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Gold Coast Bank, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in shareholders' 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 from material misstatement.

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gold Coast Bank as of December 31, 2015 and 2014, 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.

Crowe Horwath LLP

Crowe Horwath LLP

New York, New York
March 8, 2016

GOLD COAST BANK
BALANCE SHEETS
December 31, 2015 and 2014
(Dollar amounts in thousands except share and per share data)

	2015	2014
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 1,359	$ 1,264
Interest-bearing deposits in other banks	22,586	60,480
Federal funds sold	665	903
Total cash and cash equivalents	24,610	62,647
Securities		
Available for sale, at fair value	45,596	49,678
Held to maturity (fair value of $1,147 at December 31, 2015)	1,128	-
Total securities	46,724	49,678
Loans, net of allowance for loan losses of $2,881 and $2,443 at December 31, 2015 and 2014, respectively	272,893	207,473
Federal Home Loan Bank (“FHLB”) stock, at cost	803	287
Premises and equipment, net	1,723	1,742
Accrued interest receivable	702	580
Deferred tax asset, net	1,371	1,016
Other assets	256	366
Total assets	$ 349,082	$ 323,789
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 106,783	$ 100,737
Interest bearing	200,190	192,813
Total deposits	306,973	293,550
Borrowings	10,000	-
Accrued interest payable	6	6
Other liabilities	2,572	1,759
Total liabilities	319,551	295,315
Shareholders’ equity		
Common stock, $4.00 par value, 4,350,000 shares authorized; 2,973,304 shares issued and outstanding	11,893	11,893
Additional paid-in capital	17,904	17,867
Retained earnings (deficit)	(238)	(1,476)
Accumulated other comprehensive (loss) income	(28)	190
Total shareholders’ equity	29,531	28,474
Total liabilities and shareholders’ equity	$ 349,082	$ 323,789

See accompanying notes to financial statements.

GOLD COAST BANK
STATEMENTS OF INCOME
Years ended December 31, 2015 and 2014
(Dollar amounts in thousands except share and per share data)

	2015	2014
Interest and dividend income		
Loans, including fees	$ 10,474	$ 8,303
Securities	927	968
Federal funds sold and other	213	109
	11,614	9,380
Interest expense		
Deposits	1,299	1,077
Borrowings	1	31
	1,300	1,108
Net interest income	10,314	8,272
Provision for loan losses	902	618
Net interest income after provision for loan losses	9,412	7,654
Noninterest income		
Service charges and fees	273	272
Net gain on sales of mortgage loans held for sale	8	-
Net gain on sales of securities	-	39
	281	311
Noninterest expenses		
Salaries and employee benefits	4,314	3,926
Occupancy and equipment	1,294	1,229
Data processing	426	391
Federal deposit insurance	217	160
Other	1,538	1,364
	7,789	7,070
Income before income taxes	1,904	895
Income tax expense	666	567
Net income	$ 1,238	$ 328
Earnings per share:		
Basic	$ 0.42	$ 0.11
Diluted	0.42	0.11
Weighted average number of shares outstanding:		
Basic	2,973,304	2,969,194
Diluted	2,973,304	2,969,194

See accompanying notes to financial statements.

GOLD COAST BANK
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2015 and 2014
(Dollar amounts in thousands except per share data)

	2015	2014
Net income	$ 1,238	$ 328
Other comprehensive income		
Unrealized (losses) gains on securities		
Unrealized holding gain (loss) arising during the period	(303)	931
Reclassification of realized net (gain) loss on sales of securities to the net gain on sales of securities line of the statements of income	-	(39)
	(303)	892
Tax effect, including $0 and $17 reclassified to the income tax expense line of the statements of income	85	(339)
Total other comprehensive income (loss)	(218)	553
Comprehensive income	$ 1,020	$ 881

See accompanying notes to financial statements.

GOLD COAST BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2015 and 2014
(Dollar amounts in thousands except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2014	$ 11,693	$ 17,519	$ (1,804)	$ (363)	$ 27,045
Issuance of 50,000 shares of common stock, net of costs	200	297	-	-	497
Net income	-	-	328	-	328
Other comprehensive income	-	-	-	553	553
Stock based compensation	-	51	-	-	51
Balances, December 31, 2014	11,893	17,867	(1,476)	190	28,474
Net income	-	-	1,238	-	1,238
Other comprehensive loss	-	-	-	(218)	(218)
Stock based compensation	-	37	-	-	37
Balances, December 31, 2015	$ 11,893	$ 17,904	$ (238)	$ (28)	$ 29,531

See accompanying notes to financial statements.

GOLD COAST BANK
STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014
(Dollar amounts in thousands)

	2015	2014
Cash flows from operating activities		
Net income	$ 1,238	$ 328
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	443	420
Provision for loan losses	902	618
Net amortization (accretion) of securities	411	410
Deferred income tax (benefit) expense	(243)	40
Net realized (gain) loss on sales of securities	-	(39)
Net realized (gain) loss on sales of mortgage loans held for sale	(8)	-
Stock based compensation	37	51
Origination of mortgage loans held for sale	(1,125)	-
Proceeds from sales of mortgage loans held for sale	1,133	-
Net change in:		
Accrued interest receivable and other assets	(12)	(250)
Accrued interest payable and other liabilities	813	276
Net cash provided by operating activities	3,589	1,854
Cash flows from investing activities		
Purchases of securities available for sale	(6,625)	(10,416)
Purchases of securities held to maturity	(1,128)	-
Proceeds from sales of available for sale securities	-	666
Principal payments on investment securities	9,966	8,453
Net increase in loans	(66,322)	(45,297)
Purchase (redemption) of FHLB stock, net	(516)	228
Purchase of premises and equipment	(424)	(218)
Net cash used in investing activities	(65,049)	(46,584)
Cash flows from financing activities		
Net increase in deposits	13,423	82,955
Net increase (decrease) in borrowings	10,000	(5,000)
Proceeds from issuance of common stock, net	-	497
Net cash provided by financing activities	23,423	78,452
Net (decrease) increase in cash and cash equivalents	(38,037)	33,722
Cash and cash equivalents at beginning of period	62,647	28,925
Cash and cash equivalents at end of period	$ 24,610	$ 62,647
Supplemental cash flow information		
Interest paid	$ 1,300	$ 1,113
Income taxes paid	960	584

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Gold Coast Bank (the "Bank") is a commercial bank that commenced operations on March 10, 2008. The Bank is chartered by the state of New York and insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank maintains its principal office in Islandia, New York.

The Bank provides financial services primarily to Long Island and New York City. Its primary deposit products are demand, money market, and certificate of deposit accounts, and its primary lending products are commercial, real estate and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 8, 2016, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. The Bank had no loans held for sale as of December 31, 2015 or 2014.

Mortgage loans held for sale are sold with servicing rights released. Gains and losses on sales of mortgage loans held for sale are based on the difference between the selling price and the carrying value of the related loan sold.

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

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over ninety days. Interest received on such loans is accounted for on the cash-basis, until qualifying for return to accrual.

Interest income for all loan classes is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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

Concentration of Credit Risk: There are no significant concentrations of loans to any one industry or borrower. However, most of the Bank’s business activity is with customers located in Long Island and New York City. Therefore, the Bank’s exposure to credit risk is significantly affected by real estate and general economic conditions in this area.

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all principal and interest contractually due. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Bank reviews loans for impairment that are individually evaluated for collectibility in accordance with the Bank's normal loan review procedures (principally commercial and commercial real estate loans). If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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

The general component covers non-impaired loans and is based on a combination of historical loss experience and peer group information, adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The Bank consistently applies this methodology to all portfolio segments.

<u>Transfers of Financial Assets</u>: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

<u>Interest Rate Risk</u>: The Bank is principally engaged in the business of attracting deposits from the general public and using those deposits, together with other borrowed funds, to make commercial, real estate and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is the potential for the Bank to assume interest rate risk that results from differences in the maturities and repricing characteristics of assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is recorded principally by straight-line and accelerated methods over the estimated useful lives of the Bank premises and equipment. Leasehold improvements are amortized over the lesser of their useful lives or the lease term.

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

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock Based Compensation: Compensation cost is recognized for stock options issued to employees and directors based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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

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

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Stock options for 203,720 and 233,650 shares of common stock were not considered in computing diluted earnings per share for 2015 and 2014 because they were antidilutive.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized holding gains and losses on securities available for sale which are also recognized as separate components of equity.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to shareholders.

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

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

NOTE 2 – SECURITIES

The following table summarizes the amortized cost and fair value of securities at December 31, 2015 and 2014, and the corresponding amounts of gross unrealized/unrecognized gains and losses recognized in accumulated other comprehensive income.

	Amortized Cost	Gross Unrealized/ Unrecognized Gains	Gross Unrealized/ Unrecognized Losses	Fair Value
December 31, 2015				
Available for sale				
Mortgage-backed securities – residential	$ 40,619	$ 335	$ (231)	$ 40,723
Collateralized mortgage obligations	5,020	-	(147)	4,873
	$ 45,639	$ 335	$ (378)	$ 45,596
Held to maturity				
Municipal securities	$ 1,128	$ 19	$ -	$ 1,147
December 31, 2014				
Available for sale				
Mortgage-backed securities – residential	$ 43,488	$ 617	$ (143)	$ 43,962
Collateralized mortgage obligations	5,903	-	(187)	5,716
	$ 49,391	$ 617	$ (330)	$ 49,678

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair value of securities by contractual maturity at December 31, 2015, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	Amortized Cost	Fair Value
Available for sale		
Mortgage-backed securities – residential	$ 40,619	$ 40,723
Collateralized mortgage obligations	5,020	4,873
	$ 45,639	$ 45,596
Held to maturity		
Due after six years through ten years	$ 378	$ 383
Due after ten years	750	764
	$ 1,128	$ 1,147

The proceeds from sales of securities available for sale and the associated gains and losses are listed below.

	2015	2014
Proceeds	$ -	$ 666
Gross gains	-	39
Gross losses	-	-

Securities pledged at year-end 2015 and 2014 had a carrying amount of $17,764 and $35,968 and were pledged to secure public deposits.

The following table summarizes securities with unrealized losses at December 31, 2015 and 2014, aggregated by major security type and length of time in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015						
Available for sale						
Mortgage-backed securities – residential	$ 18,010	$ (166)	$ 2,989	$ (65)	$ 20,999	$ (231)
Collateralized mortgage obligations	-	-	4,873	(147)	4,873	(147)
	$ 18,010	$ (166)	$ 7,862	$ (212)	$ 25,872	$ (378)
December 31, 2014						
Available for sale						
Mortgage-backed securities – residential	$ 2,611	$ (15)	$ 11,236	(128)	$ 13,847	$ (143)
Collateralized mortgage obligations	-	-	5,716	(187)	5,716	(187)
	$ 2,611	$ (15)	$ 16,952	$ (315)	$ 19,563	$ (330)

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 2 – SECURITIES (Continued)

At December 31, 2015 and 2014, all of the mortgage-backed securities and collateralized mortgage obligations held by the Bank were issued by U.S. Government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac, and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2015.

NOTE 3 – LOANS

Loans at year end were as follows:

	2015	2014
Commercial real estate	$ 188,389	$ 146,589
Construction	2,105	3,378
Commercial and industrial	15,943	19,745
Residential real estate	36,121	9,273
Home equity lines of credit	31,422	30,139
Consumer	1,913	803
Gross loans	275,893	209,927
Net deferred loan (fees) costs	(119)	(11)
Allowance for loan losses	(2,881)	(2,443)
Net loans	$ 272,893	$ 207,473

The portfolio segments in the above table have unique risk characteristics with respect to credit quality.

Payment on commercial real estate is driven principally by operating results of the managed properties or underlying business and secondarily by the sale or refinance of such properties. Both primary and secondary sources of repayment, and value of the properties in liquidation, may be affected to a greater extent by adverse conditions in the real estate market or the economy in general.

Properties underlying construction often do not generate sufficient cash flow to service debt, thus repayment is subject to ability of the borrower and, if applicable, guarantors, to complete construction of the property and carry the project, often for extended periods of time. As a result, the performance of these loans is contingent upon future events whose probability at the time of origination is uncertain.

The repayment of commercial and industrial loans is generally dependent on the creditworthiness and cash flow of borrowers and, if applicable, guarantors, which may be negatively impacted by adverse economic conditions. While the majority of these loans are secured, collateral type, marketability, coverage, valuation and monitoring is not as uniform as in other portfolio classes and recovery from liquidation of such collateral may be subject to greater variability.

(Continued)

NOTE 3 – LOANS (Continued)

The ability of borrowers to service debt in the residential real estate, home equity lines of credit and consumer loan portfolios is generally subject to personal income, which may be impacted by general economic conditions, such as increased unemployment levels. These loans are predominantly collateralized by first and second liens on single family homes. If a borrower cannot maintain the loan, the Bank's ability to recover against the collateral in sufficient amount and in a timely manner may be significantly influenced by market, legal and regulatory conditions.

The Bank categorizes loans into risk categories based on relevant information about the quality and realizable value of collateral, if any, and the ability of borrowers to service their debts such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed whenever a credit is extended, renewed or modified, or when an observable event occurs indicating a potential decline in credit quality, and no less than annually for large balance loans. Residential real estate, home equity lines of credit and consumer loans are monitored for credit quality based on aging status and payment activity.

The Bank uses the following definitions for risk ratings:

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

Substandard: Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor, or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment and liquidation of the debt. They are characterized by a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Normal payment from the borrower is in jeopardy, although loss of principal, while still possible, is not imminent.

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

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 – LOANS (Continued)

The following table presents the risk category of loans by class of loans based on the most recent analysis performed as of December 31, 2015 and 2014:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2015					
Commercial real estate	$ 188,107	$ 282	$ -	$ -	$ 188,389
Construction	2,105	-	-	-	2,105
Commercial and industrial	15,352	522	69	-	15,943
Residential real estate	36,121	-	-	-	36,121
Home equity lines of credit	31,422	-	-	-	31,422
Consumer	1,913	-	-	-	1,913
	$ 275,020	$ 804	$ 69	$ -	$ 275,893
December 31, 2014					
Commercial real estate	$ 146,295	$ 294	$ -	$ -	$ 146,589
Construction	3,378	-	-	-	3,378
Commercial and industrial	18,739	500	506	-	19,745
Residential real estate	9,273	-	-	-	9,273
Home equity lines of credit	30,139	-	-	-	30,139
Consumer	803	-	-	-	803
	$ 208,627	$ 794	$ 506	$ -	$ 209,927

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

	Beginning Balance	Provision for Loan Losses	Loans Charged-off	Recoveries	Ending Balance
2015					
Commercial real estate	$ 1,542	$ 435	$ -	$ -	$ 1,977
Construction	51	(19)	-	-	32
Commercial and industrial	435	160	(464)	-	131
Residential real estate	96	294	-	-	390
Home equity lines of credit	311	24	-	-	335
Consumer	8	8	-	-	16
	$ 2,443	$ 902	$ (464)	$ -	$ 2,881
2014					
Commercial real estate	$ 1,248	$ 294	$ -	$ -	$ 1,542
Construction	-	51	-	-	51
Commercial and industrial	193	242	-	-	435
Residential real estate	91	5	-	-	96
Home equity lines of credit	292	19	-	-	311
Consumer	1	7	-	-	8
	$ 1,825	$ 618	$ -	$ -	$ 2,443

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 – LOANS (Continued)

There were no troubled debt restructurings or loans past due over 90 days still on accrual as of December 31, 2015 or 2014. Loans past due 30-89 days were $316 and $150 as of December 31, 2015 and 2014, respectively. Loans on nonaccrual as of December 31, 2015 and 2014, were as follows:

	2015	2014
Commercial real estate	$ -	$ -
Construction	-	-
Commercial and industrial	69	470
Residential real estate	-	-
Home equity lines of credit	-	-
Consumer	-	-
	$ 69	$ 470

The recorded investment in impaired loans totaled $69 and $506 at December 31, 2015 and 2014. Information regarding impaired loans for 2015 and 2014 is as follows:

	2015	2014
Year-end loans with no allocated allowance for loan losses	$ 69	$ 36
Year-end loans with allocated allowance for loan losses	-	470
	$ 69	$ 506
Allocated allowance for loan losses	$ -	$ 267
Average of individually impaired loans during year	$ 551	$ 1,620
Interest income recognized during impairment	1	101
Cash-basis interest income recognized	-	-

NOTE 4 – LOANS AND DEPOSITS TO RELATED PARTIES

Loans to officers and directors, and companies in which they have a beneficial ownership (related parties) totaled approximately $6,790 and $4,858 at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, deposits from related parties totaled approximately $52,057 and $44,431.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 5 – BANK PREMISES AND EQUIPMENT

Premises and equipment were as follows at year-end:

	2015	2014
Leasehold improvements	$ 2,779	$ 2,522
Furniture and equipment	476	487
Computer hardware and software	847	669
	4,102	3,678
Less: accumulated depreciation	2,379	1,936
	$ 1,723	$ 1,742

Depreciation and amortization expense on premises and equipment was $443 and $420 in 2015 and 2014.

The Bank leases its main office and its four branches. Rent expense amounted to approximately $679 and $660 for 2015 and 2014. Minimum rent commitments under non-cancelable operating leases, excluding taxes and insurance, were as follows, before considering renewal options that generally are present.

2016	$ 702
2017	724
2018	451
2019	366
2020	286
Thereafter	548
	$ 3,077

NOTE 6 – DEPOSITS

Deposits at December 31 were as follows:

	2015	2014
Demand deposits	$ 106,783	$ 100,737
NOW accounts	56,600	50,456
Money market accounts	105,351	117,151
Savings accounts	7,856	7,385
Certificates of deposit	30,383	17,821
Total deposits	$ 306,973	$ 293,550

Certificates of deposits received on terms other than those available in the normal course of business totaled $17,734 and $12,827 at December 31, 2015 and 2014. Of those deposits, $17,031 and $6,888 met or exceeded the FDIC Insurance limit of $250 thousand at December 31, 2015 and 2014. Certificates of deposits received in the normal course of business that met or exceeded the FDIC Insurance limit of $250 thousand totaled $3,095 and $1,159 at December 31, 2015 and 2014.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 6 – DEPOSITS (Continued)

The scheduled maturities of certificates of deposit at December 31, 2015, were as follows:

2016	$ 19,543
2017	1,723
2018	2,399
2019	2,560
2020	4,158
	$ 30,383

NOTE 7 – BORROWINGS AND LINE OF CREDIT

As of December 31, 2015, the Bank had $10,000 in advances from the FHLB at a fixed rate of 0.59%, maturing on January 25, 2016. No borrowings were outstanding at December 31, 2014.

In addition to its ability to borrow from the FHLB, the Bank has available a $2,000, 14-day unsecured federal funds line of credit with the Atlantic Central Bankers Bank. No borrowings were outstanding under this line at December 31, 2015 or 2014.

NOTE 8 – INCOME TAXES

The Bank is subject to U.S. federal income tax as well as income tax of the State of New York.

Income tax expense was as follows:

	2015	2014
Current expense	$ 909	$ 527
Deferred expense (benefit)	(365)	(122)
Change in valuation allowance	122	162
	$ 666	$ 567

The effective tax rate differs from the federal statutory rate due to the effect of state taxes, net of the federal benefit, non-deductible expenses and tax-exempt interest income net of disallowed interest expense.

Year-end deferred tax assets and liabilities were as follows:

	2015	2014
Deferred tax assets	$ 1,676	$ 1,296
Valuation allowance	(284)	(162)
Deferred tax liabilities	(21)	(118)
Net deferred tax assets	$ 1,371	$ 1,016

(Continued)

NOTE 8 – INCOME TAXES (Continued)

Net deferred tax assets relate primarily to timing differences associated with organization costs, the allowance for loan losses, deferred rent, fixed asset depreciation, and net unrealized gains/losses on available for sale securities.

As a result of the New York State enacted comprehensive tax reform provisions, beginning in 2015, the Bank began calculating its tax obligation to New York based upon the largest of a calculated income tax liability, a tax liability based upon average equity capital or a minimum filing fee. Also, effective January 1, 2015, banks under $8 billion in total assets are permitted to claim a subtraction from New York taxable income equal to 50% of the net interest income on loans secured by residential real estate located within the state and on small business loans to customers within the state, provided the principal balance of these loans is less than $5 million. Based on the impact of this exclusion on the Bank's taxable income, the Bank will generate New York tax losses in 2015 and it is more likely than not the Bank will continue to generate New York tax losses in future years. Therefore, the Bank calculates its New York tax liability on the basis of average equity capital or a minimum filing fee. Consequently, the Bank recorded a valuation allowance against its net New York deferred tax asset as of December 31, 2015 and 2014, as it is unlikely this deferred tax asset will impact the Bank's New York tax liability in future years. As of December 31, 2015, the Bank has an apportioned New York State net operating loss carryforward of $1,480 that can be carried forward for twenty years.

At December 31, 2015 and 2014, the Bank did not have any unrecognized tax benefits. The Bank does not expect the total amount of unrecognized tax benefits related to uncertain tax positions to significantly increase or decrease in the next twelve months.

The Bank's tax returns are no longer subject to examination by taxing authorities for tax years prior to 2012.

NOTE 9 – STOCK BASED COMPENSATION

Stock Option Plans: The Bank's 2012 and 2009 Stock Option Plans (the "Plans"), which are shareholder-approved, permit the grant of share options to its directors, employees, advisors, consultants and other service providers of up to 418,366 shares of common stock. The Bank believes that such awards better align the interests of such parties with those of its shareholders. In 2014, 43,000 share options were granted to directors and employees at an exercise price of $10.00 per share. Options vest over a period of three years or upon a change in control or attainment of normal retirement age, except for 19,000 options granted in 2014, which vested on the date of grant. There were no share options granted in 2015.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. As the Bank's shares are not publicly traded, expected volatilities are based on peer information.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 9 – STOCK BASED COMPENSATION (Continued)

The weighted average fair value of options granted during 2014 was $1.05 per share. There were no options granted in 2015. The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2014
Risk-free interest rate	2.13%
Expected term	7 years
Expected stock price volatility	8.62%
Dividend yield	0.00%

A summary of the activity in the stock option plans for 2015 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	233,650	$ 10.00		
Granted	-	10.00		
Exercised	-	-		
Forfeited or expired	(29,930)	10.00		
Outstanding at end of year	203,720	10.00	6.5	$ -
Exercisable at end of year	175,720	10.00	6.2	$ -

All outstanding options are expected to vest. At December 31, 2015, there was $37 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The cost is expected to be recognized over a weighted average period of 1.0 year.

NOTE 10 – RETIREMENT PLAN

The Bank has established a 401(k) plan to provide retirement benefits for its employees. The 401(k) plan covers substantially all employees meeting certain eligibility requirements. Employees may contribute a portion of their compensation to the 401(k) plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Contributions that the Bank may make, including matching contributions, are discretionary. Expense related to the 401(k) plan for 2015 and 2014 totaled $105 and $12, respectively.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 11 – REGULATORY MATTERS

Regulatory Restrictions: Pursuant to the Bank's charter and its *de novo* status, since its inception through March 2015 the Bank was subject to, and complied with, the following restrictions:

1. The Bank will maintain a level of Tier 1 capital to average assets (leverage ratio) (as defined in the FDIC's capital regulations) equal to at least eight percent (8%) for the first seven years of operation and maintain an adequately funded allowance for loan and lease losses.

2. No dividends were allowed as of year-end without the prior approval of regulatory authorities.

As of December 31, 2015, the above restrictions were no longer applicable to the Bank.

Capital Ratios: Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Management believes as of December 31, 2015 and 2014, the Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios are presented below at year-end:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Total capital to risk-weighted assets	$ 32,440	12.0%	$ 21,579	8.0%	$ 26,974	10.0%
Tier 1 capital to risk-weighted assets	29,559	11.0	16,184	6.0	21,579	8.0
Common tier 1 (CET1) to risk-weighted assets	29,559	11.0	12,136	4.5	17,530	6.5
Tier 1 capital to average assets	29,559	8.4	14,126	4.0	17,658	5.0

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 11 – REGULATORY MATTERS (Continued)

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital to risk-weighted assets	$ 30,630	13.8%	$ 17,734	8.0%	$ 22,168	10.0%
Tier 1 capital to risk-weighted assets	28,187	12.7	8,867	4.0	13,301	6.0
Tier 1 capital to average assets	28,187	9.8	23,082	8.0	23,082	8.0

NOTE 12 – SHAREHOLDERS' EQUITY

In January 2014, the Bank accepted an offer to purchase 50,000 shares from qualified institutional investors at $10.00 per share, raising an additional $497 in capital, net of $3 in offering costs.

NOTE 13 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	2015	2014
Unfunded commitments to extend credit	$ 26,657	$ 24,442
Standby letters of credit	447	225

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Substantially all of the commitments are in the form of unused lines of credit and are at variable interest rates.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 14 – FAIR VALUE

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

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

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

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

The Bank used the following methods and significant assumptions to estimate fair value:

Securities: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

	Fair Value Measurements At December 31 Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015			
Financial assets:			
Securities available-for-sale			
Mortgage-backed securities – residential	$ -	$ 40,723	$ -
Collateralized mortgage obligations	-	4,873	-
	$ -	$ 45,596	$ -
December 31, 2014			
Financial assets:			
Securities available-for-sale			
Mortgage-backed securities – residential	$ -	$ 43,962	$ -
Collateralized mortgage obligations	-	5,716	-
	$ -	$ 49,678	$ -

There were no assets or liabilities measures at fair value on a non-recurring basis at December 31, 2015 or 2014.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 14 – FAIR VALUE (Continued)

Carrying amounts and estimated fair values of financial instruments as of December 31, 2015 and 2014, were as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 24,610	$ 24,610	$ 62,647	$ 62,647
Securities available for sale	45,596	45,596	49,678	49,678
Securities held to maturity	1,128	1,147	-	-
Loans, net	272,893	275,459	207,473	208,808
FHLB stock	803	N/A	287	N/A
Accrued interest receivable	702	702	580	580
Financial liabilities				
Deposits	$ 306,973	$ 306,234	$ 293,550	$ 293,832
Borrowings	10,000	10,000	-	-
Accrued interest payable	6	6	6	6

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

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair value.

Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other 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. Impaired loans are valued at the lower of cost or fair value. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FHLB Stock: It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued Interest Receivable and Payable: The carrying amounts of accrued interest approximate fair value.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount). The carrying amounts of variable rate, fixed-term money market accounts approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values.

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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Thomas P. Ryan
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