FSB
Community Bankshares, Inc.

April 21, 2016

Dear Shareholder,

Despite ongoing predictions that the interest rate environment is about to become more upward oriented for us, we continue to struggle with spreads between deposits and loans that are primarily driven by the Fed's interest rate movements. Notwithstanding this difficulty we continue to grow our balance sheet towards profitable operating results. On balance, as reflected below, the investment we have made to build our loan and deposit franchises is leading to very positive results.

- Total assets increased by \$9.6 million, or 3.9% from \$246.2 million at December 31, 2014 to \$255.8 million at December 31, 2015.

- Net Loans receivable grew by \$13.0 million, or 6.9% from \$188.8 million at December 31, 2014 to \$201.8 million at December 31, 2015.

- Deposits increased by \$10.3 million, or 5.8%, from \$175.3 million at December 31, 2014 to \$185.6 million at December 31, 2015.

- Net income decreased by \$147 thousand to \$513 thousand in 2015 from \$660 thousand in 2014. The decrease in income was mainly attributable to increased costs associated with the addition of our Buffalo mortgage office and the hiring of an additional seasoned commercial lender to enhance our commercial lending team.

- The net interest margin decreased to 2.91% for the year ended December 31, 2015 from 2.95% for the year ended December 31, 2014, due to an increase in the cost of our interest bearing liabilities, primarily certificates of deposit.

- The credit quality of our loan portfolio remained strong with one non-performing residential mortgage loan, one non-performing home equity line of credit, and one non-performing checking line of credit totaling \$82 thousand at December 31, 2015, as compared to one non-performing residential mortgage loan, and one non-performing home equity line of credit totaling \$74 thousand at December 31, 2014.

In the past year we expanded our commercial loan capacity and began to originate residential mortgages in the Buffalo, New York market. The commercial loan initiative is providing much needed balance sheet diversification while the Buffalo market entry reflects our continuing appetite for mortgage loan growth. The evolution of the regulatory environment in which we operate continues to present us with myriad challenges and uncertainties.

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 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

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 business has traditionally focused on originating one- to four-family residential real estate mortgage loans and home equity lines of credit, and offering retail deposit accounts. Our primary market area consists of Monroe County and the surrounding western New York counties of Erie, Livingston, Ontario, Orleans, Jefferson and Wayne. In 2015, we began to expand our commercial lending activities in an effort to improve our interest rate risk exposure through the origination of shorter duration commercial loan products. Also in March 2015, we expanded our mortgage origination footprint, and opened a new mortgage loan origination office in Buffalo, New York. In the low interest rate environment which continued to be experienced throughout 2015 and 2014, management continued to generally sell all of the fixed-rate residential real estate loans with terms of 15 years or greater that we originated in order to manage interest rate risk. The current low interest rate environment also resulted in management's decision to decrease the amount of investment securities and to redeploy the funds available from the decrease in the investment portfolio into higher yielding assets, primarily shorter duration or adjustable one- to four-family mortgage loans in 2015. The increase in the loan portfolio balance in 2015 increased loan interest income despite lower average yields on the overall loan portfolio.

At December 31, 2015, we had $255.8 million in consolidated assets, an increase of $9.6 million, or 3.9%, from $246.2 million at December 31, 2014. During 2015, we continued to focus on loan production, particularly with respect to residential mortgage loans as well as commercial real estate loans. The credit quality of our loan portfolio remains strong and significantly better than our peers. At December 31, 2015, we had three non-performing loans totaling $82,000, while at December 31, 2014, we had two non-performing loans totaling $74,000. We had no real estate owned at December 31, 2015 or at December 31, 2014.

Our results of operations depend primarily on our net interest income and, to a lesser extent, 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 we pay 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 expenses consist primarily of salaries and employee benefits, occupancy, equipment, electronic banking, data processing costs, mortgage fees and taxes, advertising, directors' fees, FDIC deposit insurance 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, 2015, we had net income of $513,000 compared to net income of $660,000 for the year ended December 31, 2014. The year over year $147,000 decrease in net income was attributable to an increase in both other expense and the provision for loan losses, partially offset by a combination of increases in net interest income, and in other income, and a decrease in the provision for income taxes.

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, deferred tax assets and the estimation of fair values for accounting and discourse purposes.

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 an evaluation of the adequacy of the allowance for loan losses at least quarterly. 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 known and inherent 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.

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.

Estimation of Fair Values. Fair values for securities available-for-sale are obtained from an independent third party pricing service. Where available, fair values are based on quoted prices on a nationally recognized securities exchange. If quoted prices are not available, fair values are measured using quoted market prices for similar benchmark securities. Management generally makes no adjustments to the fair value quotes provided by the pricing source. The fair values of foreclosed real estate and the underlying collateral value of impaired loans are typically determined based on evaluations by third parties, less estimated costs to sell. When necessary, appraisals are updated to reflect changes in market conditions.

Business Strategy

Fairport Savings Bank was established in 1888 and has been operating continuously since that time. We are committed to meeting the financial needs of the communities we serve, primarily the greater Rochester, New York metropolitan area, and are dedicated to providing personalized superior service to our customers. In recent years, the business of banking has changed rapidly, requiring extensive investment in technology as well as significantly increased compliance expenses to address the substantial regulatory changes enacted as a result of the great recession. We recognize that to continue to meet the needs of our customers and to provide a competitive return to our stockholders, we will need to continue to grow, by both expanding our historical residential lending business and diversifying our lending efforts. Our principal strategies to achieve these goals are as follows:

- ***Continuing to Emphasize 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, 2015, 87.5% of our loan portfolio consisted of one- to four-family residential loans. We intend to continue to emphasize originations of loans secured by one- to four-family residential real estate, holding in portfolio loans that are either adjustable-rate or have fixed-rates with terms of less than 15 years and selling longer-term fixed rate-one- to four-family residential real estate loans in the secondary market to increase other income.

- ***Expanding Our Commercial Banking Market Share.*** We offer a variety of lending and deposit products for commercial banking customers in our market. We have invested heavily in developing our commercial loan department over the last two years by recruiting and hiring talented commercial loan officers and enhancing our commercial product offerings. We seek to develop broad customer deposit and loan relationships based on our service and competitive pricing while maintaining a conservative approach to lending and sound asset quality. We intend to focus our efforts on the needs of small and medium sized businesses in our market, focusing on commercial real estate, multi-family and construction loans while gradually growing our portfolio of commercial and industrial loans as well as Small Business Administration guaranteed loans.

- ***Maintaining High Asset Quality.*** We believe that strong asset quality is critical to the long-term financial success of a small community bank. We attribute our high asset quality to maintaining conservative underwriting standards, the diligence of our loan collection personnel and the stability of the local economy. At December 31, 2015, we only had three non-accrual loans totaling $82,000, and at this date, our non-performing assets to total assets ratio was 0.03%. Over the last five years, we have charged-off only $18,000. Because substantially all of our loans are secured by real estate, and the level of our non-performing loans has been low in recent years, we believe that our allowance for loan losses is adequate to absorb the probable losses inherent in our loan portfolio.

- ***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 most fixed-rate residential mortgages with terms of 15 years or greater in the secondary market. We also invest 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. We emphasize marketing our lower cost passbook, savings and checking accounts, money market accounts and increasing the duration whenever possible of our lower cost certificates of deposit and Federal Home Loan Bank borrowings.

- ***Offering A Wide Selection Of Non-Deposit Investment Products and Services.*** Fairport Wealth Management, a wholly owned subsidiary of Fairport Savings Bank, offers a broad range of investment, insurance, and financial products. We have a dedicated investment representative that evaluates the needs of clients to determine suitable investment and insurance solutions to meet their short and long-term wealth management goals. In 2015, Fairport Wealth Management had fee income of $228,000 and we intend to continue to emphasize these investment, insurance, and financial products to our customers.

Selected Consolidated Financial and Other Data

	At December 31, 2015	At December 31, 2014	At December 31, 2013
		(In thousands)	
Selected Financial Condition Data:			
Total assets	$ 255,807	$ 246,194	$ 237,474
Cash and cash equivalents	6,147	4,335	5,898
Securities available for sale	19,968	21,982	36,376
Securities held to maturity	12,979	17,402	6,928
Loans held for sale	3,880	2,961	1,309
Loans, net	201,830	188,830	177,001
Deposits	185,561	175,307	180,013
Federal Home Loan Bank advances	46,092	47,925	36,977
Stockholders' equity	21,760	21,204	19,595

	For the Year Ended December 31,		
	2015	2014	2013
		(In thousands)	
Selected Operating Data:			
Interest and dividend income	$ 8,920	$ 8,653	$ 7,842
Interest expense	1,995	1,845	1,894
Net interest income	6,925	6,808	5,948
Provision for loan losses	158	127	90
Net interest income after provision for loan losses	6,767	6,681	5,858
Other income	2,835	2,581	2,496
Other expense	8,953	8,299	7,993
Income before income taxes	649	963	361
Provision for income taxes	136	303	70
Net income	$ 513	$ 660	$ 291

	At or For the Year Ended December 31,		
	2015	2014	2013
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on average assets	0.21%	0.27%	0.13%
Return on average equity	2.36%	3.15%	1.42%
Interest rate spread (1)	2.83%	2.88%	2.71%
Net interest margin (2)	2.91%	2.95%	2.79%
Efficiency ratio (3)	93.24%	89.61%	94.66%
Other income to average total assets	1.14%	1.07%	1.12%
Other expense to average total assets	3.59%	3.44%	3.57%
Average interest-earning assets to average interest-bearing liabilities	109%	109%	109%
Asset Quality Ratios:			
Non-performing assets as a percent of total assets	0.03%	0.03%	0.02%
Non-performing loans as a percent of total loans	0.04%	0.04%	0.03%
Allowance for loan losses as a percent of non-performing loans	994.92%	883.71%	939.29%
Allowance for loan losses as a percent of total loans	0.40%	0.34%	0.30%
Capital Ratios (4):			
Total risk-based capital (to risk-weighted assets)	15.12%	15.19%	15.28%
Tier 1 leverage (core) capital (to adjusted tangible assets)	7.85%	7.24%	7.23%
Common Equity Tier 1 capital (to risk-weighted assets)	14.53%	14.65%	14.82%
Tier 1 risk-based capital (to risk-weighted assets)	14.53%	14.65%	14.82%
Average equity to average total assets	8.73%	8.69%	9.17%
Other Data:			
Number of full service offices	5	5	5

(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.
(4) Bank Only.

Comparison of Financial Condition at December 31, 2015 and 2014

Total Assets. Total assets increased $9.6 million, or 3.9%, to $255.8 million at December 31, 2015 from $246.2 million at December 31, 2014, reflecting increases in net loans receivable, loans held for sale and cash and cash equivalents, partially offset by decreases in investments, both securities held to maturity and available for sale.

Net loans receivable increased $13.0 million, or 6.9%, to $201.8 million at December 31, 2015 from $188.8 million at December 31, 2014. In 2015, we increased our portfolio of shorter-term and adjustable-rate residential mortgage loans as an earnings strategy, while selling $53.9 million in conventional longer term mortgage loans and correspondent FHA and VA mortgages to reduce interest rate risk. One- to four-family residential real estate loans increased $7.7 million, or 4.6%, to $177.0 million at December 31, 2015 from $169.3 million at December 31, 2014. Also in 2015, we continued to grow our commercial real estate and multi-family loan portfolio. Commercial and multi-family real estate loans increased $3.4 million, or 65.2%, to $8.7 million at December 31, 2015 from $5.2 million at December 31, 2014. Mortgage loans held for sale increased by $919,000, or 31.0%, to $3.9 million at December 31, 2015 compared to $3.0 million at December 31, 2014. Mortgage loans serviced for others increased by $26.7 million, or 45.0%, to

$85.9 million at December 31, 2015 compared to $59.2 million at December 31, 2014 as a result of our increased secondary market activities.

Cash and cash equivalents, primarily interest-earning deposits at the Federal Reserve Bank and the Federal Home Loan Bank, increased by $1.8 million, or 41.8%, to $6.1 million at December 31, 2015 from $4.3 million at December 31, 2014, in order to maintain a strong liquidity position in anticipation of funding loan commitments in the first quarter of 2016.

Securities available for sale decreased by $2.0 million, or 9.2%, to $20.0 million at December 31, 2015 from $22.0 million at December 31, 2014. The decrease was primarily due to maturities, calls, sales and principal repayments of $10.9 million, combined with a decrease in the fair market value of available-for-sale securities of $202,000, partially offset by purchases of $9.1 million in new securities. During the second quarter of 2014, we transferred securities with an amortized cost of $10.0 million from available for sale to held-to-maturity. The fair value of the securities transferred as of the date of the transfer was $9.6 million with a net unrealized loss of $372,000. At December 31, 2015, the fair value of these securities was $6.8 million with a net unrealized loss of $207,000. In accordance with ASC 320-10-15-10d, the unrealized loss amounts in accumulated other comprehensive loss are amortized simultaneously against interest income as the discount is accreted on the transferred securities. There is no effect on net income as the discount accretion offsets the accumulated other comprehensive loss amortization.

Securities held to maturity decreased $4.4 million, or 25.4%, to $13.0 million at December 31, 2015 from $17.4 million at December 31, 2014 due to maturities, calls and principal repayments of $4.8 million and $814,000 in mortgage-backed securities sales, partially offset by purchases of $1.2 million in state and municipal securities as cash flows were primarily redeployed into loans.

Deposits and Borrowings. Total deposits increased $10.3 million, or 5.9%, to $185.6 million at December 31, 2015 from $175.3 million at December 31, 2014. The increase in our deposits reflected a $10.4 million increase in certificates of deposit, including individual retirement accounts, due to a promotion in the second half of 2015, and a $1.3 million increase in non-interest-bearing checking accounts. These increases were partially offset by a $1.4 million decrease in interest-bearing transaction accounts consisting of decreases of $2.0 million in savings accounts and $1.6 million in money market accounts, partially offset by an increase of $2.2 million in NOW accounts. Total borrowings from the Federal Home Loan Bank of New York decreased $1.8 million, or 3.8%, to $46.1 million at December 31, 2015 from $47.9 million at December 31, 2014 as a result of replacing maturing borrowings with deposits to fund loan growth in 2015.

Stockholders' Equity. Stockholders' equity increased $556,000, or 2.6%, to $21.8 million at December 31, 2015 from $21.2 million at December 31, 2014. The increase resulted from $513,000 in net income, an increase of $14,000 in accumulated other comprehensive income and $35,000 resulting from the release of ESOP shares from the suspense account, partially offset by the repurchase of $6,000 of stock from the ESOP to fund plan distributions to participants.

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

General. Net income decreased $147,000, or 22.3%, to $513,000 for the year ended December 31, 2015 from $660,000 for the year ended December 31, 2014. The year over year decrease in net income of $147,000 was attributable to an increase in other expense of $654,000 and a $31,000 increase in the provision for loan losses, partially offset by a $254,000 increase in other income, an increase in net interest income of $117,000 and a decrease in the provision for income taxes of $167,000.

Interest and Dividend Income. Total interest and dividend income increased $267,000, or 3.1%, to $8.9 million for the year ended December 31, 2015 from $8.7 million for the year ended December 31, 2014. The interest and dividend income increase resulted from a $7.9 million increase year over year in average interest-earning assets, primarily loans, despite a one basis point decrease in the average yield earned on interest-earning assets from 3.75% for 2014 to 3.74% for 2015.

Interest income on loans increased $414,000, or 5.4%, to $8.1 million for 2015 from $7.7 million for 2014, reflecting a $13.5 million increase in the average balance of loans to $197.9 million for 2015 from $184.4 million for 2014, partially offset by an eight basis points decrease in the average yield earned on loans. The increase in the average balance of loans was due to our focus on increasing our portfolio of one- to four-family residential, commercial and multi-family loans in 2015 as compared to 2014. The average yield on loans decreased to 4.10% for 2015 from 4.18% for 2014, reflecting decreases in market interest rates on loan products, primarily residential mortgages.

Interest income on taxable investment securities decreased $101,000 to $473,000 in 2015, from $574,000 in 2014. The average balance of taxable investment securities decreased $5.1 million, or 23.0%, to $17.0 million in 2015 from $22.1 million in 2014 as a portion of the cash flow from the portfolio was redeployed to fund loan growth, while the average yield on these securities increased to 2.78% in 2015 from 2.60% in 2014. Yields on investment securities increased with new purchases at higher yields replacing lower yielding maturing investments. Interest income on mortgage-backed securities decreased $68,000 to $223,000 in 2015, from $291,000 in 2014, reflecting a decrease in the average yield on mortgage-backed securities of 17 basis points to 1.39% in 2015 from 1.56% in 2014, along with a decrease in the average balance of mortgage-backed securities of $2.6 million, or 13.9%, to $16.0 million in 2015 from $18.6 million in 2014. Mortgage-backed securities yields decreased primarily due to faster prepayments on the mortgage-backed securities portfolio in 2015 that increased the premium amortization. Interest income on tax exempt securities increased $21,000 to $93,000 in 2015, from $72,000 in 2014. The average balance of state and municipal securities increased by $1.2 million, or 33.2%, to $4.9 million in 2015 from $3.7 million in 2014, while the average tax equivalent yield decreased by 10 basis points to 2.85% in 2015 from 2.95% in 2014. The average tax equivalent yield on state and municipal securities decreased due to our purchasing shorter-term state and municipal securities in the current low interest rate environment.

Total Interest Expense. Total interest expense increased $150,000, or 8.1%, to $2.0 million for the year ended December 31, 2015 from $1.8 million for the year ended December 31, 2014. The increase in total interest expense reflected an increase in the average balance of borrowings of $8.6 million, partially offset by a decrease in the average balance of deposits of $2.8 million. The average cost of interest-bearing liabilities increased four basis points from 0.87% for 2014 to 0.91% for 2015 largely as a result of higher market interest rates paid on deposits, primarily promotional certificates of deposit.

Interest expense on deposits increased $28,000, or 2.3%, to $1.3 million for 2015 from $1.2 million for 2014. The average cost of deposits increased to 0.74% for 2015 from 0.71% for 2014, primarily reflecting higher rates paid on promotional certificates of deposit. The average cost of certificates of deposit accounts increased by nine basis points to 1.10% in 2015 from 1.01% in 2014. However, the average balance of certificates of deposit (including individual retirement accounts) decreased by $4.6 million to $93.5 million in 2015 from $98.1 million in 2014. The average balance of transaction accounts, traditionally our lower cost deposit accounts, increased by $2.8 million to $83.5 million for 2015 from $80.7 million for 2014, with a decrease in the average cost of transaction accounts of one basis point to 0.27% in 2015 from 0.28% in 2014.

At December 31, 2015, we had $61.6 million of certificates of deposit, including individual retirement accounts, which are scheduled to mature during 2016. Based on current market interest rates, we expect that the cost of these deposits upon renewal will be at a similar cost to us as their current contractual rates.

Interest expense on borrowings increased $122,000, or 19.6%, to $743,000 for the year ended December 31, 2015 from $621,000 for the year ended December 31, 2014. The increase in interest expense on borrowings reflected an $8.6 million increase in our average balance of borrowings with the Federal Home Loan Bank to $48.7 million for 2015 compared to $40.1 million for 2014, partially offset by a decrease in the average cost of these funds from 1.55% in 2014 to 1.53% in 2015. The average balance on borrowings with the Federal Home Loan Bank increased in 2015 as compared to 2014 due to the growth in borrowings throughout the year to fund loan growth.

Net Interest Income. Net interest income increased $117,000, or 1.7%, to $6.9 million for the year ended December 31, 2015 from $6.8 million for the year ended December 31, 2014. The increase in net interest income despite a decrease in net interest margin was primarily due to substantially higher average balance of loans year over year, together with an increase in the average balance of tax-exempt securities when comparing 2015 to 2014. Net interest-earning assets increased to $20.8 million for 2015 from $18.7 million for 2014. Our growth continues to focus on loan production, particularly with respect to residential and commercial real estate mortgage loans.

Our net interest margin for the year ended December 31, 2015 decreased four basis points to 2.91% from 2.95% for the year ended December 31, 2014, due to an increase in the average cost of interest-bearing liabilities of four basis points from 0.87% in 2014 to 0.91% in 2015 in addition to a decrease in the average yield on our interest-earning assets of one basis point from 3.75% in 2014 to 3.74% in 2015.

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 non-performing 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 at least 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 $158,000 provision for loan losses for the year ended December 31, 2015 compared to a $127,000 provision for loan losses for the year ended December 31, 2014. The increase in 2015 was the result of additional general provisions deemed necessary to support an increased balance of loans receivable, primarily commercial and multi-family loans, as well as a potentially weaker economy in 2016. The allowance for loan losses was $811,000, or 0.40% of net loans outstanding, at December 31, 2015 compared to $653,000, or 0.34% of net loans outstanding, at December 31, 2014.

Other Income. Other income increased by $254,000, or 9.8%, to $2.8 million for 2015 from $2.6 million for 2014. The increase in other income resulted primarily from increases in realized gains on the sales of securities and loans, mortgage fee income and fee income, partially offset by a decrease in deposit service fees. A substantial portion of the increase in other income was the result of gains on the sales of securities which increased $103,000 to $106,000 in 2015 from $3,000 in 2014. Mortgage fee income increased $94,000, or 17.5%, to $632,000 in 2015 from $538,000 in 2014. Gains on the sales of loans increased $56,000, or 3.9%, to $1.5 million in 2015 from $1.4 million in 2014. Higher mortgage loan origination volume in 2015 compared to 2014 produced an increase in both mortgage fee income and realized gain on sales of loans. Fee income from Fairport Wealth Management increased by $24,000 or, 11.8%, to $228,000 in 2015 compared to $204,000 in 2014.

Other Expense. Other expense increased $654,000, or 7.9%, to $9.0 million in 2015 from $8.3 million in 2014. The increase was the result of increases in salaries and employee benefits expense of $413,000, occupancy expense of $49,000, mortgage fees and taxes of $60,000 and other miscellaneous expense of $51,000. The increase in salaries and employee benefits expense was primarily due to normal annual increases for existing staff, the increased salary costs associated with additional processing and mortgage origination staff for our new mortgage loan origination office located in Buffalo, New York, and the hiring of an additional seasoned commercial lender to enhance our commercial lending team. The increase in occupancy expenses was also related to the mortgage loan origination office established in Buffalo, New York in March 2015. Mortgage fees and taxes increased due to the additional volume of mortgage originations in 2015 as compared to 2014.

Provision for Income Taxes. The provision for income taxes was $136,000 for 2015, a decrease of $167,000 compared to a provision for income taxes of $303,000 for 2014. The income tax provision decreased $167,000 in 2015 as compared to 2014 due to the impact of interest and dividends from tax-exempt securities as well as a partial reversal of a component of the deferred tax asset valuation allowance during 2015. The effective tax rate was 20.9% in 2015 compared to 31.5% in 2014.

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,								
	2015			2014			2013		
	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	$ 197,945	$ 8,125	4.10%	$ 184,449	$ 7,711	4.18%	$ 161,940	$ 6,916	4.27%
Federal funds sold	3,819	6	0.16	3,041	5	0.17	3,884	5	0.14
Investment securities	16,995	473	2.78	22,060	574	2.60	23,458	520	2.22
Mortgage-backed securities	16,049	223	1.39	18,638	291	1.56	21,962	341	1.55
State and municipal securities (1)	4,948	141	2.85	3,715	110	2.95	3,088	91	2.94
Total interest-earning assets	239,756	8,968	3.74	231,903	8,691	3.75	214,332	7,873	3.67
Noninterest-earning assets	9,417			9,268			9,327		
Total assets	$ 249,173			$ 241,171			$ 223,659		
Interest-bearing liabilities:									
NOW accounts	$ 26,681	36	0.14	$ 22,930	38	0.17	$ 19,455	37	0.19
Passbook savings	28,651	127	0.44	29,530	114	0.39	31,036	130	0.42
Money market savings	21,480	63	0.29	22,614	76	0.34	22,309	81	0.36
Individual retirement accounts	9,942	105	1.06	13,105	165	1.26	15,005	212	1.42
Certificates of deposit	83,574	921	1.10	84,988	831	0.98	74,423	748	1.01
Federal Home Loan Bank advances	48,675	743	1.53	40,085	621	1.55	34,802	686	1.97
Total interest-bearing liabilities	219,002	1,995	0.91%	213,252	1,845	0.87%	197,030	1,894	0.96%
Noninterest-bearing liabilities:									
Demand deposits	6,704			5,653			5,118		
Other	1,725			1,328			995		
Total liabilities	227,431			220,233			203,143		
Stockholders' equity	21,742			20,938			20,516		
Total liabilities and stockholders' equity	$ 249,173			$ 241,171			$ 223,659		
Net interest income		$ 6,973			$ 6,846			$ 5,979	
Interest rate spread (2)			2.83%			2.88%			2.71%
Net interest-earning assets (3)	$ 20,754			$ 18,651			$ 17,302		
Net interest margin (4)		2.91%			2.95%			2.79%	
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, 2015 vs. 2014			For the Years Ended December 31, 2014 vs. 2013		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)			(In thousands)		
Interest-earning assets:						
Loans	$ 561	$ (147)	$ 414	$ 937	$ (142)	$ 795
Federal funds sold	1	0	1	0	0	0
Investment securities	(145)	44	(101)	(32)	86	54
Mortgage-backed securities	(38)	(30)	(68)	(52)	2	(50)
State and municipal securities	35	(4)	31	19	0	19
Total interest-earning assets	414	(137)	277	872	(54)	818
Interest-bearing liabilities:						
NOW accounts	25	(27)	(2)	4	(3)	1
Passbook savings	(4)	17	13	(6)	(10)	(16)
Money market savings	(3)	(10)	(13)	2	(7)	(5)
Individual retirement accounts	(36)	(24)	(60)	(24)	(23)	(47)
Certificates of deposit	(14)	104	90	85	(2)	83
Federal Home Loan Bank advances	130	(8)	122	157	(222)	(65)
Total interest-bearing liabilities	98	52	150	218	(267)	(49)
Net change in net interest income	$ 316	$ (189)	$ 127	$ 654	$ 213	$ 867

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 the impact of changes in market interest rates on net interest income and capital. 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. 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.

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 conditions allow;

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

(iii) sell our newly originated long-term, fixed-rate one- to four-family residential real estate mortgage loans;

(iv) increase our commercial loan portfolio with shorter term, higher yielding loan products; and

(v) maintain a strong capital position.

In 2015, we sold $53.9 million of residential mortgage loan originations, including $32.5 million of conventional conforming fixed-rate residential mortgages and $21.4 million of correspondent FHA and VA mortgage loans. We intend to continue to originate and, subject to market conditions, sell long term (terms of 15 years or greater) fixed-rate one- to four-family residential real estate loans.

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 a sudden and significant increase in interest rates or an inversion of the yield curve. We have $61.6 million in certificate of deposit accounts (including individual retirement accounts) that are scheduled to mature during 2016. If we retain these deposits, it most likely will be at a similar cost to us as their current contractual rates.

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 $61.6 million in certificates of deposit accounts (including individual retirement accounts) that are scheduled to mature during 2016. If we retain these deposits it most likely will be at a similar 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 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.

Our primary sources of funds consist of deposit inflows, loan repayments, borrowings from the Federal Home Loan Bank of New York, maturities and principal repayments of securities, and loan and securities 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, 2015, our liquidity ratio averaged 36.1%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of December 31, 2015.

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, 2015, cash and cash equivalents totaled $6.1 million.

At December 31, 2015, we had $11.8 million in loan commitments outstanding. In addition to commitments to originate loans, we had $15.8 million in unused lines of credit outstanding to borrowers. Certificates of deposit (including individual retirement accounts comprised solely of certificates of deposits), due within one year of December 31, 2015 totaled $61.6 million, or 60.7% of our certificates of deposit (including individual retirement accounts) and 33.2% 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, and Federal Home Loan Bank borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the existing certificates of deposit due on or before December 31, 2016. 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 borrowings decreased by $1.8 million to $46.1 million at December 31, 2015, from $47.9 million at December 31, 2014. At December 31, 2015, we had the ability to borrow approximately $147.0 million from the Federal Home Loan Bank of New York, of which $46.1 million had been advanced.

We also have a repurchase agreement with Raymond James Financial providing an additional $10.0 million in liquidity. Funds obtained under the repurchase agreement are secured by our U.S Government and agency obligations. There were no advances outstanding under the repurchase agreement at December 31, 2015 or 2014.

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, 2015, Fairport Savings Bank exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines. See 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, 2015 and 2014, we had $11.8 million and $5.2 million, respectively, of commitments to grant loans, and $15.8 million and $12.2 million, respectively, of unfunded commitments under lines of credit. We had one commercial letter of credit for $299,000 at December 31, 2015 and no letters of credit at December 31, 2014.

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.

Impact of Recent Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see Note 1 of the notes to the consolidated financial statements.

Market for Common Stock

FSB Community Bankshares, Inc.'s common stock is quoted on the OTC Pink Market Place operated by OTC Markets Group 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 2015 or in 2014. As of December 31, 2015, there were 1,785,000 and 1,779,472 shares of our common stock issued and outstanding, respectively of which 946,050 shares, or 53.2%, were held by FSB Community Bankshares, MHC, our mutual holding company. On such date our shares were held by approximately 123 holders of record.

Year Ended December 31, 2015	High	Low
Fourth quarter	$ 12.25	$ 9.09
Third quarter	10.00	8.50
Second quarter	9.85	9.25
First quarter	9.99	9.15

Year Ended December 31, 2014	High	Low
Fourth quarter	$ 10.40	$ 7.95
Third quarter	9.00	7.95
Second quarter	8.00	7.50
First quarter	8.20	7.15

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 25, 2016 at the Perinton Community Center located at 1350 Turk Hill Road, Fairport, New York 14450.	Computershare Investor Services PO Box 30170 College Station, Texas 77842-3170 www.computershare.com/investor If you have any questions concerning your stockholder account, please call our transfer agent, noted above, at (800) 368-5948. 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 Pink Market Place under the symbol “FSBC.”	A copy of the Company's Annual Report for the year ended December 31, 2015 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, 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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of FSB Community Bankshares, Inc. and Subsidiary as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2015. FSB Community Bankshares, Inc. and Subsidiary's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Bonadio & Co., LLP

Syracuse, New York
March 9, 2016

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Consolidated Balance Sheets
December 31, 2015 and 2014

	2015	2014
	(Dollars in Thousands, except share and per share data)	
Assets		
Cash and due from banks	**$ 1,550**	$ 1,191
Interest bearing demand deposits	**4,597**	3,144
Cash and Cash Equivalents	**6,147**	4,335
Securities available for sale	**19,968**	21,982
Securities held to maturity (fair value 2015 $13,222; 2014 $17,783)	**12,979**	17,402
Investment in FHLB stock	**2,388**	2,449
Loans held for sale	**3,880**	2,961
Loans, net of allowance for loan losses (2015 $811; 2014 $653)	**201,830**	188,830
Bank owned life insurance	**3,629**	3,555
Accrued interest receivable	**655**	655
Premises and equipment, net	**2,744**	2,836
Other assets	**1,587**	1,189
Total Assets	**$255,807**	$246,194
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	**$ 6,974**	$ 5,710
Interest bearing	**178,587**	169,597
Total Deposits	**185,561**	175,307
Borrowings	**46,092**	47,925
Official bank checks	**1,114**	458
Other liabilities	**1,280**	1,300
Total Liabilities	**234,047**	224,990
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; 1,779,472 and 1,780,086 shares outstanding in 2015 and 2014, respectively	**179**	179
Paid-in capital	**7,239**	7,239
Retained earnings	**14,985**	14,472
Accumulated other comprehensive loss	**(212)**	(226)
Treasury stock at cost, 2015-5,528 shares, 2014-4,914 shares	**(46)**	(40)
Unearned ESOP shares – at cost	**(385)**	(420)
Total Stockholders' Equity	**21,760**	21,204
Total Liabilities and Stockholders' Equity	**$255,807**	$246,194

See accompanying notes to consolidated financial statements

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014

	2015	2014
	(Dollars in Thousands, Except Per Share Data)	
Interest and Dividend Income		
Loans	**$8,125**	$7,711
Securities - taxable	**473**	574
Securities - tax exempt	**93**	72
Mortgage-backed securities	**223**	291
Other	**6**	5
Total Interest and Dividend Income	**8,920**	8,653
Interest Expense		
Deposits	**1,252**	1,224
Borrowings	**743**	621
Total Interest Expense	**1,995**	1,845
Net Interest Income	**6,925**	6,808
Provision for loan losses	**158**	127
Net Interest Income after Provision for loan losses	**6,767**	6,681
Other Income		
Service fees	**159**	174
Fee income	**228**	204
Realized gain on sale of securities	**106**	3
Increase in cash surrender value of bank owned life insurance	**74**	84
Realized gain on sale of loans	**1,478**	1,422
Mortgage fee income	**632**	538
Other	**158**	156
Total Other Income	**2,835**	2,581
Other Expense		
Salaries and employee benefits	**5,372**	4,959
Occupancy	**1,004**	955
Data processing costs	**159**	129
Advertising	**126**	98
Equipment	**596**	614
Electronic banking	**97**	89
Directors' fees	**183**	173
Mortgage fees and taxes	**424**	364
FDIC premium expense	**157**	154
Audit and tax services	**86**	66
Other	**749**	698
Total Other Expense	**8,953**	8,299
Income before Income Taxes	**649**	963
Provision for Income Taxes	**136**	303
Net Income	**$ 513**	$ 660
Basic earnings per common share	**$ 0.29**	$ 0.38

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2015 and 2014

(Dollars in thousands)

	2015	2014
Net Income	**$ 513**	$ 660
Other Comprehensive Income (Loss)		
Change in unrealized holding (losses) gains on securities available for sale	**(96)**	1,962
Unrealized (losses) on securities transferred to held to maturity	**-**	(372)
Accretion of net unrealized losses on securities transferred from available for sale(1)	**32**	17
Reclassification adjustment for realized gains on securities available for sale included in net income	**(64)**	(3)
Reclassification adjustment for realized gains on securities held to maturity included in net income	**(42)**	-
Other Comprehensive (Loss) Income, Before Tax	**(170)**	1,604
Income Tax Benefit (Provision) Related to Other Comprehensive Income (Loss)	**184**	(666)
Other Comprehensive Income, Net of Tax	**14**	938
Comprehensive Income	**$ 527**	$ 1,598
Tax Effect Allocated to Each Component of Other Comprehensive (Loss) Income		
Change in unrealized holding (losses) gains on securities available for sale	**$ 33**	$ (667)
Accretion of net unrealized losses on securities transferred from available for sale	**115**	-
Reclassification adjustment for realized gains on securities available for sale included in net income	**21**	1
Reclassification adjustment for realized gains on securities held to maturity included in net income	**15**	-
	$ 184	$ (666)

See accompanying notes to consolidated financial statements

(1) The accretion of the unrealized holding losses in accumulated other comprehensive income at the date of transfer partially offsets the amortization of the difference between the par value and the fair value of the investment securities at the date of transfer, and is an adjustment of yield.

FSB Community Bankshares, Inc.

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2015 and 2014

(In Thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unearned ESOP Shares	Total
Balance - January 1, 2014	$ 179	$ 7,245	$ 13,812	$ (1,164)	$ (22)	$ (455)	$ 19,595
Net income	-	-	660	-	-	-	660
Other comprehensive income, net	-	-	-	938	-	-	938
Effect of employee stock ownership plan, net	-	-	-	-	(18)	-	(18)
ESOP shares committed to be released	-	(6)	-	-	-	35	29
Balance - December 31, 2014	179	7,239	14,472	(226)	(40)	(420)	21,204
Net income	-	-	513	-	-	-	513
Other comprehensive income, net	-	-	-	14	-	-	14
Effect of employee stock ownership plan, net	-	-	-	-	(6)	-	(6)
ESOP shares committed to be released	-	-	-	-	-	35	35
Balance - December 31, 2015	$ 179	$ 7,239	$ 14,985	$ (212)	$ (46)	$ (385)	$ 21,760

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	**$ 513**	$ 660
Adjustments to reconcile net income to net cash flows from operating activities:		
Net amortization of premiums and accretion of discounts on investments	**412**	165
Net gain on sales of securities	**(106)**	(3)
Gain on sale of loans	**(1,478)**	(1,422)
Proceeds from loans sold	**87,336**	60,623
Loans originated for sale	**(86,777)**	(60,853)
Amortization of net deferred loan origination costs	**128**	133
Amortization of deferred prepayment penalties on FHLB advances	**-**	25
Depreciation and amortization	**453**	474
Provision for loan losses	**158**	127
Expense related to ESOP	**35**	29
Deferred income tax benefit	**(116)**	(48)
Earnings on investment in bank owned life insurance	**(74)**	(84)
Increase in accrued interest receivable	**-**	(13)
Increase in other assets	**(399)**	(160)
Increase in other liabilities	**165**	165
Net Cash Flows From Operating Activities	**250**	(182)
Cash Flows from Investing Activities		
Purchases of securities available for sale	**(9,133)**	(3,078)
Proceeds from maturities and calls of securities available for sale	**4,000**	2,000
Proceeds from sales of securities available for sale	**2,574**	3,503
Proceeds from principal paydowns on securities available for sale	**4,174**	3,787
Purchases of securities held to maturity	**(1,243)**	(1,589)
Proceeds from maturities and calls of securities held to maturity	**4,307**	-
Proceeds from sales of securities held to maturity	**856**	-
Proceeds from principal paydowns on securities held to maturity	**542**	739
Net increase in loans	**(13,286)**	(12,089)
Redemption (purchase) of Federal Home Loan Bank stock, net	**61**	(443)
Purchase of premises and equipment	**(361)**	(262)
Net Cash Flows From Investing Activities	**(7,509)**	(7,432)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	**10,254**	(4,706)
Proceeds from borrowings	**12,500**	21,000
Repayments on borrowings	**(14,333)**	(10,077)
Purchase of treasury stock	**(6)**	(18)
Net increase (decrease) in official bank checks	**656**	(148)
Net Cash Flows From Financing Activities	**9,071**	6,051
Change in Cash and Cash Equivalents	**1,812**	(1,563)
Cash and Cash Equivalents - Beginning	**4,335**	5,898
Cash and Cash Equivalents - Ending	**$ 6,147**	$ 4,335

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows (Continued)

Supplementary Cash Flows Information		
Interest paid	**$ 1,994**	$ 1,834
Taxes paid	**$ -**	$ 437
Non-Cash Investing Activity		
Transfer of securities available for sale to held to maturity	**$ -**	$ 9,628

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.

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, commercial and industrial, and other consumer loans. The Company has five mortgage origination offices located in Pittsford, New York, Canandaigua, New York, Watertown, New York, Greece, New York, and Buffalo, New York.

The Bank also provides non-deposit investment services to its customers through its wholly-owned subsidiary, Oakleaf Services Corporation ("Oakleaf"). As of January 15, 2016, Oakleaf Services Corporation has become Fairport Wealth Management. The results of operations of Fairport Wealth Management 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 Fairport Wealth Management. 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, deferred tax assets, and the estimation of fair values for accounting and disclosure purposes.

The Company is subject to the regulations of various governmental agencies. The Company also undergoes periodic examinations by the regulatory agencies which may subject it to further changes with respect to asset valuations,

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

Use of Estimates (Continued)

amounts of required loss allowances, and operating restrictions resulting from the regulators' judgements based on information available to them at the time of their examinations.

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 (with an original maturity of three months or less).

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 classifies investment securities as either available for sale or held to maturity. The Company does not hold any securities considered to be trading. Available for sale securities are reported at fair value, with net unrealized gains and losses reflected as a separate component of stockholders' equity, net of the applicable income tax effect. Held to maturity securities are those that the Company has the ability and intent to hold until maturity and are reported at amortized cost. These securities include those that were transferred from available for sale to held to maturity in the second quarter of 2014, and more fully explained in Note 2 to the financial statements.

Gains or losses on investment security transactions are based on the amortized cost of the specific securities sold. Premiums and discounts on securities are amortized and accreted into income using the interest method over the period to maturity.

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.

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.

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

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

Securities (Continued)

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 2015 or 2014.

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 $85,858,000 and $59,201,000 at December 31, 2015 and 2014, respectively.

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

Loan servicing rights are recorded at fair value 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 and are amortized over the life of the loan. MSRs amounted to $561,000 and $366,000 at December 31, 2015 and 2014, respectively, and are included in other assets on the consolidated balance sheets. In 2015, $227,000 was capitalized and $32,000 was amortized. In 2014, $206,000 was capitalized with $28,000 amortized.

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

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

Loans (Continued)

secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. 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.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgements about information available to them at the time of their examination, which may not be currently

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

Allowance for Loan Losses (Continued)

available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

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, 2015 and 2014.

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

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

Transfers of Financial Assets (Continued)

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.

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 (loss).

Accumulated other comprehensive gain (loss) represents the sum of these items, with the exception of net income, as of the balance sheet date and is represented in the table below.

	As of December 31,	
	2015	2014
Accumulated Other Comprehensive Loss By Component:		
Unrealized gains (losses) on securities available for sale	**$ (6)**	$ 196
Tax effect	**2**	(67)
Net unrealized gains (losses) on securities available for sale	**(4)**	129
Unrealized losses on securities transferred to held to maturity	**(323)**	(355)
Tax effect	**115**	-
Net unrealized losses on securities transferred to held to maturity	**(208)**	(355)
Accumulated other comprehensive loss	**$ (212)**	$ (226)

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, 2015 and 2014, 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 1,739,785 and 1,737,784 for the years ended December 31, 2015 and December 31, 2014 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 as previously reported.

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

New Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Topic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. For public business entities, the amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of the ASU 2016-01 on its financial statements and disclosures, if any.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements.

Under the new guidance a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or an operating lease (i.e., the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under the previous guidance). However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU No. 2016-02 will require both operating and finance leases to be recognized on the balance sheet. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. Lessor accounting will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

The amendments in ASU No. 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for (1) public business entities, (2) not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and (3) employee benefit plans that file financial statements with the SEC. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities. The Company is currently evaluating the effects of the ASU 2016-02 on its financial statements and disclosures, if any.

Note 2 - Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2015 and 2014 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2015:				
Available for Sale:				
U.S. Government and agency obligations	**$ 6,000**	**$ -**	**$ (32)**	**$ 5,968**
Mortgage-backed securities - residential	**13,974**	**101**	**(75)**	**14,000**
SBA pools	**-**	**-**	**-**	**-**
	$ 19,974	**$ 101**	**$ (107)**	**$ 19,968**
Held to Maturity:				
Mortgage-backed securities - residential	**$ 1,535**	**$ 39**	**$ -**	**$ 1,574**
U.S. Government and agency obligations	**6,793**	**129**	**-**	**6,922**
State and municipal securities	**4,651**	**76**	**(1)**	**4,726**
	$ 12,979	**$ 244**	**$ (1)**	**$ 13,222**
December 31, 2014:				
Available for Sale:				
U.S. Government and agency obligations	$ 5,000	$ 4	$ (45)	$ 4,959
Mortgage-backed securities - residential	15,616	219	(25)	15,810
SBA pools	1,170	43	-	1,213
	$ 21,786	$ 266	$ (70)	$ 21,982
Held to Maturity:				
Mortgage-backed securities - residential	$ 2,898	$ 124	$ -	$ 3,022
U.S. Government and agency obligations	9,645	191	-	9,836
State and municipal securities	4,859	74	(8)	4,925
	$ 17,402	$ 389	$ (8)	$ 17,783

Mortgage-backed securities consist of securities that are issued by Fannie Mae (“FNMA”), Freddie Mac (“FHLMC”), Ginnie Mae (“GNMA”), and are collateralized by residential mortgages. U.S. Government and agency obligations include notes and bonds with both fixed and variable rates. State and municipal securities consist of government obligation and revenue bonds. SBA pools are pass through securities using the guaranteed portion of SBA loans to be sold in the secondary market.

During the second quarter of 2014, the Company transferred securities with an amortized cost of $10,000,000 from available for sale to held to maturity. The fair value of the securities transferred as of the date of the transfer was $9,628,490 with a net unrealized loss of $371,510. The unrealized loss amounts in accumulated other comprehensive loss are amortized simultaneously against interest income as the discount is accreted on the transferred securities. There is no effect on net income as the discount accretion offsets the accumulated other comprehensive loss amortization. Management decided to transfer these securities to reduce the volatility of the fair market value as market conditions effect the available for sale securities portfolio.

Note 2 - Securities (Continued)

The amortized cost and estimated fair value by contractual maturity of debt securities at December 31, 2015 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	$ -	$ -	$ 157	$ 159
Due after one year through five years	-	-	2,441	2,485
Due after five years through ten years	6,000	5,968	5,966	6,052
Due after ten years	-	-	2,880	2,952
Mortgage-backed securities - residential	13,974	14,000	1,535	1,574
	$ 19,974	$ 19,968	$ 12,979	$ 13,222

There were $64,000 of gross realized gains on sales of securities available for sale and $42,000 of gross realized gains on sales of securities held to maturity in 2015 resulting from proceeds of $3,430,000. There were $6,000 of gross realized gains and $3,000 of gross realized losses on sales of securities available for sale in 2014 resulting from proceeds of $3,503,000. In accordance with accounting guidance, the Company was able to sell securities classified as held to maturity after the Company had already collected a substantial portion (at least 85%) of the principal outstanding at acquisition due either to prepayments or to scheduled principal and interest payments on debt securities.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at December 31, 2015 and 2014.

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, 2015 and 2014:

	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)			
2015:						
Available for Sale						
U.S. Government and agency obligations	**$ 5,968**	**$ 32**	**$ -**	**$ -**	**$ 5,968**	**$ 32**
Mortgage-backed securities - residential	**6,283**	**61**	**821**	**14**	**7,104**	**75**
	$ 12,251	**$ 93**	**$ 821**	**$ 14**	**$ 13,072**	**$ 107**
2015:						
Held to Maturity						
State and municipal Securities(1)	**$ 455**	**$ -**	**$ 126**	**$ 1**	**$ 581**	**$ 1**
Mortgage-backed securities - residential(1)	**-**	**-**	**-**	**-**	**-**	**-**
	$ 455	**$ -**	**$ 126**	**$ 1**	**$ 581**	**$ 1**
2014:						
Available for Sale						
U.S. Government and agency obligations	$ -	$ -	$ 2,954	$ 45	$ 2,954	$ 45
Mortgage-backed securities - residential	4,960	7	2,224	18	7,184	25
	$ 4,960	$ 7	$ 5,178	$ 63	$ 10,138	$ 70
2014:						
Held to Maturity						
State and municipal securities	$ 1,112	$ 6	$ 126	$ 2	$ 1,238	$ 8
Mortgage-backed securities - residential(1)	386	-	-	-	386	-
	$ 1,498	$ 6	$ 126	$ 2	$ 1,624	$ 8

(1) Aggregate unrealized loss position of these securities is less than $500.

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. In 2015 and 2014, the Company did not record an other-than-temporary impairment charge.

At December 31, 2015, six U.S. Government and agency obligations, five residential mortgage-backed securities and two state and municipal securities were in a continuous unrealized loss position for less than twelve months. At December 31, 2015, one residential mortgage-backed security and two state and municipal securities were in a continuous unrealized loss position for more than twelve months. The debt securities and residential 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

Note 2 - Securities (Continued)

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. 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.

Note 3 – Loans and The Allowance for Loan Losses

Net loans at December 31, 2015 and 2014 consist of the following:

	2015	**2014**
	(In Thousands)	
Real estate loans:		
Secured by one-to-four-family residences	**$177,037**	$169,323
Secured by multi-family residences	**5,146**	3,819
Construction	**1,251**	1,106
Commercial	**3,522**	1,427
Home equity lines of credit	**14,523**	13,378
Commercial & industrial	**853**	100
Other loans	**61**	65
Total Loans	**202,393**	189,218
Net deferred loan origination costs	**248**	265
Allowance for loan losses	**(811)**	(653)
Net Loans	**$201,830**	$188,830

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of commercial real estate and commercial and industrial classes. Commercial and industrial loans consist of the following classes: lines of credit, term, revolving, and overdraft protection. 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, 2015, $177.0 million, or 87.5%, of the total loan portfolio consisted of one-to-four-family residential real estate mortgage loans compared to $169.3 million, or 89.5%, of the total loan portfolio at December 31, 2014.

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, 2015, home equity lines of credit totaled $14.5 million, or 7.2%, of total loans receivable compared to $13.4 million, or 7.0%, of total loans receivable at December 31, 2014.

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*.

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

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 $5.1 million, or 2.5%, of the total loan portfolio at December 31, 2015 compared to $3.8 million, or 2.0%, of the total loan portfolio at December 31, 2014. 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, 2015, construction loans totaled $1.3 million, or 0.6%, of total loans receivable compared to $1.1 million, or 0.6%, at December 31, 2014. At December 31, 2015, the additional unadvanced portion of these construction loans totaled $1.3 million compared to $1.1 million at December 31, 2014. 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 $3.5 million, or 1.7%, of the Company's total loan portfolio at December 31, 2015 compared to $1.4 million, or 0.7%, of our total loan portfolio at December 31, 2014.

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 80%.

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 commercial and industrial product set includes loans to individuals or businesses on an installment basis secured by vehicles, equipment or other durable goods for which the loans were made, loans for and secured by machinery and/or equipment for which a legitimate resale market exists, lines of credit to businesses and individuals, and

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

unsecured loans to businesses and individuals on a short-term basis. At December 31, 2015, these loans totaled $853,000, or 0.4%, of the total loan portfolio.

These loans carry a higher risk than commercial real estate loans by the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable. To reduce the risk, management also attempts to secure secondary collateral, such as real estate, and obtain personal guarantees of the borrowers. To further reduce risk and enhance liquidity, these loans generally carry variable rates of interest, repricing in five year periods, and have a maturity of ten years or less.

In 2014, the Company applied and was approved as an SBA lender. SBA acts as a loan guarantor and these loans are generally for commercial business purposes versus real estate. The Company follows the Small Business Administration lending guidelines regarding eligibility, underwriting etc. as stated in SBA's most current version of SOP 50 10 SBA's Lender and Development Company Loan Program.

The Company offers a variety of other loans secured by property other than real estate. At December 31, 2015, these other loans totaled $61,000, or 0.1%, of the total loan portfolio compared to other loans totaling $65,000, or 0.1%, of the total loan portfolio at December 31, 2014. 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.

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, 2015 and 2014. 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	Commercial & Industrial	Other/ Unallocated	Total
			(In Thousands)					
At December 31, 2015								
Beginning Balance	$448	$29	$6	$14	$87	$1	$68	$653
Charge Offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	76	10	-	21	14	10	27	158
Ending Balance (1)	$524	$39	$6	$35	$101	$11	$95	$811
At December 31, 2014								
Beginning Balance	$404	$23	$14	$20	$55	$ -	$10	$526
Charge Offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	44	6	(8)	(6)	32	1	58	127
Ending Balance (1)	$448	$29	$6	$14	$87	$1	$68	$653

(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

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

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, 2015 and 2014, 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, 2015 and 2014:

	Pass	Special Mention	Substandard	Doubtful	Total
2015			(In Thousands)		
One-to-four-family residential	**$ 175,885**	**$ -**	**$ 1,152**	**$ -**	**$177,037**
Multi-family residential	**5,146**	**-**	**-**	**-**	**5,146**
Construction	**1,251**	**-**	**-**	**-**	**1,251**
Commercial real estate	**3,522**	**-**	**-**	**-**	**3,522**
Home equity lines of credit	**14,223**	**-**	**300**	**-**	**14,523**
Commercial & industrial	**853**	**-**	**-**	**-**	**853**
Other loans	**60**	**-**	**-**	**1**	**61**
Total	**$ 200,940**	**$ -**	**$ 1,452**	**$ 1**	**$202,393**
2014					
One-to-four-family residential	$ 168,644	$ 423	$ 256	$ -	$169,323
Multi-family residential	3,819	-	-	-	3,819
Construction	1,106	-	-	-	1,106
Commercial real estate	1,427	-	-	-	1,427
Home equity lines of credit	13,063	200	115	-	13,378
Commercial & industrial	100	-	-	-	100
Other loans	65	-	-	-	65
Total	$ 188,224	$ 623	$ 371	$ -	$189,218

At December 31, 2015, the Company had one nonaccrual residential mortgage loan for $63,000, one nonaccrual home equity line of credit for $18,000, and one nonaccrual checking line of credit for $1,000, and at December 31, 2014, the Company had one nonaccrual residential mortgage loan for $56,000 and one nonaccrual home equity line of credit for $18,000. There were no loans that were past due 90 days or more and still accruing interest at December 31, 2015 and 2014. Interest on non-accrual loans that would have been earned if loans were accruing interest was immaterial for both 2015 and 2014.

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

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, 2015 and 2014.

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
			(In thousands)			
2015						
Real estate loans:						
One-to-four-family residential	**$ 118**	**$ -**	**$ 63**	**$ 181**	**$ 176,856**	**$ 177,037**
Multi-family residential	**-**	**-**	**-**	**-**	**5,146**	**5,146**
Construction	**-**	**-**	**-**	**-**	**1,251**	**1,251**
Commercial	**-**	**-**	**-**	**-**	**3,522**	**3,522**
Home equity lines of credit	**-**	**-**	**18**	**18**	**14,505**	**14,523**
Commercial & industrial	**-**	**-**	**-**	**-**	**853**	**853**
Other loans	**9**	**-**	**1**	**10**	**51**	**61**
Total	**$ 127**	**$ -**	**$ 82**	**$ 209**	**$ 202,184**	**$ 202,393**
2014						
Real estate loans:						
One-to-four-family residential	$ 162	$ 93	$ 56	$ 311	$ 169,012	$ 169,323
Multi-family residential	-	-	-	-	3,819	3,819
Construction	-	-	-	-	1,106	1,106
Commercial	-	-	-	-	1,427	1,427
Home equity lines of credit	-	-	18	18	13,360	13,378
Commercial & industrial	-	-	-	-	100	100
Other loans	-	-	-	-	65	65
Total	$ 162	$ 93	$ 74	$ 329	$ 188,889	$ 189,218

Note 4 - Premises and Equipment

Premises and equipment at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
	(In Thousands)	
Premises	**$4,305**	$4,122
Furniture and equipment	**2,803**	2,632
	7,108	6,754
Accumulated depreciation and amortization	**(4,364)**	(3,918)
	$2,744	$2,836

At December 31, 2015, the Company was obligated under non-cancelable operating leases for existing branches in Penfield, Irondequoit, Webster, and Perinton, New York and for five mortgage origination offices in Canandaigua, Watertown, Pittsford, Greece, and Buffalo, New York. Rent expense under leases totaled $418,000 during 2015. Rent expense under the same non-cancelable operating leases totaled $407,000 during 2014. Future minimum rental payments under these leases for the next five years and thereafter are as follows (in thousands):

Years ending December 31,	
2016	$ 420
2017	392
2018	376
2019	352

2020	307
Thereafter	2,247
Total	$ 4,094

Note 5 - Deposits

The components of deposits at December 31, 2015 and 2014 consist of the following:

	2015	2014
	(In Thousands)	
Non-interest bearing	**$ 6,974**	$ 5,710
NOW accounts	**28,751**	26,551
Regular savings, tax escrow and demand clubs	**27,306**	29,316
Money market	**21,029**	22,621
Individual retirement accounts	**8,252**	11,262
Certificates of deposit	**93,249**	79,847
	$185,561	$175,307

As of December 31, 2015, individual retirement accounts and certificates of deposit have scheduled maturities as follows (in thousands):

2016	**$ 61,568**
2017	**34,668**
2018	**1,586**
2019	**1,691**
2020	**1,988**
	$101,501

The aggregate amount of time deposits, each with a minimum denomination of $250,000 was $11,100,000 and $7,987,000 at December 31, 2015 and 2014, respectively. Under the Dodd-Frank Act, deposit insurance per account owner is $250,000.

Interest expense on deposits for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
	(In Thousands)	
NOW accounts	**$ 36**	$ 38
Regular savings and demand clubs	**127**	114
Money market	**63**	76
Individual retirement accounts	**105**	165
Certificates of deposit	**921**	831
	$ 1,252	$ 1,224

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	2015	2014
			(In Thousands)	
09/14/05	09/14/15	4.75 %	**$ -**	$ 475
06/05/06	06/06/16	5.63 %	**1,000**	1,000
08/17/06	08/17/15	5.50 %	**-**	1,000
07/21/10	01/21/15	2.07 %	**-**	510
04/25/12	04/25/17	1.03 %	**433**	735
08/16/12	08/16/17	1.00 %	**711**	1,112
09/05/12	09/05/19	1.13 %	**1,115**	1,398
11/06/12	11/06/17	0.86 %	**810**	1,210
11/27/12	11/27/17	1.12 %	**1,000**	1,000
12/19/12	12/19/19	1.20 %	**1,187**	1,469
12/27/12	12/27/16	0.97 %	**1,000**	1,000
12/27/12	12/27/17	0.89 %	**422**	622
01/04/13	01/04/19	1.52 %	**1,000**	1,000
01/15/13	01/16/18	1.18 %	**1,000**	1,000
01/22/13	01/23/17	0.96 %	**1,000**	1,000
01/22/13	01/22/18	1.20 %	**1,000**	1,000
01/22/13	01/22/19	1.44 %	**1,000**	1,000
02/12/13	02/12/16	0.79 %	**1,500**	1,500
02/20/13	02/21/20	1.28 %	**618**	758
02/20/13	02/21/23	1.77 %	**742**	838
06/25/13	06/25/15	0.82 %	**-**	2,000
07/02/13	07/02/18	1.35 %	**1,083**	1,480
07/22/13	07/23/18	1.27 %	**1,083**	1,479
09/19/13	09/19/18	1.37 %	**575**	773
09/19/13	09/16/16	1.14 %	**2,000**	2,000
01/21/14	01/22/18	1.72 %	**1,000**	1,000
01/21/14	01/22/19	1.45 %	**642**	838
03/20/14	03/20/19	1.50 %	**1,012**	1,306
03/24/14	03/24/17	1.32 %	**1,500**	1,500
07/21/14	07/21/21	1.94 %	**820**	955
07/21/14	07/22/19	2.08 %	**500**	500
07/21/14	07/23/18	1.79 %	**1,000**	1,000
08/06/14	08/06/15	0.50 %	**-**	1,000
08/06/14	08/06/18	1.80 %	**1,000**	1,000
08/21/14	08/21/15	0.50 %	**-**	1,000
08/21/14	08/22/16	0.92 %	**1,000**	1,000
08/21/14	08/21/19	2.12 %	**1,000**	1,000
10/02/14	10/04/21	2.00 %	**1,709**	1,978
10/09/14	01/09/15	0.34 %	**-**	1,500
10/15/14	10/15/21	1.69 %	**853**	989
11/28/14	11/29/21	1.90 %	**1,730**	2,000
12/31/14	12/31/19	1.63 %	**823**	1,000
12/31/14	01/02/18	1.52 %	**1,000**	1,000
01/14/15	01/14/20	1.73 %	**1,500**	-
01/21/15	01/21/20	1.79 %	**500**	-

Note 6 – Borrowings (Continued)

Advance Date	Maturity Date	Current Rate	2015	2014
			(In Thousands)	
01/21/15	01/21/21	1.97 %	**500**	-
04/13/15	04/13/20	1.74 %	**1,000**	-
05/20/15	05/20/20	1.52 %	**903**	-
05/20/15	05/20/22	1.91 %	**933**	-
06/25/15	06/25/20	1.65 %	**920**	-
06/25/15	06/26/17	1.14 %	**1,000**	-
10/29/15	10/29/20	1.51 %	**1,968**	-
10/29/15	10/29/20	1.90 %	**1,000**	-
			$46,092	$47,925

Borrowings are secured by residential mortgages with a carrying amount of $168,199,000 at December 31, 2015 and the Company's investment in FHLB stock. As of December 31, 2015, $100,860,000 was available for borrowings. At December 31, 2014, the carrying amount of borrowings secured by residential mortgages was $159,648,000 and $91,257,000 was available for new borrowings.

The following table sets forth the contractual maturities of all FHLB borrowings at December 31, 2015 (dollars in thousands):

	Contractual Maturity	Weighted Average Rate
2016	**$ 6,500**	**1.69%**
2017	**6,876**	**1.08**
2018	**8,741**	**1.47**
2019	**8,279**	**1.52**
2020	**8,409**	**1.64**
Thereafter	**7,287**	**1.90**
	$ 46,092	**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, 2015 and 2014. Securities are not pledged until the borrowing is initiated.

Note 7 - Income Taxes

The provision for income taxes for 2015 and 2014 consists of the following:

	2015	2014
	(In Thousands)	
Current		
Federal	**$ 247**	$ 345
State	**5**	6
Deferred	**(116)**	(48)
	$ 136	$ 303

The Company's effective tax rate was 21% and 31% in 2015 and 2014, respectively. The effective tax rate primarily reflects the impact of non-tax interest and dividends from tax exempt securities, as well as a partial release of a component of the deferred tax asset valuation allowance during 2015.

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 2015 or 2014 included the following (dollars in thousands):

	2015		2014	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Federal Tax at a Statutory rate	**$ 221**	**34%**	$ 328	34%
State taxes, net of Federal provision	**(223)**	**(34)**	(175)	(19)
Change in valuation allowance	**182**	**28**	179	19
Nontaxable interest and dividend income	**(44)**	**(7)**	(42)	(4)
Other items	**-**	**-**	13	1
Income tax provision	**$ 136**	**21%**	$ 303	31%

Note 7 - Income Taxes (Continued)

Deferred income tax assets and liabilities resulting from temporary differences are summarized as follows and are included in other assets at December 31, 2015 and at December 31, 2014 in the accompanying consolidated balance sheets:

	2015	2014
	(In Thousands)	
Deferred tax assets:		
Deferred loan origination fees	**$ 43**	$ 48
Allowance for loan losses - Federal	**314**	253
Charitable contributions carry forward	**-**	-
State tax credits	**1,381**	1,165
Depreciation	**81**	28
Supplemental Executive Retirement Plan	**226**	177
Other-than-temporary impairment loss on securities	**22**	22
Unrealized loss on securities available for sale and transferred to held to maturity	**117**	-
Other	**1**	2
	2,185	1,695
Valuation allowance	**(1,507)**	(1,319)
Total deferred tax assets, net of valuation allowance	**678**	376
Deferred tax liabilities:		
Depreciation	**-**	-
Unrealized gain on securities available for sale and transferred to held to maturity	**-**	(67)
Mortgage servicing rights	**(217)**	(142)
Total deferred tax liabilities	**(217)**	(209)
Net deferred tax asset	**$ 461**	$ 167

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 valuation allowance in the amount of $88,000 was established in 2010 against a portion of the allowance for loan loss because future realization of the full tax benefit of that deferred tax asset was deemed to be unlikely. After fully utilizing its Federal Net Operating Loss (“NOL”) carryforward during 2013 and realizing increased and consistent current taxable income over the past 3 years, management determined that half (or $44,000) of that component of the valuation allowance should be reversed during 2015, with the remaining to be assessed in future years.

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 reserves. As a result, a deferred tax liability has not been recognized with respect to the Federal base-year reserve of $1,518,000 at December 31, 2015 and 2014, 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, 2015 and 2014. It is more

Note 7 - Income Taxes (Continued)

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.

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 2012, 2013, and 2014 as prescribed by applicable statute. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute.

Note 8 – Accumulated Other Comprehensive Income (Loss)

Changes in the components of accumulated other comprehensive income (loss) ("AOCI"), net of tax, for the periods indicated are summarized in the table below, in thousands.

	For the year ended December 31, 2015		
	Unrealized Gains and Losses on Available for Sales Securities	Unrealized Losses on Securities Transferred to Held to Maturity	Total
Beginning balance	$ 129	$ (355)	$ (226)
Other comprehensive (loss) income before reclassifications	(63)	147	84
Amounts reclassified from AOCI	(70)	-	(70)
Ending balance	$ (4)	$ (208)	$ (212)

	For the year ended December 31, 2014		
	Unrealized Gains and Losses on Available for Sales Securities	Unrealized Losses on Securities Transferred to Held to Maturity	Total
Beginning balance	$ (1,164)	$ -	$ (1,164)
Other comprehensive (loss) income before reclassifications	1,295	(355)	940
Amounts reclassified from AOCI	(2)	-	(2)
Ending balance	$ 129	$ (355)	$ (226)

Note 8 – Accumulated Other Comprehensive Income (Loss) (Continued)

The following table presents the amounts reclassified out of each component of AOCI for the indicated annual period in thousands:

Details about AOCI	For the year ended December 31, 2015	2014	Affected Line Item in the Statement of Income
Available for sale securities	**$ 64**	$ 3	Realized gain on sale of securities
Held to maturity securities	**42**	-	Realized gain on sale of securities
	(36)	(1)	Provision for Income Taxes
	$ 70	$ 2	Net Income

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 $174,000 and $156,000 for the years ended December 31, 2015 and 2014, respectively. Discretionary contributions to the 401(k) Plan were $72,000 and $70,000 for the years ended December 31, 2015 and 2014, 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. 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.

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, 2015 and December 31, 2014. Total expense for the ESOP was $35,000 and $29,000 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, the Company had 38,485 unearned ESOP shares having an aggregate market value of $403,323.

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 $621,000 and $495,000 at December 31, 2015 and 2014 respectively, for the SERP in other liabilities. In 2015 and 2014, the expense under the SERP totaled $125,000 and $95,000, 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, 2015 and 2014, loans outstanding with related parties were $168,000 and $423,000, respectively. During 2015, there were new loans of $17,000 and repayments totaled $272,000.

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, 2015 and 2014:

	2015	**2014**
	(In Thousands)	
Commitments to extend credit:		
Commitments to grant loans	**$ 11,753**	$ 5,176
Unfunded commitments under lines of credit	**15,803**	12,221
	$27,556	$17,397

Commitments to grant loans at fixed-rates at December 31, 2015 totaled $5,842,000 and had interest rates that ranged from 3.25% 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.

Note 12 - Regulatory Matters (Continued)

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, Tier 1 capital (as defined), and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 to adjusted total assets (as defined). Management believes that, as of December 31, 2015 and 2014, the Bank met all capital adequacy requirements to which it was subject. As of December 31, 2015, 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, Common Equity 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.

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, 2015:									
Total capital (to risk-weighted assets)	**$20,757**	**15.12**	%	**≥$10,980**	**≥8.0**	%	**≥$13,725**	**≥10.0**	%
Tier 1 capital (to risk-weighted assets)	**19,946**	**14.53**		**≥8,235**	**≥6.0**		**≥10,980**	**≥ 8.0**	
Common Equity Tier 1 (to risk-weighted assets)	**19,946**	**14.53**		**≥6,176**	**≥4.5**		**≥8,921**	**≥ 6.5**	
Tier 1 capital (leveraged - to adjusted total assets)	**19,946**	**7.85**		**≥10,167**	**≥4.0**		**≥12,709**	**≥5.0**	
December 31, 2014:									
Total risk-based capital (to risk-weighted assets)	$18,220	15.19	%	≥$9,594	≥8.0	%	≥$11,993	≥10.0	
Tier 1 capital (to risk-weighted assets)	17,567	14.65		≥4,797	≥4.0		≥7,196	≥ 6.0	
Tier 1 capital (leveraged - to adjusted total assets)	17,567	7.24		≥9,710	≥4.0		≥12,137	≥ 5.0	
Tangible capital (to adjusted total assets)	17,567	7.24		≥3,641	≥1.5		N/A	N/A	

At December 31, 2015 the Company's consolidated equity totaled $21,760,000 compared to the Bank's equity capital of $20,085,000. 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 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 12 - Regulatory Matters (Continued)

In the ordinary course of business, the Bank sells residential mortgage loans to third parties and in certain limited situations, such as in the event of an early payment default, the Bank retains credit risk exposure on those residential mortgage loans and may be required to repurchase them or to indemnify guarantors for certain losses. The Bank may also be required to repurchase residential mortgage loans when representations and warranties made by the Bank in connection with those sales are breached. When a residential mortgage loan sold to an investor fails to perform according to its contractual terms, the investor will typically review the loan file to search for errors that may have been made in the process of originating the loan. If errors were discovered and it is determined that such errors constitute a breach of a representation or warranty made to the investor in connection with the Bank's sale of the residential mortgage loan, the Bank will be required to either repurchase the loan or indemnify the investor for losses sustained. The bank has not been required to repurchase any residential mortgage loans or indemnify any investors for any such errors.

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:

2015	**(In Thousands)** **Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agency obligations	**$ 5,968**	**$ -**	**$5,968**	**$ -**
Mortgage-backed securities - residential	**14,000**	**-**	**14,000**	**-**
SBA Pools	**-**	**-**	**-**	**-**
Total Available for Sale Securities	**$19,968**	**$ -**	**$19,968**	**$ -**

2014	Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	$ 4,959	$ -	$ 4,959	$ -
Mortgage-backed securities - residential	15,810	-	15,810	-
SBA Pools	1,213	-	1,213	-
Total Available for Sale Securities	$21,982	$ -	$21,982	$ -

There were no securities transferred out of level 2 securities available for sale during the twelve months ended December 31, 2015. No assets or liabilities have been measured on a non-recurring basis at December 31, 2015 or 2014.

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, 2015 and 2014.

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 matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted prices and is considered to be a Level 2 measurement.

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

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 in portfolio 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.

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

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, 2015 and 2014 are as follows:

	Fair Value Hierarchy	2015 Carrying Amount	2015 Fair Value	2014 Carrying Amount	2014 Fair Value
		(In Thousands)			
Financial assets:					
Cash and due from banks	1	**$ 1,550**	**$ 1,550**	$ 1,191	$ 1,191
Interest bearing demand deposits	1	**4,597**	**4,597**	3,144	3,144
Securities available for sale	2	**19,968**	**19,968**	21,982	21,982
Securities held to maturity	2	**12,979**	**13,222**	17,402	17,783
Investment in FHLB stock	2	**2,388**	**2,388**	2,449	2,449
Loans held for sale	2	**3,880**	**3,880**	2,961	2,961
Loans, net	3	**201,830**	**201,886**	188,830	187,562
Accrued interest receivable	1	**655**	**655**	655	655
Financial liabilities:					
Deposits	1/2	**185,561**	**185,332**	175,307	175,204
Borrowings	2	**46,092**	**46,447**	47,925	47,803
Accrued interest payable	1	**60**	**60**	59	59

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

Balance Sheets

	December 31	
	2015	2014
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 265**	$ 217
Securities available for sale	**1,000**	2,938
Investment in banking subsidiary	**20,085**	17,607
ESOP loan receivable	**431**	463
Accrued interest receivable	**9**	25
Total Assets	**$ 21,790**	$ 21,250
Liabilities and Stockholders' Equity		
Total Liabilities	**$ 30**	$ 46
Stockholders' Equity	**21,760**	21,204
Total Liabilities and Stockholders' Equity	**$ 21,790**	$ 21,250

Statements of Income

	Year Ended December 31	
	2015	2014
	(In Thousands)	
Interest Income	**$ 53**	$ 95
Other Expense	**(37)**	(55)
Equity in undistributed earnings of banking subsidiary	**497**	620
Net Income	**$ 513**	$ 660

Statements of Cash Flows

	Year Ended December 31 2015	2014
	(In Thousands)	
Cash flows from operating activities		
Net income	**$ 513**	$ 660
Adjustments to reconcile net income to net cash flows from operating activities		
Equity in undistributed earnings of banking subsidiary	**(497)**	(620)
Amortization of premiums on securities available for sale	**-**	-
Decrease in accrued interest receivable	**16**	3
Net decrease in other liabilities	**(16)**	(8)
Net cash flows from operating activities	**16**	35
Cash flows from investing activities		
Purchases of securities available for sale	**-**	(1,438)
Proceeds to banking subsidiary	**(1,938)**	-
Proceeds from maturities and calls of securities available for sale	**1,938**	1,500
Payments received on ESOP loan	**32**	31
Net cash flows from investing activities	**32**	93
Net increase in cash and cash equivalents	**48**	58
Cash and cash equivalents - beginning	**217**	159
Cash and cash equivalents - ending	**$ 265**	$ 217