FSB
Community Bankshares, Inc.

April 28, 2014

Dear Shareholder,

As an institution that is predominantly a residential mortgage lender and retail deposit gatherer your Fairport Savings Bank (FSB) weathered the vagaries of each of these markets over the past year. Declining interest rates continue to contribute to net interest margin pressure for the Bank. The investment we have made in our retail delivery franchise puts pressure on earnings but positions the Bank to take advantage of growth opportunities in our primary markets. The directors and management are committed to continuing asset growth that supports sustained earnings. Our results for 2013 reflect that commitment:

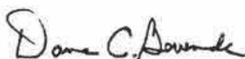
- Total assets increased by $21.5 million, or 10.0% from $216.0 million at December 31, 2012 to $237.5 million at December 31, 2013.
- Net Loans receivable grew by $29.5 million, or 20.0% from $147.5 million at December 31, 2012 to $177.0 million at December 31, 2013.
- Deposits increased by $16.3 million, or 10.0% from $163.7 million at December 31, 2012 to $180.0 million at December 31, 2013.
- Net income increased by $235 thousand from $56 thousand in 2012 to $291 thousand in 2013.
- The net interest margin increased to 2.79% for the year ended December 31, 2013 from 2.63% for the year ended December 31, 2012.
- The credit quality of our loan portfolio remained strong with one non-performing loan and no impaired loans at year end 2013.

As we enhance our loan origination capacity and raise our goals for loan growth we continue to employ the same conservative underwriting standards that have helped us to maintain our outstanding loan portfolio. Loans we choose to hold in our portfolio and loans that we sell into the secondary market receive the same diligent review for underwriting.

The coming year will test our ability to manage our interest margin and to thoughtfully control the operating expenses. The regulatory environment in which we find ourselves puts added pressure on earnings. In 2012 we became a New York State chartered financial institution in order to provide the most appropriate regulatory structure for our business model. We are completing our first round of examinations in our new regulatory structure. The evolution of the regulatory environment in which we operate continues to present us with myriad challenges and uncertainties.

The Board of Directors, the FSB staff members, and I appreciate the continued confidence you have shown in us and in our commitment to building a bank that is driven by long term value objectives.

Sincerely,



Dana C. Gavenda
President and Chief Executive Officer

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

Overview

Our results of operations depend primarily on our net interest income and, to a lesser degree, other income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets (primarily cash and cash equivalents), and the interest paid on our interest-bearing liabilities, consisting primarily of savings accounts, NOW accounts, money market accounts, time deposits and borrowings. Other income consists primarily of realized gains on sales of loans and securities, mortgage fee income, fees and service charges from deposit products, fee income from our financial services subsidiary, earnings on bank owned life insurance and miscellaneous other income. Our results of operations also are affected by our provision for loan losses and other expense. Other expense consists primarily of salaries and employee benefits, occupancy expense, equipment expense, electronic banking, data processing costs, mortgage fees and taxes, advertising, directors' fees, FDIC premium expense, audit and tax services, and other miscellaneous expenses.

Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, government policies and actions of regulatory authorities.

For the year ended December 31, 2013, we had net income of $291,000 compared to net income of $56,000 for the year ended December 31, 2012. The year over year increase in earnings of $235,000 was attributable to an increase in net interest income, partially offset by a decrease in other income, an increase in other expense, an increase in provision for loan losses, and an increase in income taxes. The increase in net interest income reflects the Company's ability to lower deposit and borrowing costs combined with a modest increase in interest income generated from interest earning assets. The decrease in other income resulted primarily from a decrease in realized gain on sale of securities, partially offset with an increase in fee income from Oakleaf Services Corporation, the Bank's wholly owned non-deposit investment services subsidiary, realized gain on sale of loans, and mortgage fee income. The increase in other expense was primarily the result of increases in salaries and employee benefits, occupancy, equipment, electronic banking, and directors' fees, partially offset by decreases in FHLB prepayment penalty, advertising, mortgage fees and taxes, and other miscellaneous expenses. The Company's lower effective tax rate for 2013 and 2012 resulted from a reduction in income tax expense due to the increase in cash surrender value of our bank-owned life insurance and municipal bond interest income, which are tax exempt for Federal income tax purposes. The increase in provision for loan losses was attributable to adding an appropriate amount for loan losses to ensure adequate reserves based on, among other factors, additional growth in the loan portfolio and economic conditions in our market comparing 2013 to 2012.

The credit quality of the Bank's loan portfolio remains strong. At December 31, 2013, the Bank had one non-performing loan for $56,000 compared to no non-performing loans at December 31, 2012. We recorded a $90,000 provision for loan losses for the year ended December 31, 2013 compared to a $40,000 provision for loan losses for the year ended December 31, 2012. The allowance for loan losses was $526,000, or 0.30% of loans outstanding, at December 31, 2013 compared to $436,000, or 0.29% of loans outstanding, at December 31, 2012. Management has evaluated the Bank's loan loss reserve and believes it is adequately funded at December 31, 2013 based on the quality of the current loan portfolio.

The Company has reviewed its investment securities totaling $43.3 million at December 31, 2013, and does not expect to record any other-than-temporary impairment charges in the portfolio in 2014.

Consolidated stockholders' equity at December 31, 2013 was $19.6 million, or 8.3%, of consolidated assets. At December 31, 2013 the Bank was considered well capitalized, the highest standard and capital rating as defined by the Bank's regulator.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operations depend, involve the most complex subjective decisions or assessments including our policies with respect to our allowance for loan losses, other-than-temporary impairment of investment securities, and deferred tax assets.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic concentrations, the adequacy of

the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has specific, general, and unallocated components. The specific component relates to loans that are deemed to be impaired and classified as special mention, substandard, doubtful, or loss. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. 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 specific and general losses in the portfolio.

Actual loan losses may be significantly more than the allowance we have established which could have a material negative effect on our financial results.

Other-Than-Temporary Impairment of Investment Securities. When the fair value of a held to maturity or available for sale security is less than its amortized cost basis, an assessment is made at the balance sheet date as to whether other-than-temporary impairment ("OTTI") is present.

The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis or carrying value.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for the period of time sufficient to allow for any anticipated recovery in fair value.

For debt securities, credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). Credit-related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis or carrying value. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized costs

less any credit-related losses recognized. For securities classified as held to maturity, the amount of OTTI recognized in other comprehensive income (loss) is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in income.

Deferred Tax Assets. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Business Summary

Our business has traditionally focused on originating one-to-four family residential real estate mortgage loans and home equity lines of credit for retention in our portfolio and offering retail deposit accounts insured by the Federal Deposit Insurance Corporation. Our primary market area consists of Monroe County and the surrounding upstate New York counties of Livingston, Ontario, Orleans and Wayne. In the low interest rate environment experienced throughout 2013 and 2012, management decided to sell a portion of the fixed-rate residential real estate loans that we originated in order to manage interest rate risk. The low interest rate environment in 2013 and 2012 has resulted in management's decision to decrease investment securities and to reposition the funds available from the decrease in the investment portfolio into higher-yielding assets, primarily one-to-four-family mortgage loans in 2013. The increase in the loan portfolio balances in 2013 did increase loan interest income despite lower yields on the loan portfolio. The decrease in balances in investment securities, despite moderately higher yields in the overall investment securities portfolio in 2013 compared to 2012, has resulted in decreased investment securities interest income. The decrease in balances in mortgage-backed securities in 2013 compared to 2012, has resulted in lower yields as well as decreased mortgage-backed securities income. The decrease in the balances in cash and cash equivalents, primarily interest-earning deposits at the Federal Reserve Bank and Federal Home Loan Bank, in 2013 compared to 2012, resulted in slightly lower income on interest bearing demand deposits. The Company continues to maintain a strong liquidity position in anticipation of funding loan commitments in the first quarter of 2014. The yield on interest-earning assets decreased by 6 basis points to 3.67% for the year ended December 31, 2013 from 3.73% for the year ended December 31, 2012, while the cost of liabilities decreased 23 basis points to 0.96% for the year ended December 31, 2013 from 1.19% for the year ended December 31, 2012. Decreased interest rates have lowered our cost on deposits and borrowings at a faster rate than our long-term loans and investments, providing positive results in our net interest income in 2013 and 2012. Our average interest rate spread increased to 2.71% for the year ended December 31, 2013 from 2.54% for the year ended December 31, 2012, and our average net interest margin increased to 2.79% for the year ended December 31, 2013 from 2.63% for the year ended December 31, 2012. The increase in net interest margin in 2013, reflective of an increase in net interest income, was the result of the Company's ability to reduce the deposit and borrowing costs in a low interest rate environment, partly offset by a modest decrease in overall yield on interest-earning assets. If the

Federal Reserve Board continues to maintain its target for Federal Funds Rate at 0.0%-0.25% throughout 2014, the decreased market rates should have a downward effect on yields in both interest-earning assets and interest-bearing liabilities.

Net loans receivable increased $29.5 million, or 20.0%, to $177.0 million at December 31, 2013 from $147.5 million at December 31, 2012. The Bank originated $85.3 million of residential mortgage loans, sold $33.4 million in the secondary market and brokered $2.7 million of long-term fixed rate conventional mortgage loans, FHA mortgage loans, VA mortgage loans, and USDA/Rural Housing loans as a balance sheet management strategy during 2013 to reduce interest rate risk in a potentially rising interest rate environment. The Bank sold these loans at a gain of $1.2 million which was recorded in other income in 2013. At December 31, 2013, the Bank had $35.6 million in mortgage loans sold and will realize servicing income on these loans as long as these loans have outstanding balances. At December 31, 2013, the Bank had $1.3 million in loans held for sale comprised of FHA mortgage loans, VA mortgage loans and fixed rate long term conventional mortgage loans originated and closed by the Bank in the fourth quarter of 2013 that have been committed for sale in the secondary market and will be delivered and sold in the first quarter of 2014. Based on the Company's business strategy and market conditions in 2014, we intend to continue to sell, on a selective basis, a portion of our fixed-rate residential mortgage loans, FHA mortgage loans and VA mortgage loans.

Total deposits increased by $16.3 million, or 10.0%, to $180.0 million at December 31, 2013 from $163.7 million at December 31, 2012. The deposit growth is reflective of management's commitment to further strengthen the Bank's customer relationships and expand its market penetration by offering desirable core deposit products. In 2014, we intend to grow our deposits with competitive products and pricing, excellent customer service and targeted marketing activities in an effort to encourage new customers to experience our products and services.

Borrowings increased by $6.7 million, or 22.1%, to $37.0 million at December 31, 2013 from $30.3 million at December 31, 2012, as a result of management's decision to increase long term wholesale borrowings in this low interest rate environment.

Business Strategy

Our business strategy is to operate as a well-capitalized community bank that is dedicated to providing exceptional personal service to our customers. We will continue to focus our efforts to be the primary provider of financial services to families and individuals in our market area.

Our business strategy is to grow and improve our profitability by:

- Continuing to emphasize the origination of residential real estate loans at our current origination office in Pittsford as well as a Greece mortgage origination office that will open in February 2014;
- Operating as a community-oriented retail financial institution with branch expansion primarily in eastern Monroe County, New York;
- Continuing to manage our interest rate risk;

- Aggressively marketing our core deposits; increasing our share of lower-cost checking accounts, cross selling our deposit products, and enhancing transaction convenience with wider ATM access at no cost to the customer;
- Maintaining high asset quality;
- Increasing non-interest revenues; and
- Cost control of operating expenses.

We believe that these strategies will guide our business and provide shareholder value as we continue to grow our branch network. We intend to continue to pursue our business strategy, subject to changes necessitated by future market conditions and other factors. We intend to focus on the following:

- ***Retail-Oriented Community Financial Institution.*** Fairport Savings Bank was established in Fairport, New York in 1888 and has been operating continuously since that time. We are committed to meeting the financial needs of the communities we serve and we are dedicated to providing personalized quality service to our customers. We believe that we can be more effective than many of our competitors in serving our customers because of the ability of our senior management to promptly and effectively respond to customer requests and inquiries.

- ***Managing Our Interest Rate Risk.*** To improve our interest rate risk, in recent years we have reduced the fixed-rate loan originations added to our loan portfolio by selling select fixed-rate mortgages in the secondary market, investing a portion of funds received from loan payments and repayments in shorter term and intermediate term, liquid investment securities and securities classified as available for sale including U.S. Government agency debt obligations and mortgage-backed securities; emphasizing the marketing of our passbook, savings and checking accounts, money market accounts and increasing the duration whenever possible of our certificates of deposit; and taking longer duration Federal Home Loan Bank borrowings.

  If short-term interest rates remain low in 2014, we expect a decrease in our cost of funds on deposits and borrowings. This would positively affect the average cost of our interest-bearing liabilities as our certificates of deposit and borrowings mature and reprice at a lower cost to us. We have $51.0 million in certificate of deposit accounts (including individual retirement accounts) that are scheduled to mature during 2014. If we retain these deposits, it will most likely be at a lower cost to us than their current contractual rate.

- ***Emphasizing Residential Real Estate Lending.*** Historically we have emphasized the origination of one-to-four family residential loans within Monroe County and the surrounding counties of Livingston, Ontario, Orleans and Wayne.

As of December 31, 2013, 89.3% of our loan portfolio consisted of one-to-four family residential loans, and 99.9% of our loan portfolio consisted of loans secured by real estate. The Company intends to continue to emphasize aggressive, yet prudent originations of loans secured by one-to-four family residential real estate. In addition to our five full service branches, we operate three mortgage loan origination offices located in Canandaigua, Pittsford, Watertown, and a new office in Greece, New York scheduled to open in February 2014.

- ***Maintaining High Asset Quality.*** We believe that our high asset quality is a result of conservative underwriting standards, the diligence of our loan collection personnel and the stability of the local economy. At December 31, 2013, we had one non-performing loan for $56,000, and at this date, our ratio of allowance for loan losses to non-performing loans was 933.3% and our ratio of allowance for loan losses to total loans was 0.30%. Because 99.9% of our loans are secured by real estate, and our level of non-performing loans has been low in recent periods, we believe that our allowance for loan losses is adequate to absorb the probable losses inherent in our loan portfolio. Management continues to actively monitor the performance of the loan portfolio during these difficult economic times.

Comparison of Financial Condition at December 31, 2013, 2012 and 2011

	At December 31, 2013	At December 31, 2012	At December 31, 2011
		(In thousands)	
Selected Financial Condition Data:			
Total assets	$ 237,474	$ 215,981	$ 223,251
Cash and cash equivalents	5,898	6,381	9,037
Securities available for sale	36,376	42,390	68,410
Securities held to maturity	6,928	7,058	7,230
Loans held for sale	1,309	2,521	1,535
Loans, net	177,001	147,515	126,742
Deposits	180,013	163,667	177,161
Federal Home Loan Bank advances	36,977	30,290	24,178
Stockholders' equity	19,595	20,781	20,843

	For the Year Ended December 31,		
	2013	2012	2011
		(In thousands)	
Selected Operating Data:			
Interest and dividend income	$ 7,842	$ 7,660	$ 7,985
Interest expense	1,894	2,260	2,797
Net interest income	5,948	5,400	5,188
Provision for loan losses	90	40	30
Net interest income after provision for loan losses	5,858	5,360	5,158
Other income	2,496	2,577	1,367
Other expense	7,993	7,924	6,711
Income (loss) before income taxes	361	13	(186)
Provision (benefit) for income taxes	70	(43)	(114)
Net income (loss)	$ 291	$ 56	$ (72)

	At or For the Year Ended December 31,		
	2013	2012	2011
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on average assets	0.13%	0.03%	(0.03)%
Return on average equity	1.42%	0.27%	(0.35)%
Interest rate spread (1)	2.71%	2.54%	2.43%
Net interest margin (2)	2.79%	2.63%	2.55%
Efficiency ratio (3)	94.66%	99.24%	102.38%
Other income to average total assets	1.12%	1.19%	0.64%
Other expense to average total assets	3.57%	3.66%	3.14%
Average interest-earning assets to average interest-bearing liabilities	109%	109%	110%
Asset Quality Ratios:			
Non-performing assets as a percent of total assets	0.02%	0.00%	0.15%
Non-performing loans as a percent of total loans	0.03%	0.00%	0.26%
Allowance for loan losses as a percent of non-performing loans	939.29%	0.00%	126.60%
Allowance for loan losses as a percent of total loans	0.30%	0.29%	0.32%
Capital Ratios:			
Total risk-based capital (to risk-weighted assets)	15.28%	17.23%	19.45%
Tier 1 leverage (core) capital (to adjusted tangible assets)	7.23%	7.83%	7.63%
Tangible capital (to tangible assets)	7.23%	7.83%	7.63%
Tier 1 risk-based capital (to risk-weighted assets)	14.82%	16.79%	18.98%
Average equity to average total assets	9.17%	9.64%	9.66%
Other Data:			
Number of full service offices	5	5	5

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(1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.
(3) The efficiency ratio represents other expense divided by the sum of net interest income and other income.

Total Assets. Total assets increased $21.5 million, or 10.0%, to $237.5 million at December 31, 2013 from $216.0 million at December 31, 2012, reflecting increases in net loans receivable, investment in FHLB stock, Bank Owned Life Insurance ("BOLI"), and other assets, partially offset by decreases in cash and cash equivalents, securities available for sale, loans held for sale, securities held to maturity, premises and equipment, prepaid FDIC premium, and accrued interest receivable. Net loans receivable increased $29.5 million, or 20.0%, to $177.0 million at December 31, 2013 from $147.5 million at December 31, 2012. In 2013 we increased our residential mortgage loans in the portfolio as an earnings strategy, despite selling $33.4 million in residential loans and correspondent FHA and VA mortgages to reduce interest rate risk. The mortgage loans serviced for others increased by $10.0 million, or 39.1%, to $35.6 million at December 31, 2013 compared to $25.6 million at December 31, 2012. Federal Home Loan Bank of New York stock increased by $310,000, or 18.3%, to $2.0 million at December 31, 2013, from $1.7 million at December 31, 2012 with the additional purchase of stock due to more FHLB borrowings in 2013. The bank owned life insurance cash surrender value increased by $96,000, or 2.8%, to $3.5 million at December 31, 2013 from $3.4 million at December 31, 2012. Other assets

increased by $41,000, or 5.4%, to $795,000 at December 31, 2013 from $754,000 at December 31, 2012 as a result of an increase in prepaid and deferred charges and mortgage servicing rights at December 31, 2013.

Cash and cash equivalents decreased by $483,000, or 7.6%, to $5.9 million at December 31, 2013 from $6.4 million at December 31, 2012. Mortgage loans held for sale decreased by $1.2 million, or 48.1%, to $1.3 million at December 31, 2013 compared to $2.5 million at December 31, 2012. Securities available for sale decreased by $6.0 million, or 14.2%, to $36.4 million at December 31, 2013 from $42.4 million at December 31, 2012. The decrease is primarily due to purchases of $17.8 million, net of maturities and calls of $13.2 million, $483,000 in mortgage-backed securities sales, $1.4 million in SBA securities sales, $5.9 million in mortgage-backed securities principal repayments, $180,000 in SBA principal repayments, $306,000 in net amortization of premiums and accretion of discounts, and a $2.3 million decrease in the fair value of securities available for sale. Securities held to maturity decreased $130,000, or 1.8%, to $6.9 million at December 31, 2013 from $7.1 million at December 31, 2012 due to purchases of $215,000 in state and municipal securities, net of $329,000 of principal repayments on mortgage-backed securities, and $15,000 in net amortization of premiums and accretion of discounts. Premises and equipment, net, decreased $270,000, or 8.1%, to $3.0 million at December 31, 2013 from $3.3 million a year earlier due to depreciation of office buildings, along with furniture, fixtures and equipment. The Bank's prepaid FDIC premium decreased by $301,000, or 100.0%, to $0 at December 31, 2013 from $301,000 at December 31, 2012, as a result of a refund from the FDIC for unused credits in June 2013. Accrued interest receivable decreased by $30,000, or 4.5%, to $642,000 at December 31, 2013 from $672,000 at December 31, 2012.

Deposits and Borrowings. Total deposits increased $16.3 million, or 10.0%, to $180.0 million at December 31, 2013 from $163.7 million at December 31, 2012. The increase in our deposits reflects an increase of $1.1 million in non-interest-bearing checking accounts, a $974,000 increase in interest-bearing transaction accounts, and a $14.3 million increase in certificates of deposit, including individual retirement accounts. Certificates of deposit (including our individual retirement accounts) increased $14.3 million to $100.4 million at December 31, 2013 from $86.1 million at December 31, 2012. Total borrowings from the Federal Home Loan Bank of New York increased $6.7 million, or 22.1% to $37.0 million at December 31, 2013 from $30.3 million at December 31, 2012, as an alternative wholesale funding source in 2013.

Stockholders' Equity. Stockholders' equity decreased $1.2 million or 5.7%, to $19.6 million at December 31, 2013 from $20.8 million at December 31, 2012. The change resulted from a decrease of $1.5 million in accumulated other comprehensive (loss) income, a $29,000 increase from committed ESOP shares, and purchase of $13,000 of treasury stock from the ESOP, partially offset by net income of $291,000. The Bank's capital ratios continue to classify Fairport Savings Bank as a well capitalized bank, the highest standard of capital rating as defined by the Bank's regulators.

Comparison of Operating Results for the Years Ended December 31, 2013 and 2012

General. The net income of $291,000 for the year ended December 31, 2013 is an increase in earnings of $235,000 from net income of $56,000 for the year ended December 31, 2012. The year over year increase in earnings of $235,000 was attributable to an increase in net interest income of $548,000, partially offset by an $81,000 decrease in other income, an increase in other expense of $69,000, an increase in income taxes of $113,000, and a $50,000 increase in provision for loan losses.

Interest and Dividend Income. Total interest and dividend income increased $182,000, or 2.4%, to $7.8 million for the year ended December 31, 2013 from $7.7 million for the year ended December 31, 2012. The interest and dividend income increase resulted from an $8.0 million increase year over year in average interest-earning assets, primarily loans, despite a 6 basis point decrease in the overall yield on interest-earning assets to 3.67% for 2013 from 3.73% for 2012 reflecting decreases in market interest rates in a lower interest rate environment.

Interest income on loans, including fees, increased $428,000, or 6.6%, to $6.9 million for 2013 from $6.5 million for 2012, reflecting an increase in the average balance of loans to $161.9 million for 2013 from $138.7 million for 2012, despite a 41 basis point lower average yield. The average yield on loans decreased to 4.27% for 2013 from 4.68% for 2012, reflecting decreases in market interest rates on loan products. Interest income on taxable investment securities decreased $62,000 to $520,000 in 2013 from $582,000 in 2012. The average balance of investment securities decreased $8.7 million, or 27.1%, to $23.5 million from $32.2 million, while the average yield on investment securities increased to 2.22% from 1.81%. Interest income on mortgage-backed securities decreased $185,000 to $341,000 in 2013, from $526,000 in 2012, reflecting a decrease in the average yield on mortgage-backed securities of 35 basis points to 1.55% in 2013 from 1.90% in 2012, while the average balance of mortgage-backed securities decreased $5.7 million, or 20.7%, to $22.0 million from $27.7 million. Interest income on federal funds sold decreased by $1,000, to $5,000 for 2013 from $6,000 for 2012. The average balance of federal funds sold decreased by $928,000 for the year, while the average yield increased by 2 basis points to 0.14% for 2013 from 0.12% for 2012. Interest income on state and municipal securities increased $2,000 to $60,000 in 2013, from $58,000 in 2012. The average balance of state and municipal securities increased by $119,000, or 4.0%, to $3.1 million from $3.0 million, while the average yield decreased by 2 basis points to 2.94% in 2013, from 2.96% in 2012.

Total Interest Expense. Total interest expense decreased $366,000, or 16.2%, to $1.9 million for the year ended December 31, 2013 from $2.3 million for the year ended December 31, 2012. The decrease in total interest expense resulted from a 23 basis point decrease in the average cost of interest-bearing liabilities to 0.96% for 2013 from 1.19% for 2012, as a result of lower market interest rates paid on deposits and less interest paid in FHLB borrowings expense, despite a $7.7 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits decreased $296,000, or 19.7%, to $1.2 million for 2013 from $1.5 million for the prior year. The decrease resulted primarily from a 17 basis point decrease to 0.74% in the weighted average rate we paid on deposits for 2013 from 0.91% for 2012 in response to lower market interest rates. The average balance on transaction accounts, traditionally our lower cost of deposit accounts, decreased by $1.2 million to $77.9 million for 2013 from $79.1 million

for 2012, with a decrease in average cost of transaction accounts of 6 basis points to 0.32% in 2013 from 0.38% in 2012. Additionally, the average balance of certificates of deposit (including individual retirement accounts) traditionally our higher yielding deposit cost, decreased by $793,000 to $89.4 million in 2013 from $90.2 million in 2012 with a decrease in the cost of certificates of deposit accounts by 25 basis points to 1.08% in 2013 from 1.33% in 2012.

At December 31, 2013, we had $51.0 million of certificates of deposits, including individual retirement accounts, which are scheduled to mature during 2014. Based on current market interest rates, we expect that the cost of these deposits will continue to decrease.

Interest expense on Federal Home Loan Bank advances decreased $70,000, or 9.3%, to $686,000 for 2013 from $756,000 for the year ended December 31, 2012. The decreased interest expense was caused by decreased cost of these funds from 3.06% to 1.97%, despite a $10.1 million increase in our average balance of Federal Home Loan Bank advances totaling $34.8 million for 2013 compared to $24.7 million for 2012.

Net Interest Income. Net interest income increased $548,000, or 10.1%, to $5.9 million for the year ended December 31, 2013 from $5.4 million for the year ended December 31, 2012. The increase in net interest income was primarily attributable to a 17 basis point increase in our interest rate spread to 2.71% for 2013 from 2.54% for 2012, and an increase in our net interest margin of 16 basis points to 2.79% for 2013 from 2.63% for 2012. The increase in our interest rate spread and net interest margin were the result of an increase in net interest income with decreased interest expense on deposits and borrowings, partially offset by decreased overall yields from interest-earning assets. While these short-term market interest rates (used as a guide to price our deposits) have decreased, longer-term market interest rates (used as a guide to price our longer-term loans) have also decreased. In 2013, rates on our deposits and borrowings re-priced downward faster than the rates on our loans and investments. This resulted in a reduction in our cost of funds and positively impacted our interest rate spread which in turn had a positive effect on net interest income. Interest expense decreased as a result of lower market interest rates being paid on all deposit accounts, and also FHLB advance expense with new borrowings with lower interest rates replacing maturing borrowings in 2013.

Provision for Loan Losses. We establish provisions for loan losses which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of nonperforming and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a $90,000 provision for loan losses for the year ended December 31, 2013 compared to a $40,000 provision for loan losses for the year ended December 31, 2012. The rationale for the increase in 2013 was the result of additional general provisions deemed necessary to support an increased balance of loans

receivable as well as a potentially weaker economy. The allowance for loan losses was $526,000, or 0.30% of net loans outstanding, at December 31, 2013 compared to $436,000, or 0.29% of net loans outstanding, at December 31, 2012. In 2013, we had no loss on foreclosed real estate compared to a $15,000 loss from a foreclosure that was charged to the allowance for loan losses in 2012.

Other Income. Other income decreased by $81,000 or 3.1%, to $2.5 million for 2013 from $2.6 million for 2012. The decrease in other income resulted primarily from decreases in realized gain on sale of securities, bank owned life insurance income, and deposit service fee income, partially offset by increases in Oakleaf fee income, realized gain on sale of loans, mortgage fee income, and miscellaneous other income. A substantial portion of the year over year decrease in other income was due to realized gain on sale of securities as a result of fewer sales of available for sale securities resulting in lower gain on sales of securities comparing 2013 to 2012. The primary increase in other income was attributable to additional Oakleaf fee income comparing 2013 to 2012, due to a focus on non-deposit investment sales to suitable clients with a full-time dedicated representative hired in September of 2012, and a full year of sales in 2013. There was also an increase in realized gain on sale of loans and mortgage fees associated with the growth in mortgage loan production in 2013. Gain on sale of loans increased $43,000 or 3.7% to $1.2 million in 2013 from $1.1 million in 2012. Mortgage fee income increased by $49,000 or 9.2% to $579,000 in 2013 from $530,000 in 2012.

Other Expense. Other expense increased $69,000, or 0.9%, to $8.0 million in 2013 from $7.9 million in 2012. The $69,000 increase in other expense was the result of increases in salaries and employee benefits of $351,000, occupancy of $53,000, data processing costs of $5,000, equipment of $26,000, electronic banking of $18,000, directors' fees of $19,000, partially offset by decreases in FHLB prepayment penalty of $268,000, audit and taxes of $4,000, advertising of $29,000, FDIC premium expense of $1,000, mortgage fees and taxes of $23,000, and other miscellaneous expense of $78,000. The Company had no FHLB prepayment penalty in 2013 compared to 2012 when we were able to capitalize on low interest rates to sell securities at a substantial gain, offsetting the FHLB prepayment penalty and eliminating the interest cost on $3.0 million of higher rate FHLB advances in future periods. The increase in other expense was primarily attributable to the continued investment in the loan origination division with increased salary costs associated with additional staff, and higher commissions generated by improved volume of loan originations, higher Oakleaf commissions with additional sales, additional occupancy, equipment expenses and mortgage fees and taxes deemed necessary in order to successfully grow our loan portfolio to increase interest income and earnings.

Income Tax Expense (Benefit). Income tax expense was $70,000 for 2013, an increase of $113,000 compared to a tax benefit of $43,000 for 2012. The effective tax rate was 19.4% in 2013 compared to (330.8)% in 2012. The Company's lower effective tax rate for 2013 and 2012, compared to prior years, resulted from a reduction in income tax expense due to the increase in cash surrender value of our bank-owned life insurance and municipal bond interest income, which are tax exempt for Federal income tax purposes.

Average balances and yields. The following table sets forth average balance sheets, average yields and costs and certain other information at and for the years indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of

average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are accreted or amortized to interest income or interest expense.

	For the Years Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Interest-earning assets:									
Loans	$ 161,940	$ 6,916	4.27%	$ 138,721	$ 6,488	4.68%	$ 119,818	$ 6,178	5.16%
Federal funds sold	3,884	5	0.14	4,812	6	0.12	7,774	11	0.14
Investment securities	23,458	520	2.22	32,160	582	1.81	40,763	897	2.20
Mortgage-backed securities	21,962	341	1.55	27,679	526	1.90	33,706	847	2.51
State and municipal securities (1)	3,088	91	2.94	2,969	88	2.96	2,568	79	3.08
Total interest-earning assets	214,332	7,873	3.67	206,341	7,690	3.73	204,629	8,012	3.92
Noninterest-earning assets	9,327			9,831			8,976		
Total assets	$ 223,659			$ 216,172			$ 213,605		
Interest-bearing liabilities:									
NOW accounts	$ 19,455	37	0.19	$ 15,225	37	0.24	$ 12,459	45	0.36
Passbook savings	31,036	130	0.42	35,803	181	0.51	28,297	118	0.42
Money market savings	22,309	81	0.36	23,443	83	0.35	26,254	142	0.54
Individual retirement accounts	15,005	212	1.42	16,441	281	1.71	18,353	408	2.22
Certificates of deposit	74,423	748	1.01	73,780	922	1.25	77,235	1,186	1.18
Federal Home Loan Bank advances	34,802	686	1.97	24,685	756	3.06	25,355	898	3.54
Total interest-bearing liabilities	197,030	1,894	0.96%	189,377	2,260	1.19%	187,953	2,797	1.49%
Noninterest-bearing liabilities:									
Demand deposits	5,118			4,649			4,046		
Other	995			1,303			976		
Total liabilities	203,143			195,329			192,975		
Stockholders' equity	20,516			20,843			20,630		
Total liabilities and stockholders' equity	$ 223,659			$ 216,172			$ 213,605		
Net interest income		$ 5,979			$ 5,430			$ 5,215	
Interest rate spread (2)			2.71%			2.54%			2.43%
Net interest-earning assets (3)	$ 17,302			$ 16,964			$ 16,676		
Net interest margin (4)		2.79%			2.63%			2.55%	
Average interest-earning assets to average interest-bearing liabilities	109%			109%			109%		

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 34% federal tax rate.
(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	For the Years Ended December 31, 2013 vs. 2012			For the Years Ended December 31, 2012 vs. 2011		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)			(In thousands)		
Interest-earning assets:						
Loans	$ 898	$ (470)	$ 428	$ 755	$ (445)	$ 310
Federal funds sold	(7)	6	(1)	(4)	(1)	(5)
Investment securities	(381)	319	(62)	(171)	(144)	(315)
Mortgage-backed securities	(98)	(87)	(185)	(136)	(185)	(321)
State and municipal securities	0	3	3	11	(2)	9
Total interest-earning assets	412	(229)	183	455	(777)	(322)
Interest-bearing liabilities:						
NOW accounts	0	0	0	16	(24)	(8)
Passbook savings	(22)	(29)	(51)	35	28	63
Money market savings	(5)	3	(2)	(14)	(45)	(59)
Individual retirement accounts	(23)	(46)	(69)	(40)	(87)	(127)
Certificates of deposit	432	(606)	(174)	(51)	(213)	(264)
Federal Home Loan Bank advances	477	(547)	(70)	(23)	(119)	(142)
Total interest-bearing liabilities	859	(1,225)	(366)	(77)	(460)	(537)
Net change in net interest income	$ (447)	$ 996	$ 549	$ 532	$ (317)	$ 215

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, we have an asset/liability management committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

We intend to continue to manage our interest rate risk in order to control the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we intend to use the following strategies to manage our interest rate risk.

(i) invest in shorter to medium-term repricing and/or maturing securities whenever market allows;

(ii) emphasize the marketing of our passbook, savings and checking accounts and increasing the duration of our certificates of deposit;

(iii) sell a portion of our long-term, fixed-rate one-to-four family residential real estate mortgage loans; and

(iv) maintain a strong capital position.

In 2013, we sold $33.4 million of mortgage loan originations including $14.5 million of conventional conforming fixed-rate residential mortgages, $15.3 million of correspondent FHA mortgage loans, and $3.6 million of correspondent VA mortgage loans to improve our interest rate risk position in the event of increases in market interest rates. We intend to continue to originate and, subject to market conditions, sell a portion of our long term fixed-rate one-to-four family residential real estate loans.

Additionally, shortening the average maturity of our interest-earning assets by increasing our investments in shorter term loans, as well as loans with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. By following these strategies, we believe that we are better-positioned to react to changes in market interest rates.

Interest Rate Risk Management

Our earnings and the market value of our assets and liabilities are subject to fluctuations caused by changes in the level of interest rates. We manage the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities in an effort to minimize the adverse effects of changes in the interest rate environment. The majority of our assets are long-term fixed-rate mortgage loans that do not reprice as quickly as our deposits, therefore we would experience a significant decrease in our net interest income in the event of an inversion of the yield curve. We expect that our net interest income will be positively affected as our certificates of deposit mature and reprice at a lower cost to us. We have $51.0 million in certificates of deposit accounts (including individual retirement accounts) that are scheduled to mature during 2014. If we retain these deposits it most likely will be at a lower average cost to us than their current contractual rates.

We have an Asset/Liability Management Committee to coordinate all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding

sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the Federal Home Loan Bank of New York, maturities and principal repayments of securities, and loan sales. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our asset/liability management committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio of 20.0% or greater. For the year ended December 31, 2013, our liquidity ratio averaged 39.8%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of December 31, 2013.

We regularly adjust our investments in liquid assets based upon our assessment of:

(i) expected loan demand;

(ii) expected deposit flows;

(iii) yields available on interest-earning deposits and securities; and

(iv) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits, short and intermediate-term securities and federal funds sold.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2013, cash and cash equivalents totaled $5.9 million.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At December 31, 2013, we had $7.6 million in loan commitments outstanding. In addition to commitments to originate loans, we had $11.3 million in unused lines of credit to borrowers. Certificates of deposit (including individual retirement accounts) comprised solely of certificates of deposits, due within one year of December 31, 2013 totaled $51.0 million, or 50.8% of our certificates of deposit (including individual retirement accounts) and 28.3% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, other deposit products, including certificates of deposit, and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit

due on or before December 31, 2014. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of New York, which provides an additional source of funds. Federal Home Loan Bank advances, gross of prepayment premiums, increased by $6.6 million to $37.0 million for the year ended December 31, 2013, compared to a net increase of $5.9 million to $30.4 million for the year ended December 31, 2012. At December 31, 2013, we had the ability to borrow approximately $124.5 million from the Federal Home Loan Bank of New York, of which $37.0 million had been advanced.

The Company also has a repurchase agreement with Raymond James Financial providing an additional $10.0 million in liquidity. Funds obtained under the repurchase agreement are secured by the Company's U.S Government and agency obligations. There were no advances outstanding under the repurchase agreement at December 31, 2013 or 2012.

Fairport Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2013, Fairport Savings Bank exceeded all regulatory capital requirements. Fairport Savings Bank is considered "well capitalized" under regulatory guidelines. See "Supervision and Regulation—Federal Banking Regulation—Capital Requirements" and Note 12 of the Notes to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, Fairport Savings Bank is a party to credit-related financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by us, is based on our credit evaluation of the customer.

At December 31, 2013 and 2012, we had $7.6 million and $11.3 million, respectively, of commitments to grant loans, and $9.0 million and $10.2 million, respectively, of unfunded commitments under lines of credit.

For additional information, see Note 11 of the Notes to our Consolidated Financial Statements.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Market for Common Stock

FSB Community Bankshares, Inc.'s common stock is quoted on the OTC Bulletin Board under the trading symbol "FSBC."

The following table sets forth the high and low trading prices for shares of our common stock for the periods indicated. We did not pay any cash dividends to our stockholders in 2013 or in 2012. As of December 31, 2013, there were 1,785,000 and 1,782,125 shares of our common stock issued and outstanding, respectively of which 946,050 shares, or 53.0%, were held by FSB Community Bankshares, MHC, our mutual holding company. On such date our shares were held by approximately 139 holders of record.

Year Ended December 31, 2013	**High**	**Low**
Fourth quarter	$ 8.60	$ 8.05
Third quarter	9.49	8.25
Second quarter	9.50	8.00
First quarter	9.13	7.00
Year Ended December 31, 2012	**High**	**Low**
Fourth quarter	$ 7.00	$ 6.05
Third quarter	7.00	6.05
Second quarter	7.76	7.00
First quarter	7.75	6.27

STOCKHOLDER INFORMATION

ANNUAL MEETING	TRANSFER AGENT
The Annual Meeting of Stockholders will be held at 2:00 p.m., New York time on Wednesday, May 28, 2014 at the Perinton Community Center located at 1350 Turk Hill Road, Fairport, New York 14450.	Registrar and Transfer Company 10 Commerce Drive Cranford, New Jersey 07016 If you have any questions concerning your stockholder account, please call our transfer agent, noted above, at (800) 525-7686. This is the number to call if you require a change of address or need records or information about lost certificates.
STOCK LISTING	**ANNUAL REPORT**
The Company's Common Stock is quoted on the OTC Bulletin Board under the symbol "FSBC."	A copy of the Company's Annual Report for the year ended December 31, 2013 will be furnished without charge to stockholders as of the record date, upon written request to the Secretary, FSB Community Bankshares, Inc., 45 South Main Street, Fairport, New York 14450.
SPECIAL COUNSEL	**INDEPENDENT AUDITOR**
Luse Gorman Pomerenk & Schick, P.C. 5335 Wisconsin Avenue, N.W., Suite 780 Washington, D.C. 20015	Bonadio & Co., LLP 115 Solar Street, Suite 100 Syracuse, New York 13204

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 27, 2014

To the Board of Directors and Stockholders of
FSB Community Bankshares, Inc.:

We have audited the accompanying consolidated financial statements of FSB Community Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FSB Community Bankshares, Inc. and Subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Consolidated Balance Sheets
December 31, 2013 and 2012

	2013	2012
	(Dollars in Thousands, except share and per share data)	
Assets		
Cash and due from banks	$ 1,215	$ 1,163
Interest bearing demand deposits	4,683	5,218
Cash and Cash Equivalents	5,898	6,381
Securities available for sale	36,376	42,390
Securities held to maturity (fair value 2013 $7,146; 2012 $7,343)	6,928	7,058
Investment in FHLB stock	2,006	1,696
Loans held for sale	1,309	2,521
Loans, net of allowance for loan losses (2013 $526; 2012 $436)	177,001	147,515
Bank owned life insurance	3,471	3,375
Accrued interest receivable	642	672
Premises and equipment, net	3,048	3,318
Prepaid FDIC premium	-	301
Other assets	795	754
Total Assets	$237,474	$215,981
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$ 5,675	$ 4,585
Interest bearing	174,338	159,082
Total Deposits	180,013	163,667
Borrowings	36,977	30,290
Official bank checks	606	481
Other liabilities	283	762
Total Liabilities	217,879	195,200
Stockholders' Equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock; $0.10 par value; 10,000,000 shares authorized; 1,785,000 shares issued; 1,782,125 and 1,783,853 shares outstanding in 2013 and 2012, respectively	179	179
Paid-in capital	7,245	7,251
Retained earnings	13,812	13,521
Accumulated other comprehensive (loss) income	(1,164)	329
Treasury stock at cost, 2013-2,875 shares, 2012-1,147 shares	(22)	(9)
Unearned ESOP shares – at cost	(455)	(490)
Total Stockholders' Equity	19,595	20,781
Total Liabilities and Stockholders' Equity	$237,474	$215,981

See accompanying notes to consolidated financial statements

FSB Community Bankshares, Inc.

Consolidated Statements of Income

Years Ended December 31, 2013 and 2012

	2013	2012
	(Dollars in Thousands, Except Per Share Data)	
Interest and Dividend Income		
Loans	**$6,916**	$6,488
Securities - taxable	**520**	582
Securities - tax exempt	**60**	58
Mortgage-backed securities	**341**	526
Other	**5**	6
Total Interest and Dividend Income	**7,842**	7,660
Interest Expense		
Deposits	**1,208**	1,504
Borrowings	**686**	756
Total Interest Expense	**1,894**	2,260
Net Interest Income	**5,948**	5,400
Provision for loan losses	**90**	40
Net Interest Income after Provision for loan losses	**5,858**	5,360
Other Income		
Service fees	**196**	206
Fee income	**202**	67
Realized gain on sale of securities	**76**	369
Increase in cash surrender value of bank owned life insurance	**96**	110
Realized gain on sale of loans	**1,190**	1,147
Mortgage fee income	**579**	530
Other	**157**	148
Total Other Income	**2,496**	2,577
Other Expense		
Salaries and employee benefits	**4,637**	4,286
Occupancy	**929**	876
Data processing costs	**123**	118
Advertising	**167**	196
Equipment	**650**	624
Electronic banking	**81**	63
Directors' fees	**145**	126
Mortgage fees and taxes	**343**	366
FDIC premium expense	**148**	149
Audit and tax services	**86**	90
FHLB prepayment penalty	**-**	268
Other	**684**	762
Total Other Expense	**7,993**	7,924
Income before Income Taxes	**361**	13
Provision (Benefit) for Income Taxes	**70**	(43)
Net Income	**$ 291**	$ 56
Basic earnings per common share	**$ 0.17**	$ 0.03

See accompanying notes to consolidated financial statements

FSB Community Bankshares, Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2013 and 2012

(Dollars in thousands)

	2013	2012
Net Income	$ 291	$ 56
Other Comprehensive Income (Loss) Net of Tax		
Change in unrealized (losses) gains on securities available for sale	(2,185)	167
Reclassification adjustment for realized gains included in net income	(76)	(369)
Other Comprehensive Loss, Before Tax	(2,261)	(202)
Income Tax Benefit Related to Other Comprehensive Loss	768	69
Other Comprehensive Loss, Net of Tax	(1,493)	(133)
Comprehensive Loss	$ (1,202)	$ (77)

See accompanying notes to consolidated financial statements

FSB Community Bankshares, Inc.

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2013 and 2012

(In Thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unearned ESOP Shares	Total
Balance - January 1, 2012	$ 179	$ 7,262	$ 13,465	$ 462	$ -	$ (525)	$ 20,843
Net income	-	-	56	-	-	-	56
Other comprehensive loss, net	-	-	-	(133)	-	-	(133)
Effect of employee stock option plan, net	-	-	-	-	(9)	-	(9)
ESOP shares committed to be released	-	(11)	-	-	-	35	24
Balance - December 31, 2012	179	7,251	13,521	329	(9)	(490)	20,781
Net income	-	-	291	-	-	-	291
Other comprehensive loss, net	-	-	-	(1,493)	-	-	(1,493)
Effect of employee stock option plan, net	-	-	-	-	(13)	-	(13)
ESOP shares committed to be released	-	(6)	-	-	-	35	29
Balance - December 31, 2013	$ 179	$ 7,245	$ 13,812	$ (1,164)	$ (22)	$ (455)	$ 19,595

See accompanying notes to consolidated financial statements

FSB Community Bankshares, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	$ 291	$ 56
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and accretion of discounts on investments	322	680
Net gain on sales of securities	(76)	(369)
Gain on sale of loans	(1,190)	(1,147)
Proceeds from loans sold	37,309	21,648
Loans originated for sale	(34,907)	(21,487)
Amortization of net deferred loan origination costs	129	21
Amortization of deferred prepayment penalties on FHLB advances	132	189
Depreciation and amortization	500	530
Provision for loan losses	90	40
Expense related to ESOP	29	24
Deferred income tax expense (benefit)	2	(44)
Earnings on investment in bank owned life insurance	(96)	(110)
Decrease in accrued interest receivable	30	212
Decrease in prepaid FDIC premium and other assets	260	38
Increase in other liabilities	287	148
Net Cash Provided by Operating Activities	3,112	429
Cash Flows from Investing Activities		
Purchases of securities available for sale	(17,829)	(33,189)
Proceeds from maturities and calls of securities available for sale	13,249	39,069
Proceeds from sales of securities available for sale	2,032	11,879
Proceeds from principal paydowns on securities available for sale	6,071	7,763
Purchases of securities held to maturity	(214)	(129)
Proceeds from principal paydowns on securities held to maturity	328	286
Net increase in loans	(29,705)	(20,834)
Purchase of Federal Home Loan Bank stock	(310)	(295)
Purchase of premises and equipment	(230)	(194)
Net Cash (Used by) Provided by Investing Activities	(26,608)	4,356
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	16,346	(13,494)
Proceeds from long-term borrowings	24,694	32,500
Repayments on long-term borrowings	(18,139)	(26,577)
Purchase of treasury stock	(13)	(9)
Net increase in official bank checks	125	139
Net Cash Provided by (Used by) Financing Activities	23,013	(7,441)
Net Decrease in Cash and Cash Equivalents	(483)	(2,656)
Cash and Cash Equivalents - Beginning	6,381	9,037
Cash and Cash Equivalents - Ending	$ 5,898	$ 6,381

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

Supplementary Cash Flows Information		
Interest paid	**$ 1,894**	$ 2,271

See accompanying notes to consolidated financial statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Organization and Nature of Operations

On December 17, 2003, Fairport Savings Bank's (the "Bank") depositors approved a Plan of Reorganization (the "Plan") from a Federal Mutual Savings Bank to a Federal Mutual Holding Company. Under the Plan, effective January 14, 2005, FSB Community Bankshares, MHC (the "Mutual Holding Company") was incorporated under the laws of the United States as a mutual holding company. Also under the Plan, FSB Community Bankshares, Inc. (the "Company") was incorporated and became a wholly-owned subsidiary of the Mutual Holding Company. In addition, effective January 14, 2005, the Bank completed its reorganization whereby the Bank converted to a stock savings bank and became a wholly-owned subsidiary of the Company.

In August 2007, the Company completed its minority stock offering of 47% of the aggregate total voting stock of the Company. In connection with the minority stock offering, 1,785,000 shares of common stock were issued, of which 838,950 shares were sold, including 69,972 issued to the Company's Employee Stock Ownership Plan (ESOP), at $10 per share raising net proceeds of $7.4 million. The stock was offered to the Bank's eligible depositors, the Bank's ESOP, and the public. Additionally, the Company issued 946,050 shares, or 53% of its common stock, to the Mutual Holding Company.

In August 2012 the Company deregistered its common stock under the Securities Exchange Act of 1934. The Company's requirement to file periodic reports with the SEC, including reports on Form 10-K, 10-Q and 8-K, and also proxy materials and other reports with the SEC ceased.

The Company provides a variety of financial services to individuals and corporate customers through its wholly-owned subsidiary, Fairport Savings Bank. The Bank's operations are conducted in five branches located in Monroe County, New York. The Company and the Bank are subject to the regulations of certain regulatory authorities and undergo periodic examinations by those regulatory authorities.

The Company's principal business consists of originating one-to-four-family residential real estate mortgages, home equity loans and lines of credit and to a lesser extent, originations of commercial real estate, multi-family, construction and other consumer loans. The Company has three mortgage origination offices located in Pittsford, New York, Canandaigua, New York, and Watertown, New York.

The Bank also provides non-deposit investment services to its customers through its wholly-owned subsidiary, Oakleaf Services Corporation ("Oakleaf"). The results of operations of Oakleaf are not material to the consolidated financial statements.

Basis of Consolidation

The Mutual Holding Company, which engages in no significant business activity other than holding the stock of the Company, is not included in the accompanying consolidated financial statements. The consolidated financial statements include the accounts of the Company, the Bank and Oakleaf. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the evaluation of other-than-temporary impairment of investment securities, and deferred tax assets.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and interest-bearing demand deposits.

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank (FRB) based on a percentage of deposits. These reserve balances totaled $376,000 and $249,000 at December 31, 2013 and 2012, respectively.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Monroe, Livingston, Ontario, Orleans, and Wayne Counties, New York. Note 2 discusses the types of securities that the Company invests in. The concentration of credit by type of loan is set forth in Note 3. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is primarily dependent upon the real estate and general economic conditions in those areas.

Securities

The Company has classified as held to maturity, all mortgage-backed securities and State and Municipal securities which it has the positive intent and ability to hold until maturity. These securities are carried at amortized cost. All other debt securities, mortgage-backed securities, and Small Business Association (SBA) pools having readily determinable fair values are classified as available for sale and stated at fair value. Unrealized gains or losses related to securities available for sale are excluded from earnings and reported in other comprehensive income (loss) net of the related deferred income tax effect.

Amortization of premiums and accretion of discounts are calculated using the interest method and included in interest income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in other income.

When the fair value of a held to maturity or available for sale security is less than its amortized cost basis, an assessment is made at the balance sheet date as to whether other-than-temporary impairment ("OTTI") is present.

The Company considers numerous factors when determining whether potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis or carrying value.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for the period of time sufficient to allow for any anticipated recovery in fair value.

For debt securities, credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). Credit-related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis or carrying value. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost, or carrying value, less any credit-related losses recognized. For securities classified as held to maturity, the amount of OTTI recognized in other comprehensive income (loss) is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in income.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Federal Home Loan Bank of New York

Federal law requires a member institution of the Federal Home Loan Bank System to hold stock of its district Federal Home Loan Bank ("FHLB") according to a predetermined formula. This restricted stock is carried at cost.

Management's determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of its cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

No impairment charges were recorded related to the FHLB stock during 2013 or 2012.

Loans Held for Sale

Mortgage loans held for sale in the secondary market are carried at the lower of cost or fair value. Separate determinations of fair value for residential and commercial loans are made on an aggregate basis. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the consolidated financial statements. Realized gains and losses on sales are computed using the specific identification method.

Loan Servicing Rights

The Company retains the servicing on most fixed-rate mortgage loans sold and receives a fee based on the principal balance outstanding.

Loans serviced for others totaled $35,572,000 and $25,580,000 at December 31, 2013 and 2012, respectively.

The Company also sells correspondent FHA and VA mortgage loans, servicing released.

Loan servicing rights are recorded when loans are sold with servicing rights retained. The fair value of the mortgage servicing rights ("MSRs") is determined using a method which utilizes servicing income, discount rates, and prepayment speeds relative to the Bank's portfolio for MSRs. MSRs amounted to $188,000 and $106,000 at December 31, 2013 and 2012, respectively, and are included in other assets on the consolidated balance sheets.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan

losses, and net deferred origination fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method over the estimated life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses (the "Allowance") is established as losses are estimated to have occurred in the loan portfolio. The allowance for loan losses is recorded through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan is uncollectable. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are deemed impaired and classified as either special mention, substandard, doubtful, or loss. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for the following qualitative factors: effects of changes in lending policies; national and/or local economic trends and conditions; trends in volume and terms of loans; experience, ability, and depth of management; levels and trends of delinquencies, non-accruals and classified loans; quality of institutions loan review system; collateral value for collateral dependent loans; concentrations of credit; and competition, legal and regulatory requirements on level of estimated credit losses. 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 specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures unless subject to a troubled debt restructuring.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Bank Owned Life Insurance

The Company holds life insurance policies on a key executive. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Premises and Equipment

Premises and equipment are stated at cost. Depreciation and amortization are computed on the straight-line basis over the shorter of the estimated useful lives or lease terms (in the case of leasehold improvements) of the related assets. Estimated useful lives are generally 20 to 30 years for premises and 3 to 10 years for furniture and equipment.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to earnings, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The Company had no foreclosed real estate at December 31, 2013 and 2012.

Income Taxes

Income taxes are provided for the tax effects of certain transactions reported in the consolidated financial statements. Income taxes consist of taxes currently due plus deferred taxes related primarily to temporary differences between the financial reporting and income tax basis of the allowance for loan losses, premises and equipment, certain state tax credits, and deferred loan origination costs. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated balance sheets when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has not granted any restricted stock awards or stock options and, during the years ended December 31, 2013 and 2012, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating basic earnings per common share until they are committed to be released. The average common shares outstanding were 1,736,388 and 1,734,493 for the years ended December 31, 2013 and December 31, 2012 respectively.

Treasury Stock

Treasury stock is recorded using the cost method and accordingly is presented as a reduction of stockholders' equity.

Reclassifications

Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform to the current year's presentation. Such reclassifications had no impact on stockholders' equity or net income.

Note 2 - Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2013 and 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2013:				
Available for Sale:				
U.S. Government and agency obligations	$ 20,503	$ 11	$ (1,754)	$ 18,760
Mortgage-backed securities - residential	16,254	112	(178)	16,188
SBA pools	1,382	46	-	1,428
	$ 38,139	$ 169	$ (1,932)	$ 36,376
Held to Maturity:				
Mortgage-backed securities - residential	$ 3,641	$ 144	$ -	$ 3,785
State and municipal securities	3,287	77	(3)	3,361
	$ 6,928	$ 221	$ (3)	$ 7,146
December 31, 2012:				
Available for Sale:				
U.S. Government and agency obligations	$ 20,806	$ 38	$ (10)	$ 20,834
Mortgage-backed securities - residential	18,039	377	(4)	18,412
SBA pools	3,047	97	-	3,144
	$ 41,892	$ 512	$ (14)	$ 42,390
Held to Maturity:				
Mortgage-backed securities - residential	$ 3,972	$ 168	$ -	$ 4,140
State and municipal securities	3,086	117	-	3,203
	$ 7,058	$ 285	$ -	$ 7,343

Mortgage-backed securities consist of securities that are issued by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), Ginnie Mae ("GNMA"), and Federal Farm Credit Bank ("FFCB") and are collateralized by residential mortgages. U.S. Government and agency securities include notes and bonds with both fixed and variable rates. Tax exempt state and municipal securities consist of government obligation and revenue bonds.

Note 2 - Securities (Continued)

The amortized cost and estimated fair value by contractual maturity of debt securities at December 31, 2013 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)			
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	1,500	1,512	2,595	2,655
Due after five years through ten years	7,000	6,412	477	491
Due after ten years	12,003	10,836	215	215
Mortgage-backed securities - residential	16,254	16,188	3,641	3,785
SBA pools	1,382	1,428	-	-
	$ 38,139	$ 36,376	$ 6,928	$ 7,146

There were $76,000 of gross realized gains and no losses on sales of securities available for sale in 2013 resulting from proceeds of $2,032,000. There were $369,000 of gross realized gains and no losses on sales of securities available for sale in 2012 resulting from proceeds of $11,879,000.

There were no realized gains or losses on sales of securities held to maturity in 2013 and 2012.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at December 31, 2013 and 2012.

Note 2 - Securities (Continued)

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2013 and 2012:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
2013:						
Available for Sale						
U.S. Government and agency obligations	$ 14,569	$ 1,434	$ 2,679	$ 320	$ 17,248	$ 1,754
Mortgage-backed securities - residential	7,222	166	1,441	12	8,663	178
	$ 21,791	$ 1,600	$ 4,120	$ 332	$ 25,911	$ 1,932
2013:						
Held to Maturity						
State and municipal securities	$ 107	$ 1	$ 126	$ 2	$ 233	$ 3
	$ 107	$ 1	$ 126	$ 2	$ 233	$ 3
2012:						
Available for Sale						
U.S. Government and agency obligations	$ 2,995	$ 10	$ 1,002	$ -	$ 3,997	$ 10
Mortgage-backed securities - residential	2,687	4	-	-	2,687	4
	$ 5,682	$ 14	$ 1,002	$ -	$ 6,684	$ 14
2012:						
Held to Maturity						
State and municipal securities	$ -	$ -	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -	$ -	$ -

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any), and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of the security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee

of the federal government or any of its agencies. In 2013 and 2012, the Company did not record an other-than-temporary impairment charge.

At December 31, 2013, sixteen U.S. Government and agency obligations and nine mortgage-backed securities were in a continuous unrealized loss position for less than twelve months. At December 31, 2013, three U.S. Government and agency obligations and one mortgage-backed security were in a continuous unrealized loss position for more than twelve months. The debt securities and mortgage-backed securities were issued by U.S. government sponsored agencies. All are paying in accordance with their terms with no deferrals of interest or defaults. Because the decline in fair value is attributable to changes in interest rates, not credit quality, and because management does not intend to sell and will not be required to sell these securities prior to recovery or maturity, no declines are deemed to be other-than-temporary. At December 31, 2013, one municipal security was in a continuous unrealized loss position for less than twelve months. At December 31, 2013, two municipal securities were in a continuous unrealized loss position for more than twelve months. The state and municipal securities are general obligation (G.O.) bonds backed by the full faith and credit of local municipalities. There has never been a default of a New York G.O. in the history of the state. Historical performance does not guarantee future performance, but it does indicate that the risk of loss on default of a G.O. municipal bond for the Company is relatively low. All are paying in accordance with their terms and with no deferrals of interest or defaults. Because the decline in fair value is attributable to changes in interest rates, not credit quality, and because management does not intend to sell and will not be required to sell these securities prior to recovery or maturity, no declines are deemed to be other-than-temporary. There were no SBA pools in a continuous loss position for less than or more than twelve months as of December 31, 2013.

Note 3 – Loans and The Allowance for Loan Losses

Net loans at December 31, 2013 and 2012 consist of the following:

	2013	2012
	(In Thousands)	
Real estate loans:		
Secured by one-to-four-family residences	**$158,189**	$133,959
Secured by multi-family residences	**3,069**	453
Construction	**2,821**	739
Commercial	**2,015**	2,085
Home equity lines of credit	**11,045**	10,254
Other loans	**71**	86
Total Loans	**177,210**	147,576
Net deferred loan origination costs	**317**	375
Allowance for loan losses	**(526)**	(436)
Net Loans	**$177,001**	$147,515

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of a commercial real estate class. Consumer loans consist of the following classes: residential real estate secured by one-to-four-family residences, residential real estate secured by multi-family residences, construction, home equity lines of credit, and other loans.

The Company's primary lending activity is the origination of one-to-four-family residential real estate mortgage loans. At December 31, 2013, $158.2 million, or 89.3%, of the total loan portfolio consisted of one-to-four-family residential real estate mortgage loans compared to $134.0 million, or 90.8%, of the total loan portfolio at December

Note 3 – Loans and The Allowance for Loan Losses (Continued)

31, 2012. The Bank offers fixed-rate and adjustable rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $750,000.

The Company currently offers fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that provide an initial fixed interest rate for one, three, five, seven or ten years and that amortize over a period of up to 30 years. The Company originates fixed-rate mortgage loans with terms of less than 15 years, but at rates applicable to 15-year loans. The Company originates fixed-rate bi-weekly mortgage loans with terms of up to 30 years that are fully amortizing with bi-weekly loan payments, and "interest only" loans where the borrower pays interest for an initial period (ten years) after which the loan converts to a fully amortizing loan.

Management actively monitors the interest rate risk position to determine the desired level of investment in fixed-rate mortgages. Depending on market interest rates and the Bank's capital and liquidity position, all newly originated longer term fixed-rate residential mortgage loans may be retained, or, all or a portion of such loans may be sold in the secondary mortgage market to government sponsored entities such as Freddie Mac or other purchasers.

The Company originates residential, first mortgage loans with the assistance of computer-based underwriting engines licensed from Fannie Mae and/or Freddie Mac. Appraisals of real estate collateral are contracted directly with independent appraisers and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with all rules and best practice guidance from the Bank's primary regulator. Credit scoring, using FICO is employed in the ultimate, judgmental credit decision by the Bank's underwriting staff. The Company does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one-to-four-family homes generally located in Monroe, Ontario, and Wayne Counties of New York State. The Bank's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. Underwriting policies generally adhere to Fannie Mae and Freddie Mac guidelines for loan requests of conforming and non-conforming amounts. In deciding whether to originate each residential mortgage, the Bank considers the qualifications of the borrower as well as the value of the underlying property. During 2013 and 2012, the Bank elected to sell many of its fixed-rate loan originations due to the low level of market interest rates and the Bank's desire to manage the credit and interest rate risk inherent in the balance sheet by minimizing the additions of such long-term, low-fixed-rate instruments.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Interest-only loans present different credit risks than fully amortizing loans, as the principal balance of the loan does not decrease during the interest-only period. As a result, the Bank's exposure to loss of principal in the event of default does not decrease during this period.

The Company offers home equity lines of credit, which are primarily secured by a second mortgage on one-to-four-family residences. At December 31, 2013, home equity lines of credit totaled $11.0 million, or 6.2%, of total loans receivable compared to $10.2 million, or 6.9%, of total loans receivable at December 31, 2012.

The underwriting standards for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. The combined loan-to-value ratio (first and second mortgage liens) for home equity lines of credit is generally limited to 90%. The Company originates home equity lines of credit without application fees or borrower-paid closing costs. Home equity lines of credit are offered with adjustable-rates of interest indexed to the prime rate, as reported in *The Wall Street Journal*.

Multi-family residential loans generally are secured by rental properties. Multi-family real estate loans are offered with fixed and adjustable interest rates. Loans secured by multi-family real estate totaled $3.1 million, or 1.7%, of the total loan portfolio at December 31, 2013 compared to $453,000, or 0.3%, of the total loan portfolio at December 31, 2012. Multi-family real estate loans are originated for terms of up to 20 years. Adjustable-rate multi-family real

estate loans are tied to the average yield on U.S. Treasury securities, subject to periodic and lifetime limitations on interest rate changes.

Loans secured by multi-family real estate generally involve a greater degree of credit risk than one-to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate typically depends upon the successful operation of the real estate property securing the loans. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

The Company originates construction loans for the purchase of developed lots and for the construction of single-family residences. At December 31, 2013, construction loans totaled $2.8 million, or 1.6%, of total loans receivable compared to $739,000, or 0.5%, at December 31, 2012. At December 31, 2013, the additional unadvanced portion of these construction loans totaled $2.6 million compared to $401,000 at December 31, 2012. Construction loans are offered to individuals for the construction of their personal residences by a qualified builder (construction/permanent loans).

Before making a commitment to fund a construction loan, the Company requires an appraisal of the property by an independent licensed appraiser. The Company generally also reviews and inspects each property before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the loan.

Commercial real estate loans are secured by office buildings, mixed use properties, places of worship and other commercial properties. Loans secured by commercial real estate totaled $2.0 million, or 1.1%, of the Company's total loan portfolio at December 31, 2013 compared to $2.1 million, or 1.4%, of our total loan portfolio at December 31, 2012.

The Company generally originates adjustable-rate commercial real estate loans with maximum terms of up to 15 years. The maximum loan-to-value ratio of commercial real estate loans is 70%.

Loans secured by commercial real estate generally are larger than one-to-four-family residential loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

The Company offers a variety of other loans secured by property other than real estate. At December 31, 2013, these other loans totaled $71,000, or 0.1%, of the total loan portfolio compared to other loans totaling $86,000, or 0.1%, of the total loan portfolio at December 31, 2012. These loans include automobile, passbook, overdraft protection and unsecured loans. Due to the relative immateriality of other loans, the Company's risk associated with these loans is not considered significant.

Note 3 – Loans and The Allowance for Loan Losses (Continued)

The following table sets forth the allowance for loan losses allocated by loan class and the activity in the allowance for loan losses for the years ending December 31, 2013 and 2012. The allowance for loan losses allocated to each class is not necessarily indicative of future losses in any particular class and does not restrict the use of the allowance to absorb losses in other classes.

	Secured by 1-4 family residential	Secured by multi-family residential	Construction	Commercial	Home Equity Lines of Credit	Other/ Unallocated	Total
				(In Thousands)			
At December 31, 2013							
Beginning Balance	$ 348	$ 4	$ 4	$ 21	$ 51	$ 8	$436
Charge Offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	56	19	10	(1)	4	2	90
Ending Balance (1)	$ 404	$ 23	$ 14	$ 20	$ 55	$ 10	$526
At December 31, 2012							
Beginning Balance	$ 289	$ 10	$ 5	$ 15	$ 47	$ 45	$411
Charge Offs	(15)	-	-	-	-	-	(15)
Recoveries	-	-	-	-	-	-	-
Provisions	74	(6)	(1)	6	4	(37)	40
Ending Balance (1)	$ 348	$ 4	$ 4	$ 21	$ 51	$ 8	$436

(1)All Loans are collectively evaluated for impairment.

The Company's policies, consistent with regulatory guidelines, provide for the classification of loans that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.

When the Company classifies assets as pass a portion of the related general loss allowances is allocated to such assets as deemed prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The Company's determination as to the classification of its assets and the amount of its loss allowances are subject to review by its principal state regulator, the New York State Department of Financial Services, which can require that the Company establish additional loss allowances. The Company regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

At December 31, 2013 and 2012, there were no loans considered to be impaired and no troubled debt restructurings.

The following table presents the risk category of loans by class at December 31, 2013 and 2012:

	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
2013					
One-to-four-family residential	$ 157,706	$ 427	$ 56	$ -	$158,189
Multi-family residential	3,069	-	-	-	3,069
Construction	2,821	-	-	-	2,821
Commercial	2,015	-	-	-	2,015
Home equity lines of credit	11,045	-	-	-	11,045
Other loans	71	-	-	-	71
Total	$ 176,727	$ 427	$ 56	$ -	$177,210
2012					
One-to-four-family residential	$ 133,489	$ 65	$ 405	$ -	$133,959
Multi-family residential	453	-	-	-	453
Construction	739	-	-	-	739
Commercial	2,085	-	-	-	2,085
Home equity lines of credit	10,254	-	-	-	10,254
Other loans	86	-	-	-	86
Total	$ 147,106	$ 65	$ 405	$ -	$147,576

At December 31, 2013 the Company had one nonaccrual loan for $56,000, and at December 31, 2012 the Company had no nonaccrual loans. There were no loans that were past due 90 days or more and still accruing interest at December 31, 2013 and 2012. Interest on non-accrual loans that would have been earned if loans were accruing interest was immaterial for both 2013 and 2012.

Delinquent Loans. The following table sets forth the Company's analysis of the age of the loan delinquencies by type and by amount past due as of December 31, 2013 and 2012.

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
			(In thousands)			
2013						
Real estate loans:						
One-to-four-family residential	$ 394	$ -	$ 56	$ 450	$ 157,739	$ 158,189
Multi-family residential	-	-	-	-	3,069	3,069
Construction	-	-	-	-	2,821	2,821
Commercial	-	-	-	-	2,015	2,015
Home equity lines of credit	-	-	-	-	11,045	11,045
Other loans	-	-	-	-	71	71
Total	$ 394	$ -	$ 56	$ 450	$ 176,760	$ 177,210
2012						
Real estate loans:						
One-to-four-family residential	$ 344	$ 61	$ -	$ 405	$ 133,554	$ 133,959
Multi-family residential	-	-	-	-	453	453
Construction	-	-	-	-	739	739
Commercial	-	-	-	-	2,085	2,085
Home equity lines of credit	-	-	-	-	10,254	10,254
Other loans	-	-	-	-	86	86
Total	$ 344	$ 61	$ -	$ 405	$ 147,171	$ 147,576

Note 4 - Premises and Equipment

Premises and equipment at December 31, 2013 and 2012 are summarized as follows:

	2013	2012
	(In Thousands)	
Premises	**$4,101**	$4,044
Furniture, fixtures and equipment	**2,904**	2,732
	7,005	6,776
Accumulated depreciation and amortization	**(3,957)**	(3,458)
	$3,048	$3,318

At December 31, 2013, the Company was obligated under non-cancelable operating leases for existing branches in Penfield, Irondequoit, Webster, and Perinton, New York and for three offices of the Mortgage division in Canandaigua, Watertown, and Pittsford, New York. Rent expense under leases totaled $384,000 during 2013. Rent expense under the same non-cancelable operating leases totaled $381,000 during 2012. Future minimum rental payments under these leases for the next five years and thereafter are as follows (in thousands):

Years ending December 31,	
2014	$ 400
2015	371
2016	327
2017	308
2018	307
Thereafter	2,908
Total	$ 4,621

Note 5 - Deposits

The components of deposits at December 31, 2013 and 2012 consist of the following:

	2013	2012
	(In Thousands)	
Non-interest bearing	**$ 5,675**	$ 4,585
NOW accounts	**21,849**	17,881
Regular savings, tax escrow and demand clubs	**29,637**	32,801
Money market	**22,450**	22,280
Individual retirement accounts	**14,451**	15,460
Certificates of deposit	**85,951**	70,660
	$180,013	$163,667

Note 5 – Deposits (Continued)

As of December 31, 2013, individual retirement accounts and certificates of deposit have scheduled maturities as follows (in thousands):

2014	$ 50,992
2015	39,624
2016	5,014
2017	2,879
2018	1,893
	$ 100,402

The aggregate amount of time deposits, each with a minimum denomination of $100,000 was $39,671,000 and $29,778,000 at December 31, 2013 and 2012, respectively. Under the Dodd-Frank Act, deposit insurance per account owner has been raised from $100,000 to $250,000.

Interest expense on deposits for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
	(In Thousands)	
NOW accounts	$ 37	$ 37
Regular savings and demand clubs	130	181
Money market	81	83
Individual retirement accounts	212	281
Certificates of deposit	748	922
	$ 1,208	$ 1,504

Note 6 - Borrowings

Borrowings consist of advances from the Federal Home Loan Bank of New York (FHLB).

The following table sets forth the contractual maturities of borrowings with the FHLB as of December 31:

Advance Date	Maturity Date	Current Rate	2013	2012
			(In Thousands)	
09/14/05	09/14/15	4.75 %	**$ 544**	$ 609
06/05/06	06/06/16	5.63 %	**1,000**	1,000
08/17/06	08/17/15	5.50 %	**1,000**	1,000
01/04/08	01/04/13	4.04 %	**-**	500
01/15/08	01/15/13	3.81 %	**-**	500
02/20/08	02/20/13	3.29 %	**-**	2,000
11/03/09	11/03/14	2.37 %	**209**	414
07/21/10	01/22/13	1.26 %	**-**	1,663
07/21/10	01/22/13	1.26 %	**-**	1,000
07/21/10	01/22/13	1.26 %	**-**	500
07/21/10	07/22/13	1.42 %	**-**	258
07/21/10	07/22/13	1.42 %	**-**	1,000
07/21/10	07/22/13	1.42 %	**-**	1,000
07/21/10	01/21/14	1.66 %	**1,000**	1,000
07/21/10	01/21/14	1.66 %	**500**	500
07/21/10	01/21/14	1.66 %	**1,494**	1,494
07/21/10	01/21/14	1.66 %	**1,061**	1,061
07/21/10	07/21/14	1.89 %	**1,000**	1,000
07/21/10	07/21/14	1.89 %	**1,252**	1,252
07/21/10	01/21/15	2.07 %	**510**	511
04/25/12	04/25/17	1.03 %	**1,033**	1,329
08/16/12	08/16/17	1.00 %	**1,509**	1,902
09/05/12	09/05/19	1.13 %	**1,678**	1,954
11/06/12	11/06/17	0.86 %	**1,607**	2,000
11/27/12	11/27/17	1.12 %	**1,000**	1,000
12/19/12	12/19/19	1.20 %	**1,748**	2,000
12/27/12	12/27/16	0.97 %	**1,000**	1,000
12/27/12	12/27/17	0.89 %	**820**	1,000
01/04/13	01/04/19	1.52 %	**1,000**	-
01/15/13	01/16/18	1.18 %	**1,000**	-
01/22/13	01/23/17	0.96 %	**1,000**	-
01/22/13	01/22/18	1.20 %	**1,000**	-
01/22/13	01/22/19	1.44 %	**1,000**	-
02/12/13	02/12/16	0.79 %	**1,500**	
02/20/13	02/21/20	1.28 %	**897**	-
02/20/13	02/21/23	1.77 %	**931**	-
06/25/13	06/25/15	0.82 %	**2,000**	-
07/02/13	07/02/18	1.35 %	**1,871**	-
07/22/13	07/23/18	1.27 %	**1,870**	-
09/19/13	09/19/18	1.37 %	**968**	-
09/19/13	09/16/16	1.14 %	**2,000**	-
			37,002	30,447
Deferred prepayment penalties			**25**	157
			$36,977	$30,290

Note 6 - Borrowings (Continued)

Prepayment penalties that qualified for deferral when paid in prior years are being recognized in interest expense as an adjustment to the cost of the Company's new borrowings over the repayment period of these new borrowings.

At December 31, 2013, there was $25,000 remaining in deferred prepayment penalties that will be recognized in interest expense as an adjustment to the Company's borrowings in future periods.

The Company completed a balance sheet restructure in the first quarter of 2012 by paying off $3.0 million in FHLB advances with a weighted average rate of 5.48%, resulting in a prepayment penalty of $268,000. The funds for the prepayment of the advances came from the proceeds of the sale of $5.4 million in available for sale investment securities with a weighted average yield of 2.69%, recording a realized gain on sale of securities of $266,000 in other income. The Company was able to capitalize on low interest rates to sell securities at a substantial gain, partially offsetting the FHLB advance prepayment penalty and eliminating the interest cost on these higher rate FHLB advances in future periods.

Borrowings are secured by residential mortgages with a carrying amount of $148,406,000 at December 31, 2013 and the Company's investment in FHLB stock. As of December 31, 2013, $87,506,000 was available for borrowings.

The following table sets forth the contractual maturities of all FHLB borrowings at December 31, 2013 (dollars in thousands):

	Contractual Maturity	Weighted Average Rate
2014	$ 6,516	1.76%
2015	4,055	2.66
2016	5,500	1.83
2017	6,969	0.97
2018	6,709	1.28
Thereafter	7,253	1.34
	$ 37,002	1.55%

The Company also has a repurchase agreement with Raymond James providing an additional $10 million in liquidity collateralized by the Company's U.S. Government and agency obligations. There were no advances outstanding under the repurchase agreement at December 31, 2013 and 2012. Securities are not pledged until the borrowing is initiated.

Note 7 - Income Taxes

The provision (benefit) for income taxes for 2013 and 2012 consists of the following:

	2013	2012
	(In Thousands)	
Current		
Federal	$ 65	$ -
State	3	1
Deferred	2	(44)
	$ 70	$ (43)

The Company's effective tax rate was 19% and (331)% in 2013 and 2012, respectively. The effective tax rate primarily reflects the impact of adjustment to provide an appropriate valuation allowance against future tax benefits.

Note 7 - Income Taxes (Continued)

Items that give rise to differences between income tax expense included in the consolidated statements of income and taxes computed by applying the statutory federal tax at a rate of 34% in 2013 or 2012 included the following (dollars in thousands):

	2013		2012	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Federal Tax at a Statutory rate	$ 123	34%	$ 4	34%
State taxes, net of Federal provision	3	1	1	8
Change in valuation allowance	219	90	209	1,608
Nontaxable interest and dividend income	(45)	(12)	(48)	(373)
Allowance for loan loss tax benefit subject to valuation allowance	(219)	(90)	(209)	(1,608)
Other items	(11)	(4)	-	
Income tax provision (benefit)	$ 70	19%	$ (43)	(331)%

Deferred income tax assets and liabilities resulting from temporary differences are summarized as follows and are included in other liabilities at December 31, 2013 and at December 31, 2012 in the accompanying consolidated balance sheets:

	2013	2012
	(In Thousands)	
Deferred tax assets:		
Deferred loan origination fees	$ 52	$ 27
Allowance for loan losses - Federal	203	169
Charitable contributions carry forward	3	31
State tax credits	993	786
Supplemental Executive Retirement Plan	141	109
Other-than-temporary impairment loss on securities	22	22
Net operating loss carry forwards	-	94
Unrealized loss on securities available for sale	600	-
Other	1	-
	2,015	1,238
Valuation allowance	(1,140)	(921)
Total deferred tax assets, net of valuation allowance	875	317
Deferred tax liabilities:		
Depreciation	(19)	(91)
Unrealized gain on securities available for sale	-	(169)
Mortgage servicing rights	(73)	(41)
Total deferred tax liabilities	(92)	(301)
Net deferred tax asset (liability)	$ 783	$ 16

Note 7 - Income Taxes (Continued)

The Company has recorded a valuation allowance for state tax deductions and mortgage recording tax credits since anticipated levels of future state taxable income makes it more likely than not that all of these tax benefits will not be used. In addition, a deferred tax asset associated with a portion of the allowance for loan loss established before 2004 had not been recognized in the past as there was no expectation of achieving any tax benefit of this portion of the allowance. In 2010, that deferred tax asset was recorded, but because the future realization of the tax benefit remains unlikely to be realized, the valuation allowance was further increased to include this deferred tax asset. As a result of this item, there was no net impact on deferred taxes.

As a thrift institution, the Bank is subject to special provisions in the income tax laws regarding its allowable income tax bad debt deduction and related tax basis bad debt reserves. Deferred income tax liabilities are to be recognized with respect to any base-year reserves which are to become taxable (or "recaptured") in the foreseeable future.

Under current income tax laws, the base-year reserves would be subject to recapture if the Company pays a cash dividend in excess of earnings and profits or liquidates. The Bank does not expect to take any actions in the foreseeable future that would require the recapture of any Federal or New York State reserves.

A deferred tax liability has not been recognized with respect to the Federal base-year reserve of $1,518,000 at December 31, 2013 and 2012, because the Bank does not expect that this amount will become taxable in the foreseeable future. The unrecognized deferred tax liability with respect to the Federal base-year reserve was $516,000 at December 31, 2013 and 2012. It is more likely than not that this liability will never be incurred because, as noted above, the Bank does not expect to take any action in the future that would result in this liability being incurred.

Accounting for uncertainty in income taxes guidance requires an entity to analyze each income tax position taken in its tax returns and determine the likelihood that the position will be realized. Only tax positions that are "more-likely-than-not" to be realized can be recognized in an entity's financial statements. For tax positions that do not meet this recognition threshold, an entity will have an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized on the financial statements. The Company does not have any unrecognized tax benefits at December 31, 2013 or 2012. The Company's policy is to recognize interest and penalties in income tax expense in the consolidated statement of income. The Company's Federal and New York State tax returns, constituting the returns of the major taxing jurisdictions, are subject to examination by the taxing authorities for 2010, 2011, and 2012 as prescribed by applicable statute. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute.

No unrecognized tax benefits from uncertain tax positions are expected to arise within the next twelve months.

Note 8 – Comprehensive Income (Loss)

The following table presents the tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31, 2013 and 2012. Components of other comprehensive income (loss) include changes in net unrealized gains (losses) on securities available for sale.

The balances and changes in the components of accumulated other comprehensive income (loss), net of taxes, are as follows (in thousands):

	Unrealized Gains (Losses) on Available for Sale Securities
Accumulated other comprehensive income as of January 1, 2012	$ 462
Other comprehensive income before reclassifications	111
Amounts reclassified from accumulated other comprehensive income	(244)
Accumulated other comprehensive income as of December 31, 2012	329
Other comprehensive loss before reclassifications	(1,443)
Amounts reclassified from accumulated other comprehensive loss	(50)
Accumulated other comprehensive loss as of December 31, 2013	$ (1,164)

Reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2013 and 2012 are as follows:

Details About Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income		Affected Line Item In The Statement Where Net Income is Presented
	2013	2012	
	(In Thousands)		
Unrealized gains and losses on available-for-sale securities (before tax)	$ 76	$ 369	Realized gain on sale of securties
Tax expense	(26)	(125)	Provision for Income Taxes
Net of tax	50	244	

Note 9 - Employee Benefit Plans

The Bank has a 401(k) plan for all eligible employees. Employees are eligible for participation in the 401(k) Plan after one year of service and attaining age 21. The 401(k) Plan allows employees to contribute 1% to 100% of their annual salary subject to statutory limitations. Matching contributions made by the Bank are 100% of the first 6% of compensation that an employee contributes to the 401(k) Plan. In addition, the Bank may make a discretionary contribution as a percentage of each eligible employee's annual base compensation including the value of ESOP shares allocated. Matching contributions to the 401(k) Plan amounted to $150,000 and $127,000 for the years ended December 31, 2013 and 2012, respectively. Discretionary contributions to the 401(k) Plan were $62,000 and $121,000 for the years ended December 31, 2013 and 2012, respectively.

The Bank sponsors an Employee Stock Ownership Plan (ESOP) for eligible employees who have attained age 21 and completed one year of employment. The cost of shares not committed to be released is presented in the accompanying

consolidated balance sheets as a reduction of stockholders' equity. Allocations to individual accounts are based on participant compensation and years of service. As shares are committed to be released to participants, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings per share computations. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in-capital. Any dividends on allocated shares reduce retained earnings. Any dividends on unallocated ESOP shares reduce debt and accrued interest. In connection with establishing the ESOP in 2007, the ESOP borrowed $700,000 from the Company to purchase 69,972 common shares of the Company's stock. The loan is being repaid in twenty equal annual installments through 2026. The loan bears interest at the prime rate plus 300 basis points.

Shares are released to participants on a straight line basis as the loan is repaid and totaled 3,498 shares for each of the years ended December 31, 2013 and December 31, 2012. Total expense for the ESOP during 2013 and 2012 was $29,000 and $24,000, respectively. At December 31, 2013, the Company had 45,482 unearned ESOP shares having an aggregate market value of $366,130.

The Bank has a supplemental executive retirement plan (SERP) for two of its executives. All benefits provided under the SERP are unfunded and, as these executives retire, the Company will make payments to participants. The Company has recorded $400,000 and $319,000 at December 31, 2013 and 2012 respectively, for the SERP in other liabilities. In 2013 and 2012, the expense under the SERP totaled $91,000 and $83,000, respectively.

Note 10 - Related Party Transactions

Certain employees, executive officers and directors are engaged in transactions with the Bank in the ordinary course of business. It is the Bank's policy that all related party transactions are conducted at "arms length" and all loans and commitments included in such transactions are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Bank and do not involve more than the normal risk of collectability or present other unfavorable terms.

As of December 31, 2013 and 2012, loans outstanding with related parties were $371,000 and $742,000, respectively. During 2013, repayments totaled $69,000. There was a significant balance decrease from 2012 to 2013 due to a former officer terminating employment with the Company.

Note 11 - Commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments summarized as follows at December 31, 2013 and 2012:

	2013	2012
	(In Thousands)	
Commitments to extend credit:		
Commitments to grant loans	$ 7,563	$ 9,356
Unfunded commitments under lines of credit	11,330	10,209
	$18,893	$19,565

Note 11 – Commitments (Continued)

Commitments to grant loans at fixed-rates at December 31, 2013 totaled $7,563,000 and had interest rates that ranged from 3.875% to 4.875%.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Note 12 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 and tangible capital (as defined) to adjusted total assets (as defined). Management believes that, as of December 31, 2013 and 2012, the Bank met all capital adequacy requirements to which it was subject. As of December 31, 2013, the most recent notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

There are no conditions or events since that notification that management believes have changed the Bank's status as well capitalized.

Note 12 - Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios are presented in the table below.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2013:						
Total risk-based capital (to risk-weighted assets)	**$17,462**	**15.28 %**	**≥$9,142**	**≥8.0 %**	**≥$11,428**	**≥10.0 %**
Tier 1 capital (to risk-weighted assets)	**16,936**	**14.82**	**≥4,571**	**≥4.0**	**≥6,857**	**≥ 6.0**
Tier 1 capital (leveraged - to adjusted total assets)	**16,936**	**7.23**	**≥9,364**	**≥4.0**	**≥11,705**	**≥ 5.0**
Tangible capital (to adjusted total assets)	**16,936**	**7.23**	**≥3,511**	**≥1.5**	**N/A**	**N/A**
December 31, 2012:						
Total risk-based capital (to risk-weighted assets)	$17,081	17.23 %	≥$7,932	≥8.0 %	≥$9,915	≥10.0 %
Tier 1 capital (to risk-weighted assets)	16,645	16.79	≥3,966	≥4.0	≥5,949	≥ 6.0
Tier 1 capital (leveraged - to adjusted total assets)	16,645	7.83	≥8,507	≥4.0	≥10,634	≥ 5.0
Tangible capital (to adjusted total assets)	16,645	7.83	≥3,190	≥1.5	N/A	N/A

The following table presents a reconciliation of the Bank's equity as determined using accounting principles generally accepted in the United States of America ("GAAP") and its regulatory capital amounts as of December 31, 2013 and 2012.

	2013	2012
	(In Thousands)	
Bank GAAP equity	**$15,975**	$17,171
Net unrealized (gains) losses on securities available for sale, net of income taxes	**1,164**	(329)
Tangible capital, core capital and Tier 1 risk-based capital	**17,139**	16,842
Servicing assets and deferred taxes	**(203)**	(197)
Allowance for loan losses	**526**	436
Total risk-based capital	**$17,462**	$17,081

At December 31, 2013 the Company's consolidated equity totaled $19,595,000 compared to the Bank's equity capital of $15,975,000. See Note 14 for details concerning the Company's consolidated equity.

The FRB has issued a policy guidance regarding the payment of dividends by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the FRB's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. FRB guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net

Note 12 - Regulatory Matters (Continued)

income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of FSB Community Bankshares to pay dividends or otherwise engage in capital distributions.

Note 13 - Fair Value Measurement and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's assets and liabilities; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all assets and liabilities, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of assets and liabilities subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Note 13 - Fair Value Measurement and Fair Values of Financial Instruments (Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows at December 31:

2013	(In Thousands) Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	$18,760	$ -	$18,760	$ -
Mortgage-backed securities - residential	16,188	-	16,188	-
SBA Pools	1,428	-	1,428	-
Total Available for Sale Securities	$36,376	$ -	$36,376	$ -

2012	Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	$20,834	$ -	$20,834	$ -
Mortgage-backed securities - residential	18,412	-	18,412	-
SBA Pools	3,144	-	3,144	-
Total Available for Sale Securities	$42,390	$ -	$42,390	$ -

There were no securities transferred out of level 2 securities available for sale during the twelve months ended December 31, 2013. No assets or liabilities have been measured on a non-recurring basis at December 31, 2013 or 2012.

Required disclosures include fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of certain of the Company's assets and liabilities at December 31, 2013 and 2012.

Cash, Due from Banks, and Interest Bearing Demand Deposits

The carrying amounts of these assets approximate their fair values.

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the banking industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities'

relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are based on observable market based assumptions (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments. The Company had no Level 1 or Level 3 investment securities at December 31, 2013 or 2012.

Investment in FHLB Stock

The carrying value of FHLB stock approximates its fair value based on the redemption provisions of the FHLB stock, resulting in a Level 2 classification.

Loans

The fair values of loans held to maturity are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans, resulting in a Level 3 classification. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Mortgage loans held for sale in the secondary market are carried at the lower of cost or fair value, resulting in a Level 2 classification. Separate determinations of fair value for residential and commercial loans are made on an aggregate basis. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

Deposits

The fair values disclosed for demand deposits (e.g., NOW accounts, non-interest checking, regular 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 amounts), resulting in a Level 1 classification. The carrying amounts for variable-rate certificates of deposit approximate their fair values at the reporting date, resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

Borrowings

The fair values of FHLB long-term borrowings are estimated using discounted cash flow analyses, based on the quoted rates for new FHLB advances with similar credit risk characteristics, terms and remaining maturity, resulting in a Level 2 classification.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2013 and 2012 are as follows:

	Fair Value Hierarchy	2013 Carrying Amount	2013 Fair Value	2012 Carrying Amount	2012 Fair Value
		(In Thousands)			
Financial assets:					
Cash and due from banks	1	**$ 1,215**	**$ 1,215**	$ 1,163	$ 1,163
Interest bearing demand deposits	1	**4,683**	**4,683**	5,218	5,218
Securities available for sale	2	**36,376**	**36,376**	42,390	42,390
Securities held to maturity	2	**6,928**	**7,146**	7,058	7,343
Investment in FHLB stock	2	**2,006**	**2,006**	1,696	1,696
Loans held for sale	2	**1,309**	**1,309**	2,521	2,521
Loans, net	3	**177,001**	**175,751**	147,515	155,439
Accrued interest receivable	1	**642**	**642**	672	672
Financial liabilities:					
Deposits	1/2	**180,013**	**179,581**	163,667	163,101
Borrowings	2	**36,977**	**37,018**	30,290	29,965
Accrued interest payable	1	**48**	**48**	48	48

Note 14 - FSB Community Bankshares, Inc. (Parent Company Only) Financial Information

Balance Sheets

	December 31	
	2013	2012
	(In Thousands)	
Assets		
Cash and cash equivalents	$ 159	$ 78
Securities available for sale	3,000	3,007
Investment in banking subsidiary	15,975	17,171
ESOP loan receivable	494	525
Accrued interest receivable	21	21
Total Assets	$ 19,649	$ 20,802
Liabilities and Stockholders' Equity		
Total Liabilities	$ 54	$ 21
Stockholders' equity	19,595	20,781
Total Liabilities and Stockholders' Equity	$ 19,649	$ 20,802

Statements of Income

	Year Ended December 31	
	2013	2012
	(In Thousands)	
Interest Income	$ 80	$ 68
Other Expense	(70)	(71)
Equity in undistributed earnings of banking subsidiary	281	59
Net Income	$ 291	$ 56

Note 14 - FSB Community Bankshares, Inc. (Parent Company Only) Financial Information (Continued)

Statements of Cash Flows

	Year Ended December 31 2013	2012
	(In Thousands)	
Cash flows from operating activities		
Net income	$ 291	$ 56
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed earnings of banking subsidiary	(281)	(59)
Amortization of premiums on securities available for sale	8	39
Decrease in accrued interest receivable	-	3
Net increase (decrease) in other liabilities	33	(17)
Net cash provided by operating activities	51	22
Cash flows from investing activities		
Purchases of securities available for sale	(500)	(7,028)
Proceeds from maturities and calls of securities available for sale	500	7,000
Payments received on ESOP loan	30	29
Net cash provided by investing activities	30	1
Net increase in cash and cash equivalents	81	23
Cash and cash equivalents - beginning	78	55
Cash and cash equivalents - ending	$ 159	$ 78

Note 15 - Subsequent Events

The Company has evaluated events and transactions through March 27, 2014, which is the date the consolidated financial statements were available for issuance, for items that should potentially be recognized or disclosed in the consolidated financial statements.