First Resource Bank

2014 ANNUAL REPORT

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Natalie M. Carrozza
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Lisa A. Donnon
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Where Customer Satisfaction
Comes **FIRST**

Dear First Resource Bank Shareholder:

We are proud to celebrate our 10th Annual Report with you. The financial world has seen dramatic changes within this 10 year span. The First Resource Bank team of Directors, Senior Management and staff have consistently exerted an enormous effort to grow the institution, while keeping it safe and secure. As we celebrate 10 years with our shareholders the Bank is delighted to report a record year of earnings. **First Resource Bank reports 2014 net income to common shareholders of $1,054,863.**

When reviewing the analysis of ratios and percentages, you will find that 2014 reported more successes than challenges. The Bank achieved excellent overall asset and loan growth in 2014 with assets increasing 9% and loans growing 12% over the prior year. Pacing deposit growth to match loan growth in 2015 is one of our challenges. The Bank has concentrated on maximizing the organic deposit generation at our single location in Exton over the past 10 years. This focus has resulted in our single branch in Exton being the 16th largest branch in Chester County out of a total of 181 branches in the county. Now, the opening of our second branch location in West Chester is an important expansion step to assist with deposit growth to support loan growth in 2015 and 2016.

The West Chester branch is a necessary investment in people and assets that will generate future revenue streams to build long term benefit. Our performance in 2014 illustrated our top line and bottom line growth over the prior year as total interest income increased by 12% and net income to common shareholders grew by 5%. These strong results combined with quality balance sheet growth will enable us to absorb the increased overhead of a second branch as the Bank enters the next stage of its development.

Our growth is not merely physical, sticks and bricks, and people. The Bank continues to implement the latest proven technology. First Resource Bank’s remote deposit system, First Resource easy deposit, “FRed”, is a staple of our corporate deposit gathering technology and represents 44% of all daily deposit items. In June 2014, the Bank added retail technology with smart phone remote depositing of checks. This product extends our branch network to your smart phone, allowing a First Resource Bank branch in each individual’s pocket. We are investigating additional consumer electronic person to person payments as a 2015 technology implementation. This will allow individuals to make payments to each other through their smart phones using only their email address or cell phone number. We believe that physical locations do not need to be on every street corner, but rather be accessible via your phone or tablet 24 hours a day, 7 days a week.

In 2014, the Bank upgraded its stock listing (FRSB) platform with OTCQX. This enhanced trading market adds value to the shareholders as trades are more efficiently matched. The Board of Directors and Senior Management continue to assess future capital needs based upon the Bank’s strategic growth plans.

We would like to thank you, our shareholders and our customers, for your continued support and patronage. We also thank the Board of Directors and the First Resource Bank team for their service and hard work in 2014. If you have any questions about First Resource Bank or any of our available bank services, please feel free to contact Glenn on his cell at 610-996-6661.

Glenn B. Marshall

Glenn B. Marshall
President & CEO

James B. Griffin

James B. Griffin
Chairman of the Board

First Resource Bank

Financial Statements

December 31, 2014 and 2013

First Resource Bank

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Independent Auditor's Report

To the Board of Directors
First Resource Bank
Exton, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of First Resource Bank, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Resource Bank as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Harrisburg, Pennsylvania
February 12, 2015

Financial Statements

First Resource Bank

Balance Sheets

December 31,		**2014**		2013
Assets				
Cash and due from banks	**$**	**817,026**	$	606,230
Time deposits at other banks		**250,000**		250,000
Securities available-for-sale, at fair value		**9,820,918**		14,383,199
Securities held-to-maturity (fair value of $1,701,612 at December 31, 2014 and $1,728,096 at December 31, 2013)		**1,640,719**		1,684,580
Loans receivable, net of allowance for loan losses of $1,317,363 at December 31, 2014 and $1,252,853 at December 31, 2013		**156,008,805**		138,745,608
Restricted investment in bank stock		**882,400**		668,000
Bank premises and equipment, net		**5,517,252**		3,515,038
Accrued interest receivable		**423,756**		417,101
Bank owned life insurance		**4,040,981**		3,916,982
Other assets		**1,125,682**		1,456,622
Total Assets	**$**	**180,527,539**	$	165,643,360
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Noninterest-bearing	**$**	**9,355,013**	$	6,429,207
Interest-bearing		**133,993,350**		133,442,185
Total deposits		**143,348,363**		139,871,392
Short-term borrowings		**12,000,000**		2,555,000
Long-term borrowings		**6,499,000**		5,599,000
Accrued interest payable		**73,016**		72,944
Other liabilities		**581,723**		537,428
Total Liabilities		**162,502,102**		148,635,764
Shareholders' Equity				
Preferred stock, Series 2011A; authorized 494,852 shares; $1,000 liquidation preference per share, 5,083 shares issued and outstanding at December 31, 2014 and 2013		**5,083,000**		5,083,000
Common stock, $1 par value; authorized 20,000,000 shares; 1,612,283 shares issued and outstanding at December 31, 2014; 1,608,595 shares issued and outstanding at December 31, 2013		**1,612,283**		1,608,595
Surplus		**9,523,083**		9,505,069
Accumulated other comprehensive income		**91,577**		102,015
Retained earnings		**1,715,494**		708,917
Total Shareholders' Equity		**18,025,437**		17,007,596
Total Liabilities and Shareholders' Equity	**$**	**180,527,539**	$	165,643,360

See accompanying notes to financial statements.

First Resource Bank

Statements of Income

Years Ended December 31,	2014	2013
Interest Income		
Loans, including fees	$ 7,294,265	$ 6,723,468
Securities	241,939	197,089
Other	2,920	12,142
Total Interest Income	7,539,124	6,932,699
Interest Expense		
Deposits	1,302,540	1,370,480
Borrowings	82,120	52,513
Total Interest Expense	1,384,660	1,422,993
Net interest income	6,154,464	5,509,706
Provision for Loan Losses	536,901	395,493
Net Interest Income After Provision for Loan Losses	5,617,563	5,114,213
Other Income		
Bank owned life insurance income	123,999	99,054
Gain on sale of SBA loans	103,661	-
Gain on sale of available-for-sale securities	50,286	-
Other	251,016	267,962
Total Other Income	528,962	367,016
Other Expenses		
Salaries and employee benefits	2,228,129	1,938,876
Occupancy and equipment	606,882	378,400
Professional fees	319,324	298,433
Advertising and promotion	131,797	104,108
Data processing	280,532	253,775
FDIC premium expense	120,200	125,219
Other real estate	180,208	219,614
Other	666,520	617,996
Total Other Expenses	4,533,592	3,936,421
Income before income tax expense	1,612,933	1,544,808
Federal Income Tax Expense	507,240	489,150
Net Income	1,105,693	1,055,658
Preferred Stock Dividends	(50,830)	(50,830)
Net Income Available to Common Shareholders	$ 1,054,863	$ 1,004,828

See accompanying notes to financial statements.

First Resource Bank

Statements of Comprehensive Income

Years Ended December 31,	**2014**	2013
Net Income	**$ 1,105,693**	$ 1,055,658
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on available-for-sale securities	**34,471**	(117,135)
Less reclassification adjustment for realized gains included in net income (1)	**(50,286)**	-
Tax effect	**5,377**	39,826
Total other comprehensive loss	**(10,438)**	(77,309)
Total Comprehensive Income	**$ 1,095,255**	$ 978,349

(1) Amounts are included in gain on sale of available-for-sale securities on the statements of income in total other income.

See accompanying notes to financial statements.

First Resource Bank

Statements of Shareholders' Equity

	Preferred Stock	Common Stock	Surplus	Accumulated Other Comprehensive Income	(Accumulated Deficit) Retained Earnings	Total
Balance, December 31, 2012	$ 5,083,000	$ 1,528,243	$ 9,565,547	$ 179,324	$ (295,341)	$ 16,060,773
Net income	-	-	-	-	1,055,658	1,055,658
Other comprehensive loss	-	-	-	(77,309)	-	(77,309)
5% common stock distribution	-	76,359	(76,359)	-	-	-
Cash in lieu of fractional shares on stock distribution	-	-	-	-	(570)	(570)
Sale of common stock	-	3,993	15,881	-	-	19,874
Preferred stock dividends	-	-	-	-	(50,830)	(50,830)
Balance, December 31, 2013	5,083,000	1,608,595	9,505,069	102,015	708,917	17,007,596
Net income	**-**	**-**	**-**	**-**	**1,105,693**	**1,105,693**
Other comprehensive loss	**-**	**-**	**-**	**(10,438)**	**-**	**(10,438)**
Cash dividend	**-**	**-**	**-**	**-**	**(48,286)**	**(48,286)**
Sale of common stock	**-**	**3,688**	**18,014**	**-**	**-**	**21,702**
Preferred stock dividends	**-**	**-**	**-**	**-**	**(50,830)**	**(50,830)**
Balance, December 31, 2014	**$ 5,083,000**	**$ 1,612,283**	**$ 9,523,083**	**$ 91,577**	**$ 1,715,494**	**$ 18,025,437**

See accompanying notes to financial statements.

First Resource Bank

Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash Flows from Operating Activities		
Net income	$ 1,105,693	$ 1,055,658
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	536,901	395,493
Depreciation	199,894	124,288
Net amortization on securities	87,852	80,495
Deferred tax expense (benefit)	222,774	(15,373)
Loss recorded on other real estate owned	44,414	109,339
Gain on sale of available-for-sale securities	(50,286)	-
Earnings on bank owned life insurance	(123,999)	(99,054)
Proceeds from sales of SBA loans originated for sale	933,739	-
SBA loans originated for sale	(830,078)	-
Gains on sales of SBA loans originated for sale	(103,661)	-
Increase in accrued interest receivable	(6,655)	(15,619)
Increase in other assets	(293,586)	(443,889)
Increase in accrued interest payable	72	11,510
Increase in other liabilities	44,295	117,694
Net Cash Provided by Operating Activities	1,767,369	1,320,542
Cash Flows from Investing Activities		
Net increase in loans	(17,800,098)	(11,597,578)
Purchases of securities available-for-sale	(5,871,283)	(9,069,262)
Proceeds from sales of securities available-for-sale	3,663,844	-
Maturities and principal repayments of securities available-for-sale	6,719,125	2,492,600
Maturities and principal repayment of securities held-to-maturity	41,075	102,509
Purchase of restricted bank stock	(214,400)	(20,900)
Purchase of bank owned life insurance	-	(1,000,000)
Proceeds from sale of other real estate owned	362,715	228,233
Purchases of premises and equipment	(2,202,108)	(967,982)
Net Cash Used in Investing Activities	(15,301,130)	(19,832,380)
Cash Flows from Financing Activities		
Net increase in deposits	3,476,971	8,782,357
Net change in short-term borrowings	9,445,000	2,555,000
Proceeds from long-term borrowings	900,000	2,179,000
Preferred stock dividends	(50,830)	(50,830)
Cash dividends on common stock	(48,286)	-
Cash in lieu of fractional shares for 5% stock dividend	-	(570)
Sale of common stock	21,702	19,874
Net Cash Provided by Financing Activities	13,744,557	13,484,831
Net increase (decrease) in cash and cash equivalents	210,796	(5,027,007)
Cash and Cash Equivalents, Beginning of Year	606,230	5,633,237
Cash and Cash Equivalents, End of Year	$ 817,026	$ 606,230
Supplementary Cash Flows Information		
Interest paid	$ 1,384,588	$ 1,411,483
Federal income taxes paid	$ 535,000	$ 400,000
Other real estate acquired in settlement of loans	$ -	$ 310,526

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

First Resource Bank (the "Bank") was incorporated on January 10, 2005 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank commenced operations on May 2, 2005 and is a full service bank providing personal and business lending and deposit services. As a state chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The region served by the Bank is the southeastern area of Pennsylvania.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Chester County, Pennsylvania. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Time deposits at other banks are for terms of 90 days or less. Generally, federal funds are purchased or sold for one day periods. As of December 31, 2014 and 2013, the Bank had no federal funds purchased or sold.

Comprehensive Income

Accounting principles generally recognized in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. 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 equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income, net of the deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by using the interest method over the terms of the securities.

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

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or 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 yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial, commercial real estate and commercial construction. Consumer loans consist of the following classes: home equity loans and other consumer loans.

For all classes of loans receivable, the accrual of interest is 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 either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired 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 (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.

6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.

7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A majority of the Bank's loans are loans to business owners of many types. The Bank makes commercial loans for real estate development, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

The evaluation of the adequacy of the allowance is based on an analysis which categorizes the entire loan portfolio by certain risk characteristics. The loan portfolio is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses.

1. Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. These loans can be affected by economic conditions. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment.

2. Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. These loans can be affected by economic conditions and the value of the underlying properties. Commercial real estate loans require a loan to value ratio of not greater than 80%. Loan amortizations vary from one year to twenty-five years and terms typically do not exceed ten years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

3. Commercial construction loans include loans to finance the construction or rehabilitation of either commercial properties or 1 to 4 family residential structures. The vast majority of the commercial construction portfolio finances 1 to 4 family residential properties. Construction loans generally are considered to involve a higher degree of risk of loss than occupied real estate due to uncertainty of construction costs. Inspections are performed prior to disbursement of loan proceeds as construction progress to mitigate these risks. These loans can also be affected by economic conditions. The commercial construction portfolio is focused on small spot lot builders and smaller building companies. These loans carry variable interest rates and are usually interest only loans with maturities ranging from one year to three years.

4. Home equity loans, home equity lines of credit, residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. These loans can be affected by economic conditions and the value of the underlying property. The risk is considered low on loans in these categories that are secured by first liens. The credit risk is considered slightly higher on loans in these categories with second liens as these loans are dependent on the value of the underlying properties and have the added risk of the subordinate collateral positions. Home equity loans require a loan to value ratio of not greater than 85% with limited exceptions. Home equity lines of credit have variable rates. Closed end home equity loans have maturities up to fifteen years and carry fixed interest rates. Residential mortgages have adjustable rates and terms up to thirty years.

5. Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured and therefore are considered to involve a higher risk of loss.

6. Cash collateralized loans consist of loans secured by deposit accounts. These loans have low credit risk as they are fully secured by their collateral.

The vast majority of the commercial and consumer loans are located in the Philadelphia tri-state area.

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 for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated carrying values of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral or the present value of expected future cash flows.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, banking 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.

U.S. Small Business Association (SBA) Lending Activities

Beginning in 2014, the Bank originates loans to customers in its primary market area under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. The Bank generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. When the guaranteed portion of an SBA loan is sold, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income.

SBA servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. To determine the fair value of Mortgage Servicing Rights (MSRs), the Bank uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses. MSRs were not material at December 31, 2014.

These MSRs are amortized in proportion to, and over the period of, the estimated net servicing income or net servicing loss and measured for impairment based on fair value at each reporting date. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

Serviced loans sold to others are not included in the accompanying balance sheet and are immaterial, at December 31, 2014. Income (losses) and fees collected for loan servicing are included within other income on the statements of income.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, 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 Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Owned Life Insurance

The Bank 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 chosen group of officers. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2014 and 2013 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $832,400 and $618,000, respectively, and Atlantic Central Bankers Bank in the amount of $50,000. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost.

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. In addition, any gain or loss realized upon disposal is included in other income or expense. The Bank had foreclosed assets of $255,871 and $663,000 at December 31, 2014 and 2013, respectively. Such assets are recorded in other assets in the accompanying balance sheets.

Bank Premises and Equipment

Bank 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 related assets. Leasehold improvements are depreciated over the lesser of the useful life, or term of the lease, including renewal options, if reasonably assured, on a straight-line basis. Construction in Progress represents costs capitalized in connection with new branch facilities that were not complete as of the balance sheet dates.

Advertising Costs

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

Employee Benefit Plans

The Bank has established a 401(k) Plan (the "Plan"). All employees are eligible to participate after they have attained the age of 18. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan. During 2014 and 2013, the Bank has elected to make a 3% safe harbor contribution for all employees. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2014 and 2013 was $53,635 and $54,964, respectively.

The Bank has implemented non-qualified Supplemental Executive Retirement Plans for certain executive officers that provide for payments upon retirement, death or disability. As of December 31, 2014 and 2013, other liabilities include $104,491 and $65,324 accrued under these plans, respectively. As of December 31, 2014 and 2013, salaries and employee benefits expense includes $39,167 and $35,602 expensed under these plans, respectively.

Income Taxes

Deferred income taxes are provided on the balance sheet method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. 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 adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock-Based Compensation

The Bank has a stock option plan in place for employees and directors. The Bank recognizes the cost of employee services received in exchange for an award of stock options based on the grant date fair value of the award. The cost is recognized over the vesting period.

For the years ended December 31, 2014 and 2013, there was no stock-based compensation expense. There were no stock options granted in 2014 or 2013.

Off-Balance Sheet Financial Instruments

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

Stock Distributions

On March 15, 2013, the Bank declared stock distributions in the form of a 5% stock dividend. If the Bank had accumulated profits (retained earnings) at the time of the declaration date, the Bank would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Bank had an accumulated deficit at the time the stock distribution was declared, it transferred the par value of the shares issued from surplus to common stock. There were no declarations of stock distributions in the form of stock dividends in 2014.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 12, 2015, the date these financial statements were available to be issued.

2. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2014 and 2013 are summarized as follows:

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government securities	$ 5,000,014	$ -	$ -	$ 5,000,014
U. S. government mortgage-backed securities - residential	4,682,151	138,753	-	4,820,904
	$ 9,682,165	$ 138,753	$ -	$ 9,820,918
Held-to-maturity:				
U. S. government mortgage-backed securities - residential	$ 213,589	$ 13,271	$ -	$ 226,860
Corporate bonds	500,000	34,445	-	534,445
Municipal bonds	927,130	13,177	-	940,307
	$ 1,640,719	$ 60,893	$ -	$ 1,701,612

December 31, 2013		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available-for-sale:								
U. S. government agency securities	$	5,000,000	$	-	$	-	$	5,000,000
U. S. government mortgage-backed securities - residential		8,747,530		151,377		(10,638)		8,888,269
Corporate bonds		481,101		13,829		-		494,930
	$	14,228,631	$	165,206	$	(10,638)	$	14,383,199
Held-to-maturity:								
U. S. government mortgage-backed securities - residential	$	256,448	$	7,056	$	-	$	263,504
Corporate bonds		500,000		31,165		-		531,165
Municipal bonds		928,132		5,295		-		933,427
	$	1,684,580	$	43,516	$	-	$	1,728,096

The Bank had no investments with gross unrealized losses at December 31, 2014.

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

December 31, 2013	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U. S. government mortgage-backed securities - residential	$ 3,253,635	$ (10,638)	$ -	$ -	$ 3,253,635	$ (10,638)

As of December 31, 2013, four securities were in unrealized loss positions due to interest rate fluctuations. No securities were deemed to be other-than-temporarily impaired.

The amortized cost and fair value of securities as of December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

December 31, 2014	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	**$ 5,000,014**	**$ 5,000,014**	**$ -**	**$ -**
Due after one year through five years	**-**	**-**	**500,000**	**534,445**
Due after five years through ten years	**-**	**-**	**927,130**	**940,307**
Due over 10 years	**-**	**-**	**-**	**-**
	5,000,014	**5,000,014**	**1,427,130**	**1,474,752**
U.S. government mortgage-backed securities - residential	**4,682,150**	**4,820,904**	**213,589**	**226,860**
	$ 9,682,164	**$ 9,820,918**	**$ 1,640,719**	**$ 1,701,612**

Securities with a carrying value of $4,035,000 and $9,004,000 at December 31, 2014 and 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

3. Loans Receivable

The composition of loans receivable at December 31, 2014 and 2013 is as follows:

	2014	2013
Commercial	**$ 17,454,681**	$ 14,173,864
Commercial real estate	**102,404,194**	92,552,442
Commercial construction	**12,300,949**	8,162,904
Home equity	**24,755,702**	24,620,845
All other consumer	**516,833**	572,139
Total loans	**157,432,359**	140,082,194
Unearned net loan origination fees and costs	**(106,191)**	(83,733)
Allowance for loan losses	**(1,317,363)**	(1,252,853)
Net Loans	**$ 156,008,805**	$ 138,745,608

4. Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Balance, beginning	**$ 1,252,853**	$ 1,439,935
Charge-offs	**(514,887)**	(600,891)
Recoveries	**42,496**	18,316
Provision for loan losses	**536,901**	395,493
Balance, Ending	**$ 1,317,363**	$ 1,252,853

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2014 and 2013, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2014 and 2013:

2014	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	**$ 132,027**	**$ (214,612)**	**$ 2,624**	**$ 234,374**	**$ 154,413**	**$ -**	**$ 154,413**
Commercial real estate	**600,741**	**(182,723)**	**2,283**	**247,484**	**667,785**	**17,742**	**650,043**
Commercial construction	**40,305**	**-**	**991**	**30,962**	**72,258**	**-**	**72,258**
Home equity	**471,876**	**(102,345)**	**32,030**	**(1,473)**	**400,088**	**14,904**	**385,184**
Consumer, other	**7,904**	**(15,207)**	**4,568**	**25,554**	**22,819**	**4,559**	**18,260**
	$ 1,252,853	**$ (514,887)**	**$ 42,496**	**$ 536,901**	**$ 1,317,363**	**$ 37,205**	**$ 1,280,158**

2014	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	**$ 17,454,681**	**$ 30,759**	**$ 17,423,922**
Commercial real estate	**102,404,194**	**5,248,191**	**97,156,003**
Commercial construction	**12,300,949**	**227,150**	**12,073,799**
Home equity	**24,755,702**	**936,814**	**23,818,888**
Consumer, other	**516,833**	**100,640**	**416,193**
	$ 157,432,359	**$ 6,543,554**	**$ 150,888,805**

2013	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 130,578	$ (13,614)	$ 3,933	$ 11,130	$ 132,027	$ 7,782	$ 124,245
Commercial real estate	625,968	(184,499)	8,558	150,714	600,741	-	600,741
Commercial construction	96,392	(170,533)	-	114,446	40,305	-	40,305
Home equity	570,979	(223,671)	2,400	122,168	471,876	32,043	439,833
Consumer, other	16,018	(8,574)	3,425	(2,965)	7,904	1,594	6,310
	$ 1,439,935	$ (600,891)	$ 18,316	$ 395,493	$ 1,252,853	$ 41,419	$ 1,211,434

2013	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 14,173,864	$ 393,693	$ 13,780,171
Commercial real estate	92,552,442	6,385,477	86,166,965
Commercial construction	8,162,904	1,445,347	6,717,557
Home equity	24,620,845	999,920	23,620,925
Consumer, other	572,139	106,243	465,896
	$ 140,082,194	$ 9,330,680	$ 130,751,514

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2014 and 2013:

December 31, 2014	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	**$ 17,423,922**	**$ 98,036,187**	**$ 12,073,799**	**$ 24,028,471**	**$ 516,833**	**$152,079,212**
Special mention	**-**	**658,782**	**-**	**466,786**	**-**	**1,125,568**
Substandard	**30,759**	**3,709,225**	**227,150**	**260,445**	**-**	**4,227,579**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**
	$ 17,454,681	**$102,404,194**	**$ 12,300,949**	**$ 24,755,702**	**$ 516,833**	**$157,432,359**

December 31, 2013	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	$ 14,126,021	$ 86,260,137	$ 6,717,556	$ 23,691,102	$ 572,139	$ 131,366,955
Special mention	17,084	3,714,388	1,218,198	32,529	-	4,982,199
Substandard	30,759	2,577,917	227,150	897,214	-	3,733,040
Doubtful	-	-	-	-	-	-
	$ 14,173,864	$ 92,552,442	$ 8,162,904	$ 24,620,845	$ 572,139	$ 140,082,194

The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the years ended December 31, 2014 and 2013:

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	**$ 30,759**	**$ 245,371**	**$ -**	**$ 394,606**	**$ 2,646**
Commercial real estate	**4,459,659**	**4,747,164**	**-**	**5,161,295**	**185,624**
Commercial construction	**227,150**	**227,150**	**-**	**510,057**	**12,726**
Home equity	**635,578**	**724,806**	**-**	**686,571**	**20,373**
Consumer - other	**-**	**15,208**	**-**	**4,627**	**253**
With an allowance recorded:					
Commercial	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Commercial real estate	**788,532**	**788,532**	**17,742**	**797,003**	**34,743**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Home equity	**301,236**	**301,236**	**14,904**	**306,289**	**9,597**
Consumer - other	**100,640**	**153,829**	**4,559**	**103,450**	**3,369**
Total:					
Commercial	**$ 30,759**	**$ 245,371**	**$ -**	**$ 394,606**	**$ 2,646**
Commercial real estate	**5,248,191**	**5,535,696**	**17,742**	**5,958,298**	**220,367**
Commercial construction	**227,150**	**227,150**	**-**	**510,057**	**12,726**
Home equity	**936,814**	**1,026,042**	**14,904**	**992,860**	**29,970**
Consumer - other	**100,640**	**169,037**	**4,559**	**108,077**	**3,622**

December 31, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 47,843	$ 47,843	$ -	$ 50,179	$ 971
Commercial real estate	6,385,477	6,583,589	-	6,376,690	271,811
Commercial construction	1,445,347	1,831,656	-	1,542,286	73,778
Home equity	764,749	1,355,374	-	628,675	18,702
Consumer - other	-	-	-		-
With an allowance recorded:					
Commercial	$ 345,850	$ 345,850	$ 7,782	$ 330,946	$ 21,149
Commercial real estate	-	-	-	-	-
Commercial construction	-	-	-	-	-
Home equity	235,171	235,171	32,043	237,502	6,211
Consumer - other	106,243	159,432	1,594	109,102	3,576
Total:					
Commercial	$ 393,693	$ 393,693	$ 7,782	$ 381,125	$ 22,120
Commercial real estate	6,385,477	6,583,589	-	6,376,690	271,811
Commercial construction	1,445,347	1,831,656	-	1,542,286	73,778
Home equity	999,920	1,590,545	32,043	866,177	24,913
Consumer - other	106,243	159,432	1,594	109,102	3,576

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2014 and 2013:

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	**$ -**	**$ -**	**$ 30,759**	**$ 30,759**	**$ 17,423,922**	**$ 17,454,681**	**$ -**
Commercial real estate	**-**	**-**	**2,068,257**	**2,068,257**	**100,335,937**	**102,404,194**	**-**
Commercial construction	**-**	**-**	**227,150**	**227,150**	**12,073,799**	**12,300,949**	**-**
Home equity	**-**	**191,018**	**260,445**	**451,463**	**24,304,239**	**24,755,702**	**-**
Consumer - other	**100,640**	**-**	**-**	**100,640**	**416,193**	**516,833**	**-**
	$ 100,640	**$ 191,018**	**$ 2,586,611**	**$ 2,878,269**	**$ 154,554,090**	**$ 157,432,359**	**$ -**

December 31, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	$ -	$ -	$ 30,759	$ 30,759	$ 14,143,105	$ 14,173,864	$ -
Commercial real estate	65,826	82,537	1,077,804	1,226,167	91,326,275	92,552,442	-
Commercial construction	-	-	227,150	227,150	7,935,754	8,162,904	-
Home equity	11,667	32,529	290,638	334,834	24,286,011	24,620,845	-
Consumer - other	106,243	-	-	106,243	465,896	572,139	-
	$ 183,736	$ 115,066	$ 1,626,351	$ 1,925,153	$ 138,157,041	$ 140,082,194	$ -

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2014 and 2013:

	2014	2013
Commercial	**$ 30,759**	$ 30,759
Commercial real estate	**2,068,257**	1,160,341
Commercial, construction	**227,150**	227,150
Home equity	**260,445**	422,212
Consumer, other	**-**	-
	$ 2,586,611	$ 1,840,462

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring ("TDR"). Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. There was one troubled debt restructuring with a recorded investment of $875,757 that subsequently defaulted in 2014. There were no troubled debt restructurings that defaulted within twelve months of their restructuring during 2013.

The following tables reflect information regarding the Bank's troubled debt restructurings for the years ended December 31, 2014 and 2013:

2014	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled debt restructurings:			
Commercial real estate	**1**	**$ 876,307**	**$ 876,307**
Home equity	**1**	**146,828**	**146,828**

2013	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled debt restructurings:			
Commercial real estate	2	$ 1,236,457	$ 1,236,457

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2014 and 2013 are as follows:

	2014	2013
Land	$ 1,760,000	$ 1,135,000
Land improvements	205,776	-
Buildings	2,330,961	1,413,921
Leasehold improvements	409,857	414,242
Furniture, fixtures and equipment	653,323	302,687
Computer equipment and data processing software	498,362	348,045
Construction in progress	593,814	864,290
	6,452,093	4,478,185
Accumulated depreciation	(934,841)	(963,147)
	$ 5,517,252	$ 3,515,038

Depreciation expense was $199,894 and $124,288 for the years ended December 31, 2014 and 2013, respectively.

6. Deposits

The components of deposits at December 31, 2014 and 2013 are as follows:

	2014	2013
Demand, non-interest bearing	$ 9,355,013	$ 6,429,207
Demand, interest-bearing	4,349,552	3,809,040
Money market accounts	51,400,506	53,960,919
Time, $100,000 and over	46,485,321	40,956,299
Time, other	31,757,971	34,715,927
	$ 143,348,363	$ 139,871,392

At December 31, 2014, the scheduled maturities of time deposits are as follows:

Year ending December 31,	
2015	$ 45,048,303
2016	20,799,071
2017	6,255,792
2018	3,484,602
2019	2,655,524
	$ 78,243,292

At December 31, 2014 and 2013, the Bank had brokered deposits of $14,172,341 and $14,281,414, respectively.

7. Borrowings

Short-term borrowings at December 31, 2014 consisted of an advance from the Federal Home Loan Bank (FHLB) of $12,000,000, due January 2, 2015 with interest at 0.33%. Short-term borrowings at December 31, 2013 consisted of an advance from the Federal Home Loan Bank (FHLB) of $2,555,000, due January 2, 2014 with interest at 0.28%. The Bank utilizes overnight borrowings from the FHLB for cash flow needs. $12 million of these borrowings at December 31, 2014 matured on January 2, 2015 and were repaid.

Long-term borrowings at December 31, 2014 and 2013 consisted of FHLB borrowings with the following maturity dates and interest rates:

	2014	2013
Fixed note at 0.350%, maturing on June 17, 2015	**$ 437,500**	$ 437,500
Fixed note at 0.466%, maturing on August 27, 2015	**652,000**	652,000
Fixed note at 1.290%, maturing on January 3, 2017	**920,000**	920,000
Fixed note at 1.194%, maturing on February 23, 2017	**1,300,000**	1,300,000
Fixed note at 1.011%, maturing on July 10, 2017	**900,000**	-
Fixed note at 0.913%, maturing on August 23, 2017	**1,200,000**	1,200,000
Fixed note at 2.077%, maturing on June 17, 2020	**437,500**	437,500
Fixed note at 2.712%, maturing on August 27, 2020	**652,000**	652,000
	$ 6,499,000	$ 5,599,000

Borrowings from the FHLB are secured by a blanket lien on the Bank's assets. The Bank has a maximum borrowing capacity with the FHLB of approximately $77,831,000 at December 31, 2014, of which $18,499,000 was outstanding.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window. All borrowings through this facility are secured by specific pledge of investments. There were no borrowings outstanding under this facility at December 31, 2014 and 2013.

8. Lease Commitments

The Bank has an operating lease agreement for its main banking office. Rent expense for each of the years ended December 31, 2014 and 2013 totaled $102,360. The Bank leases this office from a principal stockholder. This lease expired on December 31, 2014.

The Bank has an operating lease agreement with a related party for office space. This location was used as a remote banking center which housed an ATM machine and an after-hours depository. The remote banking center was closed in March 2014. The lease was a month-to-month lease. Rent expense for each of the years ended December 31, 2014 and 2013 totaled $2,400.

The Bank has an operating lease agreement with a related party for office space for the operations department. The lease terms are comparable to similarly outfitted space in the Bank's market. The lease commenced on February 1, 2008 and has a seven year term. Rent expense for the years ended December 31, 2014 and 2013 was $32,731 and $31,851, respectively.

In 2013, the Bank entered into an operating lease agreement for its corporate office. This lease commenced in May 2014 and has a ten year and seven month term with two additional five year option periods. Rent expense for the year ended December 31, 2014 was $92,424.

Future minimum lease payments by year and in the aggregate, under these noncancellable lease agreements, are as follows:

Year ending December 31,	
2015	$ 135,374
2016	134,032
2017	137,746
2018	141,461
2019	145,175
Thereafter	767,663
	$ 1,461,451

9. Employment Agreements

The Bank has employment agreements with its chief executive officer and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. The Bank also has a change of control agreement with its chief operating officer. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreement.

10. Shareholders' Equity

On September 15, 2011, the Bank entered into a Securities Purchase Agreement (the "Purchase Agreement") with the Secretary of the Treasury (the "Treasury"), pursuant to which the Bank issued and sold to the Treasury 5,083 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series 2011 A (the "Series 2011 A Preferred Stock"), having a liquidation preference of $1,000 per share (the "Liquidation Amount"), for proceeds of $5,083,000. The Purchase Agreement was entered into, and the Series 2011A Preferred Stock was issued, pursuant to the Treasury's SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010 that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. The proceeds were used to partially redeem $5,147,000 of the Series 2009A, 2009B and 2009C preferred stock previously issued to the Treasury under its Capital Purchase Program.

The Series 2011A Preferred Stock qualifies as Tier 1 capital for the Bank. Non-cumulative dividends are payable quarterly on the Series 2011A Preferred Stock, beginning January 1, 2012. The dividend rate is calculated as a percentage of the aggregate Liquidation Amount of the outstanding Series 2011A Preferred Stock and is based on changes in the level of "Qualified Small Business Lending" or "QSBL" (as defined in the Purchase Agreement) by the Bank. Based upon the increase in the Bank's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period, which is from the date of issuance through December 31, 2011, was 5.0%. For the 2nd through 10th calendar quarters, the annual dividend rate may be adjusted to between 1% and 5%, to reflect the amount of change in the Banks' level of QSBL. For the 11th calendar quarter through 4.5 years after issuance, the dividend rate will be fixed at between 1% and 7% based upon the increase in QSBL as compared to the baseline. As of December 31, 2014 and 2013, the annual dividend rate was set at 1.0%. After 4.5 years from issuance, the dividend rate will increase to 9%.

The Series 2011A preferred shares are non-voting, other than class voting rights on matters that could adversely affect the shares. The preferred shares are redeemable at any time, with Treasury, Federal Reserve and FDIC approval.

The Bank has a Bank Shareholder Stock Purchase Plan. The Plan allows existing shareholders of record to purchase new shares of common stock directly from the Bank. The purchase price for these shares is the volume weighted average price for a share of Bank common stock during the full calendar quarter that precedes the calendar quarter in which the purchase date occurs, as reported by the National Association of Securities Dealers Automated Quotations ("NASDAQ"). At each quarterly purchase date, the minimum investment is $250 and the maximum investment is $100,000. During 2010, this Plan was frozen and no shares of common stock have been sold under this Plan since then.

The Bank has an Employee Stock Purchase Plan. The Employee Plan allows employees with at least six months of service and who customarily work more than five months per calendar year to purchase shares through a payroll deduction at a price set by the Capital Committee between 85 percent and 100 percent of the fair market value of such share on each quarterly purchase date. Payroll deductions for this Plan cannot exceed the lower of 5% of the employee's compensation or $2,500 per quarter. During 2014 and 2013, the Bank sold 3,688 and 3,993 shares of common stock under this Plan.

11. Stock Option Plan

The Bank has a Stock Compensation Plan (the "Plan"). The Plan authorizes the Board of Directors to grant options and restricted stock up to an aggregate of 15% of the shares of common stock as of the effective date of the Plan to officers, other employees and directors of the Bank. For each fiscal year in which the Bank reports positive net income as determined by the Bank's audited GAAP financial statements, the number of shares of common stock available for issuance under the Plan will increase by 1% of the shares of common stock outstanding on December 31 of the immediately preceding calendar year. However, in no case can the aggregate number of shares of common stock issuable under the Plan exceed 18% of common stock outstanding as of December 31 of each applicable year. No incentive stock options may be granted on the basis of the additional shares of common stock resulting from such annual increases. Restricted stock awards cannot exceed 25% of the total shares authorized under the Plan. Incentive stock awards cannot exceed 75% of the shares initially issuable under the Plan. Awards to non-employee directors cannot exceed 35% of the shares initially issuable under the Plan.

The shares granted under the Plan to directors are non-qualified options. The shares granted under the Plan to officers and other employees can be non-qualified options or incentive stock options, subject to the limitations under Section 422 of the Internal Revenue Code. At December 31, 2014, there were 91,579 shares available for grant under the Plan.

All options granted under the Plan have a term that shall not exceed 10 years. The exercise price of the options granted shall be the fair value of a share of common stock at the time of the grant. The vesting period is at the discretion of the Board of Directors. Stock options granted in 2005 vest over 3 or 5 years. Stock options granted in 2006 vest over 5 years. There have been no option grants since 2006.

During 2005, 70,175 stock options, as adjusted for the 5% stock distributions in 2013, were granted to certain officers and directors of the Bank as compensation for their efforts in organizing the Bank. Such options have a term of 10 years, vest over 5 years and the exercise price equaled the fair value of a share of common stock at the time of the grant. Such options are not subject to the Plan.

Following is a rollforward of stock option activity (as adjusted for the 2013 5% stock distribution) for the years ended December 31, 2014 and 2013:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Life		Aggregate Intrinsic Value
Options outstanding December 31, 2012	197,968		7.74			
2013 forfeitures	-					
Options outstanding December 31, 2013	197,968		7.74			
2014 forfeitures	-					
Options outstanding December 31, 2014	**197,968**	**$**	**7.74**	0.7 years	$	-
Options exercisable December 31, 2014	**197,968**	**$**	**7.74**	0.7 years	$	-

As of December 31, 2014 and 2013, there was no unrecognized compensation cost related to non-vested stock options.

12. Federal Income Taxes

The components of federal income tax expense for the years ended December 31, 2014 and 2013 are as follows:

		2014		2013
Current expense	**$**	**284,466**	$	504,523
Deferred expense (benefit)		**222,774**		(15,373)
	$	**507,240**	$	489,150

A reconciliation of the statutory federal income tax at a rate of 34% to income tax expense included in the statements of income for the years ended December 31, 2014 and 2013 are as follows:

		2014		2013
Federal income tax at statutory rate	**$**	**548,397**	$	525,235
Tax exempt interest		**(7,646)**		(7,654)
Bank owned life insurance income		**(42,160)**		(33,678)
Other		**8,649**		5,247
	$	**507,240**	$	489,150

The components of the net deferred tax asset at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 227,819	$ 223,688
Organization and start-up costs	47,002	55,815
Depreciation on premises and equipment	-	36,108
Stock option compensation	124,782	124,782
Supplemental executive retirement plan	35,527	22,210
Nonaccrual interest	41,211	49,309
Contribution carryover	22,192	-
OREO valuation allowance	21,270	51,837
Deferred rent	27,873	882
Total deferred tax assets	547,676	564,631
Deferred tax liabilities:		
Deferred loan costs	(80,539)	(73,113)
Unrealized gain on available-for-sale securities	(47,176)	(52,553)
Depreciation on premises and equipment	(198,398)	-
Prepaid expenses	(25,196)	(25,201)
Total deferred tax liabilities	(351,309)	(150,867)
Net Deferred Tax Assets, Included in Other Assets	$ 196,367	$ 413,764

Based on projections of future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize the benefits of these deductible differences.

The Bank follows the provisions of Financial Accounting Standards Board ASC 740, Accounting for Uncertainty in Income Taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more-likely-than-not” threshold guidelines, the Bank believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2014 and 2013, the Bank had no material unrecognized tax benefits or accrued interest and penalties. The Bank’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Bank is no longer subject to examination by taxing authorities for the years before January 1, 2011.

13. Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans receivable of related parties totaled $7,195,262 at December 31, 2014 and $7,653,150 at December 31, 2013. During 2014, $190,459 of advances were made and repayments totaled $648,347. Deposits of related parties totaled $8,459,983 and $7,685,184 at December 31, 2014 and 2013, respectively.

The Bank paid legal fees of approximately $6,108 and $8,464 to a law firm of a director for the years ended December 31, 2014 and 2013, respectively. The Bank leased office space and a storefront used for a remote banking center from a related party as described in Note 8. Total rent expense to the related party was $2,400 for each of the years ended December 31, 2014 and 2013. The Bank leases its operations office space from a related party as described in Note 8. Total rent expense to the related party was $32,731 and $31,851 for the years ended December 31, 2014 and 2013, respectively. The Bank also uses a related party for site work on new branch construction and for diesel fuel purchases for an onsite generator. Total payments to this related party in 2014 were $263,998 and $701 in 2013. The Bank leases its main office from a principal stockholder as described in Note 8. Total rent expense to the related party was $102,360 for the years ended December 31, 2014 and 2013. The Bank also uses a related party for construction consulting services. Total payments to this related party in 2014 were $39,803 and $5,167 in 2013.

14. Financial Instruments with Off-Balance Sheet Risk

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 and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

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. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments at December 31, 2014 and 2013 is as follows:

	Contract Amount	
	2014	2013
Commitments to grant loans	**$ 877,900**	$ 3,767,000
Unfunded commitments under lines of credit	**17,771,657**	15,620,143
Letters of credit	**406,117**	284,565

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2014 and 2013 was $406,117 and $284,565, respectively. The current amount of the liability as of December 31, 2014 and 2013 for guarantees under standby letters of credit issued is not material.

15. Regulatory Matters

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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject. The Bank is considered well capitalized as of December 31, 2014.

The Bank's actual capital amounts and ratios at December 31, 2014 and 2013 are presented below:

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)	**$ 19,250**	**12.95%**	**$ ≥11,895**	**≥8.0%**	**$ ≥14,869**	**≥10.0%**
Tier 1 capital (to risk-weighted assets)	**17,933**	**12.06%**	**≥ 5,947**	**≥4.0%**	**≥ 8,921**	**≥ 6.0%**
Tier 1 capital (to average assets)	**17,933**	**10.25%**	**≥ 6,996**	**≥4.0%**	**≥ 8,745**	**≥ 5.0%**

December 31, 2013	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)	$ 18,159	13.70%	$ ≥10,607	≥8.0%	$ ≥13,258	≥10.0%
Tier 1 capital (to risk-weighted assets)	16,906	12.75%	≥ 5,303	≥4.0%	≥ 7,955	≥ 6.0%
Tier 1 capital (to average assets)	16,906	10.37%	≥ 6,522	≥4.0%	≥ 8,153	≥ 5.0%

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings. The Pennsylvania Department of Banking waived this requirement for dividends payable under Treasury's SBLF program.

16. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank 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 financial statements subsequent to these respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Bank, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. 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. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurement 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.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 and 2013 are as follows:

December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. government agency securities	**$ 5,000,014**	**$ -**	**$ 5,000,014**	**$ -**
U. S. government mortgage-backed securities, residential	**4,820,904**	**-**	**4,820,904**	**-**
	$ 9,820,918	**$ -**	**$ 9,820,918**	**$ -**

December 31, 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. government agency securities	$ 5,000,000	$ -	$ 5,000,000	$ -
U. S. government mortgage-backed securities, residential	8,888,269	-	8,888,269	-
Corporate bonds	494,930	-	494,930	-
	$ 14,383,199	$ -	$ 14,383,199	$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 and 2013 are as follows:

December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	**$ 253,700**	**$ -**	**$ -**	**$ 253,700**
December 31, 2013				
Impaired loans	$ 373,502	$ -	$ -	$ 373,502

For non-financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 and 2013 are as follows:

December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	**$ 255,871**	**$ -**	**$ -**	**$ 255,871**
December 31, 2013				
Other real estate owned	$ 563,000	$ -	$ -	$ 563,000

Quantitative information about Level 3 Fair Value Measurements at December 31, 2014 is included in the table below:

December 31, 2014	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	**$ 253,700**	Appraisal of collateral	Appraisal adjustments	None
			Liquidation expenses	6.0%-6.5% (6.33%)
Other real estate owned	**$ 255,871**	Appraisal of property	Appraisal adjustments	None
			Liquidation expenses	6.0%-7.0% (6.47%)

There were no appraisal adjustments as all appraisals used were current.

Quantitative information about Level 3 Fair Value Measurements at December 31, 2013 is included in the table below:

December 31, 2013	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	$ 373,502	Appraisal of collateral	Appraisal adjustments	None
			Liquidation expenses	6.00%-8.74% (6.39%)
Other real estate owned	$ 563,000	Appraisal of property	Appraisal adjustments	None
			Liquidation expenses	4.76%-6.0% (5.12%)

There were no appraisal adjustments as all appraisals used were current.

Below is management's estimate of the fair value of all financial instruments whether carried at cost or fair value on the Bank's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

Fair value estimates, methods and assumptions for the Bank's financial instruments are set forth below:

Cash and Short-Term Time Deposits (Carried at Cost)

The carrying amounts reported in the balance sheets for cash and due from banks and short-term time deposits approximate their fair values due primarily to their short-term nature.

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 (Level 2), 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 by relying on the securities' relationship to other benchmark quoted prices.

Loans Receivable (Carried at Cost)

The fair values of loans other than impaired loans 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. 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.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. Impaired loans with current year write downs are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at December 31, 2014 consists of loan balances of $430,653, net of partial charge-offs of $176,953. The fair value at December 31, 2013 consists of loan balances of $71,822, net of valuation allowances of $20,086 and loan balances of $454,422, net of partial charge-offs of $132,656.

Other Real Estate Owned (OREO)

OREO assets are originally recorded at fair value upon transfer of the loans to OREO and a new cost basis is established. Subsequently, OREO assets are carried at the lower of carrying value or fair value. The fair value of OREO is based on independent appraisals less selling costs. Appraised values may be discounted based upon management's historical knowledge and changes in the market conditions from the time of the appraisal. Because of the high degree of judgment required in estimating the fair value of OREO and because of the relationship between fair value and general economic conditions, the Company considers fair values of OREO to be highly sensitive to market conditions. OREO assets with write downs subsequent to the initial transfer to OREO are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. At December 31, 2014 and 2013, the fair value consists of OREO balances of $318,428 and $658,000, respectively, net of valuation allowances of $62,557 and $95,000, respectively.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

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

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Off-Balance Sheet Instruments (Disclosed at Cost)

Off-balance sheet instruments are primarily comprised of loan commitments that are generally priced at market at the time of funding. Fees on commitments to extend credit are deemed to be immaterial, and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments.

The following tables summarize the carrying amount and fair value estimates of the Bank's financial instruments at December 31, 2014 and 2013 (in thousands):

December 31, 2014	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	**$ 1,067**	**$ 1,067**	**$ 1,067**	**$ -**	**$ -**
Securities available-for-sale	**9,821**	**9,821**	**-**	**9,821**	**-**
Securities held-to-maturity	**1,641**	**1,702**	**-**	**1,702**	**-**
Loans receivable, net	**156,009**	**158,834**	**-**	**-**	**158,834**
Restricted investment in bank stock	**882**	**882**	**-**	**882**	**-**
Accrued interest receivable	**424**	**424**	**-**	**424**	**-**
Liabilities:					
Demand and savings deposits	**65,105**	**65,105**	**-**	**65,105**	**-**
Time deposits	**78,243**	**78,532**	**-**	**78,532**	**-**
Accrued interest payable	**73**	**73**	**-**	**73**	**-**
Short-term borrowings	**12,000**	**12,000**	**-**	**12,000**	**-**
Long-term borrowings	**6,499**	**6,481**	**-**	**6,481**	**-**
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	**-**	**-**	**-**	**-**	**-**
Unfunded commitments under lines of credit	**-**	**-**	**-**	**-**	**-**

December 31, 2013	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	$ 856	$ 856	$ 856	$ -	$ -
Securities available-for-sale	14,383	14,383	-	14,383	-
Securities held-to-maturity	1,685	1,728	-	1,728	-
Loans receivable, net	138,746	141,440	-	-	141,440
Restricted investment in bank stock	668	668	-	668	-
Accrued interest receivable	417	417	-	417	-
Liabilities:					
Demand and savings deposits	64,199	64,199	-	64,199	-
Time deposits	75,672	76,200	-	76,200	-
Accrued interest payable	73	73	-	73	-
Short-term borrowings	2,555	2,555	-	2,555	-
Long-term borrowings	5,599	5,506	-	5,506	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

Annual Shareholders Meeting

Friday, June 5th, 2015 • 9:00 A.M.

The Sheraton – Great Valley
707 East Lancaster Avenue
Routes 202 & 30
Frazer, PA 19355

Stock Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.

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