



Dear Shareholder:

On behalf of the Board of Directors and the management team of County First Bank, we are pleased to report on the Bank's performance for the year ending December 31, 2014.

2014 Comments

We entered the beginning of 2014 with cautious optimism that improvements within all areas of the Bank and the economy would occur at a rapid pace, but progress was slower than expected. Classified Asset balances persisted in 2014, requiring additional resources including increases in reporting, people, legal expense and administration. The Bank remains committed to resolving the credit issues and putting into place the necessary controls to better manage unexpected economic cycles. County First Bank was able to improve internally through the creation of an effective credit department lead by our new Chief Credit Officer Will Groves. Mr. Groves joined the Bank in 2014 to establish a consistent credit culture, work through asset quality issues, rebalance the portfolio, and oversee the expansion of our lending into Northern Virginia. In addition, the Bank shifted the mix of interest earning assets, which yielded immediate results by increasing investment portfolio interest income and realized operating efficiencies through a strategic branch closing and staffing decisions. Externally, the Bank looks vastly different as we continue to embrace the opportunities presented by upgrades to our website, expansion of mobile technology, and cash management services. The new trends are exciting and represent future opportunities to allow County First Bank to service the next generation of customers.

The low interest rate environment continued in 2014 as the Federal Reserve Bank took steps that effectively assured the markets that interest rates would remain low for the foreseeable future. The Bank was able to maintain a solid net interest margin at 3.59%, well above the industry average of 3.14%, despite the low rate environment by cautiously managing our deposit mix away from higher interest bearing products.

Financial Highlights

County First Bank's total assets increased just over \$1.6 million to \$210 million as of December 31, 2014. Net income before taxes was \$696 thousand for 2014, \$162 thousand lower than the \$858 thousand for the year ending December 31, 2013. The decrease in net income year-over-year was primarily the result of a decline in the loan portfolio and increases in non-interest expense items of \$355 thousand.

Net Interest Income

Net interest income was \$7 million for 2014, an increase of \$150 thousand from 2013. The increase resulted from adjusting the balance sheet and improving the performance of the investment portfolio. Net interest margin remained stable averaging 3.59 percent for the year ending December 31, 2014, compared with 3.63 percent for 2013. County First Bank's securities portfolio balance was \$51.4 million as of year-end 2014, compared with \$13 million as of year-end 2013. The result was an increase in revenue of \$613 thousand year over year. Loans decreased to \$131.2 million as of year-end 2014, while the provision for loan loss remained at \$2.1 million. Deposits ended the year at \$184.2 million, compared to \$182.9 million in 2013.

Non-interest Income

Non-interest income generated \$799 thousand in revenue, a decrease of 6.2 percent below the \$852 thousand the previous year. The majority of the decline is a result of lower than expected fees related to deposits accounts.

Non-interest Expense

Non-interest expense for the year ending December 31, 2014 was \$6.4 million, 5.8 percent higher than 2013. This year-over-year increase in non-interest expense was principally due to increases in salary and benefit expenses in addition to the expenses associated with the resolution of problem loan credits.

Credit Quality

County First Bank charged off \$428 thousand during 2014 and experienced \$56 thousand in recoveries. Non-accrual loans were \$3.5 million as of December 31, 2014 compared to \$5.5 million at year end 2013. Current loan balances (less than 30 days) remained stable at \$126 million year over year; however weakness in credits caused an increase in classified loans from \$21.3 million to \$26.3 million.

County First Bank's allowance for loan losses balance was \$2.1 million or 1.61 percent of the total loans outstanding as of December 31, 2014. Management believes the provision for loan losses is appropriate given current economic conditions and the Bank's asset quality.

Capital

County First Bank maintains a Tier I leverage capital ratio of 10.9 percent as of December 31, 2014, compared with 11.0 percent as of December 31, 2013. This represents \$23.3 million of capital to support the Bank and future growth. All Bank capital ratios continue to be in excess of "well-capitalized" regulatory requirements.

Summary Comments

As we conclude our 24th year, our expectations for the future are high. Our local and expanded markets offer abundant opportunities for a Bank such as ours that is sensitive and responsive to the need of its customers. Informed awareness of community needs is an essential ingredient to providing personal quality service to the communities we serve. Our employees donate their personal time and genuine community spirit to a multitude of charitable and nonprofit organizations throughout the market area. Our dedicated and skilled employees eagerly await the challenges to come as we increase our resources and offer an ever-growing variety of financial products with the personal touch of a community Bank.

Our many accomplishments during the past 24 years would not have been possible without the consistent collective efforts of many dedicated people. We would like to thank our past and present Board of Directors, Officers, and Staff of County First Bank. We also thank you, our Shareholders, and our many customers for your support. We will remain a dynamic Banking institution dedicated to professional and personal service to all customers.

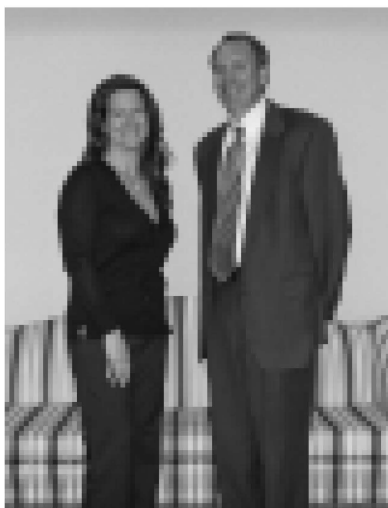
Kind Regards,



Douglas T. Mitchell
President and CEO



E. Larry Sanders III
Chairman of the Board



Karen Zamostny, Administrative Assistant and
Doug Mitchell, President & CEO



Risk Management Team

Standing, left-to-right: Charles Bryer, Patti Murphy, Will Groves, Karen Zamostny, and Doug Mitchell. Seated, left-to-right: Mary Baxter, Jessica Loving, Lisa Reid Ragen, Suzanne Barncord, and Patsy Finch.



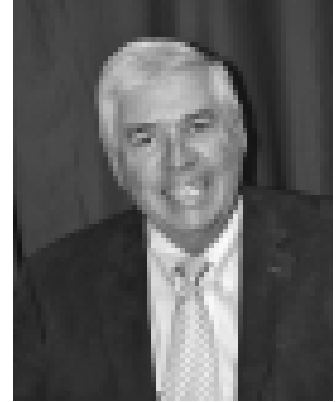
GROWING IN SOUTHERN MARYLAND
BOARD OF DIRECTORS



Stephen H. Brandt



Charles D. Carruth
CEO
Carruth & Son, Inc.



G. Wade Compton



Joseph R. Densford
Attorney



Earl R. Gieseman, III
Retired



Thomas C. Hayden, Jr.
Attorney



Helen E. Keller
Vice President
Keller Transportation Inc.



Douglas T. Mitchell
President and CEO
County First Bank



Van T. Mitchell
President
MSI, Incorporated



GROWING IN SOUTHERN MARYLAND

BOARD OF DIRECTORS



James A. (Skip) Mudd, Jr.
Licensed Mortgage Consultant
C & F Mortgage Corporation



Matthew M. Mudd, CPA
Burroughs, Moreland & Mudd, CPA, PA
Lakes & Company, LLC



Thomas F. Mudd
Attorney



William A. Roberts, III
Retired



E. Larry Sanders, III
President
Edward L. Sanders Insurance Agency



Robert Thompson
President
Southern Maryland Floor Company

County First Bank

Financial Highlights

	2014	2013	2012
At year end			
Assets	\$ 209,480,450	\$ 207,860,247	\$ 198,630,087
Deposits	184,208,867	182,913,990	174,053,899
Loans, net	129,100,202	132,229,505	141,378,329
Stockholders' equity	23,278,390	22,893,594	22,495,481
Average balances			
Assets	\$ 213,163,386	\$ 203,483,529	\$ 193,201,194
Deposits	187,945,718	178,533,639	168,526,671
Loans, net	130,024,976	138,376,171	137,765,742
Stockholders' equity	23,163,020	22,829,478	22,272,865
For the year			
Net interest income	\$ 7,022,890	\$ 6,872,335	\$ 6,980,943
Net income	695,795	857,989	965,234
Cash dividends declared	497,932	748,952	817,452
Per share data			
Net income-basic	\$ 0.81	\$ 1.02	\$ 1.17
Cash dividends declared	0.59	0.90	1.00
Book value	27.13	27.19	27.14
Ratios			
Return on average assets	0.33%	0.42%	0.50%
Return on average equity	3.00%	3.76%	4.33%
Average equity to average assets	10.87%	11.22%	11.53%

The Board of Directors and Stockholders
County First Bank
La Plata, Maryland

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying financial statements of County First Bank, which comprise the balance sheets as of December 31, 2014, 2013, and 2012, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of County First Bank as of December 31, 2014, 2013, and 2012, 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.

Rowles & Company, LLP

Baltimore, Maryland
March 23, 2015

County First Bank

Balance Sheets

December 31,	2014	2013	2012
Assets			
Cash and due from banks	\$ 831,907	\$ 1,103,157	\$ 1,086,881
Federal funds sold and interest-bearing deposits	<u>14,594,342</u>	<u>48,556,529</u>	<u>28,257,119</u>
Cash and cash equivalents	15,426,249	49,659,686	29,344,000
Certificates of deposit in other financial institutions	-	600,000	1,100,000
Investment securities held to maturity (fair value of \$51,535,969, \$12,946,580, and \$13,877,900)	51,358,083	12,987,604	13,845,096
Restricted equity securities at cost	373,500	363,800	401,500
Loans, less allowance for loan losses of \$2,118,859, \$2,080,891, and \$2,209,604	129,100,202	132,229,505	141,378,329
Premises and equipment	3,767,638	3,893,134	4,063,721
Foreclosed real estate	1,244,640	1,254,840	1,731,076
Cash surrender value of life insurance	6,117,328	4,839,288	4,710,904
Accrued interest receivable	442,275	331,014	422,896
Deferred income taxes	1,117,562	1,136,765	1,100,126
Prepaid income taxes	159,340	193,760	86,709
Other assets	<u>373,633</u>	<u>370,851</u>	<u>445,730</u>
	<u>\$ 209,480,450</u>	<u>\$ 207,860,247</u>	<u>\$ 198,630,087</u>
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	\$ 48,359,247	\$ 43,353,605	\$ 40,766,313
Interest-bearing	<u>135,849,620</u>	<u>139,560,385</u>	<u>133,287,586</u>
Total deposits	184,208,867	182,913,990	174,053,899
Securities sold under repurchase agreements	716,749	1,003,504	1,170,394
Accrued interest payable	52,420	60,344	98,921
Other liabilities	<u>1,224,024</u>	<u>988,815</u>	<u>811,392</u>
	<u>186,202,060</u>	<u>184,966,653</u>	<u>176,134,606</u>
Stockholders' equity			
Common stock, par value \$1 per share, authorized 5,000,000 shares; issued and outstanding 858,044 in 2014, 842,065 in 2013, and 828,920 in 2012	858,044	842,065	828,920
Surplus	14,511,937	14,205,203	13,929,272
Undivided profits	<u>7,908,409</u>	<u>7,846,326</u>	<u>7,737,289</u>
	<u>23,278,390</u>	<u>22,893,594</u>	<u>22,495,481</u>
	<u>\$ 209,480,450</u>	<u>\$ 207,860,247</u>	<u>\$ 198,630,087</u>
Book value per share	<u>\$ 27.13</u>	<u>\$ 27.19</u>	<u>\$ 27.14</u>

The accompanying notes are an integral part of these financial statements.

County First Bank

Statements of Income

Years Ended December 31,	2014	2013	2012
Interest revenue			
Loans, including fees	\$ 6,706,596	\$ 7,364,173	\$ 7,747,950
U.S. government agency securities	442,137	85,965	121,330
Mortgage-backed securities	265,751	-	-
Federal funds sold and interest-bearing deposits	82,022	94,369	48,459
Other	9,501	6,093	7,028
Total interest revenue	<u>7,506,007</u>	<u>7,550,600</u>	<u>7,924,767</u>
Interest expense			
Deposits	482,286	676,906	942,368
Borrowed funds	831	1,359	1,456
Total interest expense	<u>483,117</u>	<u>678,265</u>	<u>943,824</u>
Net interest income	7,022,890	6,872,335	6,980,943
Provision for loan losses	<u>410,000</u>	<u>350,000</u>	<u>390,000</u>
Net interest income after provision for loan losses	<u>6,612,890</u>	<u>6,522,335</u>	<u>6,590,943</u>
Noninterest revenue			
Service charges on deposit accounts	288,874	316,414	337,582
Bank-owned life insurance income	208,535	166,341	177,922
Loss on disposal of foreclosed real estate	-	(24,791)	-
Other fees and commissions	301,764	393,658	350,423
Total noninterest revenue	<u>799,173</u>	<u>851,622</u>	<u>865,927</u>
Noninterest expenses			
Salaries	2,605,393	2,517,488	2,488,332
Employee benefits	814,863	735,051	715,366
Occupancy	480,418	477,619	497,072
Furniture and equipment	228,659	245,856	247,561
Data processing	440,550	415,555	415,174
Other operating	1,850,460	1,673,971	1,604,281
Total noninterest expenses	<u>6,420,343</u>	<u>6,065,540</u>	<u>5,967,786</u>
Income before income taxes	991,720	1,308,417	1,489,084
Income taxes	<u>295,925</u>	<u>450,428</u>	<u>523,850</u>
Net income	<u>\$ 695,795</u>	<u>\$ 857,989</u>	<u>\$ 965,234</u>
Basic earnings per share	\$ 0.81	\$ 1.02	\$ 1.17
Diluted earnings per share	\$ 0.81	\$ 1.02	\$ 1.17

The accompanying notes are an integral part of these financial statements.

County First Bank

Statements of Changes in Stockholders' Equity

	Common stock			Undivided	Total
	Shares	Par value	Surplus	profits	stockholders' equity
Balance, December 31, 2011	813,693	\$ 813,693	\$ 13,629,756	\$ 7,589,507	\$ 22,032,956
Net income	-	-	-	965,234	965,234
Cash dividends, \$1.00 per share	-	-	-	(817,452)	(817,452)
Dividends reinvested	15,227	15,227	289,313	-	304,540
Stock-based compensation	-	-	10,203	-	10,203
Balance, December 31, 2012	828,920	828,920	13,929,272	7,737,289	22,495,481
Net income	-	-	-	857,989	857,989
Cash dividends, \$0.90 per share	-	-	-	(748,952)	(748,952)
Dividends reinvested	13,145	13,145	269,472	-	282,617
Stock-based compensation	-	-	6,459	-	6,459
Balance, December 31, 2013	842,065	842,065	14,205,203	7,846,326	22,893,594
Net income	-	-	-	695,795	695,795
Cash dividends, \$0.59 per share	-	-	-	(497,932)	(497,932)
Dividends reinvested	9,190	9,190	174,610	-	183,800
Stock dividend, 0.8%	6,789	6,789	128,991	(135,780)	-
Stock-based compensation	-	-	3,133	-	3,133
Balance, December 31, 2014	<u>858,044</u>	<u>\$ 858,044</u>	<u>\$ 14,511,937</u>	<u>\$ 7,908,409</u>	<u>\$ 23,278,390</u>

The accompanying notes are an integral part of these financial statements.

County First Bank

Statements of Cash Flows

Years Ended December 31,	2014	2013	2012
Cash flows from operating activities			
Interest received	\$ 7,349,610	\$ 7,639,662	\$ 7,996,061
Fees and commissions received	621,133	748,029	703,894
Interest paid	(491,041)	(716,842)	(989,186)
Cash paid to suppliers and employees	(5,932,211)	(5,519,748)	(5,460,099)
Income taxes paid	(242,302)	(594,118)	(973,962)
	<u>1,305,189</u>	<u>1,556,983</u>	<u>1,276,708</u>
Cash flows from investing activities			
Decrease (increase) in certificates of deposit in other financial institutions	600,000	500,000	(1,000,000)
Purchase of investment securities held to maturity	(51,379,674)	(15,978,600)	(15,850,000)
Proceeds from maturity and call of investment securities held to maturity	13,034,068	16,850,000	22,000,000
Redemption of restricted equity securities	(9,700)	37,700	120,600
Loans made, net of principal collected	2,739,566	8,787,736	(4,947,769)
Purchase of bank owned life insurance	(1,100,000)	-	-
Purchase of premises and equipment	(115,976)	(89,921)	(191,091)
Purchase of software	(900)	(26,523)	(15,270)
Proceeds from sale of foreclosed real estate	-	489,233	-
Improvements to foreclosed real estate	-	(37,788)	-
	<u>(36,232,616)</u>	<u>10,531,837</u>	<u>116,470</u>
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	(3,734,371)	(6,283,636)	(6,023,223)
Other deposits	5,029,248	15,143,727	20,353,281
Securities sold under repurchase agreements	(286,755)	(166,890)	(223,863)
Dividends reinvested	183,800	282,617	304,540
Dividends paid	(497,932)	(748,952)	(817,452)
	<u>693,990</u>	<u>8,226,866</u>	<u>13,593,283</u>
Net increase in cash and cash equivalents	(34,233,437)	20,315,686	14,986,461
Cash and cash equivalents at beginning of year	<u>49,659,686</u>	<u>29,344,000</u>	<u>14,357,539</u>
Cash and cash equivalents at end of year	<u>\$ 15,426,249</u>	<u>\$ 49,659,686</u>	<u>\$ 29,344,000</u>

The accompanying notes are an integral part of these financial statements.

County First Bank

Statements of Cash Flows (Continued)

Years Ended December 31,	2014	2013	2012
Reconciliation of net income to net cash provided by operating activities			
Net income	\$ 695,795	\$ 857,989	\$ 965,234
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of premises, equipment, and software	257,473	278,942	271,072
Provision for loan losses	410,000	350,000	390,000
Accretion of discounts, net of amortization	(24,873)	(13,908)	(9,207)
Stock-based compensation	3,133	6,459	10,203
Write-down of foreclosed real estate	10,200	-	100,000
Loss on disposal of foreclosed real estate	-	24,791	-
Deferred income taxes	19,203	(36,639)	(221,221)
Increase (decrease) in			
Deferred loan fees and costs, net	(20,263)	11,088	72,985
Accrued interest payable	(7,924)	(38,577)	(45,362)
Income taxes payable	-	-	(142,182)
Other liabilities	235,209	177,423	(2,056)
Decrease (increase) in			
Accrued interest receivable	(111,261)	91,882	7,516
Cash surrender value of life insurance	(178,040)	(128,384)	(162,033)
Prepaid income taxes	34,420	(107,051)	(86,709)
Other assets	(17,883)	82,968	128,468
	<u>\$ 1,305,189</u>	<u>\$ 1,556,983</u>	<u>\$ 1,276,708</u>
Noncash investing activity			
Real estate acquired through foreclosure	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,030,035</u>

The accompanying notes are an integral part of these financial statements.

County First Bank

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to generally accepted accounting principles and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of commitments and contingent liabilities at the date of the financial statements and revenue and expenses during the year. Actual results could differ from those estimates.

Business

The Bank provides credit and deposit services to individuals and businesses located primarily in Charles, St. Mary's, and Calvert Counties and surrounding areas of Southern Maryland.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Certificates of deposit in other financial institutions

The certificates of deposit in other financial institutions are carried at cost.

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized and discounts are accreted using the interest method.

Restricted equity securities

Restricted equity securities include the Bank's investment in Federal Home Loan Bank of Atlanta stock, in the amount of **\$187,500**, \$238,800, and \$276,500 as of December 31, 2014, 2013, and 2012, respectively. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on outstanding Federal Home Loan Bank advances. The stock is carried at cost. The remaining balance of restricted equity securities represents investments in the common stock of two bankers' banks.

Gains and losses on disposal are determined using the specific-identification method.

Loans and the allowance for loan losses

Loans are stated at face value, plus deferred origination costs, less deferred origination fees and the allowance for loan losses.

Interest on loans is accrued based on the principal amounts outstanding. Origination fees and costs are amortized to income over the terms of the loans using an approximate-interest method. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

County First Bank

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Loans and the allowance for loan losses (Continued)

The allowance for loan losses represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans and other extensions of credit that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers pools of nonclassified loans and is based on historical loss experience adjusted for qualitative factors. There may be an unallocated component of the allowance, which reflects the margin of imprecision inherent in the underlying assumptions used for estimating specific and general losses in the portfolio. Actual loan performance may differ from management's estimates. Loan losses are charged to the allowance when management believes that collectability is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related property. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is less. Expenditures for maintenance, repairs, and minor replacements are charged to operating expenses as incurred.

Foreclosed real estate

Real estate acquired through foreclosure is recorded at the lower of cost or fair value on the date acquired, less estimated cost to sell. In general, cost equals the Bank's investment in the property at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated value of the property are included in other operating expense.

Computer software

Computer software is recorded at cost and amortized over three to five years using the straight-line method. Computer software is recorded in other assets on the balance sheets.

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Comprehensive income

Comprehensive income includes net income and the unrealized gain or loss net of related income taxes on investment securities available for sale. For the years ended December 31, 2014, 2013, and 2012, comprehensive income equals net income.

County First Bank

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Earnings per share

Earnings per share are computed by dividing net income by the weighted average number of shares outstanding, after giving retroactive effect to stock dividends. The number of shares used to compute basic and diluted earnings per share is reconciled as follows:

	2014	2013	2012
Average shares outstanding	855,224	841,395	827,497
Dilutive common stock equivalents	-	-	-
Diluted shares	855,224	841,395	827,497
Average anti-dilutive shares	101,808	102,625	111,888

The weighted average number of shares outstanding for the years ended December 31, 2013 and 2012, have been adjusted to reflect the 0.8% stock dividend declared during the year ended December 31, 2014.

Reclassifications

Certain reclassifications have been made to the amounts reported for 2013 and 2012 to conform to the current year presentation. These reclassifications had no effect on net income.

Stock options

The Bank accounts for employee and director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. The Bank is required to recognize compensation expense related to stock-based compensation awards in its income statements over the period during which an individual is required to provide service in exchange for such award. For the years ended December 31, 2014, 2013, and 2012, the Bank recorded stock-based compensation expense of \$3,133, \$6,459, and \$10,203, respectively.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2014 through March 23, 2015, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. Cash and Cash Equivalents

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

At times, the Bank carries balances with other banks that exceed the federally insured limit. The average balances did not exceed the federally insured limit in 2014, 2013, or 2012. The Bank also sells federal funds on an unsecured basis to the same banks. Average balances sold were \$2,099,910 in 2014, \$4,527,709 in 2013, and \$3,770,016 in 2012.

Deposits held in noninterest-bearing accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category for the purposes of determining balances subject to the federally insured limit. The combined total is insured up to at least \$250,000.

County First Bank

Notes to Financial Statements (Continued)

3. Investment Securities

Investment securities are summarized as follows:

December 31, 2014	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Held to maturity</i>				
U.S. government agency	\$31,760,179	\$ 39,017	\$ 40,994	\$31,758,202
Certificates of deposit	5,850,000	1,268	2,597	5,848,671
Mortgage-backed securities	13,747,904	184,122	2,930	13,929,096
	<u>\$51,358,083</u>	<u>\$224,407</u>	<u>\$ 46,521</u>	<u>\$51,535,969</u>

December 31, 2013

<i>Held to maturity</i>				
U.S. government agency	\$12,987,604	\$ 8,617	\$ 49,641	\$12,946,580

December 31, 2012

<i>Held to maturity</i>				
U.S. government agency	\$13,845,096	\$ 32,804	\$ -	\$13,877,900

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer are as follows:

	Less than 12 months		12 months or longer		Total	
December 31, 2014	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. government agency	\$ 21,871	\$ 9,772,722	\$ 19,123	\$7,954,967	\$40,994	\$17,727,689
Mortgage-backed securities	2,930	510,700	-	-	2,930	510,700
Certificates of deposit	2,597	1,247,404	-	-	2,597	1,247,404
	<u>\$ 27,398</u>	<u>\$11,530,826</u>	<u>\$ 19,123</u>	<u>\$7,954,967</u>	<u>\$46,521</u>	<u>\$19,485,793</u>

December 31, 2013

U.S. government agency	\$ 49,641	\$ 7,941,880	\$ -	\$ -	\$49,641	\$ 7,941,880
------------------------	-----------	--------------	------	------	----------	--------------

Management has the ability and intends to hold these investment securities until maturity. The decline in fair value is the result of changing interest rates, not a deterioration of the credit standing of the issuers. Since no loss is expected in these securities, no impairment has been recorded.

County First Bank

Notes to Financial Statements (Continued)

3. Investment Securities (Continued)

Contractual maturities at December 31, 2014, 2013, and 2012, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are due in monthly installments.

	Held to maturity	
	Amortized cost	Fair value
December 31, 2014		
<i>Maturing</i>		
Within one year	\$ 11,227,000	\$ 11,236,155
Over one to five years	23,526,524	23,495,078
Over five to ten years	2,856,655	2,875,640
Mortgage-backed securities	13,747,904	13,929,096
	<u>\$ 51,358,083</u>	<u>\$ 51,535,969</u>
December 31, 2013		
<i>Maturing</i>		
Within one year	\$ -	\$ -
Over one to five years	<u>12,987,604</u>	<u>12,946,580</u>
	<u>\$ 12,987,604</u>	<u>\$ 12,946,580</u>
December 31, 2012		
<i>Maturing</i>		
Within one year	\$ 1,995,096	\$ 2,013,800
Over one to five years	<u>11,850,000</u>	<u>11,864,100</u>
	<u>\$ 13,845,096</u>	<u>\$ 13,877,900</u>

No investment securities were sold prior to maturity in 2014, 2013, and 2012.

At December 31, 2014, 2013, and 2012, securities with an amortized cost of **\$1,999,251**, \$2,000,000, and \$1,995,096, and fair value of **\$1,989,480**, \$2,003,200, and \$2,013,800, respectively, are pledged as collateral for securities sold under repurchase agreements.

At December 31, 2014, the Bank purchased a \$500,000 U.S. government agency security that will not settle until January 2015.

County First Bank

Notes to Financial Statements (Continued)

4. Loans

Major classifications of loans are as follows:

	2014	2013	2012
Real estate			
Commercial	\$ 53,051,841	\$ 54,476,905	\$ 58,685,821
Residential	18,763,060	19,215,133	20,161,173
Construction, land development, and land	23,482,181	24,914,548	25,414,334
Commercial	15,732,364	16,432,013	18,783,283
Home equity	19,804,165	18,898,153	20,113,563
Consumer	385,450	373,644	429,759
	<u>131,219,061</u>	<u>134,310,396</u>	<u>143,587,933</u>
Allowance for loan losses	2,118,859	2,080,891	2,209,604
	<u>\$ 129,100,202</u>	<u>\$ 132,229,505</u>	<u>\$ 141,378,329</u>

The Bank makes loans to customers located primarily in the Southern Maryland counties of Charles, St. Mary's, and Calvert. Although the loan portfolio is diversified, its performance will be influenced by the regional economy.

The maturity and rate repricing distribution of the loan portfolio follows:

	2014	2013	2012
Variable rate	\$ 33,643,525	\$ 30,195,645	\$ 29,626,243
Within one year	12,856,775	30,113,005	30,265,654
Over one to five years	40,375,134	34,325,055	46,637,017
Over five years	44,479,271	39,832,598	37,203,838
	<u>131,354,705</u>	<u>134,466,303</u>	<u>143,732,752</u>
Deferred loan origination fees, net of costs	(135,644)	(155,907)	(144,819)
	<u>\$ 131,219,061</u>	<u>\$ 134,310,396</u>	<u>\$ 143,587,933</u>

The loan agreements for most loans in the Bank's portfolio with maturities in excess of five years include a provision that adjusts the interest rate at various intervals during the terms of the loans based on a stated index.

County First Bank

Notes to Financial Statements (Continued)

4. Loans (Continued)

A summary of transactions in the allowance for loan losses, by loan classification, during the year ended December 31, 2014, 2013, and 2012, follows:

December 31, 2014	Beginning balance	Provision for loan losses	Charge offs	Recoveries	Ending balance	Allowance for loan losses ending balance evaluated for impairment:		Outstanding loan balances evaluated for impairment:	
						Individually	Collectively	Individually	Collectively
Real estate									
Commercial	\$ 819,426	\$ 769,145	\$ (149,837)	\$ 435	\$ 1,439,169	\$ 859,830	\$ 579,339	\$ 8,452,952	\$ 44,598,889
Residential	24,601	(13,497)	-	-	11,104	-	11,104	-	18,763,060
Construction, land development, and land	202,379	326,841	(264,125)	6,581	271,676	40,681	230,995	133,891	23,348,290
Commercial	549,834	(340,762)	-	46,211	255,283	99,987	155,296	1,294,392	14,437,972
Home equity	481,589	(331,654)	(13,840)	2,543	138,638	-	138,638	-	19,804,165
Consumer	3,062	(73)	-	-	2,989	-	2,989	-	385,450
	<u>\$ 2,080,891</u>	<u>\$ 410,000</u>	<u>\$ (427,802)</u>	<u>\$ 55,770</u>	<u>\$ 2,118,859</u>	<u>\$ 1,000,498</u>	<u>\$ 1,118,361</u>	<u>\$ 9,881,235</u>	<u>\$ 121,337,826</u>

December 31, 2013

Real estate									
Commercial	\$ 909,411	\$ 155,776	\$ (257,932)	\$ 12,171	\$ 819,426	\$ 325,110	\$ 494,316	\$ 7,428,816	\$ 47,048,089
Residential	31,303	(6,702)	-	-	24,601	-	24,601	186,970	19,028,163
Construction, land development, and land	338,669	(143,290)	-	7,000	202,379	40,681	161,698	1,103,641	23,810,907
Commercial	281,906	369,325	(102,608)	1,211	549,834	406,786	143,048	1,742,213	14,689,800
Home equity	644,742	(26,941)	(140,036)	3,824	481,589	-	481,589	-	18,898,153
Consumer	3,573	1,832	(2,343)	-	3,062	-	3,062	-	373,644
	<u>\$ 2,209,604</u>	<u>\$ 350,000</u>	<u>\$ (502,919)</u>	<u>\$ 24,206</u>	<u>\$ 2,080,891</u>	<u>\$ 772,577</u>	<u>\$ 1,308,314</u>	<u>\$ 10,461,640</u>	<u>\$ 123,848,756</u>

December 31, 2012

Real estate									
Commercial	\$ 547,919	\$ 389,777	\$ (41,791)	\$ 13,506	\$ 909,411	\$ 148,468	\$ 760,943	\$ 5,714,960	\$ 52,970,861
Residential	14,184	17,119	-	-	31,303	-	31,303	-	20,161,173
Construction, land development, and land	639,377	(315,110)	(50,643)	65,045	338,669	-	338,669	1,144,644	24,269,690
Commercial	356,012	(65,016)	(9,796)	706	281,906	107,491	174,415	2,180,647	16,602,636
Home equity	322,269	367,374	(45,249)	348	644,742	83,511	561,231	140,036	19,973,527
Consumer	7,696	(4,144)	(129)	150	3,573	-	3,573	-	429,759
	<u>\$ 1,887,457</u>	<u>\$ 390,000</u>	<u>\$ (147,608)</u>	<u>\$ 79,755</u>	<u>\$ 2,209,604</u>	<u>\$ 339,470</u>	<u>\$ 1,870,134</u>	<u>\$ 9,180,287</u>	<u>\$ 134,407,646</u>

County First Bank

Notes to Financial Statements (Continued)

4. Loans (Continued)

Past due loans, segregated by age and class of loans, as of December 31, 2014, 2013, and 2012, were as follows:

	Loans 30-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
December 31, 2014								
Real estate								
Commercial	\$1,606,553	\$2,372,003	\$3,978,556	\$ 49,073,285	\$ 53,051,841	\$ -	\$ 2,372,003	\$ 258,174
Residential	-	-	-	18,763,060	18,763,060	-	-	-
Construction, land development, and land	-	133,891	133,891	23,348,290	23,482,181	-	133,891	29,333
Commercial	17,981	1,006,366	1,024,347	14,708,017	15,732,364	-	1,006,366	131,007
Home equity	167,984	-	167,984	19,636,181	19,804,165	-	-	-
Consumer	26,415	-	26,415	359,035	385,450	-	-	-
	<u>\$1,818,933</u>	<u>\$3,512,260</u>	<u>\$5,331,193</u>	<u>\$125,887,868</u>	<u>\$131,219,061</u>	<u>\$ -</u>	<u>\$ 3,512,260</u>	<u>\$ 418,514</u>

December 31, 2013

Real estate								
Commercial	\$3,332,897	\$2,746,871	\$6,079,768	\$ 48,397,137	\$ 54,476,905	\$ 431,839	\$ 3,503,050	\$ 320,816
Residential	-	186,970	186,970	19,028,163	19,215,133	-	186,970	6,398
Construction, land development, and land	99,884	1,103,640	1,203,524	23,711,024	24,914,548	-	1,103,640	74,377
Commercial	719,824	295,084	1,014,908	15,417,105	16,432,013	-	734,266	101,582
Home equity	-	-	-	18,898,153	18,898,153	-	-	-
Consumer	3,587	-	3,587	370,057	373,644	-	-	-
	<u>\$4,156,192</u>	<u>\$4,332,565</u>	<u>\$8,488,757</u>	<u>\$125,821,639</u>	<u>\$134,310,396</u>	<u>\$ 431,839</u>	<u>\$ 5,527,926</u>	<u>\$ 503,173</u>

December 31, 2012

Real estate								
Commercial	\$ 629,477	\$2,373,642	\$3,003,119	\$ 55,682,702	\$ 58,685,821	\$ 646,669	\$ 1,726,973	\$ 220,946
Residential	-	-	-	20,161,173	20,161,173	-	-	-
Construction, land development, and land	-	81,684	81,684	25,332,650	25,414,334	-	81,684	23,462
Commercial	225,363	1,655,590	1,880,953	16,902,330	18,783,283	-	1,655,590	167,640
Home equity	268,113	140,036	408,149	19,705,414	20,113,563	-	140,036	11,984
Consumer	-	-	-	429,759	429,759	-	-	-
	<u>\$1,122,953</u>	<u>\$4,250,952</u>	<u>\$5,373,905</u>	<u>\$138,214,028</u>	<u>\$143,587,933</u>	<u>\$ 646,669</u>	<u>\$ 3,604,283</u>	<u>\$ 424,032</u>

County First Bank

Notes to Financial Statements (Continued)

4. Loans (Continued)

Impaired loans are loans that have been assessed for impairment, although management may determine that the loan does not require a specific reserve. Impaired loans as of December 31, 2014, 2013, and 2012, were as follows:

December 31, 2014	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment balance	Related allowance	Average recorded investment	Interest recognized
Real estate							
Commercial	\$ 8,452,952	\$3,970,097	\$4,482,855	\$ 8,452,952	\$ 859,830	\$ 8,435,518	\$278,863
Residential	-	-	-	-	-	-	-
Construction, land development, and land	133,891	93,210	40,681	133,891	40,681	137,909	514
Commercial	1,294,392	1,194,405	99,987	1,294,392	99,987	1,313,418	19,367
Home equity	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
	<u>\$ 9,881,235</u>	<u>\$5,257,712</u>	<u>\$4,623,523</u>	<u>\$ 9,881,235</u>	<u>\$1,000,498</u>	<u>\$ 9,886,845</u>	<u>\$298,744</u>

December 31, 2013

Real estate							
Commercial	\$ 7,428,816	\$6,185,442	\$1,243,374	\$ 7,428,816	\$ 325,110	\$ 7,291,724	\$238,067
Residential	186,970	186,970	-	186,970	-	188,591	7,437
Construction, land development, and land	1,103,641	1,062,960	40,681	1,103,641	40,681	1,117,308	-
Commercial	1,772,823	428,440	1,313,773	1,742,213	406,786	1,811,605	82,069
Home equity	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
	<u>\$10,492,250</u>	<u>\$7,863,812</u>	<u>\$2,597,828</u>	<u>\$10,461,640</u>	<u>\$ 772,577</u>	<u>\$10,409,228</u>	<u>\$327,573</u>

December 31, 2012

Real estate							
Commercial	\$ 5,714,960	\$4,729,855	\$ 985,105	\$ 5,714,960	\$ 148,468	\$ 5,743,141	\$175,701
Residential	-	-	-	-	-	-	-
Construction, land development, and land	1,144,644	1,144,644	-	1,144,644	-	1,226,272	39,571
Commercial	2,180,647	883,386	1,297,261	2,180,647	107,491	2,186,348	74,219
Home equity	140,036	-	140,036	140,036	83,511	140,036	-
Consumer	-	-	-	-	-	-	-
	<u>\$ 9,180,287</u>	<u>\$6,757,885</u>	<u>\$2,422,402</u>	<u>\$ 9,180,287</u>	<u>\$ 339,470</u>	<u>\$ 9,295,797</u>	<u>\$289,491</u>

County First Bank

Notes to Financial Statements (Continued)

4. **Loans** (Continued)

Credit quality indicators

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Special mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is inadequately protected by the current financial condition and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

Doubtful

A doubtful loan has all the weaknesses inherent in a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

County First Bank

Notes to Financial Statements (Continued)

4. Loans (Continued)

Doubtful (Continued)

The following table presents the December 31, 2014, 2013, and 2012, balances of classified loans based on the risk grade. Classified loans include Special mention, Substandard, and Doubtful loans.

December 31, 2014	Special mention	Substandard	Doubtful	Total
Real estate				
Commercial	\$ 4,288,926	\$11,529,970	\$ -	\$ 15,818,896
Residential	757,300	-	-	757,300
Construction, land development, and land	3,617,418	2,694,021	40,681	6,352,120
Commercial	94,219	2,683,641	-	2,777,860
Home equity	-	584,693	-	584,693
Consumer	-	-	-	-
	<u>\$ 8,757,863</u>	<u>\$17,492,325</u>	<u>\$ 40,681</u>	<u>\$ 26,290,869</u>

December 31, 2013

Real estate				
Commercial	\$ 6,389,768	\$ 3,883,899	\$1,127,147	\$ 11,400,814
Residential	186,970	-	-	186,970
Construction, land development, and land	5,373,041	1,062,960	40,681	6,476,682
Commercial	1,887,348	920,438	90,749	2,898,535
Home equity	-	346,086	-	346,086
Consumer	-	-	-	-
	<u>\$13,837,127</u>	<u>\$ 6,213,383</u>	<u>\$1,258,577</u>	<u>\$ 21,309,087</u>

December 31, 2012

Real estate				
Commercial	\$ 1,763,751	\$ 4,895,563	\$ 819,397	\$ 7,478,711
Residential	-	-	-	-
Construction, land development, and land	2,999,609	1,062,960	81,684	4,144,253
Commercial	-	1,986,179	194,468	2,180,647
Home equity	-	-	140,036	140,036
Consumer	-	-	-	-
	<u>\$ 4,763,360</u>	<u>\$ 7,944,702</u>	<u>\$1,235,585</u>	<u>\$ 13,943,647</u>

Classified loans also include certain loans that have been modified in trouble debt restructurings (TDR) where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

County First Bank

Notes to Financial Statements (Continued)

4. Loans (Continued)

A summary of TDR loans as of December 31, 2014, 2013, and 2012, follows:

December 31, 2014	Number of contracts	Recorded investment		
		Performing	Nonperforming	Total
Real estate				
Commercial	9	\$ 5,116,152	\$ 638,928	\$ 5,755,080
Residential	-	-	-	-
Construction, land development, and land	-	-	-	-
Commercial	3	288,026	-	288,026
Home equity	-	-	-	-
Consumer	-	-	-	-
	<u>12</u>	<u>\$ 5,404,178</u>	<u>\$ 638,928</u>	<u>\$ 6,043,106</u>
December 31, 2013				
Real estate				
Commercial	8	\$ 3,912,389	\$ 1,916,716	\$ 5,829,105
Residential	1	-	186,970	186,970
Construction, land development, and land	1	-	1,062,960	1,062,960
Commercial	4	301,186	85,569	386,755
Home equity	-	-	-	-
Consumer	-	-	-	-
	<u>14</u>	<u>\$ 4,213,575</u>	<u>\$3,252,215</u>	<u>\$ 7,465,790</u>
December 31, 2012				
Real estate				
Commercial	4	\$ 1,384,135	\$ 252,319	\$ 1,636,454
Residential	-	-	-	-
Construction, land development, and land	1	1,062,960	-	1,062,960
Commercial	1	47,192	-	47,192
Home equity	-	-	-	-
Consumer	-	-	-	-
	<u>6</u>	<u>\$ 2,494,287</u>	<u>\$ 252,319</u>	<u>\$ 2,746,606</u>

The Bank classified one commercial real estate loan for \$13,588 as a TDR during 2014. It was nonperforming at December 31, 2014.

County First Bank

Notes to Financial Statements (Continued)

5. Credit Commitments

Outstanding loan commitments, unused lines of credit, and letters of credit were as follows:

	2014	2013	2012
Unused lines of credit			
Commercial lines	\$ 9,939,167	\$ 9,835,338	\$ 8,614,642
Home equity lines	13,486,181	13,685,367	13,625,686
Unsecured consumer credit	<u>218,384</u>	<u>219,807</u>	<u>215,377</u>
	<u>\$23,643,732</u>	<u>\$23,740,512</u>	<u>\$22,455,705</u>
Loan commitments			
Construction and land development	<u>\$ 4,790,458</u>	<u>\$ 5,893,733</u>	<u>\$ 5,835,834</u>
Letters of credit	<u>\$ 6,164,492</u>	<u>\$ 7,988,847</u>	<u>\$ 8,760,859</u>

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

6. Related-Party Transactions

The officers and directors of the Bank enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers.

Activity in these loans during the years ended December 31, 2014, 2013, and 2012, was as follows:

	2014	2013	2012
Beginning balance	\$ 2,389,521	\$ 2,226,946	\$ 2,971,663
Advances	2,448,633	710,293	537,844
Payments	(773,102)	(547,718)	(1,282,561)
Change in related parties	<u>(783,392)</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 3,281,660</u>	<u>\$ 2,389,521</u>	<u>\$ 2,226,946</u>

Deposits from executive officers and directors, including their related interests, were \$11,415,370, \$15,007,347, and \$12,187,310 as of December 31, 2014, 2013, and 2012, respectively.

County First Bank

Notes to Financial Statements (Continued)

6. Related-Party Transactions (Continued)

Three directors of the Bank are partners in law firms that provide legal services to the Bank. During the years ended December 31, 2014, 2013, and 2012, amounts paid to the law firms in connection with those services were **\$67,291**, \$29,586, and \$10,402, respectively.

A director of the Bank is president of an insurance brokerage through which the Bank places various insurance policies. During the years ended December 31, 2014, 2013, and 2012, amounts paid to the insurance brokerage for insurance premiums were approximately **\$118,466**, \$87,098, and \$83,734, respectively.

A director of the Bank is president of a flooring company from which the Bank purchases flooring products. During the years ended December 31, 2013 and 2012, the Bank paid \$918 and \$9,432 for these services.

7. Premises and Equipment

A summary of premises and equipment and the related depreciation and amortization follows:

	Useful lives	2014	2013	2012
Land and improvements	15 - 40 years	\$1,873,017	\$1,873,017	\$1,873,017
Building and improvements	5 - 40 years	2,572,646	2,558,339	2,558,339
Furniture and equipment	3 - 25 years	1,937,000	2,036,748	2,040,060
Leasehold improvements	5 - 20 years	100,285	214,032	203,896
		6,482,948	6,682,136	6,675,312
Accumulated depreciation and amortization		2,715,310	2,789,002	2,611,591
Net premises and equipment		\$3,767,638	\$3,893,134	\$4,063,721
Depreciation and amortization expense		\$ 241,472	\$ 260,508	\$ 246,891

Included in other assets at December 31, 2014, 2013, and 2012, is computer software carried at an amortized cost of **\$36,565**, \$51,666, and \$43,577, respectively. Software amortization expense was **\$16,001**, \$18,434, and \$24,181 in 2014, 2013, and 2012, respectively.

County First Bank

Notes to Financial Statements (Continued)

8. Borrowings

The Bank sells securities under repurchase agreements to provide cash management services to commercial account customers. These overnight borrowings are summarized as follows:

	2014	2013	2012
Average amount outstanding	\$ 803,322	\$1,036,651	\$1,324,091
Maximum month-end amount outstanding	976,957	1,201,054	1,828,061
Average rate paid during the year	0.10%	0.13%	0.11%
Investment securities underlying the agreements at year-end			
Amortized cost	\$1,999,251	\$2,000,000	\$1,995,096
Estimated fair value	1,989,480	2,003,200	2,013,800

The Bank has available lines of credit of \$1,500,000 in overnight federal funds and \$5,000,000 in a secured federal funds facility from a correspondent bank. The Bank may also borrow up to 20% of its assets from the Federal Home Loan Bank; however, the amount the Bank could borrow would be limited by the balance of qualified loans it could pledge to the FHLB. As of December 31, 2014, the Bank could borrow up to \$42,790,000 from the Federal Home Loan Bank subject to qualifying available collateral. The Bank had pledged loans that provided a borrowing capacity of \$14,736,962 as of December 31, 2014.

The Bank had no advances during 2014, 2013, or 2012.

9. Deposits

Major classifications of interest-bearing deposits are as follows:

	2014	2013	2012
Checking	\$ 15,130,184	\$ 16,697,783	\$ 17,273,389
Savings	15,414,505	14,749,113	13,109,597
Money market	62,684,961	61,859,148	50,266,623
Certificates of deposit, \$100,000 or more	20,166,692	21,200,189	23,982,153
Other certificates of deposit	22,453,278	25,054,152	28,655,824
	<u>\$135,849,620</u>	<u>\$139,560,385</u>	<u>\$133,287,586</u>

Interest on deposits for the years ended December 31, 2014, 2013, and 2012, consisted of the following:

	2014	2013	2012
Checking	\$ 14,394	\$ 25,665	\$ 24,998
Savings	17,637	31,418	41,590
Money market	158,699	245,071	289,434
Other time deposits	291,556	374,752	586,346
	<u>\$ 482,286</u>	<u>\$ 676,906</u>	<u>\$ 942,368</u>

County First Bank

Notes to Financial Statements (Continued)

9. Deposits (Continued)

Certificates of deposit mature as follows:

	2014	2013	2012
Three months or less	\$ 10,574,680	\$10,406,885	\$12,760,628
Over three through twelve months	23,405,592	21,027,325	24,541,226
Over one year to three years	5,632,408	11,172,685	10,555,403
Over three years to five years	<u>3,007,290</u>	<u>3,647,446</u>	<u>4,780,720</u>
	<u>\$ 42,619,970</u>	<u>\$46,254,341</u>	<u>\$52,637,977</u>

10. Lease Commitments

The Bank entered into a lease dated August 24, 1998, for its operations center. The lease has been extended through August 31, 2018.

The Bank entered into a lease dated September 29, 2011, for a branch location in Prince Frederick. The lease, which has an initial term of five years, includes two five-year renewal options.

The leases require the following minimum payments:

<u>Year</u>	<u>Payments</u>
2015	\$ 113,925
2016	113,925
2017	64,737
2018	<u>43,158</u>
	<u>\$ 335,745</u>

Rent expense was **\$156,248**, \$155,557, and \$175,932 for 2014, 2013, and 2012, respectively. The Bank closed the Lusby branch in 2014. Future payments due under the Lusby lease were recorded as expense during the year ended December 31, 2014.

A director of the Bank owns an interest in the entity from which the Bank leases its operations center.

County First Bank

Notes to Financial Statements (Continued)

11. Other Noninterest Expenses

A summary of other noninterest expenses follows:

	2014	2013	2012
Professional services	\$ 421,567	\$ 308,496	\$ 213,029
Telephone, postage, and freight	239,043	239,921	232,990
FDIC assessment	225,824	174,762	166,672
Directors fees	146,659	178,710	145,910
ATM and credit card processing	103,171	98,960	97,957
Stationery, printing, and supplies	90,733	91,978	104,915
Meals and entertainment	89,133	110,278	82,757
Liability insurance	46,640	40,748	47,480
Security	40,016	43,988	46,172
Armored carrier and courier	34,892	35,122	34,932
Foreclosed real estate expense	30,205	65,759	138,577
Correspondent bank charges	30,084	34,227	33,848
Advertising and promotion	27,781	41,685	51,828
Dues and meetings	22,715	23,325	17,838
Education and training	20,134	20,563	29,647
Amortization of software	16,001	18,434	24,181
Publications and subscriptions	4,878	11,412	12,336
Other	260,984	135,603	123,212
	<u>\$1,850,460</u>	<u>\$1,673,971</u>	<u>\$1,604,281</u>

12. Income Taxes

The components of income tax expense are as follows:

	2014	2013	2012
Current			
Federal	\$ 251,497	\$ 400,273	\$ 593,626
State	25,225	86,794	151,445
	276,722	487,067	745,071
Deferred	19,203	(36,639)	(221,221)
	<u>\$ 295,925</u>	<u>\$ 450,428</u>	<u>\$ 523,850</u>

County First Bank

Notes to Financial Statements (Continued)

12. Income Taxes (Continued)

The components of the deferred tax (benefits) are as follows:

	2014	2013	2012
Allowance for loan losses	\$ 10,156	\$ 74,969	\$ (126,110)
Reserve for unfunded commitments	(8,284)	-	-
Nonaccrual interest	33,394	(31,217)	(52,678)
Deferred compensation plan	(40,325)	(37,394)	(33,767)
Post-retirement death benefit	(3,597)	-	-
Foreclosed real estate write-downs and expense	21,324	(11,798)	(51,091)
Accumulated depreciation and amortization	6,535	(31,199)	42,425
	<u>\$ 19,203</u>	<u>\$ (36,639)</u>	<u>\$ (221,221)</u>

The components of the net deferred tax assets are as follows:

Deferred tax assets			
Allowance for loan losses	\$ 714,446	\$ 724,602	\$ 799,571
Reserve for unfunded commitments	8,284	-	-
Nonaccrual interest	165,083	198,477	167,260
Deferred compensation plan	355,497	315,172	277,778
Post-retirement death benefit	3,597	-	-
Other-than-temporary impairment of equity security	39,445	39,445	39,445
Foreclosed real estate write-downs and expense	61,021	82,345	70,547
	<u>1,347,373</u>	<u>1,360,041</u>	<u>1,354,601</u>
Deferred tax liabilities			
Accumulated depreciation and amortization	114,706	108,171	139,370
Deferred casualty gain	115,105	115,105	115,105
	<u>229,811</u>	<u>223,276</u>	<u>254,475</u>
Net deferred tax asset	<u>\$ 1,117,562</u>	<u>\$ 1,136,765</u>	<u>\$ 1,100,126</u>

The reconciliation of the federal income tax rate of 34% to the effective tax rate for the Bank is as follows:

	2014	2013	2012
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
Increase (decrease) resulting from			
State income taxes, net of federal income tax benefit	2.1	4.2	4.3
Nondeductible expenses	1.1	0.9	0.9
Tax-exempt income	(7.4)	(4.4)	(4.0)
Other	-	(0.3)	-
	<u>29.8 %</u>	<u>34.4 %</u>	<u>35.2 %</u>

County First Bank

Notes to Financial Statements (Continued)

12. Income Taxes (Continued)

The Bank's tax returns are subject to review and examination by federal and state taxing authorities. The Bank's tax returns are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2011 through 2014. In management's opinion, the Bank does not have any uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits.

13. Stock Options

During the year ended December 31, 2005, the Bank granted stock options to directors and officers of the Bank, in accordance with a stock option plan. The options granted to the directors vested immediately upon grant. The options granted to officers contain a serial feature whereby one tenth of the options vested at the grant date, and each year thereafter. Any unvested options become immediately vested on the date the optionee reaches 65 years of age. The exercise price of the options is equal to the estimated fair value of the common stock at the date of grant. The options expire ten years after the date of grant.

Information with respect to options outstanding is as follows for the years ended December 31, 2014, 2013, and 2012:

	2014		2013		2012	
	Weighted average exercise price		Weighted average exercise price		Weighted average exercise price	
	Shares	price	Shares	price	Shares	price
Outstanding at beginning of year	101,808	\$ 27.78	111,888	\$ 27.92	111,888	\$ 27.92
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Expired and forfeited	-	-	10,080	29.41	-	-
Outstanding at end of year	<u>101,808</u>	<u>\$ 27.78</u>	<u>101,808</u>	<u>\$ 27.78</u>	<u>111,888</u>	<u>\$ 27.92</u>
Exercisable at December 31	<u>101,808</u>	<u>\$ 27.78</u>	<u>98,078</u>	<u>\$ 27.78</u>	<u>102,110</u>	<u>\$ 27.89</u>

The information in this table has been updated to reflect the 0.8% stock dividend declared during the year ended December 31, 2014.

County First Bank

Notes to Financial Statements (Continued)

13. Stock Options (Continued)

A summary of information about stock options outstanding is as follows at December 31, 2014:

	Weighted average exercise price	Total shares	Average remaining life (years)	Exercisable shares
	\$ 27.78	101,808	0.9	101,808
Intrinsic value on December 31, 2014		<u>\$ -</u>		<u>\$ -</u>

At December 31, 2014, there was \$4,254 of total unrecognized compensation expense related to nonvested stock options to be recognized through December 31, 2015.

No stock options were exercised during the years ended December 31, 2014, 2013, or 2012.

14. Retirement Plan

The Bank has a retirement plan qualifying under Section 401(k) of the Internal Revenue Code. The plan covers all full-time employees with one year of service who have reached 21 years of age. The Bank's contributions to the plan, approved by the Board of Directors, were **\$79,366**, \$81,073, and \$82,474 in 2014, 2013, and 2012, respectively.

In 2005, the Bank offered Supplemental Executive Retirement Plans (SERPs) to its executive officers providing for retirement income benefits as well as preretirement death benefits. The Bank accrues the present value of these benefits over the remaining number of years to the executives' retirement dates. The Bank's expenses for the SERPs were **\$136,778**, \$94,800, and \$85,604 in 2014, 2013, and 2012, respectively.

Accounting standards require the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Bank-owned life insurance policies purchased for this purpose do not effectively settle the Bank's obligation to the employee in this regard and thus the Bank records a benefit cost and a related liability. As of December 31, 2014, the Bank has recorded a liability of **\$5,562** for this benefit.

County First Bank

Notes to Financial Statements (Continued)

15. Capital Standards

The Federal Reserve Board and The Federal Deposit Insurance Corporation have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. The capital ratios and minimum capital requirements are as follows:

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital (to risk-weighted assets)	\$ 25,255	16.0%	\$ 12,642	8.0%	\$ 15,802	10.0%
Tier 1 capital (to risk-weighted assets)	23,278	14.8%	6,321	4.0%	9,481	6.0%
Tier 1 capital (to average assets)	23,278	10.9%	8,577	4.0%	10,722	5.0%
December 31, 2013						
Total capital (to risk-weighted assets)	\$ 24,839	16.0%	\$ 12,442	8.0%	\$ 15,552	10.0%
Tier 1 capital (to risk-weighted assets)	22,894	14.7%	6,221	4.0%	9,331	6.0%
Tier 1 capital (to average assets)	22,894	11.0%	8,293	4.0%	10,367	5.0%
December 31, 2012						
Total capital (to risk-weighted assets)	\$ 24,560	14.9%	\$ 13,204	8.0%	\$ 16,504	10.0%
Tier 1 capital (to risk-weighted assets)	22,495	13.6%	6,602	4.0%	9,903	6.0%
Tier 1 capital (to average assets)	22,495	11.4%	7,927	4.0%	9,909	5.0%

Tier 1 capital consists of common stock, surplus, and undivided profits. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance-sheet items.

Failure to meet the capital requirements could affect the Bank's ability to pay dividends and accept deposits and may significantly affect the operations of the Bank.

In the most recent regulatory report, the Bank was categorized as well capitalized under the prompt corrective action regulations. Management knows of no events or conditions that should change this classification.

The Bank's primary regulator, the Federal Deposit Insurance Corporation, has published final rules establishing a new comprehensive capital framework for U.S. banking organizations which became effective on January 1, 2015, subject to a phase-in period (the Basel III Capital Rules). Management believes that, as of December 31, 2014, the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

County First Bank

Notes to Financial Statements (Continued)

16. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, expand disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation method are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 – Inputs to the valuation method include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation method are unobservable and significant to the fair value measurement.

Fair value measurements on a nonrecurring basis

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values.

Foreclosed real estate is measured at fair value less estimated cost to sell. The fair value of foreclosed real estate is based on offers and/or appraisals. Cost to sell the real estate is based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3. Transactions in foreclosed real estate during the year ended December 31, 2014, 2013, and 2012, are as follows:

	2014	2013	2012
Balance, beginning of year	\$1,254,840	\$1,731,076	\$ 801,041
Additions and improvements	-	37,788	1,030,035
Write-downs	(10,200)	-	(100,000)
Proceeds from sale	-	(489,233)	-
Loss on sales	-	(24,791)	-
Balance, end of year	<u>\$1,244,640</u>	<u>\$1,254,840</u>	<u>\$1,731,076</u>

County First Bank

Notes to Financial Statements (Continued)

16. Fair Value Measurements (Continued)

The Bank has categorized its impaired loans and foreclosed real estate as follows:

	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
December 31, 2014				
Impaired loans	\$8,880,737	\$ -	\$ -	\$8,880,737
Foreclosed real estate	1,244,640	-	-	1,244,640
December 31, 2013				
Impaired loans	\$9,689,063	\$ -	\$ -	\$9,689,063
Foreclosed real estate	1,254,840	-	-	1,254,840
December 31, 2012				
Impaired loans	\$8,840,817	\$ -	\$ -	\$8,840,817
Foreclosed real estate	1,731,076	-	-	1,731,076

The remaining financial assets and liabilities are not reported on the balance sheets at fair value on either a recurring or a nonrecurring basis. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values. The fair value of financial instruments equals the carrying value of the investments except as noted.

	December 31, 2014		December 31, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Investment securities						
held to maturity	\$ 51,358,083	\$ 51,535,969	\$ 12,987,604	\$ 12,946,580	\$ 13,845,096	\$ 13,877,900
Loans, net	129,100,202	128,095,000	132,229,505	132,472,568	141,378,329	140,816,518
Financial liabilities						
Interest-bearing deposits	\$135,849,620	\$130,671,000	\$139,560,385	\$140,028,767	\$133,287,586	\$133,742,021

The fair values of investment securities are determined using market quotations, pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect. The fair value of variable-rate loans, including loans with a demand feature, is estimated to equal the carrying amount. The valuation of loans is adjusted for probable loan losses.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

The fair value of outstanding loan commitments, unused lines of credit, and letters of credit are not included in the table since the carrying value generally approximates fair value. These instruments generate fees that approximate those currently charged to originate similar commitments.

County First Bank

OFFICERS

E. Larry Sanders, III
Chairman of the Board

Van T. Mitchell
Vice Chairman of the Board

Douglas T. Mitchell
President and
Chief Executive Officer

Thomas C. Hayden, Jr.
Secretary

Charles A. Bryer
Senior Vice President &
Chief Financial Officer

William J. Groves, II
Senior Vice President &
Chief Credit Officer

Suzanne M. Barncord
Vice President, Real Estate

Elizabeth R. (Lisa) Yates
Vice President, Commercial Loans

Tom Floyd
Regional Commercial Manager

Cynthia L. Morgan
Vice President & Loan Officer

J. Patricia Finch
Vice President

Patricia R. Murphy
Vice President
Director of Branch Administration

Linda J. Bramell
Branch Officer

Deborah R. Blackwell
Branch Officer

Matthew Jones
Branch Officer

Kim Money
Branch Officer

Mary M. Baxter
Vice President
Director of Information Technology

Kevin Broadwater
Branch Officer

Lisa Reid Ragen
Director of Audit and Compliance

Philip M. Cranford
Appraisal Review & Property Inspections Officer

Vicki Mills
Director of Operations

Holly H. Pham
Loan Administration Manager

ADVISORY BOARD MEMBERS

Julia Forbes
Accountant

Syd Moreland
CPA

Michael J. Whitson
President
Tri-County Abstract Inc.

County First Bank

CONTACT INFORMATION

La Plata Branch (Main Office)

ATM Location
202 Centennial Street
La Plata, MD 20646
(301) 934-BANK (Local)
(301) 932-BANK (2265)
(301) 870-3278 (Metro)
(301) 934-2237 (Fax)

Waldorf Branch
ATM Location
3670 Old Washington Road
Waldorf, MD 20602
(301) 705-6886 (Local)
(301) 870-5845 (Metro)
(301) 705-6854 (Fax)

California Branch
ATM Location
22805 Three Notch Road
California, MD 20619
(301) 863-BANK (Local)
(301) 627-8400 (Metro)
(301) 862-7700 (Fax)

New Market Branch

ATM Location
37605 New Market Road
Charlotte Hall, MD 20622
(301) 290-0340 (Local)
(866) 354-2265 (Toll Free)
(301) 290-0342 (Fax)

Prince Frederick Branch
ATM Location
36 So. Solomons Island Road
Prince Frederick, MD 20678
(410) 414-2626 (Local)
(301) 494-3110 (Metro)
(410) 414-7157 (Fax)

Lobby Hours:
Monday – Thursday: 9:00am – 4:00pm
Friday: 9:00am – 6:00pm
Saturday: 9:00am – 12:00pm

Drive-Up Window Hours:
Monday – Friday: 8:30am – 6:00pm
Saturday: 8:30am – 12:00pm

Website Address:
www.countyfirstbank.com

Email Address:
info@countyfirstbank.com

Stock Information:
The common stock of County First Bank is listed on the Over-the-Counter Bulletin Board.
The ticker symbol is CUMD.