First Resource Bank

2015 ANNUAL REPORT

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Where Customer Satisfaction
comes FIRST

Dear First Resource Bank Shareholder:

We are pleased to report that First Resource Bank has continued its strong growth story throughout 2015 with the following significant accomplishments:

- Opened the West Chester Branch in April 2015 and grew its deposits by over $16.1 Million in less than eight months;
- Successfully raised over $2.3 Million in common stock;
- Sold $4.0 Million in Subordinated Debt to enhance the capital structure of the Bank;
- Redeemed $3.8 Million in Preferred Stock held by the United States Treasury in the Small Business Lending Fund (SBLF); and
- Paid our Common Shareholders a cash dividend in honor of our tenth anniversary.

In addition to these significant accomplishments, the Bank achieved substantial financial statement growth:

- Total assets grew 15%;
- Loans grew 12%;
- Deposits grew 16%;
- Total Interest Income grew 10%;
- Total Other Income grew 33%;
- Pre-tax Income grew 16%;
- Net Income grew 7% and
- Net Income to Common Shareholders grew 8%.

The combining effect was a record Net Income to Common Shareholders for 2015 of $1,139,598.

The Bank has continued improvement in Net Charge-offs over the last two years as evidenced by Net Charge-offs to Total Loans declining from 0.32% in 2014 to 0.09% in 2015, a 72% decline year over year.

Our Total Other Income grew by 33% in 2015 as a result of our expanded Small Business Administration (SBA) Lending activities. Gain on the sale of SBA loans grew by 275% in 2015 from $103,661 for the year ended December 31, 2014 to $389,160 for the year ended December 31, 2015. We plan to continue to allocate the necessary resources to support the growth of this non-interest income component of our business.

First Resource is turning the page by retiring its Preferred Stock from the SBLF. The Bank is extremely grateful to have been accepted into the SBLF preferred stock program in 2011. The Capital provided through the SBLF was a valuable source of growth capital with the minimal dividend rate of 1% during a time when raising capital would have been a very dilutive event for our common shareholders. In our November 2015 Newsletter we informed you that on November 17, 2015 we repaid $3.8 million or 75% of SBLF preferred stock which was held by the U.S. Department of the Treasury. In conjunction with our 2016 operating plan and our strategic planning for 2016 through 2018, we successfully modeled robust growth...

for the Bank while redeeming that last 25% of SBLF Preferred Stock. The Bank applied to the FDIC for permission to redeem this stock, and I am very pleased to declare that permission was granted from the FDIC on February 3, 2016. Therefore, we expect to complete this redemption prior to the scheduled dividend rate increase from the current 1% to 9% in Mid-March of 2016.

We continue to be honored with our inclusion for the second consecutive year in the OTCQX Best 50 Performing Companies. We have earned this accolade by our common stock having a strong total return in 2015 as well as having increased the Bank's average daily trading dollar volume on this exchange. We continue to see shareholder benefits since our move to the OTCQX marketplace in late 2014.

Please visit the Bank's website to listen to our Virtual Investor presentations for both 2015 and 2016 which were presented in cooperation with OTCQX. The presentations describe our Hybrid Community Bank principles. Our philosophy defines the future of community banking, with a strategic number of well positioned retail locations with a classic, friendly, community banking staff who are *high touch*, in combination with the best e-banking technology available for all of our customers, which is *high tech*. This *high touch, high tech* combination to customer service is evidenced at First Resource Bank. The Bank currently processes 46% of its daily deposits through one of our electronic banking channels which are available to everyone, at their home, office, or in the palm of their hand through their smart phone 24/7. Additionally, our friendly, courteous customer service staff has assisted the Bank's deposit growth in our two retail locations. The Hybrid Community Bank approach eliminates the need for numerous small deposit retail locations and the overhead that is needed for physical locations. This *high touch* and *high tech* formula is key to the future success of the community banking model.

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 2015. 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.

Sincerely,

Glenn B. Marshall
President & CEO

James B. Griffin
Chairman of the Board

1 First Resource Bank

First Resource Bank

Financial Statements

December 31, 2015 and 2014

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

First Resource Bank

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Independent Auditor's Report

Board of Directors
First Resource Bank
Exton, Pennsylvania

We have audited the accompanying financial statements of First Resource Bank, which comprise the balance sheets as of December 31, 2015 and 2014, 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, 2015 and 2014, 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 17, 2016

Financial Statements

First Resource Bank

Balance Sheets

December 31,		**2015**		2014
Assets				
Cash and due from banks	$	**1,254,982**	$	817,026
Time deposits at other banks		**250,000**		250,000
Securities available-for-sale, at fair value		**16,020,725**		9,820,918
Securities held-to-maturity (fair value of $3,326,334 at December 31, 2015 and $1,701,612 at December 31, 2014)		**3,272,823**		1,640,719
Loans receivable, net of allowance for loan losses of $1,450,836 at December 31, 2015 and $1,317,363 at December 31, 2014		**174,651,631**		156,008,805
Restricted investment in bank stock		**929,400**		882,400
Bank premises and equipment, net		**6,223,326**		5,517,252
Accrued interest receivable		**470,770**		423,756
Bank owned life insurance		**4,161,041**		4,040,981
Other assets		**817,339**		1,125,682
Total Assets	$	**208,052,037**	$	180,527,539
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Noninterest-bearing	$	**14,200,995**	$	9,355,013
Interest-bearing		**151,782,566**		133,993,350
Total deposits		**165,983,561**		143,348,363
Short-term borrowings		**10,177,000**		12,000,000
Long-term borrowings		**9,409,500**		6,499,000
Subordinated debt		**3,960,615**		-
Accrued interest payable		**138,260**		73,016
Other liabilities		**827,869**		581,723
Total Liabilities		**190,496,805**		162,502,102
Shareholders' Equity				
Preferred stock, Series 2011A; authorized 494,852 shares; $1,000 liquidation preference per share, 1,271 shares issued and outstanding at December 31, 2015; 5,083 shares issued and outstanding at December 31, 2014		**1,271,000**		5,083,000
Common stock, $1 par value; authorized 20,000,000 shares; 1,977,328 shares issued and outstanding at December 31, 2015; 1,612,283 shares issued and outstanding at December 31, 2014		**1,977,328**		1,612,283
Surplus		**11,484,125**		9,523,083
Accumulated other comprehensive income		**32,207**		91,577
Retained earnings		**2,790,572**		1,715,494
Total Shareholders' Equity		**17,555,232**		18,025,437
Total Liabilities and Shareholders' Equity	$	**208,052,037**	$	180,527,539

See accompanying notes to financial statements.

First Resource Bank

Statements of Income

Years Ended December 31,		2015		2014
Interest Income				
Loans, including fees	$	8,117,987	$	7,294,265
Securities		197,691		241,939
Other		13,815		2,920
Total Interest Income		8,329,493		7,539,124
Interest Expense				
Deposits		1,403,124		1,302,540
Borrowings		210,926		82,120
Total Interest Expense		1,614,050		1,384,660
Net interest income		6,715,443		6,154,464
Provision for Loan Losses		282,375		536,901
Net Interest Income After Provision for Loan Losses		6,433,068		5,617,563
Other Income				
Bank owned life insurance income		120,060		123,999
Gain on sale of SBA loans		389,160		103,661
Gain on sale of securities available-for-sale		15,641		50,286
Other		178,043		251,016
Total Other Income		702,904		528,962
Other Expenses				
Salaries and employee benefits		2,771,624		2,228,129
Occupancy and equipment		708,421		606,882
Professional fees		319,443		319,324
Advertising and promotion		156,800		131,797
Data processing		319,899		280,532
FDIC premium expense		127,203		120,200
Other real estate		61,400		180,208
Other		797,939		666,520
Total Other Expenses		5,262,729		4,533,592
Income before income tax expense		1,873,243		1,612,933
Federal Income Tax Expense		687,474		507,240
Net Income		1,185,769		1,105,693
Preferred Stock Dividends		(46,171)		(50,830)
Net Income Available to Common Shareholders	$	1,139,598	$	1,054,863

See accompanying notes to financial statements.

First Resource Bank

Statements of Comprehensive Income

Years Ended December 31,	**2015**	2014
Net Income	**$ 1,185,769**	$ 1,105,693
Other Comprehensive Income (Loss)		
Unrealized holding (losses) gains on available-for-sale securities	**(74,312)**	34,471
Less reclassification adjustment for realized gains included in net income [1]	**(15,641)**	(50,286)
Tax effect	**30,583**	5,377
Total other comprehensive loss	**(59,370)**	(10,438)
Total Comprehensive Income	**$ 1,126,399**	$ 1,095,255

[1] Amounts are included in gain on sale of securities available-for-sale 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	Retained Earnings	Total
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 shares)	-	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
Net income	**-**	**-**	**-**	**-**	**1,185,769**	**1,185,769**
Other comprehensive loss	**-**	**-**	**-**	**(59,370)**	**-**	**(59,370)**
Cash dividend	**-**	**-**	**-**	**-**	**(64,520)**	**(64,520)**
Sale of common stock (365,045 shares)	**-**	**365,045**	**1,961,042**	**-**	**-**	**2,326,087**
Preferred stock dividends	**-**	**-**	**-**	**-**	**(46,171)**	**(46,171)**
Preferred stock redemption	**(3,812,000)**	**-**	**-**	**-**	**-**	**(3,812,000)**
Balance, December 31, 2015	**$ 1,271,000**	**$ 1,977,328**	**$ 11,484,125**	**$ 32,207**	**$ 2,790,572**	**$ 17,555,232**

See accompanying notes to financial statements.

First Resource Bank

Statements of Cash Flows

Years Ended December 31,	**2015**	2014
Cash Flows from Operating Activities		
Net income	$ **1,185,769**	$ 1,105,693
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	**282,375**	536,901
Depreciation	**355,868**	199,894
Net amortization on securities	**56,152**	87,852
Net amortization of subordinated debt issuance costs	**3,086**	-
Deferred tax expense	**45,091**	222,774
Loss (gain) recorded on other real estate owned	**(359)**	44,414
Gain on sale of securities available-for-sale	**(15,641)**	(50,286)
Bank owned life insurance income	**(120,060)**	(123,999)
Proceeds from sales of SBA loans originated for sale	**3,405,754**	933,739
SBA loans originated for sale	**(3,016,594)**	(830,078)
Gains on sales of SBA loans originated for sale	**(389,160)**	(103,661)
Increase in accrued interest receivable	**(47,014)**	(6,655)
Decrease (increase) in other assets	**155,196**	(293,586)
Increase in accrued interest payable	**65,244**	72
Increase in other liabilities	**246,146**	44,295
Net Cash Provided by Operating Activities	**2,211,853**	1,767,369
Cash Flows from Investing Activities		
Net increase in loans	**(19,094,368)**	(17,800,098)
Purchases of securities available-for-sale	**(12,945,960)**	(5,871,283)
Purchases of securities held-to-maturity	**(1,682,609)**	-
Proceeds from sales of securities available-for-sale	**343,136**	3,663,844
Maturities and principal repayments of securities available-for-sale	**6,275,598**	6,719,125
Maturities and principal repayment of securities held-to-maturity	**47,460**	41,075
Purchase of restricted bank stock	**(47,000)**	(214,400)
Proceeds from sale of other real estate owned	**308,165**	362,715
Purchases of premises and equipment	**(1,061,942)**	(2,202,108)
Net Cash Used in Investing Activities	**(27,857,520)**	(15,301,130)
Cash Flows from Financing Activities		
Net increase in deposits	**22,635,198**	3,476,971
Net change in short-term borrowings	**(1,823,000)**	9,445,000
Proceeds from long-term borrowings	**4,000,000**	900,000
Repayment of long-term borrowings	**(1,089,500)**	-
Proceeds from issuance of subordinated debt, net	**3,957,529**	-
Preferred stock dividends	**(46,171)**	(50,830)
Redemption of preferred stock	**(3,812,000)**	-
Cash dividends on common stock	**(64,520)**	(48,286)
Sale of common stock	**2,326,087**	21,702
Net Cash Provided by Financing Activities	**26,083,623**	13,744,557
Net increase in cash and cash equivalents	**437,956**	210,796
Cash and Cash Equivalents, Beginning of Year	**817,026**	606,230
Cash and Cash Equivalents, End of Year	$ **1,254,982**	$ 817,026
Supplementary Cash Flows Information		
Interest paid	$ **1,548,806**	$ 1,384,588
Federal income taxes paid	$ **335,000**	$ 535,000
Other real estate acquired in settlement of loans	$ **169,167**	$ -

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

First Resource Bank (the “Bank”) is incorporated under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank 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. Generally, federal funds are sold for one day periods. As of December 31, 2015 and 2014, the Bank had no federal funds 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 securities available-for-sale, 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 loans 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 10 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 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, or the amount by which its carrying value exceeds its estimated fair value is charged-off. 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 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

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, 2015 or 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 sheets and are immaterial at December 31, 2015 and 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, 2015 and 2014 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $879,400 and $832,400, respectively, and in 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.

Other Real Estate Owned

Other real estate owned ("OREO") is 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. OREO initially is recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. Any write-downs based on fair value at the date of foreclosure are charged to the allowance for loan losses. If an increase in cost basis results, it is classified as non-interest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. 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 expense. The Bank had OREO of $117,232 and $255,871 at December 31, 2015 and 2014, 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 and other assets that were not placed in service 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 2015 and 2014, 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, 2015 and 2014 was $70,970 and $53,635, 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, 2015 and 2014, other liabilities include $147,496 and $104,491 accrued under these plans, respectively. For the years ended December 31, 2015 and 2014, salaries and employee benefits expense includes $43,005 and $39,167 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, 2015 and 2014, there was no stock-based compensation expense. There were no stock options granted in 2015 or 2014.

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.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 17, 2016, the date these financial statements were available to be issued.

On January 27, 2016, the Bank received approval from the FDIC to redeem the remaining 1,271 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series 2011A outstanding. The Bank intends to redeem the shares prior to March 15, 2016.

2. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2015 and 2014 are summarized as follows:

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government securities	$ 8,999,965	$ 35	$ -	$ 9,000,000
U. S. government mortgage-backed securities - residential	6,971,960	72,017	(23,252)	7,020,725
	$ 15,971,925	$ 72,052	$ (23,252)	$ 16,020,725
Held-to-maturity:				
U. S. government mortgage-backed securities - residential	$ 164,872	$ 9,482	$ -	$ 174,354
Corporate bonds	500,000	23,960	-	523,960
Municipal bonds	2,607,951	20,069	-	2,628,020
	$ 3,272,823	$ 53,511	$ -	$ 3,326,334

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

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, 2015.

December 31, 2015	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	$ 4,811,054	$ (23,252)	$ -	$ -	$ 4,811,054	$ (23,252)

As of December 31, 2015, seven securities were in unrealized loss positions for less than twelve months due to interest rate fluctuations. No securities were deemed to be other-than-temporarily impaired.

No securities were in an unrealized loss position at December 31, 2014.

The amortized cost and fair value of securities as of December 31, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

December 31, 2015	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	**$ 8,999,965**	**$ 9,000,000**	**$ -**	**$ -**
Due after one year through five years	**-**	**-**	**1,426,105**	**1,457,825**
Due after five years through ten years	**-**	**-**	**1,681,846**	**1,694,155**
Due over 10 years	**-**	**-**	**-**	**-**
	8,999,965	**9,000,000**	**3,107,951**	**3,151,980**
U.S. government mortgage-backed securities - residential	**6,971,960**	**7,020,725**	**164,872**	**174,354**
	$ 15,971,925	**$ 16,020,725**	**$ 3,272,823**	**$ 3,326,334**

Securities with a carrying value of $3,077,000 and $4,035,000 at December 31, 2015 and 2014, 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, 2015 and 2014 is as follows:

	2015	2014
Commercial	**$ 18,596,898**	$ 17,454,681
Commercial real estate	**115,998,415**	102,404,194
Commercial construction	**16,781,853**	12,300,949
Home equity	**24,046,023**	24,755,702
Consumer, other	**841,906**	516,833
Total loans	**176,265,095**	157,432,359
Unearned net loan origination fees and costs	**(162,628)**	(106,191)
Allowance for loan losses	**(1,450,836)**	(1,317,363)
Net Loans	**$174,651,631**	$ 156,008,805

4. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2015 and 2014, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2015 and 2014:

2015	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	**$ 154,413**	**$ (30,759)**	**$ 810**	**$ 52,645**	**$ 177,109**	**$ -**	**$ 177,109**
Commercial real estate	**667,785**	**(55,878)**	**23,104**	**167,094**	**802,105**	**-**	**802,105**
Commercial construction	**72,258**	**(50,123)**	**22,482**	**165,660**	**210,277**	**-**	**210,277**
Home equity	**400,088**	**(88,160)**	**25,539**	**(92,216)**	**245,251**	**-**	**245,251**
Consumer, other	**22,819**	**-**	**4,083**	**(10,808)**	**16,094**	**-**	**16,094**
	$ 1,317,363	**$ (224,920)**	**$ 76,018**	**$ 282,375**	**$ 1,450,836**	**$ -**	**$ 1,450,836**

2015	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	**$ 18,596,898**	**$ 1,485,629**	**$ 17,111,269**
Commercial real estate	**115,998,415**	**4,345,290**	**111,653,125**
Commercial construction	**16,781,853**	**181,500**	**16,600,353**
Home equity	**24,046,023**	**475,290**	**23,570,733**
Consumer, other	**841,906**	**95,371**	**746,535**
	$ 176,265,095	**$ 6,583,080**	**$ 169,682,015**

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

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, 2015 and 2014:

December 31, 2015	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	**$ 17,111,269**	**$112,429,892**	**$ 16,600,353**	**$ 23,862,111**	**$ 841,906**	**$170,845,531**
Special mention	-	-	-	-	-	-
Substandard	**1,485,629**	**3,568,523**	**181,500**	**183,912**	-	**5,419,564**
Doubtful	-	-	-	-	-	-
	$ 18,596,898	**$115,998,415**	**$ 16,781,853**	**$ 24,046,023**	**$ 841,906**	**$176,265,095**

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

The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the years ended December 31, 2015 and 2014:

December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	**$ 1,485,629**	**$ 1,485,629**	**$ -**	**$ 1,303,947**	**$ 86,689**
Commercial real estate	**4,345,290**	**4,522,068**	**-**	**4,793,007**	**188,976**
Commercial construction	**181,500**	**215,502**	**-**	**361,303**	**-**
Home equity	**475,290**	**491,047**	**-**	**701,946**	**17,728**
Consumer - other	**95,371**	**148,560**	**-**	**97,785**	**3,180**
With an allowance recorded:					
Commercial	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Commercial real estate	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Home equity	**-**	**-**	**-**	**-**	**-**
Consumer - other	**-**	**-**	**-**	**-**	**-**
Total:					
Commercial	**$ 1,485,629**	**$ 1,485,629**	**$ -**	**$ 1,303,947**	**$ 86,689**
Commercial real estate	**4,345,290**	**4,522,068**	**-**	**4,793,007**	**188,976**
Commercial construction	**181,500**	**215,502**	**-**	**361,303**	**-**
Home equity	**475,290**	**491,047**	**-**	**701,946**	**17,728**
Consumer - other	**95,371**	**148,560**	**-**	**97,785**	**3,180**

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

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, 2015 and 2014:

December 31, 2015	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	**$ -**	**$ -**	**$ -**	**$ -**	**$ 18,596,898**	**$ 18,596,898**	**$ -**
Commercial real estate	**-**	**776,767**	**1,942,315**	**2,719,082**	**113,279,333**	**115,998,415**	**-**
Commercial construction	**-**	**-**	**181,500**	**181,500**	**16,600,353**	**16,781,853**	**-**
Home equity	**-**	**-**	**183,912**	**183,912**	**23,862,111**	**24,046,023**	**-**
Consumer - other	**-**	**-**	**-**	**-**	**841,906**	**841,906**	**-**
	$ -	**$ 776,767**	**$ 2,307,727**	**$ 3,084,494**	**$ 173,180,601**	**$ 176,265,095**	**$ -**

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	$ -

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2015 and 2014:

	2015	2014
Commercial	**$ -**	$ 30,759
Commercial real estate	**1,942,315**	2,068,257
Commercial, construction	**181,500**	227,150
Home equity	**183,912**	260,445
Consumer, other	**-**	-
	$ 2,307,727	$ 2,586,611

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 were no troubled debt restructurings that defaulted within twelve months of their restructuring during 2015. There was one troubled debt restructuring with a recorded investment of $875,757 that subsequently defaulted in 2014.

The following tables reflect information regarding the Bank's troubled debt restructurings for the years ended December 31, 2015 and 2014:

2015	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled debt restructurings:			
Commercial	**4**	**$ 1,626,931**	**$ 1,626,931**
Commercial real estate	**1**	**182,074**	**182,074**

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

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2015 and 2014 are as follows:

	2015	2014
Land	**$ 1,760,000**	$ 1,760,000
Land improvements	**395,064**	205,776
Buildings	**3,222,489**	2,330,961
Leasehold improvements	**1,123**	409,857
Furniture, fixtures and equipment	**1,037,149**	653,323
Computer equipment and data processing software	**507,834**	498,362
Construction in progress	**5,869**	593,814
	6,929,528	6,452,093
Accumulated depreciation	**(706,202)**	(934,841)
	$ 6,223,326	$ 5,517,252

Depreciation expense was $355,868 and $199,894 for the years ended December 31, 2015 and 2014, respectively.

6. Deposits

The components of deposits at December 31, 2015 and 2014 are as follows:

	2015	2014
Demand, non-interest bearing	**$ 14,200,995**	$ 9,355,013
Demand, interest-bearing	**6,392,765**	4,349,552
Money market accounts	**60,453,093**	51,400,506
Time, $250,000 and over	**5,469,669**	2,973,640
Time, other	**79,467,039**	75,269,652
	$ 165,983,561	$ 143,348,363

At December 31, 2015, the scheduled maturities of time deposits are as follows:

Year ending December 31,	
2016	$ 55,016,149
2017	15,550,299
2018	8,735,178
2019	2,911,941
2020	2,723,141
	$ 84,936,708

At December 31, 2015 and 2014, the Bank had brokered deposits of $12,576,641 and $14,172,341, respectively.

7. Borrowings

Short-term borrowings at December 31, 2015 consisted of an advance from the Federal Home Loan Bank (FHLB) of $10,177,000, due January 4, 2016 with interest at 0.51%. Short-term borrowings at December 31, 2014 consisted of an advance from the FHLB of $12,000,000, due January 2, 2015 with interest at 0.33%. The Bank utilizes overnight borrowings from the FHLB for cash flow needs. $10,177,000 of these borrowings at December 31, 2015 matured on January 4, 2016 and were repaid.

Long-term borrowings at December 31, 2015 and 2014 consisted of FHLB borrowings with the following maturity dates and interest rates:

	2015	2014
Fixed note at 0.350%, maturing on June 17, 2015	**$ -**	$ 437,500
Fixed note at 0.466%, maturing on August 27, 2015	**-**	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**	900,000
Fixed note at 0.913%, maturing on August 23, 2017	**1,200,000**	1,200,000
Fixed note at 1.102%, maturing on March 30, 2018	**1,450,000**	-
Fixed note at 1.429%, maturing on April 1, 2019	**850,000**	-
Fixed note at 1.617%, maturing on March 30, 2020	**850,000**	-
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
Fixed note at 1.854%, maturing on March 30, 2021	**850,000**	-
	$ 9,409,500	$ 6,499,000

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 $85,844,000 at December 31, 2015, of which $19,586,500 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, 2015 and 2014.

8. Subordinated Debt

On July 31, 2015, the Bank issued $2 million in subordinated notes. These notes have a maturity date of September 15, 2025, and bear interest at a fixed rate of 6.50%. The Bank may, at its option, at any time on an interest payment date on or after September 15, 2020, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

On October 15, 2015, the Bank issued another $2 million in subordinated notes. These notes have a maturity date of October 1, 2025, and bear interest at a fixed rate of 6.50%. The Bank may, at its option, at any time on an interest payment date on or after October 15, 2020, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

The principal and unamortized debt issuance costs of subordinated debt at December 31, 2015 are as follows:

	Principal	Unamortized Debt Issuance Costs	Net
6.5% subordinated notes, due September 15, 2025	$ 2,000,000	$ 26,445	$ 1,973,555
6.5% subordinated notes, due October 1, 2025	2,000,000	12,940	1,987,060
	$ 4,000,000	$ 39,385	$ 3,960,615

All subordinated notes are not subject to repayment at the option of the noteholders. These notes are all unsecured and rank junior in right of payment to the Bank's obligations to its general creditors and qualify as Tier 2 capital for regulatory purposes.

9. Lease Commitments

The Bank had an operating lease agreement for its main banking office. Rent expense for the year ended December 31, 2014 totaled $102,360. The Bank leased 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 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, 2015 and 2014 was $5,288 and $32,731, respectively. This lease expired on January 31, 2015.

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 years ended December 31, 2015 and 2014 was $138,636 and $92,424, respectively.

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

Year ending December 31,	
2016	$ 134,032
2017	137,746
2018	141,461
2019	145,175
2020	148,890
Thereafter	618,774
	$ 1,326,078

10. 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.

11. Shareholders' Equity

During 2015, the Bank sold 360,000 shares of common stock at $6.50 per share which resulted in net proceeds of $2,293,428, after offering costs of $46,572.

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 2011A (the "Series 2011A 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, 2015 and 2014, the annual dividend rate was set at 1.0%. On March 15, 2016, 4.5 years after 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.

On November 17, 2015, the Bank redeemed 3,812 shares of Series 2011A Preferred Stock for an aggregate cost of $3,812,000. At December 31, 2015, there were 1,271 shares of Series 2011A Preferred Stock outstanding.

During 2015, the Bank adopted a Director Fee Plan. The Plan allows for non-employee directors to elect to receive a specified percentage of fees for services on the Board of Directors in the form of shares of the Bank’s common stock. The purchase price for these shares is the volume weighted average price of the Bank’s common stock as reported on the over-the-counter market on the OTCQX Marketplace for Banks, for the calendar quarter for which a Director’s compensation is payable. During 2015, the Bank sold 2,387 shares of common stock under this Plan.

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 2015 and 2014, the Bank sold 2,658 and 3,688 shares of common stock under this Plan.

12. 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, 2015, 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 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. These options all expired unexercised during 2015.

Following is a rollforward of stock option activity for the years ended December 31, 2015 and 2014:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Life		Aggregate Intrinsic Value
Options outstanding						
December 31, 2013	197,968		7.74			
2014 forfeitures	-					
Options outstanding						
December 31, 2014	197,968		7.74			
2015 forfeitures	**(168,805)**		**7.84**			
Options outstanding						
December 31, 2015	**29,163**	**$**	**7.17**	10.7 months	$	-
Options exercisable						
December 31, 2015	**29,163**	**$**	**7.17**	10.7 months	$	-

As of December 31, 2015 and 2014, there was no unrecognized compensation cost related to stock options.

13. Federal Income Taxes

The components of federal income tax expense for the years ended December 31, 2015 and 2014 are as follows:

		2015		2014
Current expense	**$**	**642,383**	$	284,466
Deferred expense		**45,091**		222,774
	$	**687,474**	$	507,240

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, 2015 and 2014 are as follows:

	2015	2014
Federal income tax at statutory rate	$ 636,903	$ 548,397
Tax exempt interest	(11,162)	(7,646)
Bank owned life insurance income	(40,820)	(42,160)
Expired stock options	98,808	-
Other	3,745	8,649
	$ 687,474	$ 507,240

The components of the net deferred tax asset at December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 282,866	$ 227,819
Organization and start-up costs	38,188	47,002
Stock option compensation	25,974	124,782
Supplemental executive retirement plan	50,148	35,527
Nonaccrual interest	16,734	41,211
Contribution carryover	-	22,192
OREO valuation allowance	34,980	21,270
Deferred rent	30,569	27,873
Total deferred tax assets	479,459	547,676
Deferred tax liabilities:		
Deferred loan costs	(86,976)	(80,539)
Unrealized gain on available-for-sale securities	(16,593)	(47,176)
Depreciation on premises and equipment	(171,763)	(198,398)
Prepaid expenses	(22,268)	(25,196)
Total deferred tax liabilities	(297,600)	(351,309)
Net Deferred Tax Assets, Included in Other Assets	$ 181,859	$ 196,367

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, 2015 and 2014, 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, 2012.

14. 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 $9,384,288 at December 31, 2015 and $7,195,262 at December 31, 2014. During 2015, $3,060,705 of advances were made and repayments totaled $871,679. Deposits of related parties totaled $8,235,451 and $8,459,983 at December 31, 2015 and 2014, respectively.

The Bank paid legal fees of approximately $4,904 and $6,108 to a law firm of a director for the years ended December 31, 2015 and 2014, respectively. The Bank leased office space and a storefront used for a remote banking center from a related party. Total rent expense to the related party was $400 and $2,400 for the years ended December 31, 2015 and 2014, respectively. The Bank leased its operations office space from a related party as described in Note 9. Total rent expense to the related party was $5,288 and $32,731 for the years ended December 31, 2015 and 2014, 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 2015 were $36,726 and $263,998 in 2014. The Bank leased its main office from a principal stockholder as described in Note 9. Total rent expense to the related party was $102,360 for the year ended December 31, 2014. The Bank also uses a related party for construction consulting services. Total payments to this related party in 2015 were $13,197 and $39,803 in 2014.

15. 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, 2015 and 2014 is as follows:

	Contract Amount	
	2015	2014
Commitments to grant loans	**$ 175,000**	$ 877,900
Unfunded commitments under lines of credit	**23,971,733**	17,771,657
Letters of credit	**1,267,998**	406,117

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, 2015 and 2014 was $1,267,998 and $406,117, respectively. The current amount of the liability as of December 31, 2015 and 2014 for guarantees under standby letters of credit issued is not material.

16. 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, Tier 1, and Common Equity 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, 2015, that the Bank meets all capital adequacy requirements to which it is subject. The Bank is considered well capitalized as of December 31, 2015.

The Bank's actual capital amounts and ratios at December 31, 2015 and 2014 are presented below:

December 31, 2015	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)	**$ 22,935**	**13.55%**	**$ ≥13,540**	**≥8.0%**	**$ ≥16,925**	**≥10.0%**
Tier 1 capital (to risk-weighted assets)	**17,523**	**10.35%**	**≥10,155**	**≥6.0%**	**≥13,540**	**≥ 8.0%**
Common Equity Tier 1 capital (to risk-weighted assets)	**16,252**	**9.60%**	**≥ 7,616**	**≥4.5%**	**≥11,001**	**≥ 6.5%**
Tier 1 capital (to average assets)	**17,523**	**8.74%**	**≥ 8,019**	**≥4.0%**	**≥10,024**	**≥ 5.0%**

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%

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.

17. 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, 2015 and 2014 are as follows:

December 31, 2015	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	$ 9,000,000	$ -	$ 9,000,000	$ -
U. S. government mortgage-backed securities, residential	7,020,725	-	7,020,725	-
	$ 16,020,725	$ -	$ 16,020,725	$ -

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	$ -

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, 2015 and 2014 are as follows:

December 31, 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	**$ 707,500**	**$ -**	**$ -**	**$ 707,500**
December 31, 2014				
Impaired loans	$ 1,406,903	$ -	$ -	$ 1,406,903

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, 2015 and 2014 are as follows:

December 31, 2015	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	**$ 117,232**	**$ -**	**$ -**	**$ 117,232**
December 31, 2014				
Other real estate owned	$ 255,871	$ -	$ -	$ 255,871

Quantitative information about Level 3 Fair Value Measurements at December 31, 2015 is included in the table below:

December 31, 2015	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	**$ 707,500**	Appraisal of collateral	Appraisal adjustments	None
			Liquidation expenses	6.0%-6.0% (6.00%)
Other real estate owned	**$ 117,232**	Appraisal of property	Appraisal adjustments	None
			Liquidation expenses	6.0%-6.0% (6.00%)

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

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	$ 1,406,903	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.

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, 2015 consists of loan balances of $886,500, net of partial charge-offs of $179,000. The fair value at December 31, 2014 consists of loan balances of $1,190,408, net of related allowances of $37,205 and loan balances of $430,653, net of partial charge-offs of $176,953.

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, 2015 and 2014, the fair value consists of OREO balances of $220,115 and $318,428, respectively, net of valuation allowances of $102,883 and $62,557, 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.

Subordinated Debt (Carried at Cost)

The fair values of subordinated debt are estimated using discounted cash flow analysis, based on current interest rates from debt with similar credit risk characteristics, terms and remaining maturity.

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, 2015 and 2014 (in thousands):

December 31, 2015	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	$ 1,505	$ 1,505	$ 1,505	$ -	$ -
Securities available-for-sale	16,021	16,021	-	16,021	-
Securities held-to-maturity	3,273	3,326	-	3,326	-
Loans receivable, net	174,652	174,650	-	-	174,650
Restricted investment in bank stock	929	929	-	929	-
Accrued interest receivable	471	471	-	471	-
Liabilities:					
Demand and savings deposits	81,047	81,047	-	81,047	-
Time deposits	84,937	84,840	-	84,840	-
Accrued interest payable	138	138	-	138	-
Short-term borrowings	10,177	10,177	-	10,177	-
Long-term borrowings	9,410	9,353	-	9,353	-
Subordinated debt	3,961	5,130		5,130	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

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	-	-	-	-	-

Annual Shareholders Meeting

Thursday, May 19th, 2016 • 9:00 A.M.

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

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