BIG DREAMS . . .



Mars National Bancorp

Annual Report
2014

BRIGHT FUTURE



We love our community. People with a dream started it. Our goal is to help it thrive. We are in the business of helping customers fulfill their dreams by investing in their lives and businesses. We consistently deliver on our promise to provide the personal service our customers want and need. By efficiently and effectively offering competitive loan and deposit products to our customers, we help create bright futures. Building a 21st century community bank also means adding technology and convenience to the tradition of relationship-driven banking. When we do our job well, we help our customers achieve their financial dreams and establish secure futures.

Our Mission

We are committed to remaining a relationship driven, independent community bank, which offers competitive products and services, made up of dedicated professionals who are passionate about serving our customers in a personal, efficient and friendly manner.

Table of Contents

Message to Shareholders	2
Financial Highlights	6
Independent Auditors' Report	7
Consolidated Balance Sheets	8
Consolidated Statements of Income	9
Consolidated Statements of Comprehensive Income	10
Consolidated Statements of Stockholders' Equity	10
Consolidated Statements of Cash Flows	11
Notes to Consolidated Financial Statements	12
Community Reinvestment Act Program	40
Board of Directors and Leadership Team	41

MESSAGE TO SHAREHOLDERS

INTRODUCTION

Mars National Bancorp remains committed to our locally-owned, independent community bank mission of managing by sound financial principles, following traditional lending practices, protecting the deposits of our customers, contributing to the well being of our communities and providing a fair return to our shareholders. We remain relationship driven, offer competitive products and services and employ dedicated professionals who are passionate about serving our customers in a personal, efficient and friendly manner.

We successfully grew our lending activities by originating over $46 million in commercial, $33 million in mortgage and $15 million in home equity loans.

KEY ACCOMPLISHMENTS

During 2014, despite the flat economy and challenging rate environment, we provided stable financial results. In addition, we successfully accomplished the following key objectives:

Sales

- Grew our commercial lending activities by originating over $46 million in commercial loan volume.
- Grew our residential mortgage and home equity lending activities by originating over $33 million in mortgages and $15 million in home equity loans.
- Made substantial progress in our retail banking transformation by investing in strong branch leadership while implementing more effective sales and service activities to expand and grow new and core relationships.
- Enhanced our fee income opportunities through completion of the new business deposit product roll-out ensuring a fair price to our customers and a fair return to our shareholders.
- Implemented a strong and cohesive marketing, communication and advertising plan as well as expanded public relations program to more effectively promote the bank, products and services, employees and community involvement.

Infrastructure

- Maintained strong and consistent loan underwriting, monitoring and collection practices while improving overall credit quality.
- Identified, understood, implemented and complied with numerous new consumer lending regulations.
- Enhanced key information security and operating practices to further protect customer information by partnering with industry-leading security and technology providers.

- Analyzed and selected a core application platform which will allow the Company to consolidate service providers, drive efficiency, reduce costs and lessen system maintenance and processing risks.
- Rolled-out a bank-wide profit improvement initiative targeting savings of non-staffing related operating expenses which resulted in over $50,000 in recurring savings.
- Expanded targeted community development activities including participation in first time homebuyer programs.
- Completed formation of the bank holding company.

We remain very pleased with the solid team of professionals that has been assembled and believe this very experienced and talented group is the cornerstone of our future long-term growth and success.

FINANCIAL RESULTS

Net income for the current year totaled $1.167 million, which approximated the 2013 results of $1.177 million. Earnings continued to be challenged by a generally flat interest rate environment, declining yields on earning assets, and higher regulatory and operating costs. However, these items were partially offset by strong growth in commercial, mortgage and home equity loan originations. As a result, we delivered stable financial performance and maintained our dividend. Key factors influencing our financial results included:

- Net interest income increased by $249,000 or 2.7% for the twelve months ended December 31, 2014 as compared to the same period in 2013. This increase primarily related to the $27.5 million or 18.6% increase in average commercial, mortgage and home equity loan receivables. Included in the results were non-accrual loan payoffs which increased interest income by $514,000 and $524,000 in 2014 and 2013, respectively. The net interest spread and net interest margin improved to 3.03% and 3.09% at December 31, 2014, respectively, as compared to 2.96% and 3.05%, respectively, in 2013.
- Loans outstanding grew to $195.7 million or 17.6% at December 31, 2014 as compared to $166.5 million at December 31, 2013 while deposits decreased slightly to $300.4 million or -0.7% at December 31, 2014 compared to $302.6 million at December 31, 2013.
- The provision for loan losses totaled $105,000 for the twelve months ended December 31, 2014 as compared to no provision for the same period in 2013. The Company's credit quality position remained very strong at December 31, 2014 with delinquencies at 0.05% of total loans, nonaccrual loans at 0.35% of total loans and the allowance for loan losses to loans coverage at 1.06%.
- Non-interest income increased by $11,000 or 0.4% for the twelve months ended December 31, 2014. The increase was primarily the result of a one-time gain associated with the sale of a branch office for $347,000, recognized gains on sales of available for sale securities of $89,000 and an increase in the cash value for bank-owned life insurance of $129,000. These increases were partially offset by a reduction in residential mortgage income of $373,000 driven by lower volumes of mortgages originated for sale and investment services income of $162,000 as this business unit was sold in the fourth quarter of 2014.

We continue to believe that future growth opportunities remain available to a strong, relationship focused and capable independent community bank.

- Non-interest expense decreased by $39,000 or 0.3% for the twelve months ended December 31, 2014, primarily related to decreases in legal costs of $57,000, other real estate owned related expenses of $127,000 and Pennsylvania shares tax of $112,000. These decreases were partially offset by an increase in salary and employee benefit costs of $203,000 and an increase in occupancy expense of $19,000.
- The Company recognized an income tax benefit of $5,000 for the twelve months ended December 31, 2014 as compared to a $209,000 income tax benefit for the same period in the prior year.

KEY FOCUS

We remain very pleased with the level of loan growth achieved during the past two years as well as the team of professionals that has been assembled to effectively develop new business and service our existing commercial and retail customers. We believe this very experienced and talented team is the cornerstone of our future long-term growth and success. As we look to build on our prior year accomplishments, our key focus for 2015 includes:

Sales

- Continue to expand and grow our commercial lending activities, relationships, pipeline and loan outstandings.
- Continue to grow and expand our residential mortgage and home equity lending activities, relationships, pipeline, loans sold and outstandings.
- Continue our retail banking transformation by investing in capable and productive "universal" branch staff to enhance the customer experience in order to attract new and expand existing relationships.
- Expand fee income opportunities through the sale of treasury management and other ancillary products and services.
- Round out our product offering to include mobile banking and wire exchange.
- Broaden and further integrate our marketing, communication, advertising and public relations programs.

Infrastructure

- Maintain strong and consistent loan underwriting, monitoring and collection practices.
- Continue to evaluate, implement and comply with numerous new consumer lending regulations.
- Continue to enhance information security activities and control processes to further protect customer information.
- Design and build the "branch of the future" at the Richland office drive through location.
- Consolidate various service providers to the selected core application platform in order to drive efficiency, reduce costs and lessen system maintenance and processing risks.
- Continue the bank-wide profit improvement initiative targeting additional savings of non-staffing related operating expenses.
- Expand targeted community development activities with a focus on first time home buyer products and financial education.

We are well positioned to increase our profitability, effectively compete in the market place and grow your investment

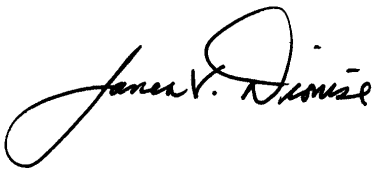
YEAR AHEAD

While our economy continues to improve, we anticipate little change in the rate environment. Low interest rates will continue to put pressure on the Company's earning asset yields. However, with momentum in our commercial, mortgage and home equity lending activities, expanded customer relationships, outstanding credit quality, an experienced team of sales professionals, fee based initiatives and profit improvement activities, we are encouraged and have high expectations for solid, stable and improved core earnings in 2015.

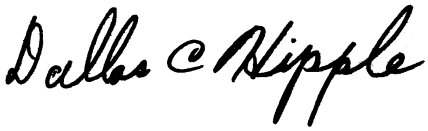
CLOSING

We continue to believe that future growth opportunities remain available to a strong, relationship focused and capable independent community bank. Mars National Bancorp is well positioned to increase its profitability, effectively compete in the market place and grow your investment. We thank our Board of Directors for their dedication and counsel, our customers for their trust, our employees for their hard work and commitment, and our communities for providing a wonderful environment in which to live and work. And as always, we thank you, our shareholders, for your continued support and confidence.

Sincerely,



James V. Dionise
President and Chief Executive Officer

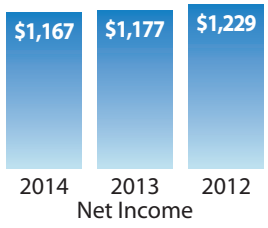


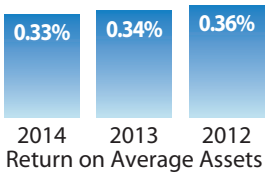
Dallas C. Hipple
Chairman of the Board

FINANCIAL HIGHLIGHTS

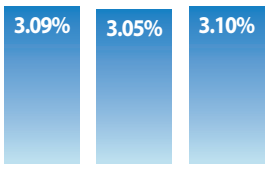
	2014	2013	Change
For the Year Ended December 31,			
(dollars in thousands, except per share data)			
EARNINGS			
Net interest income	**$9,662**	$9,413	2.7%
Provision for loan losses	**105**	—	n/m
Non-interest income	**2,710**	2,699	0.4%
Non-interest expense	**11,105**	11,144	-0.3%
Income tax benefit	**(5)**	(209)	n/m
Net income	**1,167**	1,177	-0.8%
SHARE DATA			
Earnings per share	**$ 14.59**	$ 14.71	-0.8%
PERFORMANCE RATIOS			
Return on average assets	**0.33%**	0.34%	-1bps
Return on average equity	**3.43%**	3.33%	10bps
Net interest margin	**3.09%**	3.05%	4bps
Efficiency ratio	**89.76%**	92.01%	-225bps
At December 31			
(dollars in millions, except per share data)			
BALANCE SHEET			
Assets	**$ 361.4**	$ 346.5	4.3%
Loans	**195.7**	166.5	17.6%
Deposits	**300.4**	302.6	-0.7%
Stockholders' equity	**34.7**	33.2	4.5%
CAPITAL			
Book value per share	**$433.59**	$414.96	4.5%
Total risk-based capital ratio	**16.72%**	18.42%	-170bps
CREDIT QUALITY			
Delinquent loans	**$ 0.2**	$ 0.3	-36.4%
Non-accrual loans	**0.7**	2.3	-70.0%
Delinquent loans/loans	**0.05%**	0.09%	-4bps
Non-accrual loans/loans	**0.35%**	1.38%	-103bps
Allowance for loan losses/loans	**1.06%**	1.15%	-9bps

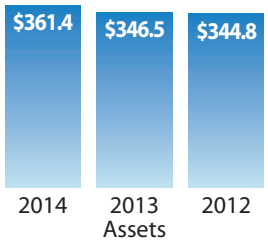
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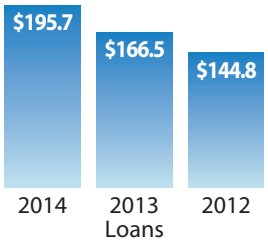


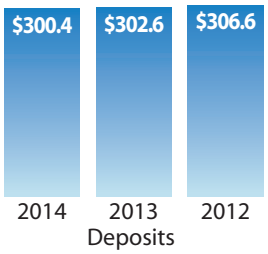


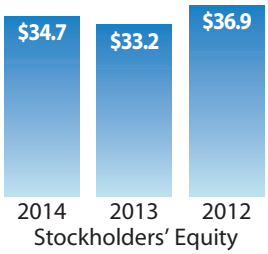


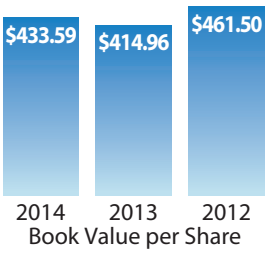


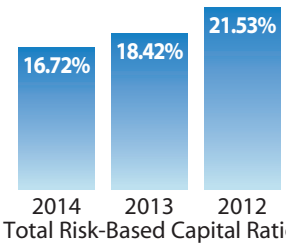


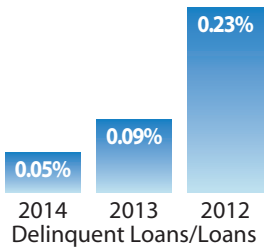


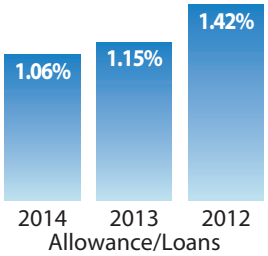












INDEPENDENT AUDITORS' REPORT

BAKER TILLY

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Board of Directors and Stockholders
Mars National Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Mars National Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mars National Bancorp, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
February 24, 2015

an independent member of
BAKER TILLY
INTERNATIONAL

An Affirmative Action Equal Opportunity Employer

Consolidated Balance Sheets

December 31,

	2014	2013
ASSETS		
Cash and due from banks	**$ 13,922,930**	$ 9,947,247
Interest-bearing deposits with banks	**1,059,628**	1,028,201
Cash and Cash Equivalents	**14,982,558**	10,975,448
Securities available for sale	**137,315,746**	154,968,806
Loans (net of unamortized cost of $64,481 in 2014 and unearned income of $261,584 in 2013)	**195,726,700**	166,457,641
Less allowance for loan losses	**2,073,815**	1,913,158
Net Loans	**193,652,885**	164,544,483
Premises and equipment, net	**4,740,092**	4,952,825
Restricted investments in bank stock	**2,805,700**	2,295,600
Bank-owned life insurance	**5,235,893**	5,053,512
Accrued interest receivable and other assets	**2,676,460**	3,705,763
Total Assets	**$361,409,334**	$346,496,437
LIABILITIES		
Deposits:		
Non-interest-bearing demand	**$ 88,004,324**	$ 84,653,012
Interest-bearing demand	**43,253,944**	41,823,470
Savings	**79,285,338**	77,140,711
Money market	**55,060,323**	56,698,902
Time	**34,810,347**	42,322,920
Total Deposits	**300,414,276**	302,639,015
Borrowed funds	**24,971,600**	9,687,500
Accrued interest payable and other liabilities	**1,336,306**	972,758
Total Liabilities	**326,722,182**	313,299,273
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; 1,000,000 shares authorized, 80,000 shares issued and outstanding	**800**	-
Common stock, par value $5 per share; 80,000 shares authorized, issued and outstanding	**-**	400,000
Capital surplus	**799,200**	400,000
Undivided profits	**33,968,647**	33,761,459
Accumulated other comprehensive loss	**(81,495)**	(1,364,295)
Total Stockholders' Equity	**34,687,152**	33,197,164
Total Liabilities and Stockholders' Equity	**$361,409,334**	$346,496,437

See notes to consolidated financial statements

Consolidated Statements of Income

Years Ended December 31,

	2014	2013
INTEREST INCOME		
Loans, including fees	**$ 7,173,907**	$ 6,445,358
Interest-bearing deposits with banks	**21,544**	29,836
Securities:		
Taxable	**1,957,761**	2,315,183
Exempt from federal income tax	**976,795**	1,219,702
Total Interest Income	**10,130,007**	10,010,079
INTEREST EXPENSE		
Deposits	**422,015**	592,534
Interest on borrowed funds	**45,863**	5,004
Total Interest Expense	**467,878**	597,538
Net Interest Income	**9,662,129**	9,412,541
Provision for Loan Losses	**105,000**	-
Net Interest Income after Provision for Loan Losses	**9,557,129**	9,412,541
NON-INTEREST INCOME		
Service charges on deposits	**210,233**	175,254
NSF fees	**140,385**	180,611
ATM processing fees	**454,388**	484,838
Investment services	**263,284**	425,383
Gain on sales of mortgages originated for sale	**231,337**	574,868
Net gain on sales of available for sale securities	**283,820**	194,376
Gain on sale of fixed assets	**346,730**	-
Other	**780,290**	663,356
Total Non-Interest Income	**2,710,467**	2,698,686
NON-INTEREST EXPENSE		
Salaries and employee benefits	**6,371,462**	6,168,133
Occupancy	**664,321**	645,047
Furniture and equipment	**750,774**	753,890
Pennsylvania shares tax	**252,061**	363,785
FDIC insurance	**215,678**	214,020
Professional fees	**539,346**	566,922
Loss on real estate owned	**-**	89,214
Other	**2,311,713**	2,342,628
Total Non-Interest Expense	**11,105,355**	11,143,639
Income before Income Taxes	**1,162,241**	967,588
Income Tax Benefit	**(4,947)**	(209,000)
Net Income	**$ 1,167,188**	$ 1,176,588
Earnings per Share	**$ 14.59**	$ 14.71

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Years Ended December 31,

	2014	2013
Net Income	**$1,167,188**	$ 1,176,588
Other Comprehensive Income (Loss), Net of Tax:		
Unrealized gains (loss) on securities:		
Unrealized holding gains (losses) arising during period (net of income taxes (benefits) of $757,336 in 2014 and ($1,963,483) in 2013)	**1,470,121**	(3,811,467)
Less: Reclassification adjustment for gains included in net income (net of income taxes of $96,499 in 2014 and $66,088 in 2013) (1)(2)	**(187,321)**	(128,288)
Other Comprehensive Income (Loss)	**1,282,800**	(3,939,755)
Comprehensive Income (Loss)	**$2,449,988**	$(2,763,167)

(1) Gross amount included in net gain on sales of available for sale securities on consolidated statements of income 2014-$283,820, 2013-$194,376
(2) The income tax effect included in income tax benefit on consolidated statements of income

See notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity

	COMMON STOCK	CAPITAL SURPLUS	UNDIVIDED PROFITS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance at December 31, 2012	400,000	400,000	33,544,871	2,575,460	36,920,331
Net income	-	-	1,176,588	-	1,176,588
Other comprehensive loss	-	-	-	(3,939,755)	(3,939,755)
Cash dividends declared on common stock at $12.00 per share	-	-	(960,000)	-	(960,000)
Balance at December 31, 2013	$400,000	$400,000	$ 33,761,459	$(1,364,295)	$ 33,197,164
Net income	-	-	**1,167,188**	-	**1,167,188**
Reorganization of Mars National Bank: Exchange of Common Stock	**(399,200)**	**399,200**	-	-	-
Other comprehensive income	-	-	-	**1,282,800**	**1,282,800**
Cash dividends declared on common stock at $12.00 per share	-	-	**(960,000)**	-	**(960,000)**
Balance at December 31, 2014	**$ 800**	**$799,200**	**$33,968,647**	**$ (81,495)**	**$34,687,152**

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 1,167,188**	$ 1,176,588
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**105,000**	-
Provision for depreciation and amortization	**302,062**	337,251
Net amortization of securities premiums and discounts	**678,993**	1,001,444
Deferred income tax expense/(benefit)	**113,114**	(227,080)
Accretion of deferred loan fees and costs	**(12,457)**	(15,487)
Net realized gain on sale of securities available for sale	**(283,820)**	(194,376)
Proceeds from sales of mortgage loans originated for sale	**13,346,680**	26,289,050
Net gain on sale of mortgage loans originated for sale	**(231,337)**	(574,868)
Mortgage loans originated for sale	**(13,089,043)**	(23,916,782)
Net gain on disposal of premises and equipment	**(346,221)**	-
Write-down of foreclosed and repossessed assets	-	87,907
Net loss on sale of foreclosed real estate	-	1,307
Earnings on investments in life insurance	**(182,381)**	(53,512)
Decrease in accrued interest receivable and other assets	**255,352**	658,166
Increase in accrued interest payable and other liabilities	**363,548**	61,005
Net Cash Provided by Operating Activities	**2,186,678**	4,630,613
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment securities available for sale:		
Purchases of securities	**(20,972,906)**	(47,767,065)
Proceeds from maturities, calls and principal repayments of securities	**20,247,812**	32,476,313
Proceeds from sales of securities	**19,926,618**	24,383,845
Net increase in loans receivable	**(29,227,245)**	(23,835,182)
Purchases of restricted bank stock	**(1,628,700)**	(1,572,300)
Redemptions of restricted bank stock	**1,118,600**	263,200
Proceeds from sale of bank premises and equipment	**521,730**	-
Purchases of premises and equipment	**(264,838)**	(200,009)
Purchase of life insurance	-	(5,000,000)
Proceeds from sale of foreclosed real estate	-	126,733
Net Cash Used in Investing Activities	**(10,278,929)**	(21,124,465)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	**(2,224,739)**	(3,963,514)
Net increase in other borrowings	**15,284,100**	9,687,500
Cash dividends paid	**(960,000)**	(960,000)
Net Cash Provided by Financing Activities	**12,099,361**	4,763,986
Net Increase (Decrease) in Cash and Cash Equivalents	**4,007,110**	(11,729,866)
Cash and Cash Equivalents, Beginning of Year	**10,975,448**	22,705,314
Cash and Cash Equivalents, End of Year	**$ 14,982,558**	$ 10,975,448
SUPPLEMENTAL INFORMATION		
Interest paid	**$ 467,257**	$ 607,572
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING FINANCING ACTIVITIES		
Loans transferred to foreclosed real estate	**$ -**	$ 215,947

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Mars National Bancorp, Inc. and its direct and indirect wholly-owned subsidiaries Mars National Bank ("the Bank") and Mars National Insurance Services, LLC. All material intercompany transactions have been eliminated.

As used in these notes to the consolidated financial statements, Mars National Bancorp, Inc. and its consolidated subsidiaries are collectively referred to as the "Company".

In April 2013, the stockholders of Mars National Bank approved the formation of a bank holding company to be known as Mars National Bancorp, Inc. and adopted an Agreement and Plan of Reorganization (the "Plan"). Effective July 1, 2014, and pursuant to the Plan and provisions of the National Bank Consolidation and Merger Act, the Bank reorganized to become a subsidiary of the parent holding company, Mars National Bancorp, Inc. Upon consummation of the Reorganization, each outstanding share of common stock of Mars National Bank was converted into one share of common stock of the Mars National Bancorp, Inc. Mars National Bancorp, Inc. owns all of the outstanding shares of common stock of the Bank. Accordingly, for presentation purposes, the accompanying financial statement information relating to periods prior to July 1, 2014 are reported under the name of Mars National Bancorp, Inc.

Mars National Bancorp, Inc. is incorporated under the laws of the Commonwealth of Pennsylvania and is under the regulatory jurisdiction of the Board of Governors of the Federal Reserve Bank. The Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency ("OCC"). Mars National Bancorp, Inc.'s activity consists of owning and supervising its subsidiary Mars National Bank which is a national association located in Pennsylvania. The Bank derives its principal sources of revenue from its residential and commercial real estate portfolios, commercial, industrial and consumer loans, investment securities portfolio, as well as a variety of deposit services offered to its customers through five branch offices, which are located primarily in northern Allegheny and southern Butler counties. Mars National Insurance Services, LLC provides real estate settlement services and title insurance to the Bank's customers in connection with its residential and commercial real estate lending activities. Mars National Insurance Services, LLC is subject to review and conducts business under the jurisdiction of the OCC and the Pennsylvania Insurance Department ("PID").

In November 2014, the Bank exited a division which offered securities and advisory services, operating under the brand name of Mars National Advisors. There was no material financial statement impact resulting from this event.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2014 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through February 24, 2015, the date these financial statements were available to be issued.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

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

Estimates
The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income 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, the potential impairment of restricted stock, the valuation of deferred tax assets and the determination of other-than-temporary impairment on securities.

Significant Concentrations of Credit Risk
Most of the Company's activities are with customers located within its local trade area. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of loans that the Company originates. The Company does not have any significant concentrations to any one industry or customer. Although the Company has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

Securities
Currently, the Bank's investment securities portfolio is classified as available for sale. The portfolio serves principally as a source of liquidity and is carried at fair value, with unrealized gains and losses reported as increases or decreases to other comprehensive income, net of tax, until realized. Debt securities acquired with the intent to hold to maturity would be classified as held to maturity and carried at amortized cost. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on sales of securities available for sale are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Restricted Investments in Bank Stock
The Bank owns restricted stock investments in the Federal Home Loan Bank of Pittsburgh ("FHLB") and the Federal Reserve Bank ("FRB"). The investment in FHLB stock at December 31, 2014 and 2013 totaled $2,781,700 and $2,271,600, respectively. The FRB stock investment was $24,000 at December 31, 2014 and 2013. The investments are required by law according to predetermined formulas. These investments are carried at cost.

The FHLB pays a dividend to the Bank for its restricted stock investment in the FHLB. The Bank earned $98,202 and $20,312 in dividends in 2014 and 2013, respectively. In addition, the FHLB continues to repurchase excess capital stock consistent with its practice in past quarters. Repurchase of capital stock totaled $1,118,600 and $263,200 in 2014 and 2013, respectively.

Management evaluates the restricted stock for impairment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 942-325-35, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of their cost, rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2014 and 2013.

Other-Than-Temporary Impairment
The Company reviews its investment portfolio on a quarterly basis for indications of other-than-temporary impairment ("OTTI"). This review includes analyzing the length of time and the extent to which fair value has been lower than cost, the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer, and the Bank's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market.

The Company recognizes credit-related OTTI on debt securities in earnings while noncredit-related OTTI on debt securities not expected to be sold is recognized in accumulated Other Comprehensive Income ("OCI"). The Company assesses whether the credit loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that the Company will be required to sell the security before recovery, or (3) the Company does not expect to recover the entire amortized cost basis of the security. The Company can bifurcate the OTTI on securities not expected to be sold or where the entire amortized cost of the security is not expected to be recovered into the components representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss is recognized through earnings.

Loans

Loans that the Company 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 ("ALLL") and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. The loans receivable portfolio is segmented into commercial and industrial, consumer and real estate loans. Real estate loans consist of the following classes: residential and commercial.

For all classes of loans, the accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility 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 non-accrual 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 non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility 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.

Loan Origination Fees and Costs

Loan origination fees and certain direct loan origination costs are being deferred. The net amount is amortized as an adjustment to the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans. As of December 31, 2014, the net deferred costs totaled $57,203 and at December 31, 2013 net deferred fees totaled $270,574.

Commitment fees that are based on a percentage of a customer's unused lines of credit and fees related to standby letters of credit are recognized as income during the commitment period.

Mortgages Held for Sale

Mortgages originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Mortgages held for sale are sold with servicing rights released. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related mortgage sold.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. 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 reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. 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. 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 absorb losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect a borrower's ability to repay, 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 estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and inherent risk 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 type including commercial and commercial real estate loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans and further segmented by risk ratings of pass, special mention, substandard, and doubtful.

An inherent risk component of the Company's allowance for loan losses is maintained to cover uncertainties that could affect management's estimate of probable losses. The inherent risk component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Pass 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:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in national and local economic and business conditions, including the condition of various market segments;
- Changes in the nature and volume of the portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;
- Changes in the quality of the Company's loan review system and the degree of oversight by the Company's Board of Directors;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- The effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Company's current portfolio.

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.

Included in the Company's loan assets are loans to business owners of many types. The Company makes commercial loans for real estate development and other business purposes required by the customer base.

The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial and industrial 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 inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans 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. Commercial real estate loans include long-term loans financing commercial 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. Commercial real estate loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or subordinate lien position. Residential mortgages and home equity loans have varying loan rates depending on the loan to value ratio. Residential mortgages have amortizations up to 30 years and home equity loans have maturities up to 20 years. Other consumer loans include student loans, installment loans, car loans, and overdraft lines of credit.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 borrower, including the length of the delay, reasons for the delay, borrower's prior payment record and amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, loan's obtainable market price or fair value of the collateral if the loan is collateral dependent.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. 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 by the estimated costs to sell the property to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings 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.

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

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions that would not be granted to other customers 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 or an extension of a loan's stated maturity date. Non-accrual 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 classified 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 criticized or classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their 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.

Foreclosed Assets
Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Such properties are included in other assets. The Company did not have any foreclosed assets at December 31, 2014 and 2013.

Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues are included in other income and expenses from operations and changes in the valuation allowance are included in other expense.

Premises and Equipment
Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using both the straight-line and accelerated methods over the estimated useful lives of the premises and equipment. Charges for maintenance and repairs are expensed as incurred.

Bank-Owned Life Insurance
The Company purchased insurance on the lives of certain key executive officers. The policies accumulate asset values to meet future liabilities, including the payment of employee benefits. Increases in the cash surrender value and proceeds upon the death of a key employee are recorded as noninterest income in the Consolidated Statements of Income. The cash surrender value of bank-owned life insurance is recorded as an asset on the Consolidated Balance Sheets.

Advertising Costs
The Company follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2014 and 2013 was $339,781 and $331,712, respectively.

Income Taxes
Certain income and expense items are accounted for in different years for financial reporting purposes than for income tax purposes. Deferred taxes are provided to recognize these temporary differences. The principal items involved are investment securities, provision for loan losses and benefit plans. Income tax expense is not proportionate to earnings before taxes, principally because income from obligations of states and political subdivisions and increases in the cash surrender value of Bank-owned life insurance is nontaxable. 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.

A tax position is recognized as a benefit at the largest amount that is more-likely-than-not to be sustained in a tax examination based solely on its merits. An uncertain tax position will not be recognized if it has less than 50% likelihood of being sustained. Under the threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of December 31, 2014 and 2013.

Earnings per Share
The Company has a simple capital structure. Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during each period. The average weighted shares outstanding were 80,000 for the years ended December 31, 2014 and 2013.

Cash and Cash Equivalents
The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions cash and due from banks and interest-bearing deposits with banks.

Off-Balance Sheet Financial Instruments
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments, consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

Comprehensive Income
Accounting principles generally 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 in the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The only component of other comprehensive income for the years ended December 31, 2014 and 2013 is the net unrealized gain and loss on securities available for sale.

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

Recent Accounting Standards

In August 2014, the FASB issued ASU No. 2014-14, "Receivables—Troubled Debt Restructurings by Creditors." ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. An entity can adopt the amendments in this guidance using either a prospective transition method or a modified retrospective method. For prospective transition, an entity should apply the amendments in this update to foreclosures that occur after the date of adoption. For modified retrospective transition, an entity should apply the amendments in this update by means of a cumulative-effect adjustment as of the beginning of the annual period of adoption. Prior periods should not be adjusted. The requirements of ASU 2014-14 are effective for nonpublic entities for reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of the Bank.

In May 2014, the FASB issued SU 2014-09, "Revenue from Contracts with Customers", which establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. ASU 2014-09 specifies that an entity shall recognize revenue when, or as, the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when, or as, the customer obtains control of the asset. Entities are required to disclose qualitative and quantitative information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption not permitted. The Company is evaluating the provisions of ASU 2014-09, but believes that its adoption will not have a material impact on the Company's financial condition or results of operations.

Notes to Consolidated Financial Statements

NOTE 3 - SECURITIES AVAILABLE FOR SALE

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
DECEMBER 31, 2014				
U.S. government agencies and corporations	**$ 63,769,567**	**$ 43,670**	**$ (674,057)**	**$ 63,139,180**
Obligations of states and political subdivisions	**24,040,692**	**309,764**	**(14,237)**	**24,336,219**
Mortgage-backed securities	**49,628,963**	**516,605**	**(305,221)**	**49,840,347**
Total	**$137,439,222**	**$ 870,039**	**$ (993,515)**	**$137,315,746**
DECEMBER 31, 2013				
U.S. government agencies and corporations	$ 70,648,125	$ 100,741	$(1,936,564)	$ 68,812,302
Obligations of states and political subdivisions	30,509,863	342,152	(135,422)	30,716,593
Mortgage-backed securities	55,877,931	828,665	(1,266,685)	55,439,911
Total	$ 157,035,919	$1,271,558	$(3,338,671)	$ 154,968,806

The majority of the mortgaged-backed securities ("MBS") represent residential mortgages as of December 31, 2014 and 2013. The remainder of the mortgaged-backed securities are comprised of Mortgage-Backed Delegated Underwriting and Servicing ("DUS") Bonds. At December 31, 2014 and 2013, the Company had a carrying value of $9,037,773 and $8,832,525 in DUS Bonds, respectively. These MBS securities are issued by Fannie Mae ("FNMA") consisting of a single loan or a pool of loans backed by multifamily properties, which must be income producing and consist of at least five residential units. These bonds carry FNMA backing and an implied government guarantee. The bonds pay timely monthly principal and interest and are structured with 5,7,10,15,18 year fixed-rate balloon maturities and 25 or 30 year amortization schedules, depending on the life of the property. DUS loans include a prepayment deterrent fee, or yield maintenance contract, which mitigates prepayment risk on the securities. The yield maintenance period often encompasses the majority of the life of the loan. The bonds are typically structured with a 7 or 10-year balloon term, and a 6.5 or 9.5 yield maintenance period, respectively.

Notes to Consolidated Financial Statements

The amortized cost and estimated market value of securities available for sale at December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	**$ 361,661**	**$ 362,721**
Due after one year through five years	**47,127,590**	**46,913,568**
Due after five years through ten years	**46,142,324**	**46,073,642**
Due after ten years	**43,807,647**	**43,965,815**
Total	**$137,439,222**	**$137,315,746**

Investment securities available for sale with a carrying value of $31,361,682 and $22,996,282 at December 31, 2014 and 2013, respectively, were pledged to secure public deposits as required by law.

Sales of securities generated proceeds of $19,926,618 and $24,383,845 in 2014 and 2013, respectively. The Company realized gross gains and losses on sales of these securities of $313,197 and $29,377 in 2014 and $420,821 and $226,445 in 2013.

The following tables show the Company's 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, 2014 and 2013:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
DECEMBER 31, 2014						
U.S. government agencies and corporations	**$10,077,196**	**$ 25,902**	**$40,331,095**	**$648,155**	**$50,408,291**	**$674,057**
Obligations of states and political subdivisions	**1,158,233**	**5,887**	**610,994**	**8,350**	**1,769,227**	**14,237**
Mortgage-backed securities	**1,203,123**	**277**	**25,211,231**	**304,944**	**26,414,354**	**305,221**
Total	**$12,438,552**	**$ 32,066**	**$66,153,320**	**$961,449**	**$78,591,872**	**$993,515**
DECEMBER 31, 2013						
U.S. government agencies and corporations	$ 43,677,419	$1,529,838	$ 8,290,891	$406,726	$51,968,310	$1,936,564
Obligations of states and political subdivisions	3,649,649	132,355	648,900	3,067	4,298,549	135,422
Mortgage-backed securities	31,650,140	1,229,882	1,472,511	36,803	33,122,651	1,266,685
Total	$ 78,977,208	$2,892,075	$ 10,412,302	$446,596	$89,389,510	$3,338,671

There has been a decrease in the number and dollar amount from December 31, 2013 to December 31, 2014 of securities that have unrealized losses. At December 31, 2014, sixty-six securities were in an unrealized loss position compared to eighty-three securities in an unrealized loss position at December 31, 2013. The individual losses ranged from $236 to $103,018 at December 31, 2014 as compared to losses that ranged from $330 to $200,995 at December 31, 2013. The primary driver behind this decrease relates to the decrease in interest rates. However, there has been an increase in the number and dollar amount from December 31, 2013 to December 31, 2014 of securities that have unrealized losses 12 months or more. The main reason some of these bonds still have unrealized losses relates to their original purchase date and the interest rate/spreads that were in effect at that date. Furthermore, there has been no material negative change in credit issues in the portfolio. Fifty-nine of the securities with principal balances totaling $76.8 million have the explicit or implicit guarantee of the U.S. Government. The remaining seven securities relate to obligations of states and political subdivisions. The Company has performed an analysis of these securities as summarized in the "Other-Than-Temporary Impairment" accounting policy. Management believes that the unrealized losses are temporary in nature and are a result of the current interest rate environment and not a reflection of credit quality.

NOTE 4 - LOANS

The Company's loan portfolio is segmented to enable management to monitor risk and performance. The real estate loans are further classified into two classes. Residential mortgages include those secured by first and second lien residential properties while commercial mortgages are comprised of loans to commercial customers for self-use or income-producing commercial or residential real estate. The commercial and industrial segment consists of loans to finance the activities of commercial customers. The consumer segment consists primarily of student, auto loans and personal loans.

Residential mortgage loans are typically longer-term loans which generally entail greater interest rate risk than consumer and commercial loans. Under certain economic conditions, housing values may decline, which may increase the risk that the collateral values are insufficient. Commercial real estate loans generally present a higher level of risk than loans secured by residences. This greater risk is due to several factors including but not limited to concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty in monitoring these types of loans. Furthermore, the repayment of commercial real estate loans is typically dependent upon successful operation of the related real estate project. If the cash flow from the project is reduced by such occurrences as leases not being obtained, renewed or not entirely fulfilled, the borrower's ability to repay the loan may be impaired. Commercial and industrial loans are primarily secured by business assets, inventories and accounts receivable which present collateral risk. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans, however, they have additional credit risk due to the type of collateral securing the loan.

Major classifications of loans receivable at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Real Estate:		
Residential	**$ 95,655,533**	$ 79,509,900
Commercial	**68,499,360**	51,416,890
Commercial and industrial	**28,311,978**	31,884,034
Consumer	**3,195,348**	3,908,401
Total	**195,662,219**	166,719,225
Less (unamortized cost) unearned income	**(64,481)**	261,584
	195,726,700	166,457,641
Less allowance for loan losses	**2,073,815**	1,913,158
Net Loans	**$193,652,885**	$164,544,483

In the normal course of business, loans are extended to directors, executive officers and their related interests and affiliates. In management's opinion, all of these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable creditworthiness. The aggregate amount of credit extended to these directors and executive officers at December 31, 2014 and 2013 was $659,531 and $1,657,373, respectively. During 2014, $60,042 of new loans and principal advances were made and repayments totaled $1,057,884.

Mortgages held for sale totaled $476,800 and $503,100 as of December 31, 2014 and 2013, respectively, and are included in the residential real estate balances above.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

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

	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
DECEMBER 31, 2014					
Real Estate:					
Residential	**$ 95,434,560**	**$ 39,572**	**$ 181,401**	**$ -**	**$ 95,655,533**
Commercial	**67,894,670**	**19,946**	**584,744**	**-**	**68,499,360**
Commercial and industrial	**27,637,825**	**674,153**	**-**	**-**	**28,311,978**
Consumer	**3,195,348**	**-**	**-**	**-**	**3,195,348**
Total	**$194,162,403**	**$ 733,671**	**$ 766,145**	**$ -**	**$195,662,219**
DECEMBER 31, 2013					
Real Estate:					
Residential	$ 79,016,066	$ 49,835	$ 443,999	$ -	$ 79,509,900
Commercial	50,087,889	246,074	1,082,927	-	51,416,890
Commercial and industrial	29,919,045	891,706	1,073,283	-	31,884,034
Consumer	3,908,401	-	-	-	3,908,401
Total	$ 162,931,401	$1,187,615	$2,600,209	$ -	$ 166,719,225

Notes to Consolidated Financial Statements

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

	CURRENT	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	GREATER THAN 90 DAYS	TOTAL PAST DUE	TOTAL LOANS RECEIVABLE	NON-ACCRUAL LOANS	LOANS RECEIVABLE 90 DAYS PAST DUE AND ACCRUING
DECEMBER 31, 2014								
Real Estate:								
Residential	**$ 95,588,794**	**$ 51,113**	**$ -**	**$ 15,626**	**$ 66,739**	**$ 95,655,533**	**$ 103,891**	**$ -**
Commercial	**68,205,870**	-	-	**293,490**	**293,490**	**68,499,360**	**584,744**	-
Commercial and industrial	**28,311,978**	-	-	-	-	**28,311,978**	-	-
Consumer	**3,108,663**	-	-	**86,685**	**86,685**	**3,195,348**	-	**86,685**
Total	**$195,215,305**	**$ 51,113**	**$ -**	**$395,801**	**$446,914**	**$195,662,219**	**$ 688,635**	**$ 86,685**
DECEMBER 31, 2013								
Real Estate:								
Residential	$ 79,366,821	$ 79,870	$ -	$ 63,209	$ 143,079	$ 79,509,900	$ 164,029	$ -
Commercial	51,106,736	310,154	-	-	310,154	51,416,890	1,082,927	-
Commercial and industrial	31,883,906	128	-	-	128	31,884,034	1,048,320	-
Consumer	3,676,419	46,138	30,361	155,483	231,982	3,908,401	-	155,483
Total	$ 166,033,882	$436,290	$30,361	$ 218,692	$ 685,343	$ 166,719,225	$2,295,276	$155,483

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

	RECORDED INVESTMENT	RELATED ALLOWANCE	UNPAID PRINCIPAL BALANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
DECEMBER 31, 2014					
With no related allowance recorded:					
Real Estate:					
Residential	**$ 77,510**	**$ -**	**$ 77,510**	**$ 80,078**	**$ 3,142**
Commercial	**279,265**	**-**	**312,650**	**571,995**	**67,744**
Commercial and industrial	**-**	**-**	**-**	**161,797**	**10,580**
Total	**$356,775**	**$ -**	**$390,160**	**$ 813,870**	**$ 81,466**
With an allowance recorded:					
Real Estate:					
Commercial	**$293,490**	**$15,214**	**$343,551**	**$ 299,839**	**$ -**
Commercial and industrial	**-**	**-**	**-**	**114,506**	**78,027**
Total	**$293,490**	**$15,214**	**$343,551**	**$ 414,345**	**$ 78,027**
Total					
Real Estate:					
Residential	**$ 77,510**	**$ -**	**$ 77,510**	**$ 80,078**	**$ 3,142**
Commercial	**572,755**	**15,214**	**656,201**	**871,834**	**67,744**
Commercial and industrial	**-**	**-**	**-**	**276,303**	**88,607**
Total	**$650,265**	**$15,214**	**$733,711**	**$1,228,215**	**$159,493**

	RECORDED INVESTMENT	RELATED ALLOWANCE	UNPAID PRINCIPAL BALANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
DECEMBER 31, 2013					
With no related allowance recorded:					
Real Estate:					
Residential	$ 82,787	$ -	$ 82,787	$ 83,385	$ 1,898
Commercial	730,698	-	803,292	991,078	534,887
Commercial and industrial	870,688	-	873,600	769,710	104,107
Total	$1,684,173	$ -	$1,759,679	$1,844,173	$640,892
With an allowance recorded:					
Real Estate:					
Commercial	$ 310,154	$27,422	$ 349,052	$ 317,444	$ -
Commercial and industrial	177,632	47,802	244,586	434,720	3,201
Total	$ 487,786	$75,224	$ 593,638	$ 752,164	$ 3,201
Total					
Real Estate:					
Residential	$ 82,787	$ -	$ 82,787	$ 83,385	$ 1,898
Commercial	1,040,852	27,422	1,152,344	1,308,522	534,887
Commercial and industrial	1,048,320	47,802	1,118,186	1,204,430	107,308
Total	$2,171,959	$75,224	$2,353,317	$2,596,337	$644,093

Notes to Consolidated Financial Statements

The primary segments of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for potential losses as of December 31, 2014 and 2013:

	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISIONS	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
DECEMBER 31, 2014							
Real Estate:							
Residential	**$ 758,214**	**$ -**	**$ -**	**$ 57,229**	**$ 815,443**	**$ -**	**$ 815,443**
Commercial	**510,909**	**-**	**4,225**	**119,222**	**634,356**	**15,214**	**619,142**
Commercial and industrial	**339,059**	**(1,040)**	**52,106**	**(147,181)**	**242,944**	**-**	**242,944**
Consumer	**4,972**	**-**	**366**	**(2,048)**	**3,290**	**-**	**3,290**
Inherent risk	**300,004**	**-**	**-**	**77,778**	**377,782**	**-**	**377,782**
Total	**$1,913,158**	**$(1,040)**	**$56,697**	**$105,000**	**$2,073,815**	**$15,214**	**$2,058,601**

	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISIONS	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
DECEMBER 31, 2013							
Real Estate:							
Residential	$ 714,746	$ (15,388)	$ 73	$ 58,783	$ 758,214	$ -	$ 758,214
Commercial	558,999	(135,896)	3,900	83,906	510,909	27,422	483,487
Commercial and industrial	556,631	-	222	(217,794)	339,059	47,802	291,257
Consumer	5,473	(460)	100	(141)	4,972	-	4,972
Inherent risk	224,758	-	-	75,246	300,004	-	300,004
Total	$2,060,607	$(151,744)	$4,295	$ -	$1,913,158	$75,224	$1,837,934

The following table summarizes loans evaluated both individually and collectively for impairment as of December 31, 2014 and 2013:

	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
DECEMBER 31, 2014			
Real Estate:			
Residential	**$ 95,655,533**	**$ 77,510**	**$ 95,578,023**
Commercial	**68,499,360**	**572,755**	**67,926,605**
Commercial and industrial	**28,311,978**	**-**	**28,311,978**
Consumer	**3,195,348**	**-**	**3,195,348**
Total	**$195,662,219**	**$ 650,265**	**$195,011,954**

	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
DECEMBER 31, 2013			
Real Estate:			
Residential	$ 79,509,900	$ 82,787	$ 79,427,113
Commercial	51,416,890	1,040,852	50,376,038
Commercial and industrial	31,884,034	1,048,320	30,835,714
Consumer	3,908,401	-	3,908,401
Total	$ 166,719,225	$2,171,959	$ 164,547,266

The Company has not acquired any loans with deteriorated credit quality.

In the normal course of business, the Company modifies loan terms for various reasons. These reasons may include as a retention strategy to compete in the current interest rate environment, and to re-amortize or extend a loan term to better match the loan's payment stream with the borrower's cash flows. A modified loan is considered to be a troubled debt restructuring ("TDR") when the Company has determined that the borrower is troubled (i.e. experiencing financial difficulties) and a concession is made by the Company that would not otherwise be considered for a borrower or collateral with similar credit risk characteristics. The Company evaluates the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. To make this determination, the Company performs a global financial review of the borrower and loan guarantors to assess their current ability to meet their financial obligations.

When the Company restructures a loan to a troubled borrower, the loan terms (i.e. interest rate, payment, amortization period and/or maturity date) are modified in such a way to enable the borrower to cover the modified debt service payments based on current financials and cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Company obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Company in the best possible position if the borrower is not able to meet the modified terms. To date, the Company has not forgiven any principal as a restructuring concession. The Company will not offer modified terms if it believes that modifying the loan terms will only delay an inevitable permanent default.

All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition. Accordingly, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. If the loan was accruing at the time of the modification, then it continues to be in accruing status subsequent to the modification. Non-accrual TDRs may return to accruing status when there has been sufficient payment performance for a period of at least six months. TDRs are considered to be in payment default if, subsequent to modification, the loans are transferred to non-accrual status. Loans may be removed from TDR status in the calendar year following the modification if the interest rate at the time of modification was consistent with the interest rate for a loan with comparable credit risk and the loan has performed according to its modified terms for at least six months.

There were 3 loans totaling $371,000 and 3 loans totaling $392,941 that were classified as TDRs at December 31, 2014 and December 31, 2013, respectively. Two loans at December 31, 2014 totaling $293,490 were classified as non-accrual and the remaining loan totaling $77,510 was classified as an accrual loan. At December 31, 2013, there were two loans totaling $310,154 that were classified as non-accrual and the remaining loan totaling $82,787 was classified as an accrual loan.

There were no modifications in 2014 and the following table presents the volume and recorded investment at the time of modification of TDRs by class and type of modification that occurred during 2013:

	MODIFICATIONS BY TYPE FOR THE YEAR ENDED DECEMBER 31, 2013							
	NUMBER OF CONTRACTS	RATE	TERM	PAYMENT	COMBINATION	TOTAL	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENTS	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENTS
Real Estate:								
Residential	1	$ -	$ -	$ -	$82,787	$ 82,787	$82,787	$82,787
Total	1	$ -	$ -	$ -	$82,787	$ 82,787	$82,787	$82,787

If a loan was considered to be impaired prior to modification as a TDR, then there is no impact on the ALLL as a result of the modification because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a TDR, then there could be an impact on the ALLL as a result of the modification because of the movement of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment. Since there were no new modifications in 2014, there was no additional ALLL analysis needed and there was not any addition to the ALLL relating to the one loan totaling $82,787 modified in 2013. The volume and type of TDR activity are considered in the assessment of the local economic trends qualitative factor used in the determination of the ALLL for loans that are evaluated collectively for impairment.

The Company did not charge off any loan that was classified as a troubled debt restructuring at December 31, 2013 in 2014 and charged-off one commercial loan totaling $135,896 that was classified as a troubled debt restructuring at December 31, 2012 in 2013. There were no other troubled debt restructurings that subsequently defaulted during the years ended December 31, 2014 and 2013.

NOTE 6 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company 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 standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table identifies the contract or notional amount of those instruments at December 31, 2014 and 2013:

	2014	2013
Financial instruments whose contract amounts represent credit risk:		
Commitments to grant loans	**$20,230,114**	$ 8,984,540
Unfunded commitments under lines of credit	**32,876,960**	36,952,129
Standby letters of credit	**524,312**	386,961

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon. The total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. At December 31, 2014 and 2013, the Company's fixed rate loan commitments totaled $4,069,714 and $825,344, respectively.

Outstanding letters of credit written are conditional commitments issued by the Company 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 Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2014 and 2013 for guarantees under standby letters of credit issued is not material.

NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Land	**$ 2,105,339**	$ 2,280,339
Buildings and leasehold improvements	**5,977,390**	5,996,261
Furniture and fixtures	**3,655,880**	3,660,725
Computer software	**1,298,325**	1,126,955
	13,036,934	13,064,280
Accumulated depreciation and amortization	**(8,296,842)**	(8,111,455)
Total	**$ 4,740,092**	$ 4,952,825

Depreciation and amortization charged to operations was $302,062 and $337,251 in 2014 and 2013, respectively.

Notes to Consolidated Financial Statements

NOTE 8 - DEPOSITS

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $10,238,548 and $12,571,787 at December 31, 2014 and 2013, respectively.

The following schedule represents the maturity of time deposits at December 31, 2014:

2015	**$19,006,315**
2016	**4,862,452**
2017	**4,525,372**
2018	**4,427,547**
2019	**1,988,661**
Total	**$34,810,347**

Deposit overdrafts reclassified to loans receivable at December 31, 2014 and 2013 were $463 and $17,435, respectively.

NOTE 9 - BORROWED FUNDS AND AVAILABLE CREDIT ARRANGEMENTS

The Bank maintains a credit arrangement, which includes a revolving line of credit with the FHLB. Under this credit arrangement, the Bank has a borrowing limit of approximately $103.5 million at December 31, 2014 that is subject to annual renewal and typically incurs no service charges. Any loans generated with this credit facility are secured by a blanket security agreement on outstanding residential mortgage loans, other real estate related collateral and U.S. government agencies and mortgage-backed securities. As of December 31, 2014, FHLB borrowed funds totaled $25.0 million. The borrowings bear interest rates ranging from .31% to 1.14% and mature at dates ranging from January 16, 2015 to November 17, 2017. As of December 31, 2013, FHLB borrowed funds totaled $9.7 million with an interest rate of .24% that matured on January 6, 2014.

The Bank has borrowing access capabilities through the FRB discount window. This access allows the Bank to borrow money, usually on a short-term basis, to meet temporary liquidity needs. As of December 31, 2014, the Bank had a borrowing capacity of approximately $3.0 million. Discount window borrowings are fully secured through a pledge of mortgage-backed securities to the FRB of Cleveland. The Bank had no FRB Discount window outstanding borrowings as of December 31, 2014 and 2013.

In addition, the Bank has an established $10,000,000 guidance line of credit with SunTrust Bank for repurchase and reverse repurchase transactions and a $4,000,000 guidance line of credit for the purchase of federal funds. The $4,000,000 guidance line of credit has no prescribed termination date and is not a committed facility, as SunTrust Bank reserves the right to cancel the line at any time at its sole discretion. The Bank also has an $8,800,000 and $5,000,000 federal funds purchase line of credit with Zions First National Bank and PNC Bank, respectively, both of which has no prescribed termination date and is not a committed facility. The facilities are intended to provide for short-term liquidity needs. For the years ended December 31, 2014 and 2013, there were no borrowings outstanding under these credit facilities.

Notes to Consolidated Financial Statements

NOTE 10 - INCOME TAXES

The provision for federal income taxes for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Current	**$(118,061)**	$ 18,080
Deferred	**113,114**	(227,080)
Total Provision	**$ (4,947)**	$(209,000)

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

	2014	2013
Allowance for loan losses	**$ 566,561**	$ 530,562
Net unrealized loss on securities	**41,981**	702,818
Post-retirement benefit plan	**123,073**	67,471
Non-accrual loan interest	**103,581**	261,270
Alternative Minimum Tax credit carry forward	**133,150**	41,818
Net operating loss	**141,017**	368,525
Charitable Contributions	**106,228**	94,091
Depreciation	**27,206**	-
Other	**183**	183
Total Deferred Tax Assets	**1,242,980**	2,066,738
Depreciation	**-**	39,744
Deferred origination fees and costs	**19,449**	40,610
Investment securities accretion	**83,931**	72,834
Total Deferred Tax Liabilities	**103,380**	153,188
Net Deferred Tax Asset (Liability)	**$1,139,600**	$ 1,913,550

Federal net operating loss carry forward of $414,756 is available to offset future taxable income through 2034. As of December 31, 2014, the Company had no unrecognized tax benefits as defined by FASB ASC 740-10-25, Accounting for Uncertainty in Income Taxes. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. As of December 31, 2014 and 2013, the Company has not incurred any interest or penalties associated with its tax position. Any amount, if applicable, would be included as part of other non-operating expense. The Company is subject to federal income tax as well as a capital-based state franchise tax. The Company is no longer subject to examination by taxing authorities for years before 2011.

The total tax provision for financial reporting purposes differed from the amount computed by applying the federal statutory income tax rate of 34% to income before income taxes. The differences are as follows:

	2014	2013
Tax at statutory rate	**$ 395,162**	$ 328,980
Effect of tax-exempt income	**(439,237)**	(524,435)
Other	**39,128**	(13,545)
Actual Tax Benefit	**$ (4,947)**	$(209,000)

Notes to Consolidated Financial Statements

NOTE 11 - CONTINGENCIES AND COMMITMENTS

There are no material legal proceedings to which the Company is party to except proceedings which arise in the normal course of business and, in the opinion of management, will not have any material effect on the consolidated financial position of the Company.

The Company leases certain office facilities over terms ranging from one year to three years with multiple renewal options. Annual rental amounts may be based on changes in the consumer price index. Minimum future lease payments, including renewal options, at December 31, 2014 are as follows:

2015	**$ 84,364**
2016	**22,637**
2017	**23,316**
2018	**24,016**
2019	**24,736**
Thereafter	**118,336**
Total	**$297,405**

In August 2013, the Company extended its Richland branch office lease by one year to December 31, 2015.

In April 2012, the Company entered into a lease agreement for its risk management department with an initial term of three years. The Company has three, three year renewal options related to this lease.

Total lease expense for building and equipment included in net occupancy expense was $84,146 in 2014 and $81,215 in 2013.

NOTE 12 - EMPLOYEE BENEFITS

Profit Sharing Plan
The Company has a non-contributory profit sharing and integrated contributory 401(k) plan in which eligible employees participate. The Company is required to make a "safe harbor" contribution to the plan of at least three percent of eligible employee compensation. This "safe harbor" contribution is fully vested and is referred to as a non-elective contribution. In addition, the Company makes discretionary contributions to the profit sharing plan as determined by the Board of Directors. The total plan contribution expense for the years ended 2014 and 2013 was $260,000. In addition, eligible employees' contribution to the 401(k) plan may be matched, subject to discretionary approval of the Board of Directors, up to a maximum of six percent of such employees' pre-tax compensation. The Company made no matching contributions in 2014 or 2013.

Post-Retirement Life Insurance Benefits
The Company provides term life insurance benefits for its retired employees. All employees may become eligible for these benefits, provided they do not retire prior to reaching age sixty-two.

The projected accumulated post-retirement benefit obligation, which is unfunded, totaled $141,759 and $161,693 as of December 31, 2014 and 2013, respectively. It is computed using various actuarially determined assumptions regarding participant mortality, withdrawal and retirement rates, salary scales, discount rates and disabled mortality rates. The Company has the right to amend or terminate these benefits.

The net periodic post-retirement benefit cost, which consists primarily of service costs and interest on the accumulated benefit obligation, totaled $17,271 and $20,927 in 2014 and 2013, respectively. For 2014 and 2013, interest cost was computed using a discount rate of 4.75% and 4.00%, respectively.

Supplemental Employee Retirement Plan
The Company also maintains a nonqualified Supplemental Employee Retirement Plan ("SERP"). The SERP was established to provide a full level of retirement benefit for certain executives who otherwise would have been bound by existing qualified plan limitations. As of December 31, 2014, the obligations of the SERP totaled $136,572. The obligations under the retirement benefit portion of the plan are unfunded; however, Company has purchased a life insurance policy on the covered executives which is actuarially designed to offset the annual expenses associated with the plan and will, given reasonable actuarial assumptions, offset all of the plan's costs during the life of the executives and provide a complete recovery of all plan costs at the executive's death. Company is the sole owner and beneficiary of all policies. Net periodic expense for the SERP for 2014 included in noninterest expense was $136,572.

NOTE 13 - OTHER EXPENSES

The following is an analysis of other expenses for the years ended December 31, 2014 and 2013:

	2014	2013
Computer services	**$ 427,251**	$ 439,886
ATM processing expense	**351,270**	344,412
Advertising	**339,781**	331,712
Director fees	**184,400**	184,650
Corporate insurance	**140,655**	122,009
OCC assessments	**106,726**	105,751
Student loan servicing fees	**37,720**	43,459
Office supplies	**51,210**	67,672
Telecommunications	**107,685**	95,418
Charitable contributions	**74,679**	83,943
Other	**490,336**	523,716
Total	**$2,311,713**	$2,342,628

NOTE 14 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company'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 Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial instruments subsequent to those 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 year-end.

FASB issued ASC No. 820, "Fair Value Measurements and Disclosures", 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 under FASB ASC 820 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's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

	2014	LEVEL 1	LEVEL 2	LEVEL 3
U.S. government agencies and corporations	**$ 63,139,180**	**$13,327,843**	**$ 49,811,337**	**$ -**
Obligations of states and political subdivisions	**24,336,219**	**-**	**24,336,219**	**-**
Mortgage-backed securities	**49,840,347**	**-**	**49,840,347**	**-**
Total	**$137,315,746**	**$13,327,843**	**$123,987,903**	**$ -**

	2013	LEVEL 1	LEVEL 2	LEVEL 3
U.S. government agencies and corporations	$ 68,812,302	$ 18,687,037	$ 50,125,265	$ -
Obligations of states and political subdivisions	30,716,593	-	30,716,593	-
Mortgage-backed securities	55,439,911	-	55,439,911	-
Total	$ 154,968,806	$ 18,687,037	$ 136,281,769	$ -

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

	2014	LEVEL 1	LEVEL 2	LEVEL 3
Impaired loans	**$278,276**	**$ -**	**$ -**	**$278,276**

	2013	LEVEL 1	LEVEL 2	LEVEL 3
Impaired loans	$ 412,562	$ -	$ -	$ 412,562

For Level 3 assets measured at fair value on a recurring and non-recurring basis as of December 31, 2014 and 2013, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at December 31, 2014	Valuation Techniques	Significant Unobservable Inputs	Significant Unobservable Input Value
Non-recurring:				
Impaired Loans	**$ 278,276**	**Market Comparable Properties & Business Assets**	**Marketability Discount**	**5%**

	Fair Value at December 31, 2013	Valuation Techniques	Significant Unobservable Inputs	Significant Unobservable Input Value
Non-recurring:				
Impaired Loans	$ 412,562	Market Comparable Properties & Business Assets	Marketability Discount	9% to 27%(1)

(1) Range would include discounts taken since appraisal and estimated values

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company'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 Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2014 and 2013:

Cash and Due from Banks and Interest-Bearing Deposits with Banks (Carried at Cost)
The carrying amount of cash and short-term instruments approximate their fair value.

Securities Available for Sale (Carried at Fair Value)
The fair value of securities available for sale is determined by obtaining quoted market prices in nationally recognized securities exchanges (Level 1), or 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. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. The entire Company's available for sale securities used valuation methodologies associated with Level 1 and Level 2 techniques at December 31, 2014 and 2013.

Loans (Carried at Cost)
The fair value of loans, excluding impaired loans subject to specific loss allowances, is 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 repayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, the fair value is based on carrying value.

Mortgages Held for Sale (Carried at Lower of Cost or Fair Value)
The carrying amount of mortgages held for sale approximate their fair value.

Impaired Loans With Specific Loss Allowances (Carried at Fair Value)
The fair value of impaired loans with specific loss allowances is measured using the estimated fair market value of the collateral less the estimated costs to sell. Fair value of the collateral is typically determined by appraisal. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Foreclosed Real Estate (Net Realizable Value)
The fair value of foreclosed real estate is measured using the estimated fair value of the collateral less the estimated costs to sell. Fair value is typically determined by an appraisal. As of December 31, 2014 and 2013, the Company had no foreclosed real estate.

Restricted Investments in Bank Stock (Carried at Cost)
The carrying amount of restricted investments 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 accrued interest payable approximates their fair value.

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

Borrowed Funds (Carried at Cost)
The fair value for borrowings are estimated using discounted cash flow analyses using interest rates for instruments for similar terms.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)
The fair value of the Company's off-balance sheet financial instruments (lending commitments and letters of credit) is based on fees currently charged in the market to enter similar agreements, taking into account the remaining term of the agreements and the counterparties' credit score standing.

Notes to Consolidated Financial Statements

The carrying amount and fair values of the Company's financial instruments were as follows at December 31, 2014 and 2013:

	2014				
			(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
	CARRYING AMOUNT	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKET FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBERSERVABLE INPUTS
FINANCIAL ASSETS					
Cash and due from banks	**$ 13,922,930**	**$ 13,922,930**	**$ 13,922,930**	**$ -**	**$ -**
Interest-bearing deposits with banks	**1,059,628**	**1,059,628**	**1,059,628**	**-**	**-**
Securities available for sale	**137,315,746**	**137,315,746**	**13,327,843**	**123,987,903**	**-**
Net loans	**193,652,885**	**195,493,165**	**-**	**-**	**195,493,165**
Restricted investments in bank stock	**2,805,700**	**2,805,700**	**-**	**2,805,700**	**-**
Accrued interest receivable	**1,037,706**	**1,037,706**	**-**	**1,037,706**	**-**
FINANCIAL LIABILITIES					
Deposits	**$300,414,276**	**$300,607,063**	**$ -**	**$ 300,607,063**	**$ -**
Borrowed Funds	**24,971,600**	**24,972,445**	**-**	**24,972,445**	**-**
Accrued interest payable	**13,972**	**13,972**	**-**	**13,972**	**-**
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS					
Commitments to extend credit	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Standby letters of credit	**-**	**-**	**-**	**-**	**-**

	2013				
			(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
	CARRYING AMOUNT	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKET FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBERSERVABLE INPUTS
FINANCIAL ASSETS					
Cash and due from banks	$ 9,947,247	$ 9,947,247	$ 9,947,247	$ -	$ -
Interest-bearing deposits with banks	1,028,201	1,028,201	1,028,201	-	-
Securities available for sale	154,968,806	154,968,806	18,687,037	136,281,769	-
Net loans	164,544,483	165,530,949	-	-	165,530,949
Restricted investments in bank stock	2,295,600	2,295,600	-	2,295,600	-
Accrued interest receivable	1,087,140	1,087,140	-	1,087,140	-
FINANCIAL LIABILITIES					
Deposits	$302,639,015	$300,607,063	$ -	$ 302,933,230	$ -
Borrowed Funds	9,687,500	9,687,539	-	9,687,539	-
Accrued interest payable	13,351	13,351	-	13,351	-
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS					
Commitments to extend credit	$ -	$ -	$ -	$ -	$ -
Standby letters of credit	-	-	-	-	-

Notes to Consolidated Financial Statements

NOTE 15 - REGULATORY MATTERS

Cash and Due from Banks
The Federal Reserve Board requires the Bank to maintain a reserve requirement against specified deposit liabilities. As of December 31, 2014 and 2013, the Bank's reserve requirement was $5,719,000 and $6,334,000, respectively. The Bank satisfied the reserve requirement with a combination of vault cash and a depository account held with the FRB of Cleveland.

Dividends
The Bank is subject to a dividend restriction, which generally limits the amount of dividends that can be paid by a national bank. Prior approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. Using this formula, the amount available for payment of dividends by the Bank as of December 31, 2014 without approval of the OCC totaled $408,228.

Capital Requirements
The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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 of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014 and 2013, the most recent notifications from the Federal Deposit Insurance Corporation ("FDIC") categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Notes to Consolidated Financial Statements

The Bank's actual capital amounts and ratios and the minimum amounts and ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are as follows:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
DECEMBER 31, 2014						
Total risk-based capital to risk-weighted assets	**$36,838,000**	**16.72%**	**≥$17,621,040**	**≥ 8.00%**	**≥$22,026,300**	**≥ 10.00%**
Tier 1 capital to risk-weighted assets	**34,754,000**	**15.78%**	**≥ 8,810,520**	**≥ 4.00%**	**≥ 13,215,780**	**≥ 6.00%**
Tier 1 capital to average assets	**34,754,000**	**9.69%**	**≥ 14,340,920**	**≥ 4.00%**	**≥ 17,926,150**	**≥ 5.00%**
DECEMBER 31, 2013						
Total risk-based capital to risk-weighted assets	$ 36,484,000	18.42%	≥ $15,846,880	≥ 8.00%	≥ $19,808,600	≥ 10.00%
Tier 1 capital to risk-weighted assets	34,561,000	17.45%	≥ 7,923,440	≥ 4.00%	≥ 11,885,160	≥ 6.00%
Tier 1 capital to average assets	34,561,000	9.90%	≥ 13,967,800	≥ 4.00%	≥ 17,459,750	≥ 5.00%

COMMUNITY REINVESTMENT ACT PROGRAM

Mars National Bank is committed to serving the credit needs of the communities in which we do business. It is our policy to respond to all creditworthy segments of our market. We believe that doing so is basic to good business practice, and to the Bank's own long-term vitality. This policy has been the basis of our success in the past and will remain a foundation on which we plan our future.

We recognize that this requires us to take a proactive, rather than a passive approach to determining and meeting community credit needs, including those of creditworthy low-income and moderate-income areas and individuals.

All Bank personnel are expected to support our CRA program through lending, investments and service to our local communities.

It is the policy of the Bank to make an active effort to determine the credit needs of our entire community, including those of low-income to moderate-income areas and individuals. The Bank will ensure that this is done by identifying people who can speak to these needs, such as community organizations, government officials, non-profit groups, businesses, trade associations and church and educational leaders.

The Bank will make an active effort to know the people in local organizations concerned with community development and the needs of low-income and moderate-income people. Our needs assessment contacts will be a regular vehicle for ensuring good communication with them.

The OCC performs a periodic evaluation of the performance of national banks under the CRA. Mars National Bank received a "Satisfactory" rating on our last CRA Performance Evaluation dated January 6, 2014. Copies of the Performance Evaluation are available from the Bank upon request or can be obtained through the OCC website at www.occ.treas.gov.

The Bank welcomes your CRA requests, comments or suggestions. Please send them in writing to:

Mars National Bank
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CRA Officer
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Mars National Bank - Retired

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President
Chief Executive Officer

Michael J. Kirk
Executive Vice President
Chief Financial Officer

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Commercial and Retail Banking

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