

Town Center Bank

Independent Auditor's Report and Financial Statements

December 31, 2014 and 2013

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Independent Auditor's Report

The Board of Directors
Town Center Bank
Frankfort, Illinois

We have audited the accompanying financial statements of Town Center Bank, which comprise the balance sheet as of December 31, 2014, and the related statements of comprehensive income (loss), shareholders' equity, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

The Board of Directors
Town Center Bank
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Opinion

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

Prior Year Audited by Other Auditors

The 2013 financial statements were audited by other auditors and their report thereon, dated March 3, 2014, expressed an unmodified opinion.

BKD, LLP

Oakbrook Terrace, Illinois
February 17, 2015

TOWN CENTER BANK
BALANCE SHEETS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

ASSETS

| | December 31, | |
|---|-------------------|------------------|
| | 2014 | 2013 |
| Cash and due from banks | \$ 594 | \$ 1,417 |
| Interest-bearing deposits with banks | 9,331 | 5,943 |
| Federal funds sold | <u>5,667</u> | <u>2,656</u> |
| Cash and cash equivalents | 15,592 | 10,016 |
| Securities available-for-sale, at fair value | 36,347 | 21,455 |
| Loans, net of allowance for loan losses of \$1,260 in 2014 and \$2,027 in 2013 | 56,801 | 56,277 |
| Federal Home Loan Bank stock | 452 | 452 |
| Premises and equipment, net | 507 | 578 |
| Other real estate owned, net | 266 | 2,281 |
| Accrued interest receivable and other assets | <u>511</u> | <u>579</u> |
| Total assets | <u>\$ 110,476</u> | <u>\$ 91,638</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Deposits:

| | | |
|--|----------------|---------------|
| Non-interest bearing | \$ 12,153 | \$ 9,668 |
| Interest bearing | <u>84,450</u> | <u>72,915</u> |
| Total deposits | 96,603 | 82,583 |
| Federal Home Loan Bank advances | 2,000 | - |
| Accrued interest payable and other liabilities | <u>2,363</u> | <u>354</u> |
| Total liabilities | <u>100,966</u> | <u>82,937</u> |

Shareholders' equity:

| | | |
|---|-------------------|------------------|
| Common stock \$1 par value; 3,234,000 shares authorized at December 31, 2014 and 2013; 2,333,660 shares issued and outstanding at December 31, 2014 and 2013, respectively | 2,333 | 2,333 |
| Additional paid-in capital | 20,680 | 20,680 |
| Accumulated deficit | (13,815) | (14,191) |
| Accumulated other comprehensive income (loss) | <u>312</u> | <u>(121)</u> |
| Total shareholders' equity | <u>9,510</u> | <u>8,701</u> |
| Total liabilities and shareholders' equity | <u>\$ 110,476</u> | <u>\$ 91,638</u> |

See accompanying notes to these financial statements.

TOWN CENTER BANK
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollar Amounts in Thousands, Except Per Share Data)

| | For the Year Ended | |
|--|--------------------|--------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| Interest income: | | |
| Loans, including fees | \$ 3,059 | \$ 3,059 |
| Securities | 781 | 415 |
| Federal funds sold and other | <u>18</u> | <u>17</u> |
| Total interest income | <u>3,858</u> | <u>3,491</u> |
| Interest expense: | | |
| Deposits | 587 | 478 |
| Federal Home Loan Bank advances | <u>8</u> | <u>-</u> |
| Total interest expense | <u>595</u> | <u>478</u> |
| Net interest income | 3,263 | 3,013 |
| Recovery from loan losses | <u>(236)</u> | <u>(637)</u> |
| Net interest income after provision for loan losses | <u>3,499</u> | <u>3,650</u> |
| Non-interest income: | | |
| Service charges on deposits | 85 | 89 |
| Mortgage banking income | 81 | 74 |
| Net gain on sales of securities available-for-sale | 222 | 24 |
| Other income | <u>83</u> | <u>146</u> |
| Total non-interest income | <u>471</u> | <u>333</u> |
| Non-interest expense: | | |
| Salaries and employee benefits | 1,398 | 1,367 |
| Occupancy and equipment | 399 | 392 |
| Data processing | 547 | 528 |
| Professional fees | 279 | 414 |
| FDIC Deposit Insurance | 125 | 163 |
| Advertising and marketing | 44 | 68 |
| Other real estate expense, net of rental income | 83 | 144 |
| Provision for other real estate owned valuation allowance | 193 | 637 |
| Other | <u>526</u> | <u>487</u> |
| Total non-interest expense | <u>3,594</u> | <u>4,200</u> |
| Net income (loss) | <u>376</u> | <u>(217)</u> |

See accompanying notes to these financial statements.

TOWN CENTER BANK
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollar Amounts in Thousands, Except Per Share Data)

| | For the Year Ended December 31, | |
|--|------------------------------------|-----------|
| | 2014 | 2013 |
| Other comprehensive income (loss): | | |
| Holding gains (losses) on securities available-for-sale | 655 | (367) |
| Reclassification adjustment for net gains included in income | (222) | (24) |
| Total other comprehensive income (loss) | 433 | (391) |
| Comprehensive income (loss) | \$ 809 | \$ (608) |
| Basic and diluted income (loss) per share | \$ 0.16 | \$ (0.09) |
| Basic and diluted weighted average common shares outstanding | 2,333,660 | 2,330,703 |

See accompanying notes to these financial statements.

TOWN CENTER BANK
STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2014 and 2013
(Dollar Amounts in Thousands)

| | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|-----------------|----------------------------------|------------------------|---|----------------------------------|
| Balance, January 1, 2013 | \$ 2,328 | \$ 20,670 | \$ (13,974) | \$ 270 | \$ 9,294 |
| Exercise of stock warrants (5,200 shares) | 5 | 10 | - | - | 15 |
| Net loss | - | - | (217) | - | (217) |
| Other comprehensive loss | - | - | - | (391) | (391) |
| Balance, December 31, 2013 | 2,333 | 20,680 | (14,191) | (121) | 8,701 |
| Net income | - | - | 376 | - | 376 |
| Other comprehensive income | - | - | - | 433 | 433 |
| Balance, December 31, 2014 | <u>\$ 2,333</u> | <u>\$ 20,680</u> | <u>\$ (13,815)</u> | <u>\$ 312</u> | <u>\$ 9,510</u> |

See accompanying notes to these financial statements.

TOWN CENTER BANK
STATEMENTS OF CASH FLOWS
(Dollar Amounts in Thousands)

| | For the Year Ended December 31, | |
|---|------------------------------------|----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 376 | \$ (217) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Recovery from loan losses | (236) | (637) |
| Provision for other real estate owned losses | 193 | 637 |
| (Gain) loss on sales of other real estate owned | (17) | 10 |
| Discount on loan | 43 | - |
| Depreciation of premises and equipment | 118 | 115 |
| Net amortization of securities | 181 | 222 |
| Net change in deferred loan origination fees and costs | 77 | 16 |
| Net gain on sales of securities available-for-sale | (222) | (24) |
| Net change in accrued interest receivable and other assets | 14 | 49 |
| Net change in accrued interest payable and other liabilities | (62) | (184) |
| | 465 | (13) |
| Net cash provided by (used in) operating activities | | |
| Cash flows from investing activities: | | |
| Securities available-for-sale: | | |
| Sales | 15,583 | 1,630 |
| Maturities, prepayments and calls | 3,998 | 4,058 |
| Purchases | (31,928) | (10,462) |
| Net increase (decrease) in loans, including purchases of loans | (747) | 8,831 |
| Proceeds from sales of other real estate owned | 2,178 | 138 |
| Decrease in receivable from loan servicer | 54 | 177 |
| Purchases of premises and equipment | (47) | (21) |
| | (10,909) | 4,351 |
| Net cash provided by (used in) investing activities | | |
| Cash flows from financing activities: | | |
| Net increase (decrease) in deposits | 14,020 | (1,127) |
| Exercise of stock warrants | - | 15 |
| Increase in borrowed money | 2,000 | - |
| | 16,020 | (1,112) |
| Net cash provided by (used in) financing activities | | |

See accompanying notes to these financial statements.

TOWN CENTER BANK
STATEMENTS OF CASH FLOWS

(Dollar Amounts in Thousands)

| | For the Year Ended December 31, | |
|---|------------------------------------|-----------|
| | 2014 | 2013 |
| Net increase in cash and cash equivalents | 5,576 | 3,226 |
| Cash and cash equivalents at beginning of year | 10,016 | 6,790 |
| Cash and cash equivalents at end of year | \$ 15,592 | \$ 10,016 |
| <u>Supplemental cash flow information:</u> | | |
| Interest paid | \$ 590 | \$ 477 |
| <u>Supplemental noncash disclosures:</u> | | |
| Transfers from loans to other real estate owned | \$ 339 | \$ 299 |

See accompanying notes to these financial statements.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies

Nature of Operations - Town Center Bank (the Bank) provides financial services through its offices in Frankfort and New Lenox, Illinois. Its primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential mortgage, commercial, commercial real estate, construction, land development 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. The customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents - Cash and cash equivalents include cash, deposits with other financial institutions and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

Securities - Financial accounting standards require that debt and equity securities be classified into one of three reporting categories and accounted for as follows: (1) held-to-maturity securities reported at amortized cost, (2) trading securities reported at fair value with unrealized gains and losses included in earnings, and (3) available-for-sale securities reported at fair value with unrealized gains and losses net of related taxes reported as an increase or decrease in other comprehensive income (loss).

Securities held-to-maturity are securities that the Bank has the intent and ability to hold to maturity and are carried at cost adjusted for amortization of premium and accretion of discount, generally computed using the interest method.

The amortization of premiums and accretion of discounts are recognized as adjustments to interest income in a manner that approximates the level-yield method. Realized gains and losses on securities sold are computed based on the adjusted cost of the specific securities sold.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies (Cont.)

Securities (cont.) -

Securities available-for-sale are securities that are intended to be held for indefinite periods of time, but which may not be held to maturity. These securities may be used as a part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, deterioration of issuer's creditworthiness, or due to a desire to increase capital or liquidity.

Realized securities gains and losses are determined on a specific identification basis and are reported in the statement of comprehensive income (loss) as securities gains and losses.

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. At December 31, 2014 and 2013, there were no loans held for sale.

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

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 deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

For all classes of loans, interest income is discontinued at the time a 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, for all classes of loans, 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. A loan is moved to nonaccrual status in accordance with the Bank's policy, typically after 90 days of nonpayment.

For all classes of loans, all interest accrued but not received for loans placed on nonaccrual are 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 - Most of the Bank's business activity is with customers located in the south and west suburbs of Chicago, Illinois. Therefore, the Bank's exposure to credit risk is significantly affected by changes in the economy in the Chicago area. There are no significant concentrations of loans to any one industry or customer, except that, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies (Cont.)

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: commercial, commercial real estate, residential real estate and installment. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2014 and 2013.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate - Loans in this segment primarily include owner-occupied 1-4 family residences secured by 1st liens and home equity loans secured by 2nd liens. The Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower or borrowers. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate - Loans in this segment are primarily income-producing properties throughout the Chicago area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans. Loans in this segment also include speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial - Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer - Loans in this segment are generally to individuals and are supported by non-real estate collateral. The repayment is dependent on the credit quality of the individual borrower.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies (Cont.)

Allowance for Loan Losses (cont.) -

Allocated component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings, loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

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.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired.

Unallocated component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Transfers of Financial Assets - Transfers of financial assets, such as loans, 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.

Other Real Estate Owned - Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies (Cont.)

Federal Home Loan Bank (FHLB) Stock - The Bank is a member of FHLB Chicago. 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.

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is recognized on the straight-line method. Banking equipment is generally depreciated over 5 years. Furniture and fixtures are depreciated over estimated useful lives generally ranging from 5 to 15 years. Leasehold improvements are depreciated on the straight-line basis over the shorter of the lease term, including expected renewal periods, or estimated useful life of the asset.

Long-Term Assets - Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

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, 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.

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 (Loss) Per Common Share - Basic earnings (loss) per common share is net income (loss) divided by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share include the dilutive effect of additional potential common shares issuable under stock options and warrants.

Comprehensive Income (Loss) - Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale which are also recognized as separate components of shareholders' equity.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies (Cont.)

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

Interest Rate Risk - The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Dividend Restriction - Banking regulations require maintaining certain capital levels that may limit the amount of dividends paid by the Bank to shareholders. Since the Bank has an accumulated deficit at December 31, 2014, there are no retained earnings available for dividends.

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

2. Recent Losses and Management's Plans

The Bank achieved net income of \$376 in 2014 and incurred a net loss of \$217 in 2013. Reducing non-performing assets and the recognition of gains from the sales of securities available-for-sale contributed to the Bank's net income for 2014. 2013 net loss is largely a result of loan and other real estate owned impairments and related costs. The Bank's Tier 1 capital to average assets and total capital to risk weighted assets was 8.43% and 14.81% and 9.57% and 14.40% at December 31, 2014 and 2013, respectively. In October 2011, the Bank entered into a Consent Order with the Federal Depository Insurance Corporation (FDIC) and the Illinois Department of Financial and Professional Regulation (IDFPR). In accordance with the terms of the Consent Order, the Bank agreed to, among other things, to maintain a minimum Tier 1 leverage capital ratio of at least 9% and a total risk-based capital ratio of at least 13%. The Consent Order was removed in July 2013, but the Bank needs to maintain a minimum Tier 1 leverage capital ratio of at least 8% and a total risk-based capital ratio of at least 12%. Management has initiated specific plans to reduce credit risk and continue to improve its capital ratios.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

3. Securities

The amortized cost and fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows at year end:

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> |
|---|---------------------------|---------------------------------------|--|-----------------------|
| December 31, 2014: | | | | |
| Securities available-for-sale: | | | | |
| Mortgage-backed securities - residential | \$ 9,509 | \$ 152 | \$ - | \$ 9,661 |
| Collateralized mortgage obligations - residential | <u>26,526</u> | <u>232</u> | <u>(72)</u> | <u>26,686</u> |
| Total securities available-for-sale | <u>\$ 36,035</u> | <u>\$ 384</u> | <u>\$ (72)</u> | <u>\$ 36,347</u> |
| December 31, 2013: | | | | |
| Securities available-for-sale: | | | | |
| Mortgage-backed securities - residential | \$ 13,017 | \$ 83 | \$ (94) | \$ 13,006 |
| Collateralized mortgage obligations - residential | <u>8,559</u> | <u>3</u> | <u>(113)</u> | <u>8,449</u> |
| Total securities available-for-sale | <u>\$ 21,576</u> | <u>\$ 86</u> | <u>\$ (207)</u> | <u>\$ 21,455</u> |

Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity date.

At year-end 2014 and 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

Securities pledged at year-end 2014 had a carrying amount of \$13,478 and were pledged to secure public deposits and federal funds purchased line of credit.

The following tables summarize securities with unrealized losses at December 31, 2014 and December 31, 2013, aggregated by major security type and length of time in a continuous unrealized loss position:

| | <u>Less Than 12 Months</u> | | <u>12 Months or More</u> | | <u>Fair Value</u> | <u>Total Unrealized Loss</u> |
|---|----------------------------|------------------------|--------------------------|------------------------|-------------------|--------------------------------------|
| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Loss</u> |
| December 31, 2014: | | | | | | |
| Mortgage-backed residential | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Collateralized mortgage obligations - residential | <u>2,391</u> | <u>(23)</u> | <u>2,813</u> | <u>(49)</u> | <u>5,204</u> | <u>(72)</u> |
| | <u>\$ 2,391</u> | <u>\$ (23)</u> | <u>\$ 2,813</u> | <u>\$ (49)</u> | <u>\$ 5,204</u> | <u>\$ (72)</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

3. Securities (Cont.)

| | <u>Less Than 12 Months</u> | | <u>12 Months or More</u> | | <u>Fair Value</u> | <u>Total Unrealized Loss</u> |
|---|----------------------------|------------------------|--------------------------|------------------------|-------------------|------------------------------|
| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> | | |
| December 31, 2013: | | | | | | |
| Mortgage-backed residential | \$ 6,685 | \$ (94) | \$ - | \$ - | \$ 6,685 | \$ (94) |
| Collateralized mortgage obligations - residential | <u>7,394</u> | <u>(113)</u> | <u>-</u> | <u>-</u> | <u>7,394</u> | <u>(113)</u> |
| | <u>\$ 14,079</u> | <u>\$ (207)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 14,079</u> | <u>\$ (207)</u> |

Sales of available-for-sale securities were as follows for the years ended December 31, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|---------------|-------------|-------------|
| Sale proceeds | \$ 15,583 | \$ 1,630 |
| Gross gains | 222 | 24 |
| Gross losses | - | - |

Management evaluates securities for other-than-temporary impairment as economic or market concerns warrant such evaluation. Consideration is given to the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovering in fair value.

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
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4. Loans

Loans at December 31, 2014 and 2013 were as follows:

| | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| Residential real estate: | | |
| 1-4 family, owner occupied | \$ 14,852 | \$ 14,614 |
| 1-4 family, non-owner occupied | 1,455 | 1,481 |
| Commercial real estate: | | |
| Commercial, owner occupied | 10,888 | 4,463 |
| Commercial, non-owner occupied | 13,530 | 14,450 |
| Construction | 246 | 843 |
| Land development | 3,693 | 5,018 |
| Farmland | 1,048 | 1,059 |
| Commercial | 5,498 | 6,682 |
| Consumer: | | |
| Indirect, automobile loans | 990 | 2,480 |
| Consumer, non-real estate | <u>5,269</u> | <u>6,547</u> |
| Total loans | 57,469 | 57,637 |
| Deferred loan origination fees and costs, net | 592 | 667 |
| Allowance for loan losses | <u>(1,260)</u> | <u>(2,027)</u> |
| Loans, net | <u>\$ 56,801</u> | <u>\$ 56,277</u> |

The following tables present the activity in the allowance for loan losses by class of loans for the years ended December 31, 2014 and 2013:

| | <u>Beginning Balance</u> | <u>Provision (Benefit) for Loan Losses</u> | <u>Loans Charged Off</u> | <u>Recoveries</u> | <u>Ending Balance</u> |
|-----------------------------------|------------------------------|--|------------------------------|-------------------|---------------------------|
| December 31, 2014: | | | | | |
| Residential real estate: | | | | | |
| 1-4 family, owner occupied | \$ 161 | \$ 92 | \$ (68) | \$ 5 | \$ 190 |
| 1-4 family, non-owner occupied | 10 | (7) | - | - | 3 |
| Commercial real estate: | | | | | |
| Commercial, owner occupied | 41 | 63 | - | - | 104 |
| Commercial, non-owner occupied | 184 | (31) | - | - | 153 |
| Construction | 8 | (6) | - | - | 2 |
| Land development | 852 | (624) | - | 252 | 480 |
| Farmland | 16 | (1) | - | - | 15 |
| Commercial | 664 | 295 | (876) | 169 | 252 |
| Consumer: | | | | | |
| Indirect, auto | 30 | (5) | (22) | 8 | 11 |
| Consumer, non-real estate | <u>61</u> | <u>(12)</u> | <u>-</u> | <u>1</u> | <u>50</u> |
| | <u>\$ 2,027</u> | <u>\$ (236)</u> | <u>\$ (966)</u> | <u>\$ 435</u> | <u>\$ 1,260</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

4. Loans (Cont.)

| | Beginning Balance | Provision (Benefit) for Loan Losses | Loans Charged Off | Recoveries | Ending Balance |
|--------------------------------|----------------------|--|----------------------|---------------|-------------------|
| December 31, 2013: | | | | | |
| Residential real estate: | | | | | |
| 1-4 family, owner occupied | \$ 398 | \$ (285) | \$ (23) | \$ 71 | \$ 161 |
| 1-4 family, non-owner occupied | 253 | (243) | - | - | 10 |
| Commercial real estate: | | | | | |
| Commercial, owner occupied | 86 | (45) | - | - | 41 |
| Commercial, non-owner occupied | 166 | 138 | (120) | - | 184 |
| Construction | - | 8 | - | - | 8 |
| Land development | 884 | (109) | - | 77 | 852 |
| Farmland | 30 | (14) | - | - | 16 |
| Commercial | 619 | 29 | - | 16 | 664 |
| Consumer: | | | | | |
| Indirect, auto | 67 | (115) | (25) | 103 | 30 |
| Consumer, non-real estate | 62 | (1) | - | - | 61 |
| | <u>\$ 2,565</u> | <u>\$ (637)</u> | <u>\$ (168)</u> | <u>\$ 267</u> | <u>\$ 2,027</u> |

The following table presents the balance in the allowance for loan losses by class of loans based on impairment method as of December 31, 2014:

| | Allowance for Loan Losses | | | Loan Balances | | |
|--------------------------------|--|--|-----------------|--|--|------------------|
| | Individual Evaluated for Impairment | Collectively Evaluated for Impairment | Total | Individual Evaluated for Impairment | Collectively Evaluated for Impairment | Total |
| Residential real estate: | | | | | | |
| 1-4 family, owner occupied | \$ 81 | \$ 109 | \$ 190 | \$ 736 | \$ 14,116 | \$ 14,852 |
| 1-4 family, non-owner occupied | - | 3 | 3 | - | 1,455 | 1,455 |
| Commercial real estate: | | | | | | |
| Commercial, owner occupied | - | 104 | 104 | - | 10,888 | 10,888 |
| Commercial, non-owner occupied | - | 153 | 153 | - | 13,530 | 13,530 |
| Construction | - | 2 | 2 | - | 246 | 246 |
| Land development | - | 480 | 480 | - | 3,693 | 3,693 |
| Farmland | - | 15 | 15 | - | 1,048 | 1,048 |
| Commercial | - | 251 | 251 | - | 5,498 | 5,498 |
| Consumer: | | | | | | |
| Indirect automobile loans | - | 12 | 12 | - | 990 | 990 |
| Consumer, non-real estate | - | 50 | 50 | 29 | 5,240 | 5,269 |
| Total | <u>\$ 81</u> | <u>\$ 1,179</u> | <u>\$ 1,260</u> | <u>\$ 765</u> | <u>\$ 56,704</u> | <u>\$ 57,469</u> |

TOWN CENTER BANK
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4. Loans (Cont.)

The following table presents the balance in the allowance for loan losses by class of loans based on impairment method as of December 31, 2013:

| | Allowance for Loan Losses | | | Loan Balances | | |
|--------------------------------|--|--|---------------------|--|--|----------------------|
| | Individual Evaluated for Impairment | Collectively Evaluated for Impairment | Total | Individual Evaluated for Impairment | Collectively Evaluated for Impairment | Total |
| Residential real estate: | | | | | | |
| 1-4 family, owner occupied | \$ 19 | \$ 142 | \$ 161 | \$ 807 | \$ 13,807 | \$ 14,614 |
| 1-4 family, non-owner occupied | - | 10 | 10 | - | 1,481 | 1,481 |
| Commercial real estate: | | | | | | |
| Commercial, owner occupied | - | 41 | 41 | - | 4,463 | 4,463 |
| Commercial, non-owner occupied | - | 184 | 184 | - | 14,450 | 14,450 |
| Construction | - | 8 | 8 | - | 843 | 843 |
| Land development | - | 852 | 852 | 1,182 | 3,836 | 5,018 |
| Farmland | - | 16 | 16 | - | 1,059 | 1,059 |
| Commercial | 608 | 55 | 663 | 1,177 | 5,505 | 6,682 |
| Consumer: | | | | | | |
| Indirect, automobile loans | - | 31 | 31 | - | 2,480 | 2,480 |
| Consumer, non-real estate | - | 61 | 61 | - | 6,547 | 6,547 |
| Total | <u>\$ 627</u> | <u>\$ 1,400</u> | <u>\$ 2,027</u> | <u>\$ 3,166</u> | <u>\$ 54,471</u> | <u>\$ 57,637</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

4. Loans (Cont.)

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

| | 2014 | | | 2013 | | |
|-----------------------------------|--------------------|----------------------------------|------------------------------|---------------------|----------------------------------|------------------------------|
| | Average Balance | Interest Income Recognized | Cash Income Recognized | Average Balance | Interest Income Recognized | Cash Income Recognized |
| Residential real estate: | | | | | | |
| 1-4 family, owner occupied | \$ 752 | \$ 27 | \$ 27 | \$ 838 | \$ 25 | \$ 25 |
| 1-4 family, non-owner occupied | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial, owner occupied | - | - | - | - | - | - |
| Commercial, non-owner occupied | - | - | - | 350 | - | - |
| Construction | - | - | - | - | - | - |
| Land development | - | - | - | 1,182 | - | - |
| Farmland | - | - | - | - | - | - |
| Commercial | - | - | - | 1,068 | 3 | 3 |
| Consumer: | | | | | | |
| Indirect automobile loans | - | - | - | - | - | - |
| Consumer, non-real estate | <u>22</u> | <u>7</u> | <u>7</u> | <u>53</u> | <u>2</u> | <u>2</u> |
| Total | <u>\$ 774</u> | <u>\$ 34</u> | <u>\$ 34</u> | <u>\$ 3,491</u> | <u>\$ 30</u> | <u>\$ 30</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

4. Loans (Cont.)

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

| | Unpaid Principal Balance | Partial Charge-Offs | Loan Balance | Allowance for Loan Losses Allocated |
|--|--------------------------------|------------------------|-----------------|--|
| <u>With no related allowance recorded:</u> | | | | |
| Residential real estate: | | | | |
| 1-4 family, owner occupied | \$ 369 | \$ 68 | \$ 301 | \$ - |
| 1-4 family, non-owner occupied | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial, owner occupied | - | - | - | - |
| Commercial, non-owner occupied | - | - | - | - |
| Construction | - | - | - | - |
| Land development | - | - | - | - |
| Farmland | - | - | - | - |
| Commercial | - | - | - | - |
| Consumer: | | | | |
| Indirect, auto | - | - | - | - |
| Consumer, non-real estate | 29 | - | 29 | - |
| | <u>398</u> | <u>68</u> | <u>330</u> | <u>-</u> |
| <u>With an allowance recorded:</u> | | | | |
| Residential real estate: | | | | |
| 1-4 family, owner occupied | 569 | 134 | 435 | 81 |
| 1-4 family, non-owner occupied | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial, owner occupied | - | - | - | - |
| Commercial, non-owner occupied | - | - | - | - |
| Construction | - | - | - | - |
| Land development | - | - | - | - |
| Farmland | - | - | - | - |
| Commercial | - | - | - | - |
| Consumer: | | | | |
| Indirect, auto | - | - | - | - |
| Consumer, non-real estate | - | - | - | - |
| | <u>569</u> | <u>134</u> | <u>435</u> | <u>81</u> |
| | <u>\$ 967</u> | <u>\$ 202</u> | <u>\$ 765</u> | <u>\$ 81</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Thousands, Except Share and Per Share Data)

4. Loans (Cont.)

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

| | Unpaid Principal Balance | Partial Charge-Offs | Loan Balance | Allowance for Loan Losses Allocated |
|--|--------------------------------|------------------------|-----------------|--|
| <u>With no related allowance recorded:</u> | | | | |
| Residential real estate: | | | | |
| 1-4 family, owner occupied | \$ 502 | \$ 134 | \$ 368 | \$ - |
| 1-4 family, non-owner occupied | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial, owner occupied | - | - | - | - |
| Commercial, non-owner occupied | - | - | - | - |
| Construction | - | - | - | - |
| Land development | 3,499 | 2,317 | 1,182 | - |
| Farmland | - | - | - | - |
| Commercial | 335 | - | 335 | - |
| Consumer: | | | | |
| Indirect, auto | - | - | - | - |
| Consumer, non-real estate | - | - | - | - |
| | <u>4,336</u> | <u>2,451</u> | <u>1,885</u> | <u>-</u> |
| <u>With an allowance recorded:</u> | | | | |
| Residential real estate: | | | | |
| 1-4 family, owner occupied | 439 | - | 439 | 19 |
| 1-4 family, non-owner occupied | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial, owner occupied | - | - | - | - |
| Commercial, non-owner occupied | - | - | - | - |
| Construction | - | - | - | - |
| Land development | - | - | - | - |
| Farmland | - | - | - | - |
| Commercial | 842 | - | 842 | 608 |
| Consumer: | | | | |
| Indirect, auto | - | - | - | - |
| Consumer, non-real estate | - | - | - | - |
| | <u>1,281</u> | <u>-</u> | <u>1,281</u> | <u>627</u> |
| | <u>\$ 5,617</u> | <u>\$ 2,451</u> | <u>\$ 3,166</u> | <u>\$ 627</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
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4. Loans (Cont.)

The following tables present the aging of the past due loans as of December 31, 2014 and 2013 by class of loans. 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.

| | Year Ended December 31, 2014 | | | | | | |
|--------------------------------|------------------------------|------------------------|--|-------------------|-------------------|--------------------------|----------------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than or Equal to 90 Days Past Due | Total Past Due | Nonaccrual | Loans Not Past Due | Total |
| Residential real estate: | | | | | | | |
| 1-4 family, owner occupied | \$ - | \$ - | \$ - | \$ - | \$ 379 | \$ 14,473 | \$ 14,852 |
| 1-4 family, non-owner occupied | - | - | - | - | - | 1,455 | 1,455 |
| Commercial real estate: | | | | | | | |
| Commercial, owner occupied | - | - | - | - | - | 10,888 | 10,888 |
| Commercial, non-owner occupied | - | - | - | - | - | 13,530 | 13,530 |
| Construction | - | - | - | - | - | 246 | 246 |
| Land development | - | - | - | - | - | 3,693 | 3,693 |
| Farmland | - | - | - | - | - | 1,048 | 1,048 |
| Commercial | - | - | - | - | - | 5,498 | 5,498 |
| Consumer: | | | | | | | |
| Indirect, automobile loans | - | - | - | - | - | 990 | 990 |
| Consumer, non-real estate | <u>25</u> | <u>52</u> | <u>-</u> | <u>77</u> | <u>29</u> | <u>5,163</u> | <u>5,269</u> |
| Total | <u>\$ 25</u> | <u>\$ 52</u> | <u>\$ -</u> | <u>\$ 77</u> | <u>\$ 408</u> | <u>\$ 56,984</u> | <u>\$ 57,469</u> |

| | Year Ended December 31, 2013 | | | | | | |
|--------------------------------|------------------------------|------------------------|--|-------------------|---------------------|--------------------------|----------------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than or Equal to 90 Days Past Due | Total Past Due | Nonaccrual | Loans Not Past Due | Total |
| Residential real estate: | | | | | | | |
| 1-4 family, owner occupied | \$ - | \$ - | \$ - | \$ - | \$ 439 | \$ 14,175 | \$ 14,614 |
| 1-4 family, non-owner occupied | - | - | - | - | - | 1,481 | 1,481 |
| Commercial real estate: | | | | | | | |
| Commercial, owner occupied | - | - | - | - | - | 4,463 | 4,463 |
| Commercial, non-owner occupied | - | - | - | - | - | 14,450 | 14,450 |
| Construction | - | - | - | - | - | 843 | 843 |
| Land development | - | - | - | - | 1,182 | 3,836 | 5,018 |
| Farmland | - | - | - | - | - | 1,059 | 1,059 |
| Commercial | - | - | - | - | 1,145 | 5,537 | 6,682 |
| Consumer: | | | | | | | |
| Indirect, automobile loans | 1 | - | - | 1 | 6 | 2,473 | 2,480 |
| Consumer, non-real estate | <u>146</u> | <u>101</u> | <u>-</u> | <u>247</u> | <u>-</u> | <u>6,300</u> | <u>6,547</u> |
| Total | <u>\$ 147</u> | <u>\$ 101</u> | <u>\$ -</u> | <u>\$ 248</u> | <u>\$ 2,772</u> | <u>\$ 54,617</u> | <u>\$ 57,637</u> |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
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4. Loans (Cont.)

Troubled Debt Restructurings:

The Bank has allocated \$3 and \$627 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013, respectively. The Bank has not committed to lend additional amounts as of December 31, 2014 and 2013 to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending December 31, 2014, there were no loans that were modified as troubled debt restructurings. Two troubled debt restructured loans were paid off during the year.

During the year ending December 31, 2013, there were no loans that were modified as troubled debt restructurings. One troubled debt restructured loan was paid off during the year.

A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms.

Credit Quality Indicators:

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed generally on a monthly basis but no less than quarterly.

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

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

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

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NOTES TO FINANCIAL STATEMENTS
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4. Loans (Cont.)

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans. Included in pass rated loans are homogenous residential real estate loans that are monitored based on the past due status of the loan. Management evaluates the risk category of these loans when a loan becomes delinquent or a borrower requests a concession. Loans listed as not rated are indirect automobile and consumer, non-real estate loans and are monitored based on the past due status of the loan. As of December 31, 2014 and 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| | Year Ended December 31, 2014 | | | | | |
|--------------------------------|------------------------------|------------------|-----------------|-----------------|-------------|------------------|
| | Not Rated | Pass | Watch | Substandard | Doubtful | Total |
| Residential real estate: | | | | | | |
| 1-4 family, owner occupied | \$ - | \$ 13,514 | \$ 178 | \$ 1,160 | \$ - | \$ 14,852 |
| 1-4 family, non-owner occupied | - | 1,236 | - | 219 | - | 1,455 |
| Commercial real estate: | | | | | | |
| Commercial, owner occupied | - | 10,481 | 236 | 171 | - | 10,888 |
| Commercial, non-owner occupied | - | 12,837 | - | 693 | - | 13,530 |
| Construction | - | 246 | - | - | - | 246 |
| Land development | - | 2,516 | - | 1,177 | - | 3,693 |
| Farmland | - | 159 | 889 | - | - | 1,048 |
| Commercial | - | 4,398 | 1,100 | - | - | 5,498 |
| Consumer: | | | | | | |
| Indirect, automobile loans | 990 | - | - | - | - | 990 |
| Consumer, non-real estate | 5,238 | - | - | 31 | - | 5,269 |
| Total | \$ 6,228 | \$ 45,387 | \$ 2,403 | \$ 3,451 | \$ - | \$ 57,469 |

TOWN CENTER BANK
NOTES TO FINANCIAL STATEMENTS
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4. Loans (Cont.)

| | Year Ended December 31, 2013 | | | | | |
|--------------------------------|------------------------------|------------------|-----------------|--------------------|-----------------|------------------|
| | <u>Not Rated</u> | <u>Pass</u> | <u>Watch</u> | <u>Substandard</u> | <u>Doubtful</u> | <u>Total</u> |
| Residential real estate: | | | | | | |
| 1-4 family, owner occupied | \$ - | \$ 13,187 | \$ 197 | \$ 1,230 | \$ - | \$ 14,614 |
| 1-4 family, non-owner occupied | - | 1,481 | - | - | - | 1,481 |
| Commercial real estate: | | | | | | |
| Commercial, owner occupied | - | 4,048 | 240 | 175 | - | 4,463 |
| Commercial, non-owner occupied | - | 13,736 | - | 714 | - | 14,450 |
| Construction | - | 614 | - | 229 | - | 843 |
| Land development | - | 2,586 | - | 2,432 | - | 5,018 |
| Farmland | - | 83 | 976 | - | - | 1,059 |
| Commercial | - | 4,030 | 1,475 | 1,177 | - | 6,682 |
| Consumer: | | | | | | |
| Indirect, automobile loans | 2,480 | - | - | - | - | 2,480 |
| Consumer, non-real estate | <u>6,527</u> | <u>-</u> | <u>20</u> | <u>-</u> | <u>-</u> | <u>6,547</u> |
| Total | <u>\$ 9,007</u> | <u>\$ 39,765</u> | <u>\$ 2,908</u> | <u>\$ 5,957</u> | <u>\$ -</u> | <u>\$ 57,637</u> |

5. Premises and Equipment

Premises and equipment at December 31, 2014 and 2013 were as follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|---------------|---------------|
| Furniture and equipment | \$ 777 | \$ 897 |
| Leasehold improvements | <u>561</u> | <u>561</u> |
| | 1,338 | 1,458 |
| Less: accumulated depreciation | <u>(831)</u> | <u>(880)</u> |
| | <u>\$ 507</u> | <u>\$ 578</u> |

Depreciation expense was \$118 and \$115 in 2014 and 2013, respectively.

TOWN CENTER BANK
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5. Premises and Equipment (Cont.)

The Bank leases its offices under operating leases. Rent expense, including certain common area expenses such as real estate taxes, was \$222 and \$223 in 2014 and 2013, respectively. Rent commitments, before considering renewal options that generally are present, are as follows:

| | |
|------------|-----------------|
| 2015 | \$ 168 |
| 2016 | 169 |
| 2017 | 171 |
| 2018 | 173 |
| 2019 | 176 |
| Thereafter | <u>1,305</u> |
| | <u>\$ 2,162</u> |

6. Other Real Estate Owned

Activity in other real estate owned was as follows for the years ended December 31, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|--|---------------|-----------------|
| Balance at beginning of year | \$ 2,281 | \$ 2,767 |
| Additions | 339 | 299 |
| Proceeds from sales | (2,178) | (138) |
| Net gain (loss) on sale of real estate owned | 17 | (10) |
| Provision for valuation allowance | <u>(193)</u> | <u>(637)</u> |
| Balance at end of year | <u>\$ 266</u> | <u>\$ 2,281</u> |

Activity in valuation allowance was as follows for the years ended December 31, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|--------------|---------------|
| Beginning of year | \$ 134 | \$ 161 |
| Provision for valuation allowance | 193 | 637 |
| Less: write-downs | <u>(327)</u> | <u>(664)</u> |
| End of year | <u>\$ -</u> | <u>\$ 134</u> |

Operating expenses associated with other real estate owned were \$83 and \$144, net of rental income, for year-end 2014 and 2013, respectively.

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7. Deposits

Deposits at December 31, 2014 and 2013 are as follows:

| | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| Noninterest-bearing demand deposits | \$ 12,153 | \$ 9,668 |
| Interest-bearing deposits: | | |
| Interest-bearing demand (NOW) | 6,815 | 6,241 |
| Money market accounts | 34,879 | 33,784 |
| Savings accounts | 2,552 | 2,488 |
| Certificates of deposit, less than \$100 | 8,664 | 9,618 |
| Certificates of deposit, \$100 or more | <u>31,540</u> | <u>20,784</u> |
| | <u>\$ 96,603</u> | <u>\$ 82,583</u> |

Schedule of maturities of certificates of deposit were as follows:

| | |
|------|------------------|
| 2015 | \$ 8,431 |
| 2016 | 11,702 |
| 2017 | 15,838 |
| 2018 | 3,642 |
| 2019 | <u>591</u> |
| | <u>\$ 40,204</u> |

The Bank had no brokered deposits included in certificate of deposits as of December 31, 2014 and 2013. Under the terms of the Bank's Consent Order, the Bank may not accept, renew, or roll over any broker deposit unless it has applied for and been granted a waiver of the prohibition by the FDIC in accordance with the provisions governing brokered deposits. The Consent Order was removed in July 2013 and no longer has this restriction.

8. Federal Home Loan Bank Advances

At December 31, 2014, the Bank had \$2,000 of advances from the Federal Home Loan Bank of Chicago (FHLB). At December 31, 2013, the Bank had no advances from the FHLB.

9. Federal Reserve Bank Borrowings

The Bank is eligible to borrow through a line of credit with the Federal Reserve Bank of Chicago discount window. The line of credit is collateralized by pledged home equity line of credit loans approximating \$3,800 at December 31, 2014. The Bank is eligible to borrow a total amount of up to approximately \$2,800. There were no outstanding borrowings from the Federal Reserve Bank at or during the years ending December 31, 2014 or 2013.

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10. Income Taxes

Income tax expense for the years ended December 31, 2014 and 2013 consists of:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|--------------|-------------|
| Net operating loss carryforward | \$ (697) | \$ (109) |
| Deferred income tax (benefit) | 1,015 | (218) |
| Change in valuation allowance | <u>(318)</u> | <u>327</u> |
| Income tax expense | <u>\$ -</u> | <u>\$ -</u> |

Year-end deferred tax assets and liabilities as of December 31, 2014 and 2013 were due to the following:

| | <u>2014</u> | <u>2013</u> |
|--|----------------|----------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ - | \$ 54 |
| Organization costs | 5,150 | 185 |
| Net operating loss carryforwards | 150 | 4,447 |
| Other real estate owned valuation allowance | | 725 |
| Unrealized losses on securities available-for-sale | | 49 |
| Other | <u>7</u> | <u>6</u> |
| Gross deferred tax assets | <u>5,307</u> | <u>5,466</u> |
| Deferred tax liabilities: | | |
| Depreciation | (60) | (60) |
| Allowance for loan losses | (41) | - |
| Unrealized gains on securities available-for-sale | (126) | - |
| Other | <u>(20)</u> | <u>(28)</u> |
| Gross deferred tax liabilities | <u>(247)</u> | <u>(88)</u> |
| Valuation allowance for deferred tax assets | <u>(5,060)</u> | <u>(5,378)</u> |
| Net deferred tax asset (liability) | <u>\$ -</u> | <u>\$ -</u> |

The net operating losses are being carried forward and will be available to reduce future taxable income. The federal net operating loss carryforward of approximately \$12,790 will begin to expire in 2026 if not utilized. The state loss carryforward of approximately \$12,372 will begin to expire in 2022 if not utilized. A valuation allowance was established as the Bank has not generated any taxable income to date and, accordingly, has not yet demonstrated that it is likely to utilize the loss carryforwards prior to their statutory expiration dates.

The effective tax rate differs from the federal statutory rate due to the establishment of the valuation allowance discussed above, which offsets the current year income tax benefit. The Bank does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

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10. Income Taxes (Cont.)

The Bank is subject to U.S. federal income tax as well as income tax of the State of Illinois. The Bank is no longer subject to examination by taxing authorities for years before 2011.

There were no interest and penalties recorded in the statement of operations for the years ended December 31, 2014 and 2013.

11. Related Party Transactions

Loans to principal officers, directors, and their affiliates were as follows for the years ended December 31, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|--|-----------------|-----------------|
| Beginning balance | \$ 2,790 | \$ 2,364 |
| New loans | 426 | 650 |
| Net decrease in existing lines of credit | <u>(445)</u> | <u>(224)</u> |
| Ending balance | <u>\$ 2,771</u> | <u>\$ 2,790</u> |

Deposits from principal officers, directors, and their affiliates at December 31, 2014 and 2013 were \$2,292 and \$2,305, respectively.

The Chairman of the Board as well as other Board of Director members of the Bank are shareholders and Board members of the Bank's core banking process system entity. Fees paid for core banking process system totaled \$287 and \$301 in 2014 and 2013, respectively.

12. Stock Options and Warrants

The Board of Directors granted options to buy Bank stock to officers and employees under the Bank's Stock Incentive Plan, which provides for the issuance of options to purchase up to 432,000 shares of the Bank's common stock. The Bank believes that such awards better align the interests of its employees with those of its shareholders. Stock option awards were granted with an exercise price of \$10, which was the initial offering price of the Bank's common stock in 2006. Option awards have a vesting period of three years and have a ten-year contractual term. In 2012, there were 423,000 of available options which were cancelled in 2012. The Board of Directors approved the re-granting of these options with an exercise price of \$3 in 2012. These options were then granted in 2013. The fair value of options, as of the grant date, is expensed over the vesting period.

The fair value of each option award is estimated on the date of grant using an option valuation model (Black-Scholes). Expected volatilities have been based on historical volatilities of the SNL MicroCap Bank index. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the grant date.

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12. Stock Options and Warrants (Cont.)

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

| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Term (Years)</u> |
|----------------------------------|----------------|--|--|
| Outstanding at beginning of year | 423,000 | \$ 3 | - |
| Granted | - | | |
| Exercised | - | | |
| Forfeited | - | | |
| | <u>423,000</u> | \$ 3 | 7.22 |

There was no stock option expense in 2014 and 2013.

The Bank's organizers and all of its initial shareholders have been granted warrants to purchase common stock, which vested immediately. The Bank's organizers, who are also initial shareholders, were granted 10,000 warrants each, or 210,000 warrants in total, to purchase one share of common stock at \$10 per share. These warrants expire ten years from the date the Bank opened (September 18, 2016).

All of the shareholders who purchased common shares in the Bank's initial stock offering were granted one warrant to purchase one share of common stock at \$12.50 per share for every five common shares purchased in the initial stock offering. Warrants were granted to the initial shareholders to purchase 432,000 common shares. These warrants were set to expire on September 18, 2009. On August 18, 2009, the Bank's Board of Directors amended the warrants to reduce the exercise price to \$11.50 per share and to extend the expiration date to September 18, 2014. On January 10, 2012, the Bank's Board of Directors amended the warrants to reduce the exercise price to \$3.00 per share. The exercise price of the warrants was further amended by the Board of Directors to \$11.50 per share on February 28, 2013. The shareholder warrants expired on September 18, 2014.

13. Regulatory Capital Requirements

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and 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.

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.

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13. Regulatory Capital Requirements (Cont.)

On October 12, 2011, the Bank entered into a Consent Order with the Federal Depository Insurance Corporation (FDIC) and the Illinois Department of Financial and Professional Regulation (IDFPR). In accordance with the terms of the Consent Order, the Bank has agreed to, among other things, (i) maintain a minimum Tier 1 leverage capital ratio of at least 9% and a total risk-based capital ratio of at least 13%, (ii) timely identify and reduce its overall level of problem loans, and (iii) adopt a written plan to return the Bank to profitability. The Consent Order will remain in effect until modified, terminated, lifted, suspended or set aside by the regulatory authorities.

In July 2013, the FDIC and IDFPR removed the Bank's Consent Order. The Bank must maintain minimum Tier 1 leverage capital ratio of at least 8% and a total risk-based capital ratio of at least 12%. At December 31, 2014, the Bank was in compliance with the capital requirements. The Bank's Tier 1 capital to average total assets was 8.43% and the total capital to risk-weighted assets was 14.81%.

Actual and required capital amounts and ratios are presented below as of December 31, 2014 and 2013.

| | <u>Actual</u> | | <u>Required for Capital Adequacy Purposes</u> | | <u>Regulatory Requirements</u> | |
|---|---------------|--------------|---|--------------|--------------------------------|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| As of December 31, 2014: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | \$ 10,051 | 14.8% | \$ 5,430 | 8.0% | \$ 8,145 | 12.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | 9,198 | 13.6% | 2,715 | 4.0% | N/A | N/A |
| Tier 1 Capital (to Average Assets) | 9,198 | 8.4% | 8,728 | 8.0% | 8,728 | 8.0% |
| As of December 31, 2013: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | \$ 9,677 | 14.4% | \$ 5,376 | 8.0% | \$ 8,064 | 12.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | 8,822 | 13.1% | 2,688 | 4.0% | N/A | N/A |
| Tier 1 Capital (to Average Assets) | 8,822 | 9.6% | 7,375 | 8.0% | 7,375 | 8.0% |

14. Commitments

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.

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14. Commitments (Cont.)

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows as of December 31, 2014 and 2013:

| | 2014 | 2013 |
|---|-----------|-----------|
| Unused lines of credit - variable rate | \$ 20,570 | \$ 19,077 |
| Standby letters of credit - variable rate | 230 | 230 |

15. 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 value:

- 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 the fair value of each type of financial instrument:

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).

Impaired Loans - The Bank does not record loans at fair value on a recurring basis. However, on occasion, a loan is considered impaired and an allowance for loan loss is established. A loan is considered impaired when it is probable that all of the principal and interest due under the original terms of the loan may not be collected. Once a loan is identified as impaired, management will measure impairment. The fair value of loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. Impaired loans that are valued based on the present value of future cash flows are not considered in the fair value hierarchy.

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15. Fair Value (Cont.)

Other Real Estate Owned - The Bank does not record other real estate owned at fair value on a recurring basis. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the carrying amount or fair value less cost to sell. Fair value is commonly based on recent real estate appraisals which are typically updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Other real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Assets and Liabilities Measured on a Recurring Basis - Assets and liabilities measured at fair value on a recurring basis are summarized below:

| | <u>Fair Value</u> | <u>Fair Value Measurements at Reporting Date Using</u> | | |
|--|-------------------|--|--|--|
| | | <u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| Assets at December 31, 2014: | | | | |
| Securities available-for-sale: | | | | |
| Mortgage-backed securities - residential | \$ 9,661 | \$ - | \$ 9,661 | \$ - |
| Collateralized mortgage obligations - residential | <u>26,686</u> | <u>-</u> | <u>26,686</u> | <u>-</u> |
| | <u>\$ 36,347</u> | <u>\$ -</u> | <u>\$ 36,347</u> | <u>\$ -</u> |
| Assets at December 31, 2013: | | | | |
| Securities available-for-sale: | | | | |
| Mortgage-backed securities - residential | \$ 13,006 | \$ - | \$ 13,006 | \$ - |
| Collateralized mortgage obligations - residential | <u>8,449</u> | <u>-</u> | <u>8,449</u> | <u>-</u> |
| | <u>\$ 21,455</u> | <u>\$ -</u> | <u>\$ 21,455</u> | <u>\$ -</u> |

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15. Fair Value (Cont.)

Assets and Liabilities Measured on a Recurring Basis (cont.) -

Assets measured at fair value on nonrecurring basis are summarized below:

| | Fair Value Measurements Using | | | | Total Gains (Losses) |
|------------------------------|-------------------------------|---|---|--|----------------------------|
| | Total | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets at December 31, 2014: | | | | | |
| Impaired loans | \$ 684 | \$ - | \$ - | \$ 684 | \$ (81) |
| Other real estate owned | 266 | - | - | 266 | - |
| | <u>\$ 950</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 950</u> | <u>\$ (81)</u> |
| Assets at December 31, 2013: | | | | | |
| Impaired loans | \$ 2,539 | \$ - | \$ - | \$ 2,539 | \$ (192) |
| Other real estate owned | 2,281 | - | - | 2,281 | (650) |
| | <u>\$ 4,820</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,820</u> | <u>\$ (842)</u> |

Impaired loans that were considered collateral dependent had a carrying amount of \$765 and \$3,166, with a valuation allowance of \$81 and \$627 as of December 31, 2014 and 2013, respectively. Collateral dependent impaired loans were adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in certain losses. The losses are not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses.

Other real estate owned, which are measured using the fair value of the collateral, had a carrying amount of \$266 and \$2,415, with no valuation allowance as of December 31, 2014 and a valuation allowance of \$134 as of December 31, 2013. Other real estate owned were adjusted to the fair value, less costs to sell, resulting in certain losses. The losses are recorded directly as an adjustment to current earnings.

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

| | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range of Input (Weighted Average) |
|-------------------------|---------------|---------------------------|---------------------------------------|---|
| Impaired loans | \$ 684 | Sales comparison approach | Adjustments to comparable sale prices | -11% to -3% (-3.3%) |
| Other real estate owned | 266 | Sales comparison approach | Adjustments to comparable sale prices | -10% to -6% (-7.9%) |

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15. Fair Value (Cont.)

Assets and Liabilities Measured on a Recurring Basis (cont.) -

The carrying amounts and estimated fair values of financial instruments at December 31, 2014 is as follows:

| | 2014 | |
|---------------------------------|----------------------------|---------------------------------|
| | <u>Carrying Amount</u> | <u>Estimated Fair Value</u> |
| Financial assets: | | |
| Cash and cash equivalents | \$ 15,592 | \$ 15,592 |
| Securities available-for-sale | 36,347 | 36,347 |
| Loans, net | 56,801 | 58,101 |
| Federal Home Loan Bank stock | 452 | N/A |
| Accrued interest receivable | 267 | 228 |
| Financial liabilities: | | |
| Deposits | \$ 96,603 | 95,177 |
| Accrued interest payable | 43 | 43 |
| Federal Home Loan Bank advances | 2,000 | 1,998 |

The carrying amounts and estimated fair values of financial instruments at December 31, 2013 is as follows:

| | 2013 | |
|-------------------------------|----------------------------|---------------------------------|
| | <u>Carrying Amount</u> | <u>Estimated Fair Value</u> |
| Financial assets: | | |
| Cash and cash equivalents | \$ 10,016 | \$ 10,016 |
| Securities available-for-sale | 21,455 | 21,455 |
| Loans, net | 56,277 | 57,778 |
| Federal Home Loan Bank stock | 452 | N/A |
| Accrued interest receivable | 228 | 228 |
| Financial liabilities: | | |
| Deposits | \$ 82,583 | 81,201 |
| Accrued interest payable | 38 | 38 |

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 values and are classified as Level 1.

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15. Fair Value (Cont.)

Assets and Liabilities Measured on a Recurring Basis (cont.) -
FHLB Stock

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

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. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of interest-bearing deposits without maturity dates and variable-rate certificates of deposit 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 like-term certificates of deposit.

FHLB Advances

The fair values of the Bank's FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

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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16. Earnings per Share

The factors used in the basic and diluted loss per share computations for the years ended December 31 follow:

| | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|
| Net income (loss) | \$ 376 | \$ (217) |
| Weighted average common shares outstanding | 2,333,660 | 2,330,703 |
| Basic and diluted loss per common share | \$ 0.16 | \$ (0.09) |

17. Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through February 17, 2015, which is the date the financial statements were available to be issued.