Northumberland Bancorp

Consolidated Financial Statements

December 31, 2015 and 2014

Northumberland Bancorp

Contents

Northumberland Bancorp

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June 3, 2016

To our Shareholders:

The last year was a challenging year for Northumberland Bancorp (the "Company") and its banking subsidiary The Northumberland National Bank (the "Bank"). As we reported in our last annual report the Company has conducted an investigation into certain matters in our Trust Department. This investigation revealed a number of practices that were not in accordance with standard fiduciary practices. As a result, the Bank incurred professional fees and made reimbursements to customers. Through December 31, 2015, the professional fees and payments made to remedy issues discovered during the investigation resulted in a pretax charge of approximately $1.6 million dollars.

The Bank expended significant efforts during 2015 to enhance its trust operations. We have engaged Maguire Investments as an independent portfolio manager for the Trust Department. We have reviewed and enhanced internal controls and procedures in the department. Effective March 14, 2016, Mark A. Ritter joined the bank as Senior Vice President of Wealth Management to continue the progress that the Bank has made to strengthen the department.

On May 5, 2016, the Board of Directors of the Bank entered into a Stipulation and Consent Order (the "Order") with the Office of the Comptroller of the Currency, the Bank's primary regulator. Much of the Order relates to the issues which surfaced in the investigation of the Trust Department. A description of the Order is contained in the Annual Report, and a full version of the Order will be made available on the OCC's website soon. Your Board and the management of the Bank are working diligently with several outside advisors to satisfy the requirements of the Order.

Net income of the Company decreased to $2,211,000 in 2015 from $3,661,000 in 2014. The decrease can be attributed primarily to the expenses noted above. Additionally, data processing expense increased $432,000 as a result of the full year implementation of managed IT services. This service provides 24/7 monitoring of our computer network to address potential cyber security concerns. This service also has been enhanced to provide hosted disaster recovery capabilities in the event of a disaster affecting the Bank's computer servers and network. Salaries and employee benefits increased due to the addition of personnel to fully staff the Bank's new Selinsgrove Office, pension expense which increased due to changes in the rate and mortality tables used to calculate expense, and normal annual salary adjustments.

On a positive note, net loans for the year increased 2.9% or $8,073,000. This growth was key in allowing the Bank to increase its net interest margin. Additionally, net interest income increased 2.5% to $12,598,000, as the net interest margin increased to 3.01% in 2015 from 2.90% in 2014. Non-interest income increased 11.0% to $3,767,000. This increase was spread among various areas.

Asset quality remained strong overall. However, the Company's provision for loan losses increased $433,000 as a result of impairment charges taken on one loan, together with increases due to growth in the loan portfolio.

The Company continues to be well capitalized, despite the charge related to the Trust Department issues. Tier one capital to average assets of the Company increased to 10.10% compared to 9.89% at December 31, 2014. The Company's risk based capital decreased slightly to 20.15% compared to 20.48% in 2014. The Company's capital remains well within the parameters used to determine whether a bank holding company is well capitalized.

As we enter 2016, the Bank continues to enhance our products and services. We are in the process of implementing "chip" technology for our debit cards that should enhance security in that area. Later in the year we plan to implement Apple Pay and Samsung Pay which are digital payment services offered through smart phones.

The Company also continues to have a prominent role in our communities. The Company has continued its involvement in the development of The Albright Center and numerous other community endeavors. During 2015, the Bank contributed over $250,000 to various community organizations. Our employees volunteer in numerous civic and philanthropic organizations. The challenges which we experienced in 2015 have not affected the Company's or its management's deep commitment to making our communities a better place to live and work.

We thank you, our valued shareholders, directors, officers and employees, for your contributions to the Company's success during the year as we continue to pursue our mission, "To provide outstanding community banking and financial services throughout the Central Susquehanna Valley".

J. Donald Steele Jr.

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Chairman and President

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Independent Auditor's Report

Board of Directors and Stockholders
Northumberland Bancorp
Northumberland, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northumberland Bancorp and subsidiary, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northumberland Bancorp and subsidiary as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Consent Order

As discussed in Note 2, The Northumberland National Bank, the wholly-owned subsidiary of Northumberland Bancorp, has entered into a Stipulation and Consent to Issuance of a Consent Order with the Comptroller of the Currency of the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

The consolidated financial statements of Northumberland Bancorp and subsidiary as of and for the year ended December 31, 2014, were audited by other auditors, whose report dated March 27, 2015 on those statements expressed an unmodified opinion.

BDO USA, LLP

Reading, Pennsylvania
June 3, 2016

Consolidated Financial Statements

Northumberland Bancorp

Consolidated Balance Sheets

(amounts in thousands except share and per share data)

December 31,	**2015**	2014
Assets		
Cash and due from banks	$ **7,087**	$ 6,296
Interest-bearing deposits in other banks	**4,612**	7,442
Total cash and cash equivalents	**11,699**	13,738
Investment securities available-for-sale	**149,014**	160,139
Investment securities held-to-maturity (fair value of $3,183 and $3,643)	**3,191**	3,621
Total investment securities	**152,205**	163,760
Restricted stock, at cost	**3,300**	2,987
Loans held for sale	**1,293**	1,249
Loans	**286,648**	278,454
Less allowance for loan losses	**2,674**	2,553
Net loans	**283,974**	275,901
Premises and equipment	**10,172**	8,957
Bank-owned life insurance	**9,259**	8,252
Accrued interest and other assets	**4,356**	3,599
Total Assets	$ **476,258**	$ 478,443
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand	$ **64,874**	$ 60,312
Interest-bearing demand	**164,888**	173,436
Savings	**77,582**	70,291
Time deposits	**118,993**	126,256
Total deposits	**426,337**	430,295
Accrued interest and other liabilities	**2,737**	2,511
Total Liabilities	**429,074**	432,806
Stockholders' Equity		
Common stock, par value $0.10; 5,000,000 shares authorized, 1,502,500 shares issued	**150**	150
Capital surplus	**3,832**	3,832
Retained earnings	**46,815**	45,534
Accumulated other comprehensive loss	**(1,293)**	(1,612)
	49,504	47,904
Treasury stock, at cost (174,172 and 172,142 shares)	**(2,248)**	(2,189)
Total Northumberland Bancorp stockholders' equity	**47,256**	45,715
Noncontrolling interest	**(72)**	(78)
Total Stockholders' Equity	**47,184**	45,637
Total Liabilities and Stockholders' Equity	$ **476,258**	$ 478,443

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

Consolidated Statements of Income

(amounts in thousands except share and per share data)

Years Ended December 31,		2015		2014
Interest and Dividend Income				
Interest and fees on loans:				
Taxable	$	**12,212**	$	11,978
Tax-exempt		**171**		153
Interest on interest-bearing deposits in other banks		**21**		17
Interest and dividends on investment securities:				
Taxable		**1,017**		1,444
Tax-exempt		**1,484**		1,427
Dividends		**231**		137
Total Interest and Dividend Income		**15,136**		15,156
Interest Expense				
Deposits		**2,538**		2,865
Total Interest Expense		**2,538**		2,865
Net interest income		**12,598**		12,291
Provision for Loan Losses		**611**		178
Net Interest Income After Provision for Loan Losses		**11,987**		12,113
Noninterest Income				
Service charges on deposit accounts		**970**		856
Trust services income		**676**		628
Investment securities gains, net		**152**		224
Gain on sale of loans		**741**		768
Earnings on bank-owned life insurance		**538**		251
Other income		**690**		668
Total Noninterest Income		**3,767**		3,395
Noninterest Expense				
Salaries and employee benefits		**6,258**		5,940
Occupancy expense, net		**755**		688
Equipment expense		**818**		761
Professional fees		**761**		479
Data processing		**824**		392
Shares tax		**287**		242
Federal deposit insurance expense		**291**		268
Reimbursements to customers		**1,379**		-
Other expense		**2,176**		2,138
Total Noninterest Expense		**13,549**		10,908
Income before income taxes		**2,205**		4,600
Income Taxes		**(12)**		965
Net Income		**2,217**		3,635
Net income (loss) attributable to noncontrolling interest		**6**		(26)
Net Income Attributable to Northumberland Bancorp	$	**2,211**	$	3,661
Earnings Per Share	$	**1.66**	$	2.75
Weighted-Average Shares Outstanding		**1,328,872**		1,330,848

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

Consolidated Statements of Comprehensive Income

(amounts in thousands)

Years Ended December 31,	**2015**	2014
Net Income	**$ 2,217**	$ 3,635
Other Comprehensive Income (Loss)		
Change in unrealized holding (losses) gains on investment securities available-for-sale	**(215)**	1,404
Tax effect	**107**	(480)
Reclassification adjustment for investment securities gains recognized in net income	**(152)**	(224)
Tax effect	**52**	76
Change in unrecognized pension costs	**798**	(2,276)
Tax effect	**(271)**	774
Other Comprehensive Income (Loss), Net of Tax	**319**	(726)
Comprehensive income before noncontrolling interest	**2,536**	2,909
Less: net income (loss) attributable to noncontrolling interest	**6**	(26)
Comprehensive Income	**$ 2,530**	$ 2,935

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

Consolidated Statements of Stockholders' Equity

(amounts in thousands except share and per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest	Total
Balance, December 31, 2013	$ 150	$ 3,832	$ 42,858	$ (886)	$ (2,134)	$ (52)	$ 43,768
Net income	-	-	3,661	-	-	(26)	3,635
Other comprehensive loss	-	-	-	(726)	-	-	(726)
Dividends declared ($0.74 per share)	-	-	(985)	-	-	-	(985)
Purchase of treasury stock (1,675 shares)	-	-	-	-	(55)	-	(55)
Balance, December 31, 2014	150	3,832	45,534	(1,612)	(2,189)	(78)	45,637
Net income	**-**	**-**	**2,211**	**-**	**-**	**6**	**2,217**
Other comprehensive income	**-**	**-**	**-**	**319**	**-**	**-**	**319**
Dividends declared ($0.70 per share)	**-**	**-**	**(930)**	**-**	**-**	**-**	**(930)**
Purchase of treasury stock (2,000 shares)	**-**	**-**	**-**	**-**	**(59)**	**-**	**(59)**
Balance, December 31, 2015	**$ 150**	**$ 3,832**	**$ 46,815**	**$ (1,293)**	**$ (2,248)**	**$ (72)**	**$ 47,184**

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

Consolidated Statements of Cash Flows

(amounts in thousands)

Years Ended December 31,	**2015**	2014
Cash Flows from Operating Activities		
Net income	**$ 2,217**	$ 3,635
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**611**	178
Depreciation, amortization, and accretion, net	**1,823**	2,341
Proceeds from sale of loans held for sale	**23,926**	21,229
Gain on sale of loans	**(741)**	(768)
Originations of residential loans held for sale	**(23,229)**	(20,125)
Investment securities gains, net	**(152)**	(224)
Deferred income tax (benefit) expense	**(458)**	3
Earnings on bank-owned life insurance	**(260)**	(251)
Write-down of other real estate owned	**137**	-
Decrease in accrued interest receivable	**83**	88
Decrease in accrued interest payable	**(14)**	(22)
Other, net	**157**	(117)
Net Cash Provided by Operating Activities	**4,100**	5,967
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Proceeds from sales	**21,996**	27,999
Proceeds from maturities or redemptions	**19,194**	20,590
Purchases	**(30,510)**	(32,365)
Investment securities held-to-maturity:		
Proceeds from sales	**-**	401
Proceeds from maturities or redemptions	**1,670**	600
Purchases	**(1,565)**	-
Increase in loans, net	**(9,118)**	(14,452)
Purchases of premises and equipment, net	**(1,818)**	(1,091)
Purchases of restricted stock	**(458)**	(545)
Redemptions of restricted stock	**145**	706
Purchase of bank-owned life insurance	**(1,010)**	-
Proceeds from surrender of bank-owned life insurance	**263**	-
Proceeds from sale of real estate owned	**19**	371
Net Cash (Used in) Provided by Investing Activities	**(1,192)**	2,214
Cash Flows from Financing Activities		
Net decrease in deposits	**(3,958)**	(1,728)
Cash dividends paid	**(930)**	(985)
Purchase of treasury stock	**(59)**	(55)
Net Cash Used in Financing Activities	**(4,947)**	(2,768)
(Decrease) increase in cash and cash equivalents	**(2,039)**	5,413
Cash and Cash Equivalents, Beginning Of Year	**13,738**	8,325
Cash and Cash Equivalents, End Of Year	**$ 11,699**	$ 13,738

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

Northumberland Bancorp (the "Company") is a Pennsylvania corporation and is registered under the Bank Holding Company Act. The Company was organized as the holding company of its wholly owned subsidiary, The Northumberland National Bank (the "Bank"). The Bank is a nationally chartered commercial bank located in Northumberland, Pennsylvania. The Bank's service area includes portions of Northumberland, Snyder, Union, and Montour counties in Pennsylvania. The Company and the Bank derive substantially all of their income from banking and bank-related services, which include interest earnings on commercial, commercial mortgage, residential real estate, and consumer loan financing as well as interest earnings on investment securities and deposit and trust services to their customers. The Bank created a new subsidiary, NNB Financial Services, during 2012 for the purpose of selling financial and insurance products. The Company is supervised by the Federal Reserve Board, while the Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. Intercompany activity has been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and with general practice within the banking industry. In preparing the financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of the consolidated balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held-to-maturity or securities available-for-sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost adjusted for amortization of premium and accretion of discount that are computed using the level yield method and recognized as adjustments of interest income. Certain other debt securities have been classified as available-for-sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and whether or not the Company intends to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the consolidated statements of income.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB, as well as a minimum level of mortgages in the Mortgage Partnership Finance (“MPF”) program. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost, and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Loans Held for Sale and Loans Serviced

Loans held for sale are carried at the lower of cost or fair value, as determined on an aggregate basis. Gains and losses on sales of loans held for sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of loans. All sales are made with limited recourse. Loans held for sale were $1,293,000 and $1,249,000 at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the amounts of loans serviced by the Company for the benefit of others were $118,462,000 and $108,190,000, respectively.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. Annually, the Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. No impairment was recognized in 2015 or 2014. MSRs are a component of other assets on the consolidated balance sheets. The balance of loan servicing assets was $959,000 and $939,000 at December 31, 2015 and 2014, respectively.

Loans

Loans originated with the intention to hold to maturity are reported at their principal amount, net of unearned income and the allowance for loan losses. Interest income on all loans is recognized on an accrual basis. Nonrefundable loan fees and certain direct costs are deferred and amortized over the life of the loans using the interest method. The amortization is reflected as an interest yield adjustment, and the deferred portion of the net fees and costs is reflected as part of the loan balance. Accrual of interest is discontinued when, in the opinion of management, reasonable doubt exists as to the collectability of additional interest. Loans are returned to accrual status when past-due interest is collected and the collection of principal is probable.

Allowance for Loan Losses

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

Impaired loans are commercial and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years for furniture, fixtures, and equipment and 15 to 50 years for buildings and leasehold improvements. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Real Estate Owned

Real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at fair value minus estimated cost to sell. Prior to foreclosure, the estimated collectible value of the collateral is evaluated to determine whether a partial charge-off of the loan balance is necessary. After transfer to real estate owned, any subsequent write-downs are charged against other operating expenses. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations. The balance of real estate owned included in accrued interest and other assets was $299,000 and $-0- at December 31, 2015 and 2014, respectively.

Bank Owned Life Insurance

The Company invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the bank on a select group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies or from death benefits realized is included in other income on the consolidated statements of income.

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expenses amounted to $135,000 and $128,000 for 2015 and 2014, respectively.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

Pension Plan

The Bank has a noncontributory defined benefit pension plan that covers all eligible employees. Benefits are based upon years of service, the employee's compensation, and age at retirement. The Bank's contribution is actuarially determined and is intended to meet the current and projected obligations of the plan.

(amounts in thousands except share data)

Trust Assets and Income

Assets held by the Bank in a fiduciary or agency capacity for its customers are not included in the accompanying financial statements, since such items are not assets of the Bank. The fair value of trust assets under administration were $162,082,000 and $184,677,000 as of December 31, 2015 and 2014, respectively. In accordance with banking industry practice, trust services income is recognized on the cash basis and is not materially different than if it was reported on the accrual basis.

Comprehensive Income

The Company is required to present comprehensive income and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is composed of net unrealized holding gains or losses on its available-for-sale investment and mortgage-backed securities portfolio, as well as changes in unrecognized pension cost.

Earnings Per Share

The Company currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated using the weighted-average number of shares outstanding for the periods.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the consolidated balance sheet captions “cash and due from banks,” and “interest-bearing deposits in other banks,” with original maturities of 90 days or less.

	2015	2014
Cash paid during the year for:		
Interest	**$ 2,552**	$ 2,887
Income taxes	**1,190**	901
Noncash investing transactions:		
Transfer of loans to real estate owned	**455**	350
Transfer of investment securities held-to-maturity to available-for-sale due to significant deterioration in the issuer’s credit worthiness	**260**	-

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no effect on stockholders' equity or net income.

2. Consent Order

On May 5, 2016, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order ("Order") with the Comptroller of the Currency of the United States of America, through its national bank examiners and other staff of the Office of the Comptroller of the Currency ("OCC"), which has supervisory authority over the Bank. In entering into the Order, the Bank did not concede to the findings or admit to any of the assertions therein. Additionally, the Bank must seek the OCC's advance consent to hiring certain executive officers or adding directors, and the Bank is not eligible to receive expedited consideration of certain actions for which it must seek the OCC's advance approval, such as opening a new branch office.

The provisions of the Order are summarized below. The full text of the Order will be published by the OCC on its website (www.occ.gov). The actions to be taken by the Board as a result of the Order must be taken within time periods ranging from 45 to 120 days from the date of the Order and, in some cases, must be taken periodically on an ongoing basis.

Compliance Committee. The Bank's Board of Directors ("Board") is required to appoint and maintain a Compliance Committee of at least three directors, whose main function will be to monitor and report to the OCC on the Bank's compliance with the Order.

Board Supervision and Competent Management. The Order requires the Board to ensure that the Bank has competent and effective full-time management in place for all executive officer positions at the Bank. The Board is also required to evaluate the corporate governance processes and management supervision in light of the Bank's condition, to establish, at least annually, the objectives it will use to measure the effectiveness of the Bank's executive officers, to perform an annual independent written performance appraisal for each of the Bank's executive officers, including the President, after identifying any deficiency in an officer's performance as a result of the annual performance appraisal to identify what corrective action is required to address the deficiency and ensure the Bank implements and adheres to such corrective action, and to develop and thereafter maintain and update a written Board and management succession program that identifies the Bank's future management requirements and promotes the retention and continuity of competent and experienced management and board members.

Cross Trading Remediation. Before engaging in any further trading of investments between accounts of the Trust Department, the Board shall adopt policies, procedures, and controls for the crossing of buy and sell orders for securities on a fair and equitable basis to the parties to the transaction, where permissible under applicable law, but only after the policies and procedures have been submitted to the OCC and the OCC has told the Bank that it does not object to the policies and procedures. With respect to cross trades which the Trust Department conducted at par value between 2002 and 2014, the Bank shall adhere to the cross-trade Reimbursement Plan previously submitted to the OCC and shall not make any changes to the Reimbursement Plan without submitting a request to and receiving a written determination of no supervisory objection from the OCC. The Order requires the Bank to provide to the OCC periodic written progress updates on its Reimbursement Plan implementation and address any supervisory concerns communicated in writing by the OCC.

Forensic Investigation Findings. Within 45 days of the effective date of the Order, the Board must submit to the OCC a report on the Bank's progress in addressing the concerns identified in the Bank's forensic investigation of past Trust Department activities.

Account Administration. The Order requires the Board shall submit to the OCC for a written determination of no supervisory objection written policies and procedures for the proper administration of fiduciary and custody accounts.

Investment Management Processes. The Order requires the Board to adopt a written investment management program which has been presented to the OCC and to which the OCC has indicated that it does not object. Additionally, the Board must ensure the Bank's engagement of any third party to assist the Bank with its investment management program is consistent with the OCC's guidance on third party engagements.

Asset Management Governance and Controls. The Board must adopt a program to ensure effective oversight and controls for Trust Department operations, after submitting the program to the OCC and obtaining an indication of no objection. Additionally, the Bank's internal audit function must periodically test and verify that the Bank is adhering to the program and that it remains effective and is functioning as designed.

Asset Management Fees and Earnings. The Order requires the Board to adopt fee schedules that cover all accounts administered by the Trust Department and a timeline for the Bank's implementation of such fees by no later than March 31, 2017. Additionally, the Board must adopt and ensure the Bank implements and thereafter adheres to a process for reviewing all accounts administered by the Trust Department to ensure such accounts are charged fees in accordance with the fee schedules developed pursuant to the Order.

Fiduciary Audit. The Order requires the Board to adopt and ensure that the Bank implements and thereafter adheres to a revised Fiduciary Audit Program that complies with OCC regulations.

Bank Secrecy Act/Anti-Money Laundering Internal Controls. The Order requires the Board to adopt and ensure that the Bank implements and thereafter adheres to a revised Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") written compliance program that covers the Bank's Trust Department. Additionally, the Board must ensure the Bank's ongoing compliance with the Bank Secrecy Act, that the Bank reviews and updates its BSA/AML customer risk rating process and methodology for Trust Department customers and accounts in accordance with the Federal Financial Institutions Examination Council ("FFIEC") BSA/AML Examination Manual and other applicable regulatory guidance, that the Bank reviews and updates, in accordance with the FFIEC BSA/AML Examination Manual and other applicable regulatory guidance, its risk-based processes to obtain and analyze appropriate customer due diligence information for Trust Department customers and accounts at the time of account opening and on an ongoing basis, and effectively use the information in monitoring account activity, and investigating suspicious or unusual activity, that the Bank develops, implements, and thereafter adheres to suspicious activity monitoring policies, procedures and processes to ensure the Bank's timely and effective identification and review of potential suspicious activity involving customer relationships and accounts administered by the Trust Department, and the Bank's compliance with reporting requirements, and that the Bank has an effective risk-based BSA/AML independent testing function to ensure the Bank's adherence to effective BSA/AML internal controls for Trust Department customers and accounts, including evaluation of the Bank's BSA/AML risk assessment, and customer due diligence, enhanced due diligence and suspicious activity monitoring processes for trust customers and accounts.

(amounts in thousands except share data)

Violations of Law. The Order requires the Board to immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation recently cited by the OCC and to adopt, implement, and thereafter ensure Bank adherence to specific procedures to which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

Management is committed to addressing and resolving the issues raised by the OCC and plans to implement corrective actions to comply with the order.

In connection with the above matter, including the related investigation, the Bank incurred professional fees of $278,000 and made or accrued reimbursements to customers of $1,379,000 through December 31, 2015.

3. Investment Securities

The amortized cost and fair values of investment securities are as follows:

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of states and political subdivisions	$ 64,694	$ 878	$ (77)	$ 65,495
Mortgage-backed securities in government sponsored entities	83,264	181	(602)	82,843
Corporate debt securities	500	1	(3)	498
	148,458	1,060	(682)	148,836
Equity securities in financial institutions	165	13	-	178
Total	$ 148,623	$ 1,073	$ (682)	$ 149,014

(amounts in thousands except share data)

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of states and political subdivisions	$ 56,691	$ 918	$ (164)	$ 57,445
Mortgage-backed securities in government sponsored entities	101,812	453	(536)	101,729
Corporate debt securities	750	6	(1)	755
	159,253	1,377	(701)	159,929
Equity securities in financial institutions	158	52	-	210
Total	$ 159,411	$ 1,429	$ (701)	$ 160,139

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of states and political subdivisions	**$ 3,191**	**$ 6**	**$ (14)**	**$ 3,183**
Total	**$ 3,191**	**$ 6**	**$ (14)**	**$ 3,183**

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of states and political subdivisions	$ 3,371	$ 24	$ (2)	$ 3,393
Corporate debt securities	250	-	-	250
Total	$ 3,621	$ 24	$ (2)	$ 3,643

(amounts in thousands except share data)

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014.

December 31, 2015	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Obligations of states and political subdivisions	**$ 7,743**	**$ (38)**	**$ 4,120**	**$ (39)**	**$ 11,863**	**$ (77)**
Mortgage-backed securities in government sponsored entities	**25,081**	**(196)**	**40,138**	**(406)**	**65,219**	**(602)**
Corporate debt securities	**-**	**-**	**247**	**(3)**	**247**	**(3)**
Total	**$ 32,824**	**$ (234)**	**$ 44,505**	**$ (448)**	**$ 77,329**	**$ (682)**
Held-to-maturity:						
Obligations of states and political subdivisions	**$ 1,073**	**$ (14)**	**$ -**	**$ -**	**$ 1,073**	**$ (14)**
	$ 1,073	**$ (14)**	**$ -**	**$ -**	**$ 1,073**	**$ (14)**

December 31, 2014	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Obligations of states and political subdivisions	$ 7,147	$ (38)	$ 6,792	$ (126)	$ 13,939	$ (164)
Mortgage-backed securities in government sponsored entities	18,945	(81)	42,638	(455)	61,583	(536)
Corporate debt securities	-	-	249	(1)	249	(1)
Total	$ 26,092	$ (119)	$ 49,679	$ (582)	$ 75,771	$ (701)

The Company reviews its position quarterly and has asserted that at December 31, 2015 and 2014, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 142 positions that were temporarily impaired at December 31, 2015. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or Company-specific ratings changes that are not expected to result in the noncollection of principal and interest during the period.

(amounts in thousands except share data)

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ **9,497**	$ **9,590**	$ **1,196**	$ **1,201**
Due after one year through five years	**68,325**	**68,700**	**1,995**	**1,982**
Due after five years through ten years	**50,352**	**50,416**	**-**	**-**
Due after ten years	**20,284**	**20,130**	**-**	**-**
Total	$ **148,458**	$ **148,836**	$ **3,191**	$ **3,183**

Proceeds from the sales of available-for-sale securities during 2015 amounted to $21,996,000 resulting in gross gains and gross losses of $192,000 and $(40,000), respectively. Proceeds from the sales of available-for-sale securities during 2014 amounted to $27,999,000 resulting in gross gains and gross losses of $264,000 and $(40,000), respectively.

The Company sold two held-to-maturity securities for proceeds of $401,000 during 2014. The held-to-maturities securities portfolio was not considered tainted because there was evidence that there was significant deterioration in the issuer's creditworthiness. The sale resulted in gains of $1,000 in 2014. There were no sales of held-to-maturity securities during 2015.

Investment securities with fair values of $73,216,000 and $77,292,000 at December 31, 2015 and 2014, respectively, were pledged to secure public deposits and other purposes as required by law.

4. Loans

Major classifications of loans are summarized as follows:

	2015	2014
Commercial	$ **58,521**	$ 56,947
Commercial real estate	**47,296**	42,485
Residential real estate	**176,495**	173,952
Consumer	**4,336**	5,070
	286,648	278,454
Less allowance for loan losses	**2,674**	2,553
Net Loans	$ **283,974**	$ 275,901

(amounts in thousands except share data)

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in North Central Pennsylvania. Although the Company has a diversified loan portfolio at December 31, 2015 and 2014, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

5. Allowance for Loan Losses

Changes in the allowance for loan losses by portfolio segment are as follows:

December 31, 2015	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning Balance	**$ 619**	**$ 302**	**$ 1,327**	**$ 45**	**$ 260**	**$ 2,553**
Charge-offs	**(350)**	**(29)**	**(135)**	**(15)**	**-**	**(529)**
Recoveries	**13**	**-**	**26**	**-**	**-**	**39**
Provision	**440**	**58**	**164**	**9**	**(60)**	**611**
Ending Balance	**$ 722**	**$ 331**	**$ 1,382**	**$ 39**	**$ 200**	**$ 2,674**

December 31, 2014	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning Balance	$ 560	$ 385	$ 1,280	$ 30	$ 250	$ 2,505
Charge-offs	-	-	(118)	(17)	-	(135)
Recoveries	-	2	-	3	-	5
Provision	59	(85)	165	29	10	178
Ending Balance	$ 619	$ 302	$ 1,327	$ 45	$ 260	$ 2,553

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, commercial real estate loans, residential real estate loans, and consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three-year period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to apply the adjusted factor to nonclassified loans. The following qualitative factors are analyzed for each portfolio segment and are adjusted based upon relevant changes within the portfolio:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Trends in credit quality ratings
- Changes in management and lending staff
- Economic trends
- Concentrations of credit

(amounts in thousands except share data)

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

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the consolidated balance sheet date. The Company considers the allowance for loan losses of $2,674,000 and $2,553,000 adequate to cover loan losses inherent in the loan portfolio at December 31, 2015 and 2014, respectively. The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2015 and 2014:

December 31, 2015	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	$ 286	$ -	$ -	$ -	$ -	$ 286
Collectively evaluated for impairment	436	331	1,382	39	200	2,388
Total	$ 722	$ 331	$ 1,382	$ 39	$ 200	$ 2,674
Loans:						
Individually evaluated for impairment	$ 1,764	$ -	$ -	$ -	$ -	$ 1,764
Collectively evaluated for impairment	56,757	47,296	176,495	4,336	-	284,884
Total	$ 58,521	$ 47,296	$ 176,495	$ 4,336	$ -	$ 286,648

(amounts in thousands except share data)

December 31, 2014	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	$ 261	$ 4	$ 18	$ -	$ -	$ 283
Collectively evaluated for impairment	358	298	1,309	45	260	2,270
Total	$ 619	$ 302	$ 1,327	$ 45	$ 260	$ 2,553
Loans:						
Individually evaluated for impairment	$ 2,173	$ 104	$ 41	$ -	$ -	$ 2,318
Collectively evaluated for impairment	54,774	42,381	173,911	5,070	-	276,136
Total	$ 56,947	$ 42,485	$ 173,952	$ 5,070	$ -	$ 278,454

Credit Quality Information

The Company's internally assigned grades are as follows:

Pass loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are five sub-grades within the pass category to further distinguish the loan.

Special Mention loans are loans for which a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

(amounts in thousands except share data)

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2015 and 2014. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

December 31, 2015	Obligations of States and Political Subdivisions	Other Commercial Loans	Loans for Investment Properties	Other Commercial Real Estate Loans	Total
Pass	**$ 18,246**	**$ 37,455**	**$ 22,979**	**$ 21,931**	**$ 100,611**
Special Mention	**-**	**542**	**-**	**1,359**	**1,901**
Substandard	**-**	**1,828**	**42**	**985**	**2,855**
Doubtful	**-**	**450**	**-**	**-**	**450**
Loss	**-**	**-**	**-**	**-**	**-**
Ending Balance	**$ 18,246**	**$ 40,275**	**$ 23,021**	**$ 24,275**	**$ 105,817**

December 31, 2014	Obligations of States and Political Subdivisions	Other Commercial Loans	Loans for Investment Properties	Other Commercial Real Estate Loans	Total
Pass	$ 20,097	$ 32,237	$ 19,237	$ 22,992	$ 94,563
Special Mention	-	183	-	-	183
Substandard	-	4,430	72	184	4,686
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Ending Balance	$ 20,097	$ 36,850	$ 19,309	$ 23,176	$ 99,432

The following tables present performing and nonperforming residential real estate and consumer loans based on payment activity for the years ended December 31, 2015 and 2014. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they become 90 days past due or are placed on nonaccrual.

December 31, 2015	First Mortgages	Home Equity Loans	Consumer	Total
Performing	**$ 137,242**	**$ 38,659**	**$ 4,334**	**$ 180,235**
Nonperforming	**569**	**25**	**2**	**596**
Total	**$ 137,811**	**$ 38,684**	**$ 4,336**	**$ 180,831**

December 31, 2014	First Mortgages	Home Equity Loans	Consumer	Total
Performing	$ 152,968	$ 20,394	$ 5,070	$ 178,432
Nonperforming	546	44	-	590
Total	$ 153,514	$ 20,438	$ 5,070	$ 179,022

(amounts in thousands except share data)

Following are tables which include an aging analysis of the recorded investment of past-due loans as of December 31, 2015 and 2014:

December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total
Commercial:						
Obligations of states and political subdivisions	$ -	$ -	$ -	$ -	$ **18,246**	$ **18,246**
Other commercial loans	-	-	**543**	**543**	**39,732**	**40,275**
Commercial real estate:						
Loans for investment property	-	-	-	-	**23,020**	**23,020**
Other commercial real estate loans	-	-	-	-	**24,276**	**24,276**
Residential mortgage loans:						
First mortgages	**1,947**	**566**	**471**	**2,984**	**134,827**	**137,811**
Home equity loans	**125**	**36**	**47**	**208**	**38,476**	**38,684**
Consumer	**42**	-	**2**	**44**	**4,292**	**4,336**
Total	$ **2,114**	$ **602**	$ **1,063**	$ **3,779**	$ **282,869**	$ **286,648**

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total
Commercial:						
Obligations of states and political subdivisions	$ -	$ -	$ -	$ -	$ 20,097	$ 20,097
Other commercial loans	277	-	-	277	36,573	36,850
Commercial real estate:						
Loans for investment property	46	-	85	131	19,178	19,309
Other commercial real estate loans	-	-	-	-	23,176	23,176
Residential mortgage loans:						
First mortgages	1,863	471	546	2,880	150,634	153,514
Home equity loans	214	4	44	262	20,176	20,438
Consumer	19	9	-	28	5,042	5,070
Total	$ 2,419	$ 484	$ 675	$ 3,578	$ 274,876	$ 278,454

Impaired Loans

Management evaluates commercial loans and commercial real estate loans which are 90 days or more past due and considers them to be impaired. Loans rated substandard or doubtful are also evaluated for impairment. These loans are analyzed to determine whether it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees, or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

(amounts in thousands except share data)

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of and for the years ending December 31:

December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Other commercial loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate:					
Loans for investment properties	-	-	-	-	-
Residential real estate:					
First mortgages	-	-	-	-	-
With an allowance recorded:					
Commercial:					
Other commercial loans	**1,764**	**1,764**	**286**	**2,148**	**5**
Commercial real estate:					
Loans for investment properties	-	-	-	-	-
Residential mortgage loans:					
First mortgages	-	-	-	-	-
Total	**$ 1,764**	**$ 1,764**	**$ 286**	**$ 2,148**	**$ 5**

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Other commercial loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate:					
Loans for investment properties	78	96	-	79	3
Residential real estate:					
First mortgages	-	-	-	-	-
With an allowance recorded:					
Commercial:					
Other commercial loans	2,173	2,300	261	2,126	25
Commercial real estate:					
Loans for investment properties	26	37	4	32	1
Residential mortgage loans:					
First mortgages	41	52	18	47	2
Total	$ 2,318	$ 2,485	$ 283	$ 2,284	$ 31

Nonaccrual Loans

Loans are considered for nonaccrual status upon 90 days delinquency. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

(amounts in thousands except share data)

The following tables present loans that are on nonaccrual status and that are 90 days delinquent and still accruing interest by portfolio segment as of December 31:

December 31, 2015	Nonaccrual	Past Due 90 Days or More and Still Accruing
Commercial:		
Obligations of states and political subdivisions	$ -	$ -
Other commercial loans	1,766	17
Commercial real estate:		
Loans for investment property	-	-
Other commercial real estate loans	-	-
Residential mortgage loans:		
First mortgages	154	461
Home equity loans	-	27
Consumer loans	-	-
	$ 1,920	$ 505

December 31, 2014	Nonaccrual	Past Due 90 Days or More and Still Accruing
Commercial:		
Obligations of states and political subdivisions	$ -	$ -
Other commercial loans	2,173	
Commercial real estate:		
Loans for investment property	45	59
Other commercial real estate loans	-	-
Residential mortgage loans:		
First mortgages	41	505
Home equity loans	-	44
Consumer loans	-	-
	$ 2,259	$ 608

Interest income on nonaccrual loans not recognized during 2015 and 2014 was $96,000 and $78,000, respectively.

During the years ended December 31, 2015 and 2014, the Company did not have any loan modifications classified as troubled debt restructurings. During the periods, the Company also did not have any loans classified as a troubled debt restructuring that subsequently defaulted during those years.

(amounts in thousands except share data)

6. Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

December 31, 2015	**2015**	2014
Land and improvements	**$ 1,458**	$ 1,458
Buildings and improvements	**9,986**	8,882
Furniture, fixtures and equipment	**4,090**	3,476
	15,534	13,816
Less accumulated depreciation	**5,362**	4,859
Total	**$ 10,172**	$ 8,957

Depreciation expense for the years ended December 31, 2015 and 2014 was $602,000 and $549,000, respectively.

7. Deposits

Time deposits and their remaining maturities at December 31, 2015 are as follows:

Year Ending December 31,	
2016	$ 42,861
2017	14,086
2018	12,087
2019	21,883
2020	26,217
Thereafter	1,859
	$ 118,993

8. Income Taxes

The provision (benefit) for income taxes consists of:

	2015	2014
Current	**$ 446**	$ 962
Deferred	**(458)**	3
Total	**$ (12)**	$ 965

(amounts in thousands except share data)

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, at December 31 are as follows:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 809	$ 779
Accrued pension obligation	806	1,077
Accrued liability	413	-
AMT tax credit	100	-
Other	161	116
Total gross deferred tax assets	2,289	1,972
Deferred tax liabilities:		
Premises and equipment	525	475
Investment accretion	3	2
Unrealized gain on investment securities	141	250
Prepaid pension costs	554	495
Loan origination fees and costs	95	82
Other	24	16
Total gross deferred tax liabilities	1,342	1,320
Net Deferred Tax Assets	$ 947	$ 652

No valuation allowance was established at December 31, 2015 and 2014, in view of the Company's ability to carryback to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

The following is a reconciliation of the federal statutory rate and the Company's effective income tax rate for the years ended December 31:

	2015		2014	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 748	34.0 %	$ 1,573	34.0 %
Effect of tax-exempt income	(762)	(34.7)	(633)	(13.7)
Nondeductible interest expense	27	1.2	25	0.6
Other	(25)	(1.0)	-	-
Actual Tax (Benefit) Expense and Effective Rate	$ (12)	(0.5) %	$ 965	20.9 %

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated statements of income. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2012.

9. Commitments and Contingencies

In the normal course of business, the Company makes various commitments that are not reflected in the accompanying consolidated financial statements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. Losses, if any, are charged to the allowance for loan losses. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval, review procedures, and collateral requirements as deemed necessary.

The off-balance sheet commitments consisted of the following:

	2015	2014
Commitments to extend credit	**$ 54,686**	$ 40,838
Standby letters of credit	**5,990**	4,277

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments are composed primarily of available commercial lines of credit and mortgage loan commitments. The Company uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the Company's lending policy guidelines. Customers use credit commitments to ensure funds will be available for working capital purposes, for capital expenditures, and to ensure access to funds at specified terms and conditions.

(amounts in thousands except share data)

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Performance letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid- or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically company deposit instruments or customer business assets.

As discussed in Note 2, the Bank entered into a Consent Order with the OCC and incurred costs in connection therewith, including professional fees and reimbursements to customers. As of December 31, 2015, management is unable to reasonably estimate the amount of any additional potential losses and expenses.

10. Pension Plan

The Bank sponsors a defined benefit pension plan covering substantially all employees and officers. The Plan calls for benefits to be paid to eligible employees at retirement, based primarily upon years of service with the Bank and compensation rates during employment. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

The following table sets forth the obligation and funded status as of December 31:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 10,178**	$ 6,868
Service cost	**800**	617
Interest cost	**371**	336
Change in assumptions	**(884)**	2,420
Actuarial loss (gains)	**(480)**	51
Benefits paid	**(372)**	(114)
Benefit obligation at end of year	**9,613**	10,178
Change in plan assets:		
Fair value of plan assets at beginning of year	**8,492**	7,157
Actual return on plan assets	**(22)**	749
Employer contribution	**800**	700
Benefits paid	**(371)**	(114)
Fair value of plan assets at end of year	**8,899**	8,492
Funded Status, included in Other Liabilities	**$ (714)**	$ (1,686)

(amounts in thousands except share data)

		2015		2014
Amounts recognized in accumulated other comprehensive loss consist of:				
Net loss	$	**2,371**	$	3,169
Total	$	**2,371**	$	3,169

The accumulated benefit obligation for the defined benefit pension plan was $8,087,000 and $8,196,000 at December 31, 2015 and 2014, respectively.

Components of Net Periodic Benefit Cost

		2015		2014
Net periodic pension cost:				
Service cost	$	**800**	$	617
Interest cost		**371**		336
Expected return on plan assets		**(654)**		(568)
Amortization of net loss		**109**		14
Net Periodic Benefit Cost	$	**626**	$	399

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $88,000.

Assumptions

The weighted-average assumptions used to determine benefit obligations at December 31:

	2015	2014
Discount rate	**4.35 %**	3.96 %
Rate of compensation increase	**4.00**	4.00

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

	2015	2014
Discount rate	**3.96 %**	4.89 %
Expected long-term return on plan assets	**8.00**	8.00
Rate of compensation increase	**4.00**	4.00

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets, as well as future rates expected to be returned

(amounts in thousands except share data)

Plan Assets

The Bank's defined benefit pension plan weighted-average asset allocations at December 31 by asset category are as follows:

	2015	2014
Asset category:		
Mutual funds	65.39 %	65.64 %
Corporate bonds	15.23	15.85
U.S. government agency securities	14.49	14.45
Cash and cash equivalents	4.89	4.06
Total	100.00 %	100.00 %

The Bank believes that the Plan's risk and liquidity position are, in large part, a function of the asset class mix. The Bank desires to utilize a portfolio mix that results in a balanced investment strategy. The investment objective for the defined benefit pension plan is to maximize total return with tolerance for average to slightly above average risk. Asset allocation strongly favors mutual funds.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2015 and 2014:

December 31, 2015	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$ 435	$ -	$ -	$ 435
U.S. government agency securities	-	1,289	-	1,289
Corporate bonds	-	1,356	-	1,356
Mutual funds	5,819	-	-	5,819
Total Assets at Fair Value	$ 6,254	$ 2,645	$ -	$ 8,899

December 31, 2014	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$ 332	$ -	$ -	$ 332
U.S. government agency securities	-	1,229	-	1,229
Corporate bonds	-	1,348	-	1,348
Mutual funds	5,583	-	-	5,583
Total Assets at Fair Value	$ 5,915	$ 2,577	$ -	$ 8,492

(amounts in thousands except share data)

Cash Flows

The Bank expects to contribute $800,000 to its defined benefit pension plan in 2016.

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2016	$ 108
2017	182
2018	267
2019	291
2020 through 2024	2,755

11. Accumulated Other Comprehensive Loss

The following tables present the changes in accumulated other comprehensive loss by component net of tax for the years ended December 31, 2015 and 2014:

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrecognized Pension Costs	Total
Balance as of December 31, 2013	$ (297)	$ (589)	$ (886)
Other comprehensive income (loss) before reclassification	924	(1,511)	(587)
Amount reclassified from accumulated other comprehensive loss	(148)	9	(139)
Total other comprehensive income (loss)	776	(1,502)	(726)
Balance as of December 31, 2014	479	(2,091)	(1,612)
Other comprehensive (loss) income before reclassification	**(108)**	**599**	**491**
Amount reclassified from accumulated other comprehensive loss	**(100)**	**(72)**	**(172)**
Total other comprehensive (loss) income	**(208)**	**527**	**319**
Balance as of December 31, 2015	**$ 271**	**$ (1,564)**	**$ (1,293)**

(amounts in thousands except share data)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31, 2015 and 2014:

	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement Where Net Income is Presented
	2015	2014	
Unrealized gains on available-for-sale securities:			
	$ (152)	$ (224)	Investment securities gains, net
	52	76	Income taxes
	$ (100)	$ (148)	Net of tax
Unrecognized pension costs:			
	$ 109	$ 14	Salaries and employee benefits
	(37)	(5)	Income tax
	$ 72	$ 9	Net of tax

12. Regulatory Matters

Cash and Due from Banks

The Bank is required to maintain average cash reserve balances in vault cash or with the Federal Reserve Bank. The amount of these restricted cash reserve balances at December 31, 2015 and 2014 was $-0-.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividends

The Bank is subject to a dividend restriction that generally limits the amount of dividends that can be paid by a national bank. Prior approval of the Office of the Comptroller of the Currency ("OCC") is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. Using this formula, the amount available for payment of dividends by the Bank in 2016, without approval of the OCC, is approximately $3,868,000 plus 2016 net profits retained up to the date of the dividend declaration.

(amounts in thousands except share data)

Capital Requirements

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

Information presented for December 31, 2015, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Prior to January 1, 2015, the Bank was subject to capital requirements under Basel I. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings and other factors.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2015 and 2014, the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Common equity Tier 1, Total risk-based, Tier I risk-based, and Tier I leverage capital ratios must be at least 6.5 percent, 10 percent, 6 percent, and 5 percent, respectively.

The Company's actual capital ratios are presented in the following table that shows the Company met all regulatory capital requirements. The capital position of the Bank does not differ significantly from the Company's capital position.

December 31, 2015	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 (total risk-weighted assets)	$ **48,303**	**19.09%**	$ **≥11,390**	**≥4.5%**	$ **≥16,451**	**≥ 6.5%**
Total capital (to risk-weighted assets)	**50,977**	**20.15%**	**≥20,244**	**≥8.0%**	**≥25,305**	**≥10.0%**
Tier I capital (to risk-weighted assets)	**48,303**	**19.09%**	**≥10,122**	**≥4.0%**	**≥15,183**	**≥ 6.0%**
Tier I capital (to average assets)	**48,303**	**10.10%**	**≥19,130**	**≥4.0%**	**≥23,912**	**≥ 5.0%**

(amounts in thousands except share data)

December 31, 2014	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 49,880	20.48%	$ ≥19,489	≥8.0%	$ ≥24,361	≥10.0%
Tier I capital (to risk-weighted assets)	47,327	19.43%	≥ 9,744	≥4.0%	≥14,617	≥ 6.0%
Tier I capital (to average assets)	47,327	9.89%	≥19,144	≥4.0%	≥23,930	≥ 5.0%

13. Fair Value Measurements

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

(amounts in thousands except share data)

The following tables present the assets measured on a recurring basis on the consolidated balance sheets at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

December 31, 2015	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
Obligations of states and political subdivisions	**$ -**	**$ 65,495**	**$ -**	**$ 65,495**
Mortgage-backed securities in government-sponsored entities	**-**	**82,843**	**-**	**82,843**
Corporate debt securities	**-**	**498**	**-**	**498**
Equity securities in financial institutions	**178**	**-**	**-**	**178**
Total	**$ 178**	**$ 148,836**	**$ -**	**$ 149,014**

December 31, 2014	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
Obligations of states and political subdivisions	$ -	$ 57,445	$ -	$ 57,445
Mortgage-backed securities in government-sponsored entities	-	101,729	-	101,729
Corporate debt securities	-	755	-	755
Equity securities in financial institutions	210	-	-	210
Total	$ 210	$ 159,929	$ -	$ 160,139

(amounts in thousands except share data)

The following tables present the assets measured on a nonrecurring basis on the consolidated balance sheets at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include quoted market prices for identical assets classified as Level I inputs; and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs. The fair values consist of the loan balances of $1,714,000 and $2,318,000 less their valuation allowances of $286,000 and $283,000 at December 31, 2015 and 2014, respectively.

Other real estate owned ("OREO") is measured at fair value, less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell.

December 31, 2015	Level I	Level II	Level III	Total
Fair value measurements on nonrecurring basis:				
Impaired loans	**$ -**	**$ -**	**$ 1,478**	**$ 1,478**
Other real estate owned	**-**	**-**	**299**	**299**
Total	**$ -**	**$ -**	**$ 1,777**	**$ 1,777**

December 31, 2014	Level I	Level II	Level III	Total
Fair value measurements on nonrecurring basis:				
Impaired loans	$ -	$ -	$ 2,035	$ 2,035
Total	$ -	$ -	$ 2,035	$ 2,035

(amounts in thousands except share data)

The following table provides information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the fair value hierarchy:

December 31, 2015	Quantitative Information About Level III Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	**$ 1,478**	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 46% (36%)
Other real estate owned	**299**	Appraisal of collateral (1) (3)	Appraisal adjustments (2)	6% - 7% (7%)

December 31, 2014	Quantitative Information About Level III Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 2,035	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 46% (36%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include various level III inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions, aging, and/or estimated liquidation expenses incurred when selling the collateral. The range and weighted average of appraisal adjustments and liquidation expenses are presented as a percentage of the appraisal.
(3) Includes qualitative adjustments by management and estimate liquidation expenses.

14. Fair Value of Financial Instruments

The fair values at December 31 of the Company's financial instruments are as follows:

December 31, 2015	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	**$ 11,699**	**$ 11,699**	**$ 11,699**	**$ -**	**$ -**
Investment securities:					
Available-for-sale	**149,014**	**149,014**	**178**	**148,836**	**-**
Held-to-maturity	**3,191**	**3,183**	**-**	**3,183**	**-**
Loans held for sale	**1,293**	**1,293**	**1,293**	**-**	**-**
Net loans	**283,974**	**285,368**	**-**	**-**	**285,368**
Restricted stock	**3,300**	**3,300**	**3,300**	**-**	**-**
Mortgage servicing rights	**959**	**959**	**-**	**959**	**-**
Accrued interest receivable	**1,386**	**1,386**	**1,386**	**-**	**-**
Financial liabilities:					
Deposits	**$ 426,337**	**$ 413,764**	**$ 293,359**	**$ -**	**$ 120,405**
Accrued interest payable	**100**	**100**	**100**	**-**	**-**

(amounts in thousands except share data)

December 31, 2014		Carrying Value		Fair Value		Level I		Level II		Level III
Financial assets:										
Cash and cash equivalents	$	13,738	$	13,738	$	13,738	$	-	$	-
Investment securities:										
Available-for-sale		160,139		160,139		210		159,929		-
Held-to-maturity		3,621		3,643		-		3,643		-
Loans held for sale		1,249		1,249		1,249		-		-
Net loans		275,901		276,880		-		-		276,880
Restricted stock		2,987		2,987		2,987		-		-
Mortgage servicing rights		939		939		-		939		-
Accrued interest receivable		1,469		1,469		1,469		-		-
Financial liabilities:										
Deposits	$	430,295	$	431,689	$	304,039	$	-	$	127,650
Accrued interest payable		114		114		114		-		-

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets, such as deferred tax assets and premises and equipment, are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Loans Held for Sale, Regulatory Stock, Accrued Interest Receivable, and Accrued Interest Payable

The fair value is equal to the current carrying value.

Investment Securities

The fair market value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Loans

Fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Mortgage Servicing Rights

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end.

Commitments to Extend Credit and Commercial Letters of Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available.

The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 8.

(amounts in thousands except share data)

15. Related Party Transactions

Certain officers, directors and other related parties have loans and conduct other transactions with the Bank. Such transactions are entered into on substantially the same terms, including interest rates and collateral, as those prevailing at the time for nonrelated party transactions. Deposits of related parties totaled $2,009,000 at December 31, 2015. The aggregate dollar amount of loans to related parties, along with an analysis of the activity for December 31, 2015 are as follows:

		2015
Balance, beginning	$	1,695
Additions		133
Repayments		341
Reclassification		789
Balance, ending	$	698

16. Employment Agreements

The Company entered into three-year employment agreements with certain members of management, which includes minimum annual salary commitments and change of control provisions. Upon resignation after a change in the control of the Company, as defined in the agreement, the individual will receive monetary compensation in the amount set forth therein. The agreements include covenant not-to-compete provisions and are subject to limitations as discussed in Note 2.

17. Subsequent Events

Management has reviewed events occurring through June 3, 2016, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.