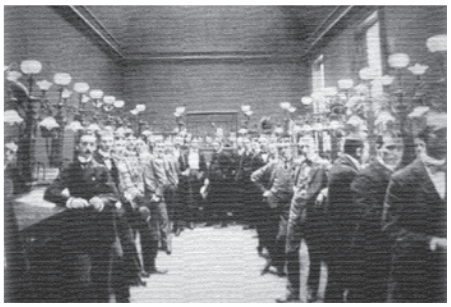
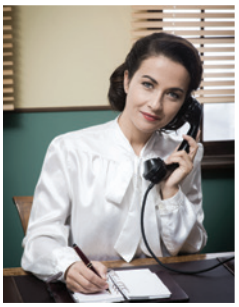








2015
ANNUAL REPORT

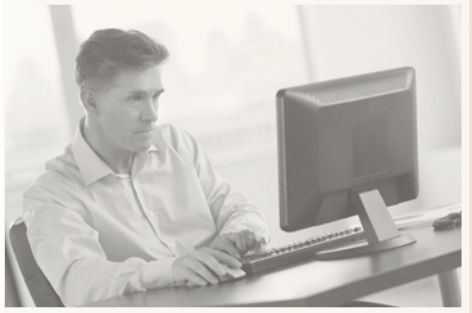


Allegheny Valley Bancorp, Inc.

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Your bank achieved very strong financial results in 2015. Thanks to our legacy of locally focused service, plus a willingness to invest appropriately for growth, we emerged as one of the few remaining community banks in Pittsburgh, expanding our market for new customers and increased relationships with existing customers. We have put products, services, and people in place to maximize this opportunity — an opportunity that today offers a greater potential for growth than any other time in recent memory.

The key for Allegheny Valley Bank is to adapt and accelerate, and we are prepared to continue to do both successfully in 2016 and beyond.

Considering the growing number of small businesses and households in the Pittsburgh area, one of the most important advantages going forward is how well AVB has positioned itself to capture a larger share of this market. As such, we believe we can effectively communicate the value of being a Community Bank in Pittsburgh. Our website at www.ilovethatbank.com has been upgraded to better reflect who we are: our staff, our products, and our differentiators. A coordinated social media rollout in 2016 promises greater access and service to customers in the next generation of banking. We are upgrading our flagship headquarter branch in Lawrenceville to better serve our customers and community into the future. Our Electronic Banking products and services usage continues to increase. And we plan to roll out online loan applications and deposit account opening in the near future.

2015 FINANCIAL REVIEW

Looking back at our financial performance for 2015, we achieved the following:

- Allegheny Valley Bancorp, Inc. (the Corporation) reported consolidated net income of $3,336,000, or $3.34 per share, for the year ended December 31, 2015, compared to net income of $3,113,000, or $3.14 per share, for the year ended December 31, 2014. This represents an increase in net income of $223,000, or 7.17%. Our key financial ratios including Return on Average Assets (ROA), Return on Average Equity (ROE), Net Interest Margin, and Efficiency, all improved for the year ended December 31, 2015 in comparison to the year ended December 31, 2014.

- Net interest income increased by 2.2 %, or $288,000, for the year ended December 31, 2015 as compared to the same period in 2014. This increase in net interest income is due to an increase in investment income combined with a decrease in interest expense. Although gross loans outstanding grew $7.6 million from $278.8 million at December 31, 2014 to $286.4 million at December 31, 2015, or approximately 2.7%, loan interest income decreased by $204,000 due to a larger portion of our loan production occurring later in the year and loans repricing at lower rates. Interest expense declined by $373,000 as a result of lower rates on deposit accounts and continued retention of our transaction-based deposit accounts. Further improvement of the interest expense came from the reduction of high rate CDs combined with Allegheny Valley Bank's (the Bank) low borrowing rates. The Bank utilized borrowings from the Federal Home Loan Bank (FHLB) to fund loans and investment purchases, as needed.

- Noninterest income decreased from $3,058,000 for the year ended December 31, 2014 to $2,423,000 for the year ended December 31, 2015. This decrease is attributable to less fee income from various lines of business.

- Total noninterest expense decreased from $11,952,000 for the year ended December 31, 2014 to $11,426,000 for the year ended December 31, 2015, representing a decrease of $526,000 or 4.4%. This decrease is a result of less personnel costs and lower operating costs due to the implementation of more efficient systems and processes.

- Asset quality continues to be solid even though we experienced an increase in delinquency and nonperforming loans from December 31, 2014 to December 31, 2015. Nonperforming loans increased by $3,274,000 to $5,960,000, or 1.44% of total assets as of December 31, 2015. This increase occurred in the fourth quarter of 2015 as a result of several customers falling into a more serious delinquency status. Management has adequately reserved for these loans and expects to make progress in resolving these credits in 2016.

- Total stockholders' equity was $49,218,000, or 11.9% of total assets, and book value per share was $48.31 at December 31, 2015, compared to $47,661,000 or 11.5% of total assets and book value per share of $47.65 at December 31, 2014. The increase to stockholders' equity of $1,557,000, or 3.3%, was the result of an increase in retained earnings of $1,038,000 and a decrease in treasury stock of $877,000, offset by decreases in accumulated other comprehensive income of $236,000 and surplus of $122,000. Core book value per share (book value per share, excluding the impact of accumulated other comprehensive income) increased to $46.79 at December 31, 2015 from $45.87 at December 31, 2014. Most important, the Corporation and Bank remain well-capitalized and positioned for steady growth.
- Lastly, the Board of Directors maintained our cash and stock dividends totaling $2.28 per share during 2015 resulting in a total dividend yield of 5.1% utilizing the AVLY stock price of $45.00 (the high stock price for the year) at December 31, 2015.

The Board of Directors approved a Strategic Business Plan in 2015 which outlined the direction Allegheny Valley Bancorp, Inc., would be taking during the three year period ending December 31, 2017. This plan provides not only an essential guide regarding the overarching strategy for the Corporation, but also a means to check on how our day-to-day decisions and actions support that direction. My appreciation goes to our senior management team for helping to develop the plan and to our dedicated Board members for their guidance and direction.

RECAP OF 2015 PERFORMANCE

Performance in 2015 across a number of core areas of the Bank can be summarized as follows:

Lending and Deposit Gathering:

Growth in loan outstandings and deposit transaction accounts has been and will continue to be a core focus of our staff. We are deploying all reasonable methods — from increased business development efforts to the use of technology — in order to grow the bank.

ROSEN LOUIK & PERRY, P.C.



"After becoming frustrated with the big bank we had used for 50 plus years, I noticed that Allegheny Valley Bank had a branch right across the street from our building downtown, so I stopped in to see what they were all about. Everyone looked happy, and eager to be of help. It reminded me of walking into the bank in my hometown of about 5,000 people. I moved my personal accounts there, and it wasn't long before our law firm's relationship went to Allegheny Valley Bank, too. We love the small-town approach delivered with the high-quality services of a major bank. AVB also has very actively supported my charity, Pennies From Heaven, helping to make a difference in the Pittsburgh communities served."

Jon R. Perry, *Partner, Rosen Louik & Perry, P.C.*

Left to right: Cheryl A Belsterling, Vice President - Senior Commercial Relationship Manager, AVB; Jon R. Perry, Partner – Rosen Louik & Perry, P.C.; Daniel Koller, Senior Vice President – Director of Investments, AVB; Renee Zigmond, Financial Center Manager – Pittsburgh Office, AVB

Loan Growth:

Our goal was to expand our commercial lending group and related support infrastructure in 2015 to allow the bank to grow this niche business. Total loan production of $70.1 million in 2015 is broken down as follows: commercial loans ($40.7 million); installment loans ($13.8 million); and residential loans ($7.1 million sold and $8.5 million retained). As mentioned previously, gross loans grew by $7.6 million from December 31, 2014 to December 31, 2015. Commercial loans grew by $10.9 million and installment (primarily home equity) loans grew by $5.4 million. Management planned for the reduction in residential loans (decreased by $1.1 million) and leases (decreased by $7.6 million). The residential mortgage portfolio is managed in concert with our Asset Liability Management Policy, ensuring an appropriate interest rate risk position based upon current and prospective interest rate environments. The Board made the decision in 2014 to exit the leasing business and this portfolio continues to wind down.

Loan growth has been solid since 2012, growing by $34 million or about 4% annually; however, 2015 proved to be a tough year for expansion. Growth in the loan portfolio was hampered by an increase in unexpected payoffs during 2015. These payoffs occurred for a multitude of reasons including: customers selling their real estate properties or businesses; customers utilizing excess cash flow to pay off their loans; competitor banks, upon occasion, offering imprudent rates and/or terms; and management deciding to strategically exit certain relationships. Our relationship-driven management team will continue to be vigilant to maintain customers by providing reasonably competitive rates and outstanding service. We will not, however, offer credit terms below the minimum credit standards that have sustained our bank over the last hundred years. We have established the right business model with relationship banking as the core focus and, with the very seasoned group of core personnel we have in place, we are well positioned to continue to expand.

Deposit Growth:

The bank continues to recognize a general shift in our funding from retail accounts to business accounts. Management has allowed higher-priced non-relationship time deposits to roll off while attracting lower-cost transaction and savings accounts. This strategy has proven successful at reducing the bank's overall cost of funds. Total transaction accounts increased by $1.5 million in 2015, while CDs decreased by $8.6 million. Management continues to price CD's very competitively for customers who maintain their primary checking account with AVB. Our customers are continuing to utilize electronic banking and mobile banking at an increasing rate. Our online

COP-OUT PIEROGIES

"After retiring from the police force, I started this pierogie shop and soon wanted to move to a larger space, but the bank I'd been with took forever to make a decision. It should have been easy, but it took more than six months. I approached Allegheny Valley Bank, and the wheels started turning in less than a week. They treated me with respect as a small business owner. I've used them ever since, because they're big enough to make the loan and small enough to still provide that personal service."

Carl Funtal, *Owner, Cop-Out Pierogies*



Left to right: Jason W. Ross, Executive Vice President – Chief Financial Officer, Chief Operating Officer and Treasurer, AVB; Carl Funtal, Owner, Cop Out Pierogies; F. Thomas Gongloff, Vice President – Business Banking Manager, AVB

banking users increased by 6% in 2015 while our mobile banking users nearly doubled during the year. This significant trend requiring instant access to all information all the time and transacting business online continues to deliver radical change to the banking business.

Noninterest Income:

As noted above, noninterest income decreased from December 31, 2014 to December 31, 2015. This is primarily the result of a decrease in wealth management, residential mortgage, and lease fee income. Our Wealth Management Department experienced a year-over-year decline in revenues due to two factors. First, while staying true to our long-term strategic plan of having a greater percentage of our revenue derived from fees on assets under management rather than transactions, we saw a delay on realized revenue from accounts converted during the year. Secondly, investor activity was greatly impacted by the poor performance and increased volatility of the markets causing many clients to remain passive. We used this opportunity to strengthen our client relationships and gather a larger share of their assets during that time. Our residential mortgage department also underwent some personnel changes in 2015, which resulted in less fee generation. We remain committed to this department and expect increasing revenues in 2016.

Expense Management:

The reduction in expenses from 2014 to 2015 was accomplished by various initiatives. In 2014, management commenced a plan to better align our staff's incentives and commissions with the overall profitability of the Bank. This strategy has played out well for the Bank as we now have a larger portion of our overall compensation in variable-based pay. We have developed a Pay for Performance Plan rewarding personnel for great performance. Management also took greater effort in 2015 to reduce other expenses prudently by negotiating new contracts and continuing to challenge every invoice. In June 2015, management also closed our Penn Avenue branch office and relocated those customers and related deposits to our Lawrenceville office. This strategy has paid off well with minimal loss of customers and deposits while reducing operating expenses. We are pleased with our efforts as they have ultimately resulted in an improved return for our shareholders.

MILLER ELECTRIC CONSTRUCTION & NORTH SIDE DEVELOPMENT



"Some twenty-five years ago while expanding operations at Miller Electric we found resistance with our former lending institution. The knowledgeable and friendly staff at Allegheny Valley Bank listened, understood and helped us achieve our goals. Going beyond basic banking and lending, they continually offer advice and educational programs to help guide us with critical family business decisions. Our long term relationship with AVB makes it easy to see why 'I love that bank."

William R. Miller, *President, Miller Electric Construction*

"My brother Bill is right. They are a much more flexible lender, able to build a custom portfolio to suit their client's need. They seem to truly care about our success at North Side Development, and there is always an actual local person I can talk to when needed."

Richard R. Miller Jr., *President, North Side Development*

Left to right: Andrew W. Hasley, President and Chief Executive Officer, AVB; Theresa M. Morrissey, Assistant Vice President – Commercial Portfolio Manager, AVB; William R. Miller, President, Miller Electric Construction; Jeffrey A. Martin, Senior Vice President – Chief Lending Officer, AVB; Richard R. Miller, Jr., President, North Side Development

OUTLOOK FOR 2016

Allegheny Valley Bank is looking forward to enhancing shareholder value in 2016 by leveraging our capital effectively and growing responsibly. Here are a few of the efforts we have underway that we believe will continue to advance the bank into the future.

Business Development:

A key component to the success of our plan will be generating sufficient leads to meet our production goals by cultivating relationships across all platforms, including participation on appropriate boards, regular visits with key constituencies, and concerted cross-selling efforts. Bi-monthly internal sales meetings also serve as instrumental tools to drive business into the bank and cross-sell services to the client.

To achieve greater deposit growth, we will continue to focus on relationship building, with a customer's primary checking account as the foundation for an expanded portfolio of products and services. In 2016, we will promote a brand new line of retail products that will differentiate AVB from our larger competitors, provide enhanced financial benefits to our customers, and deepen customer relationships. These new products will help attract the younger generation while providing an alternative way of banking to those who desire to engage with us electronically. Additionally, marketing resources have also been allocated to help support the communication of these new products to the public.

A top priority for 2016 is to continue to offer outstanding customer service as a central and essential component of growing our business. We start from a position of strength in this area, since our Customer Service Surveys — including in-branch, phone, and electronic banking customers — consistently yield very favorable results. We will never be complacent and always look for ways to provide enhanced service. Our customers' access to decision-makers has proven to be a benefit the larger banks simply cannot offer.

One of our greatest challenges as a Community Bank is externally communicating "who we are" and "why you should bank with us." We will continue to leverage the things we have done well in the past while increasing our marketing and outreach efforts.

Customers can access our To the Point newsletter on-line and they tell us they appreciate its value in keeping them informed about products, services, and how our people work to serve them better. We have begun to offer Wealth Management Seminars and "Critical Issues for the Business Owner" forums that have already been well received and have added some very influential members of the community to our advisory boards to gain access to critical market intelligence.

As mentioned earlier, AVB has made a clear and complete commitment to a social media program to communicate with our customers, prospects, communities, and referral sources. Our plan will utilize social media for recruiting, marketing, customer service, growth, branding, loyalty building, reputation enhancement, thought leadership, and more, connecting us with the community across many platforms. We are pursuing both a defensive social media strategy to ensure that prospective customers understand we are competitive with the mega banks relative to our product offerings, and a robust community relations strategy that effectively connects our neighbors with the Bank.

At the same time, we are thoroughly rethinking the purpose and functionality of the branch into a multi-channel system, since we realize that today's customers come into our branches for more than traditional teller window transactions. We are using our website and other means to drive business into the bank and serve customers when and how they desire.

Helping to propel AVB into the future, we continue to refresh our branches and the roles of our branch employees, using our Lawrenceville base as a prototype. We have elevated one of our longtime employees into a new role of Training Coordinator, a key position responsible for developing plans for repositioning and training our branch staff to become more universal employees — serving as educators, salespeople, and problem-solvers — with a comprehensive knowledge of products and services to assist in all customer needs. We look forward to providing rewarding careers for our employees in the years to come.

Part of what makes AVB an outstanding community bank is our active support of non-profit organizations and causes that help make our communities stronger and more vibrant.

Two examples include our involvement with the Greater Pittsburgh Food Bank, which led to a special recognition for our employee efforts to help this vital program, and our support of The Education Partnership, where we participated in their "Adopt-A-School Program" and provided core supplies to students of Pittsburgh Arsenal School in Lawrenceville to start their school year well-prepared and well-equipped to learn and succeed.

We have used creative initiatives to help the community and those in need, such as serving as facilitator to distribute funds from the FHLB Affordable Housing Program (AHP) to support a new housing project in Pittsburgh's Hill District for the Gaudenzia Foundation, Inc., to provide a better quality of life for individuals recovering from substance abuse and other co-occurring disorders, and for our community overall.

We have committed to a Shareholder Relations Plan designed to identify and attract shareholders from our local communities — individuals and business owners who understand and care about the neighbors and neighborhoods where our bank has always found its identity and highest purpose.

Taking the long view of our success, it becomes apparent that what helped Allegheny Valley Bank achieve its goals in 2015 are the same attributes and qualities that position us for ongoing growth — namely, a great team consisting of our employees and senior leadership, wonderful support externally from our loyal customers and advisory board members, and the valuable wisdom and guidance from our Board of Directors.

We have adapted, and are ready to seize the opportunities presented by the changing landscape to serve our customers and their changing needs and wants in the best way possible — by holding high the caring, engaged, service-minded tradition of AVB, a true community bank. On behalf of our entire team, please accept my thanks for your continued support.

Sincerely,

Andrew W. Hasley

Andrew W. Hasley
President and Chief Executive Officer

GREATER PITTSBURGH COMMUNITY FOOD BANK

"The word 'community' is in our name for a reason — we rely on the goodness of individuals and businesses to donate food and support our fund drives. The leadership and team members from Allegheny Valley Bank have long been some of our most valuable supporters, volunteering at the Greater Pittsburgh Community Food Bank Blues Festival and hosting food drives the past two years. When they say AVB is a true community bank, you can believe it. We certainly appreciate their involvement, as does the PA Association of Community Bankers, which recognized AVB in 2015 for its work supporting the Food Bank."

Lisa Scales,
President & CEO, Greater Pittsburgh Community Food Bank



Left to right: Lisa Scales, President & CEO, Greater Pittsburgh Community Food Bank; Christian M. Chelli, Senior Vice President – Chief Credit Officer, AVB; Charlese McKinney, Network Development Director, Greater Pittsburgh Community Food Bank; Stacy N. Krempasky, Vice President – Director of Finance and Assistant Treasurer, AVB; Justin Lee, Chief Operating Officer, Greater Pittsburgh Community Food Bank; Marsha M. Posset, Assistant Vice President – Director of Marketing, AVB

BAKER TILLY
formerly
PARENTBEARD

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Independent Auditors' Report

Board of Directors and Stockholders
Allegheny Valley Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Allegheny Valley Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive 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 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 Allegheny Valley Bancorp, Inc. and its subsidiary as of December 31, 2015 and 2014, 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, 2016

an independent member of
BAKER TILLY
INTERNATIONAL

An Affirmative Action Equal Opportunity Employer

Consolidated Balance Sheets

	December 31	
	2015	2014
Assets		
Cash	**$ 2,061,781**	$ 2,250,741
Interest-earning deposits with other institutions	**7,083,417**	9,161,189
Cash and cash equivalents	**9,145,198**	11,411,930
Investment securities available-for-sale	**98,303,978**	103,375,676
Loans receivable, net	**282,831,705**	275,261,629
Federal Home Loan Bank stock, at cost	**3,969,500**	3,455,600
Office properties and equipment, net	**3,115,292**	3,333,723
Goodwill	**8,143,684**	8,143,684
Bank-owned life insurance	**6,270,426**	6,194,486
Accrued interest and other assets	**2,759,948**	3,950,118
Total Assets	**$ 414,539,731**	$415,126,846
Liabilities		
Deposits		
Noninterest-bearing demand	**$ 103,187,592**	$101,033,819
Interest-bearing demand	**24,783,869**	22,776,957
Savings	**49,366,896**	48,187,460
Money market	**71,516,690**	75,352,546
Time	**66,490,484**	75,095,407
Total deposits	**315,345,531**	322,446,189
Short-term borrowings	**48,658,500**	36,128,100
Long-term debt	**–**	5,989,501
Accrued interest and other liabilities	**1,317,213**	2,901,754
Total Liabilities	**$ 365,321,244**	$367,465,544
Stockholders' Equity		
Common stock, par value $1; authorized 5,000,000 shares; issued 1,170,000 shares	**1,170,000**	1,170,000
Additional paid-in capital	**2,706,502**	2,827,970
Retained earnings	**50,935,846**	49,898,036
Accumulated other comprehensive income	**1,543,521**	1,779,598
	56,355,869	55,675,604
Treasury stock, at cost (151,143 and 169,732 shares)	**(7,137,382)**	(8,014,302)
Stockholders' Equity, Net	**49,218,487**	47,661,302
Total Liabilities and Stockholders' Equity	**$ 414,539,731**	$415,126,846

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	Years Ended December 31	
	2015	2014
Interest Income:		
Interest and fees on loans	**$ 12,220,724**	$ 12,424,602
Interest-earning deposits	**9,728**	12,514
Investment securities:		
Taxable interest	**2,125,706**	2,096,697
Tax-exempt interest	**827,030**	734,483
Total Interest Income	**15,183,188**	15,268,296
Interest Expense:		
Deposits	**1,211,949**	1,588,333
Borrowed funds	**316,996**	313,394
Total Interest Expense	**1,528,945**	1,901,727
Net Interest Income	**13,654,243**	13,366,569
Provision For Loan Losses	**350,000**	391,667
Net Interest Income After Provision For Loan Losses	**13,304,243**	12,974,902
Noninterest Income:		
Service charges on deposit accounts	**1,223,586**	1,345,976
Net gain on sales of investment securities available-for-sale	**112,244**	128,783
Brokerage fee income	**173,385**	200,268
Mortgage fee income	**330,540**	679,098
Lease fee income	**1,220**	82,876
Other income	**581,907**	620,782
Total Noninterest Income	**2,422,882**	3,057,783
Noninterest Expense:		
Salaries and employee benefits	**5,750,568**	6,240,800
Occupancy expense	**1,085,224**	1,150,332
Data processing and equipment expense	**1,178,356**	1,193,498
Pennsylvania shares tax	**283,544**	274,233
FDIC insurance expense	**227,288**	242,053
Legal and professional fees	**606,722**	357,442
Other expense	**2,294,274**	2,493,355
Total Noninterest Expense	**11,425,976**	11,951,713
Income Before Income Taxes	**4,301,149**	4,080,972
Income Taxes	**965,036**	968,188
Net Income	**$ 3,336,113**	$ 3,112,784
Basic and Diluted Earnings Per Share	**$ 3.34**	$ 3.14
Weighted Average Shares Outstanding	**1,007,929**	990,766
Actual Shares Outstanding	**1,018,857**	1,000,268

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

	Years Ended December 31	
	2015	2014
Net Income	**$ 3,336,113**	$ 3,112,784
Other comprehensive (loss) income, net of tax:		
Unrealized holding (losses) gains on securities available for sale, net of tax of $(93,787) and $1,051,831	**(182,056)**	2,041,788
Reclassification adjustment for gains on securities included in net income, net of tax of $(27,828) and $(43,786)[1]	**(54,021)**	(84,997)
Total Other Comprehensive (Loss) Income	**(236,077)**	1,956,791
Total Comprehensive Income	**$ 3,100,036**	$ 5,069,575

See Notes to Consolidated Financial Statements

[1]The gross amount of the gains on the sales of investment securities available-for-sale were $81,849 in 2015 and $128,783 in 2014 and are included in the Consolidated Statements of Income.

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance, December 31, 2013	**$ 1,170,000**	**$ 2,852,239**	**$ 49,042,814**	**$ (177,193)**	**$ (8,754,243)**	**$44,133,617**
Net income	—	—	3,112,784	—	—	3,112,784
Other comprehensive income, net of tax	—	—	—	1,956,791	—	1,956,791
Issuance of restricted stock	—	—	—	—	56,003	56,003
Stock-based compensation expense	—	108,202	—	—	—	108,202
Sale of treasury stock	—	(69,545)	—	—	209,471	139,926
Dividends declared ($2.28)	—	(62,926)	(2,257,562)	—	474,467	(1,846,021)
Balance, December 31, 2014	**$ 1,170,000**	**$ 2,827,970**	**$ 49,898,036**	**$ 1,779,598**	**$ (8,014,302)**	**$47,661,302**
Net income	—	—	3,336,113	—	—	3,336,113
Other comprehensive loss, net of tax	—	—	—	(236,077)	—	(236,077)
Issuance of restricted stock	—	—	—	—	159,368	159,368
Stock-based compensation expense	—	108,654	—	—	—	108,654
Sale of treasury stock	—	(164,903)	—	—	233,878	68,975
Dividends declared ($2.28)	—	(65,219)	(2,298,303)	—	483,674	(1,879,848)
Balance, December 31, 2015	**$ 1,170,000**	**$ 2,706,502**	**$ 50,935,846**	**$ 1,543,521**	**$ (7,137,382)**	**$49,218,487**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	Years Ended December 31	
	2015	2014
Cash Flows From Operating Activities		
Net income	**$ 3,336,113**	$ 3,112,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**478,278**	496,948
Net amortization of premiums, intangible assets, and mortgage servicing assets	**274,032**	328,377
Provision for loan losses	**350,000**	391,667
Net gain on the sale of investment securities available for sale	**(81,849)**	(128,783)
Net loss on sale of other real estate owned	**—**	4,436
Deferred income tax expense	**140,712**	136,514
(Increase) decrease in accrued interest receivable	**(53,998)**	80,021
Decrease in accrued interest payable	**(58,584)**	(48,269)
Increase (decrease) in income taxes payable	**30,761**	(7,228)
Increase in cash surrender value of bank-owned life insurance	**(173,263)**	(169,253)
Increase in mortgage servicing asset	**(46,097)**	(202,791)
Other, net	**390,249**	131,775
Net Cash Provided By Operating Activities	**4,586,354**	4,126,198
Cash Flows From Investing Activities		
Investment securities available for sale:		
Proceeds from maturities, calls, and principal repayments	**14,694,426**	11,418,233
Proceeds from sales	**991,101**	3,536,381
Purchases	**(12,543,776)**	(20,454,209)
Net increase in loans	**(7,350,265)**	(7,943,757)
Purchase of bank-owned life insurance	**—**	(75,000)
Proceeds from sale of other real estate owned	**—**	24,564
Purchase of FHLB stock	**(5,579,900)**	(3,510,800)
Redemptions of FHLB stock	**5,066,000**	2,208,500
Proceeds from sale of assets not in service	**345,403**	—
Purchases of premises and equipment	**(259,847)**	(429,988)
Net Cash Used By Investing Activities	**(4,636,858)**	(15,226,076)
Cash Flows From Financing Activities		
Net decrease in deposits	**(7,100,658)**	(15,024,553)
Repayments of long-term debt	**(6,000,000)**	—
Net increase in short-term borrowings	**12,530,400**	31,921,800
Dividends paid	**(1,879,848)**	(1,846,021)
Issuance of treasury stock	**233,878**	209,471
Net Cash (Used) Provided By Financing Activities	**(2,216,228)**	15,260,697
(Decrease) Increase In Cash And Cash Equivalents	**(2,266,732)**	4,160,819
Cash And Cash Equivalents, Beginning Of Year	**11,411,930**	7,251,111
Cash And Cash Equivalents, End Of Year	**$ 9,145,198**	$ 11,411,930
Supplemental Information		
Cash paid during the year for:		
Interest on deposits and borrowings	**$ 1,557,401**	$ 1,949,996
Income taxes	**$ 790,000**	$ 851,500
Non-cash investing and financing activities:		
Stock dividends	**$ 418,455**	$ 411,541

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Allegheny Valley Bancorp, Inc. (the "Company") and its subsidiary, Allegheny Valley Bank of Pittsburgh (the "Bank") and the Bank's wholly owned subsidiary, Allegheny Valley Financial Services, LLC. Additionally the Bank owns 51% of Community Bankers Settlement Company, LLC, which was organized to act as a title insurance agent for customers of the Bank and customers of other community banks. Intercompany accounts and transactions have been eliminated in consolidation.

The Company is a Pennsylvania corporation and is registered under the Holding Company Act of 1956, as amended. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. These services include interest earnings on commercial mortgages, residential real estate, lease financing, and consumer and commercial loan financing, as well as interest earnings on investment securities and charges for deposit services to its customers. The Bank provides banking and bank-related services primarily in Allegheny County, Pennsylvania, and secondarily in other surrounding counties through its eight retail locations. The Company is supervised by the Federal Reserve Board, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation and the Commonwealth of Pennsylvania Department of Banking.

USE OF ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of related revenue and expenses during the reporting period. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2016, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Material estimates that are particularly susceptible to significant change in the near term relate to the fair value of investment securities available for sale, determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, other-than-temporary impairment evaluations of securities, the valuation of deferred tax assets, and the valuation of goodwill impairment.

CASH EQUIVALENTS

For the purposes of reporting cash flows, the Company has defined cash and cash equivalents as those amounts included in the balance sheet captions cash and interest-earning deposits with other institutions. Account balances are insured by the Federal Deposit Insurance Corporation up to at least $250,000. At times, the Company may maintain more than $250,000 in cash at a financial institution.

INVESTMENT SECURITIES

Investment securities are classified at the time of purchase based on management's intention and ability. Held-to-maturity securities are debt securities acquired with the intent and ability to hold to maturity and are stated at amortized cost. The Company had no held-to-maturity securities in 2015 or 2014. Available-for-sale securities are other debt and equity securities that are not classified as held-to-maturity or trading securities and serve principally as a source of liquidity. Available-for-sale securities are stated at fair value, with unrealized holding gains and losses reported as a separate component of stockholders' equity, net of tax, until realized. Declines in the fair value of individual securities below their cost that are other than temporary will result in write-downs of the individual securities to their fair value. The other-than-temporary impairment is separated into credit-related and noncredit-related components. The credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on an other-than-temporarily impaired security fall below its amortized cost while the noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related, other-than-temporary impairments in earnings, while noncredit-related, other-than-temporary impairments on debt securities are recognized, net of deferred taxes, in accumulated other comprehensive income. In estimating other-than-temporary losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Company plans to sell or will be forced to sell the security. Realized securities gains and losses are computed using the specific identification method. Amortization of premiums and accretion of discounts are recorded as interest income from investments over the life of the security utilizing the level yield method. Interest and dividends on investment securities are recognized as income when earned.

LOANS

Loans which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their unpaid principal balance, adjusted for any allowance for loan losses and any deferred loan fees or costs. Interest income on loans is accrued at the contractual rate on the principal amount outstanding and includes the amortization of deferred loan fees and costs. Deferred loan fees and costs are netted and amortized to income over the life of the loan. Accrual of interest is discontinued when, in the opinion of management, collection is doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Amortization of any net deferred fees is discontinued when a loan is placed on nonaccrual status. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

All loans are charged off when management determines that principal and interest are not collectible. Any excess of the Company's recorded investment in impaired loans over the measured value of the loan is provided for in the allowance for loan losses.

ALLOWANCE FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses represents the amount which management estimates is necessary to provide for probable losses in its loan and lease portfolio. The Company uses the allowance method in providing for loan and lease losses. Accordingly, all loan and lease losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan and lease losses is established through a provision for loan losses which is charged to operations.

GOODWILL

Goodwill represents the excess of the purchase price over the cost of net assets purchased. Goodwill is not amortized, but is evaluated for impairment.

At least annually, management reviews goodwill and evaluates events or changes in circumstances that may indicate impairment in the carrying amount of goodwill.

For 2015 and 2014, no impairment existed; however, for any future period, if the Company determines that there has been impairment in the carrying value of goodwill, the Company would record a charge to earnings, which could have a material adverse effect on net income. Any write-off of goodwill acquired in connection with RSV Bancorp, Inc. ("RSV") will not be deductible for tax purposes. Any write-off of goodwill acquired in connection with Metropolitan Savings Bank ("MSB") would be deductible for tax purposes.

BANK-OWNED LIFE INSURANCE

The Bank owns insurance on the lives of certain directors and officers. The policies were purchased to help offset the cost of health care benefits. The cash surrender value of these policies is included on the Consolidated Balance Sheets and any increases in the cash surrender value are recorded as other income in the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, a portion of the death benefit would be payable to the Bank and recorded as other income in the Consolidated Statements of Income. The remainder of the death benefit would be payable to the beneficiary, assuming the insured was employed by the Bank at the time of death.

MORTGAGE SERVICING RIGHTS

Mortgage servicing rights ("MSRs") represent the right to service loans for third-party investors. MSRs are recognized as a separate asset for the right to service mortgage loans for others, regardless of how those servicing rights are acquired. MSRs are recognized upon the sale of mortgage loans to a third-party investor with the servicing rights retained by Allegheny Valley Bank. Servicing loans for others generally consists of collecting mortgage payments from borrowers, maintaining escrow accounts, remitting payments to third-party investors and, when necessary, processing foreclosures. Serviced loans are not included in the Consolidated Balance Sheets. Loan servicing income includes servicing fees received from the third-party investors. Originated MSRs are recorded at allocated fair value at the time of the sale of the loans to the third-party investor. MSRs are amortized in proportion to and over the estimated period of net servicing income. MSRs are carried at amortized cost, less a valuation allowance for impairment, if any. Impairment exists if the carrying value of MSRs exceeds the estimated fair value of the MSRs.

OTHER REAL ESTATE OWNED

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expense. Other real estate owned is included in accrued interest and other assets on the Consolidated Balance Sheets.

FEDERAL HOME LOAN BANK STOCK

The Company, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. During 2015, the FHLB made quarterly dividend payments. Additionally, through November 2014, excess capital stock was repurchased monthly equal to the lesser of five percent of the member's total capital stock outstanding or its excess capital stock outstanding. Beginning in December 2014, excess capital stock is repurchased weekly.

FHLB stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost, and evaluated for impairment. The determination of whether the stock is impaired is based on the assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the 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 evaluated the stock based on the above and determined that the stock was not impaired as of December 31, 2015 or 2014.

OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of major additions and improvements is capitalized and depreciated to operating expense over the estimated remaining life of the asset. Leasehold improvements are capitalized and depreciated to operating expense over the term of the lease.

INTEREST ON DEPOSITS

Interest on deposits is accrued and charged to expense daily and is paid or credited in accordance with the terms of the respective accounts.

INCOME TAXES

The Company accounts for income taxes in accordance with GAAP.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Company had no uncertain tax positions at December 31, 2015 or 2014.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

STOCK COMPENSATION

The Company accounts for share-based awards in accordance with GAAP, which requires companies to estimate the fair value of awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is included in salaries and employee benefits on the income statement. Compensation expense for share-based awards with graded vesting schedules is recognized on a straight-line basis over the requisite service period for the entire grant.

OTHER EXPENSE

Advertising costs are expensed as incurred and included in other expense in the Consolidated Statements of Income. Total advertising expense was $127,021 and $118,266 for the years ended December 31, 2015 and 2014, respectively. The Company operates a debit card program which provides customers the ability to make purchases or obtain cash directly from their checking accounts. Expenses related to the debit card program are expensed as incurred and included in other expense in the Consolidated Statements of Income. Total debit card program expenses totaled $318,807 and $497,177 for the years ended December 31, 2015 and 2014. The corresponding income generated with regard to the debit card program is included in service charges on deposit accounts and other income.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale and unrealized losses related to factors other than credit on debt securities.

EARNINGS PER SHARE AND CAPITAL STRUCTURE

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares of stock outstanding during the year. In computing diluted EPS, average shares outstanding have been increased by the dilutive common stock equivalents relating to the Company's outstanding stock options. Excluded from the calculation were anti-dilutive stock options of 1,156 shares and 1,627 shares for the years ended December 31, 2015 and 2014, respectively.

The Company is authorized to issue up to 1,000,000 shares of preferred stock at a par value of $25.00 per share. As of December 31, 2015, there were no shares of preferred stock issued or outstanding.

SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions for recognition or disclosure through February 24, 2016, the date the financial statements were available to be issued.

RECLASSIFICATION

Certain comparative amounts for the prior year have been reclassified to conform to current year presentation. Such reclassifications did not affect net income or stockholders' equity.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of investment securities available for sale at December 31 are as follows:

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 8,951,178	$ 22,313	$ (54,213)	$ 8,919,278
Corporate bonds	4,359,692	96,848	(677)	4,455,863
Obligations of states and political subdivisions	28,599,199	846,142	(14,840)	29,430,501
Mortgage-backed securities – residential	51,594,368	666,836	(281,395)	51,979,809
Subtotal, debt securities	93,504,437	1,632,139	(351,125)	94,785,451
Equity securities	2,460,871	1,178,469	(120,813)	3,518,527
Total	$ 95,965,308	$ 2,810,608	$ (471,938)	$ 98,303,978

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 9,944,792	$ 41,793	$ (176,885)	$ 9,809,700
Corporate bonds	4,381,221	123,107	(343)	4,503,985
Obligations of states and political subdivisions	29,033,780	872,396	(91,395)	29,814,781
Mortgage-backed securities – residential	54,858,652	1,213,275	(182,069)	55,889,858
Subtotal, debt securities	98,218,445	2,250,571	(450,692)	100,018,324
Equity securities	2,460,871	1,029,704	(133,223)	3,357,352
Total	$100,679,316	$3,280,275	$ (583,915)	$103,375,676

Mortgage-backed securities includes securities issued by the U.S. government, corporations, and agencies. Equity securities includes stock held in other financial institutions.

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

2015	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. government agency securities	$ 3,470,911	$ (29,089)	$ 1,474,397	$ (25,124)	$ 4,945,308	$ (54,213)
Corporate bonds	751,225	(677)	—	—	751,225	(677)
Obligations of states and political subdivisions	2,833,100	(6,463)	1,229,950	(8,377)	4,063,050	(14,840)
Mortgage-backed securities – residential	17,195,607	(123,604)	4,464,534	(157,791)	21,660,141	(281,395)
Subtotal, debt securities	24,250,843	(159,833)	7,168,881	(191,292)	31,419,724	(351,125)
Equity securities	—	—	303,386	(120,813)	303,386	(120,813)
Total Temporarily Impaired Securities	$24,250,843	$(159,833)	$ 7,472,267	$(312,105)	$ 31,723,110	$ (471,938)

2014	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. government agency securities	$ 996,700	$ (2,754)	$7,825,300	$(174,131)	$ 8,822,000	$ (176,885)
Corporate bonds	752,109	(343)	—	—	752,109	(343)
Obligations of states and political subdivisions	4,829,096	(40,532)	3,023,579	(50,863)	7,852,675	(91,395)
Mortgage-backed securities – residential	1,319,278	(2,598)	8,504,916	(179,471)	9,824,194	(182,069)
Subtotal, debt securities	7,897,183	(46,227)	19,353,795	(404,465)	27,250,978	(450,692)
Equity securities	—	—	290,976	(133,223)	290,976	(133,223)
Total Temporarily Impaired Securities	$ 7,897,183	$ (46,227)	$19,644,771	$ (537,688)	$ 27,541,954	$ (583,915)

The unrealized losses on the Company's investments in U.S. government agency securities ("agency bonds"), obligations of state and political subdivisions, and mortgage-backed securities ("MBS") were primarily caused by interest rate fluctuations. In the case of agency bonds and MBS, the contractual cash flows are guaranteed by an agency of the U.S. government or a government-sponsored enterprise. In the case of obligations of state and political subdivisions, the contractual terms are guaranteed by the respective issuers and may be insured by third-party insurance companies. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015 and 2014. There were 5 and 9 positions in agency bonds,1 and 1 positions in corporate bonds, 9 and 16 positions in obligations of state and political subdivisions, 27 and 11 positions in MBS, and 3 and 3 positions in equity securities that were temporarily impaired at December 31, 2015 and 2014, respectively.

The Company's investments in equity securities consist primarily of investments in common stock of bank holding companies. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based upon that evaluation, and because the Company does not plan to or believe it will be forced to sell the investments prior to full recovery of fair value, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

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

	Amortized Cost	Fair Value
Due in one year or less	**$ 7,240,053**	**$ 7,291,257**
Due after one year through five years	**$ 49,833,485**	**$ 50,576,213**
Due after five years through ten years	**$ 32,178,380**	**$ 32,644,577**
Due after ten years	**$ 4,252,519**	**$ 4,273,404**
Total Debt Securities	**$ 93,504,437**	**$ 94,785,451**

Investment securities with a fair value of $9,942,262 and $13,827,392 were pledged to secure public deposits and other purposes as required by law at December 31, 2015 and 2014, respectively. Investment securities with a fair value of $12,453,538 and $14,303,775 were pledged to secure repurchase agreements at December 31, 2015 and 2014, respectively.

For the years ended December 31, 2015 and 2014, proceeds from sales of securities available for sale amounted to $991,101 and $3,536,381, respectively. Gross realized gains amounted to $81,849 and $128,783 in 2015 and 2014, respectively. Gross realized losses amounted to $0 in 2015 and $0 in 2014.

3. LOANS

Major classifications of loans at December 31 are summarized as follows:

	2015	2014
Real Estate:		
Construction	**$ 4,557,943**	$ 6,564,581
Mortgage:		
Residential	**62,492,024**	60,830,422
Commercial	**136,960,989**	127,687,417
Commercial	**23,980,517**	22,931,631
Consumer	**48,838,238**	43,498,390
Lease financing	**10,000,436**	17,626,460
Other	**13,418**	34,326
Total	**286,843,565**	279,173,227
Less net deferred loan fees	**432,586**	364,411
	286,410,979	278,808,816
Less allowance for loan and lease losses	**3,579,274**	3,547,187
Net Loans	**$282,831,705**	$ 275,261,629

The Company's primary business activity is to grant commercial, residential, lease financing, and consumer loans. These loans are typically granted to customers located within its local trade areas, which are concentrated in Allegheny County, Pennsylvania. Although the Company has a diversified loan portfolio, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

In the normal course of business, loans are extended to directors, principal officers, and their 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. A summary of loan activity for those principal officers, directors, and their affiliates for the year ended December 31, is shown below:

	2015	2014
Balance, January 1	**$ 1,360,571**	$ 1,524,401
Additions	**438,832**	213
Repayments	**(164,929)**	(164,043)
Balance, December 31	**$ 1,634,474**	$ 1,360,571

4. CREDIT QUALITY AND RELATED ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table summarizes the primary segments of the loan portfolio and the related allowance as of December 31, 2015 and 2014:

		Real Estate Mortgage						
2015	Construction	Residential	Commercial	Commercial	Consumer	Lease financing	Other	Total
Total Loans	**$4,557,943**	**$62,492,024**	**$136,960,989**	**$23,980,517**	**$ 48,838,238**	**$10,000,436**	**$ 13,418**	**$286,843,565**
Individually evaluated for impairment	**—**	**313,329**	**591,135**	**1,858,294**	**—**	**430,605**	**—**	**3,193,363**
Collectively evaluated for impairment	**4,557,943**	**62,178,695**	**136,369,854**	**22,122,223**	**48,838,238**	**9,569,831**	**13,418**	**283,650,202**
Related Allowance	**$ 154,000**	**$ 146,000**	**$ 1,300,274**	**$ 1,120,000**	**$ 847,000**	**$ 12,000**	**$ —**	**$ 3,579,274**
Individually evaluated for impairment	**—**	**—**	**215,000**	**625,000**	**—**	**—**	**—**	**840,000**
Collectively evaluated for impairment	**154,000**	**146,000**	**1,085,274**	**495,000**	**847,000**	**12,000**	**—**	**2,739,274**

		Real Estate Mortgage						
2014	Construction	Residential	Commercial	Commercial	Consumer	Lease financing	Other	Total
Total Loans	$6,564,581	$60,830,422	$127,687,417	$22,931,631	$ 43,498,390	$17,626,460	$ 34,326	$ 279,173,227
Individually evaluated for impairment	—	313,329	2,129,994	1,621,675	—	524,355	—	4,589,353
Collectively evaluated for impairment	6,564,581	60,517,093	125,557,423	21,309,956	43,498,390	17,102,105	34,326	274,583,874
Related Allowance	$ —	$ 165,000	$ 1,487,187	$ 1,090,000	$ 576,000	$ 229,000	$ —	$ 3,547,187
Individually evaluated for impairment	—	—	215,000	110,000	—	170,000	—	495,000
Collectively evaluated for impairment	—	165,000	1,272,187	980,000	576,000	59,000	—	3,052,187

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The real estate loan segment is further disaggregated into three classes. Construction loans typically consist of loans to build commercial buildings and acquire and develop residential real estate. Residential mortgages include loans to individuals secured by residential properties. Commercial mortgages consist of loans to commercial borrowers secured by commercial or residential real estate. The commercial loan segment consists of loans to finance the activities of commercial business customers. The consumer loan segment consists primarily of home equity loans, installment loans, and overdraft lines of credit. The lease financing segment consists of leases to commercial customers primarily to finance vehicles and equipment.

Management evaluates individual loans in all of the commercial segments for possible impairment if the relationship is greater than $200,000, and if the loan either is in nonaccrual status, risk-rated Substandard or Doubtful, greater than 90 days past due or

represents a troubled debt restructuring. Loans are considered to be 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. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired or has a classified risk rating.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Corporation's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table summarizes information in regard to impaired loans by loan segment as of December 31, 2015 and December 31, 2014:

2015	Impaired Loans with Specific Allowance		Impaired Loans with no Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans
Real Estate:							
Construction	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Mortgage:							
Residential	**—**	**—**	**313,329**	**313,329**	**313,329**	**313,329**	**—**
Commercial	**385,437**	**215,000**	**205,698**	**591,135**	**628,179**	**595,452**	**9,090**
Commercial	**1,326,750**	**625,000**	**531,544**	**1,858,294**	**1,858,294**	**1,849,824**	**41,252**
Consumer	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Lease financing	**—**	**—**	**430,605**	**430,605**	**451,953**	**497,007**	**19,461**
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**$1,712,187**	**$ 840,000**	**$1,481,176**	**$3,193,363**	**$3,251,755**	**$3,255,612**	**$ 69,803**

2014	Impaired Loans with Specific Allowance		Impaired Loans with no Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans
Real Estate:							
Construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Mortgage:							
Residential	—	—	313,329	313,329	313,329	313,329	—
Commercial	383,509	215,000	1,746,485	2,129,994	2,171,907	2,196,620	80,481
Commercial	223,878	110,000	1,397,797	1,621,675	1,621,675	1,781,675	54,698
Consumer	—	—	—	—	—	—	—
Lease financing	524,355	170,000	—	524,355	567,900	554,073	—
Other	—	—	—	—	—	—	—
Total	$1,131,742	$ 495,000	$3,457,611	$4,589,353	$4,674,811	$4,845,697	$ 135,179

Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the financial difficulties experienced by the borrower, who could not obtain comparable terms from alternate financing sources. During 2015 there was one modification determined to be a troubled debt restructuring. The modification consisted of 4 leases to one customer which were consolidated into 1 term loan. In addition to consolidating the positions, an extension of the initial term was granted. The balance of the leases prior to the modification was $538,859. As of December 31, 2015, the loan was on accrual status and had a balance of $531,544. There was no specific reserve established on this loan. This loan is included in the impaired loan table for 2015 shown above.

Management uses a nine-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the collection of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Any loan that has a specific allocation of the allowance for loan losses and is in the process of liquidation of the collateral is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as delinquency, bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Company's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination. Commercial relationships are periodically reviewed internally for credit deterioration or improvement in order to confirm that the relationship is appropriately risk-rated. The Company engages an external consultant to conduct loan reviews on at least a quarterly basis. Generally, the external consultant reviews commercial relationships greater than $750,000 and/or criticized relationships greater than $25,000. Status reports are provided to management for loans classified as Substandard on a quarterly basis, which results in a proactive approach to resolution. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

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, 2015 and December 31, 2014:

2015	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
Construction	**$ 1,507,943**	**$ 3,050,000**	**$ —**	**$ —**	**$ 4,557,943**
Mortgage:					
Residential	**61,118,939**	**788,997**	**584,088**	**—**	**62,492,024**
Commercial	**133,011,234**	**3,084,370**	**865,385**	**—**	**136,960,989**
Commercial	**21,895,030**	**157,970**	**1,927,517**	**—**	**23,980,517**
Consumer	**48,529,470**	**48,772**	**259,996**	**—**	**48,838,238**
Lease financing	**9,448,424**	**—**	**552,012**	**—**	**10,000,436**
Other	**13,418**	**—**	**—**	**—**	**13,418**
Total	**$ 275,524,458**	**$ 7,130,109**	**$ 4,188,998**	**$ —**	**$ 286,843,565**

2014	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
Construction	$ 6,564,581	$ —	$ —	$ —	$ 6,564,581
Mortgage:					
Residential	59,378,894	807,019	644,509	—	60,830,422
Commercial	121,786,754	4,800,279	1,100,384	—	127,687,417
Commercial	20,892,646	318,451	1,496,656	223,878	22,931,631
Consumer	43,186,187	65,037	247,166	—	43,498,390
Lease financing	17,008,244	81,470	536,746	—	17,626,460
Other	34,326	—	—	—	34,326
Total	$ 268,851,632	$ 6,072,256	$ 4,025,461	$223,878	$ 279,173,227

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due based on the loans' contractual due dates. The following table presents the segments of the loan portfolio summarized by the past due status of performing loans and nonaccrual loans as of December 31, 2015 and December 31, 2014:

		Days Past Due					
2015	Current	30-59	60-89	90+	Total	Nonaccrual	Total Loans Receivables
Real Estate:							
Construction	**$ 4,557,943**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,557,943**
Mortgage:							
Residential	**60,385,767**	**643,123**	**32,256**	**1,282,065**	**1,957,444**	**148,813**	**62,492,024**
Commercial	**134,239,473**	**1,300**	**72,151**	**2,008,540**	**2,081,991**	**639,525**	**136,960,989**
Commercial	**22,566,696**	**—**	**—**	**—**	**—**	**1,413,821**	**23,980,517**
Consumer	**48,461,680**	**28,107**	**3,694**	**31,207**	**63,008**	**313,550**	**48,838,238**
Lease financing	**9,798,065**	**80,964**	**—**	**—**	**80,964**	**121,407**	**10,000,436**
Other	**8,468**	**3,911**	**389**	**650**	**4,950**	**—**	**13,418**
Total	**$ 280,018,092**	**$ 757,405**	**$ 108,490**	**$ 3,322,462**	**$ 4,188,357**	**$ 2,637,116**	**$ 286,843,565**

		Days Past Due					
2014	Current	30-59	60-89	90+	Total	Nonaccrual	Total Loans Receivables
Real Estate:							
Construction	$ 6,564,581	$ —	$ —	$ —	$ —	$ —	$ 6,564,581
Mortgage:							
Residential	59,665,946	487,169	79,645	432,588	999,402	165,074	60,830,422
Commercial	126,486,241	311,070	12,217	—	323,287	877,889	127,687,417
Commercial	22,616,226	—	—	—	—	315,405	22,931,631
Consumer	43,045,441	118,463	74,108	8,954	201,525	251,424	43,498,390
Lease financing	16,974,710	24,151	9,084	2,598	35,833	615,917	17,626,460
Other	8,610	10,184	6	15,526	25,716	—	34,326
Total	$ 275,361,755	$ 951,037	$ 175,060	$ 459,666	$1,585,763	$ 2,225,709	$ 279,173,227

An allowance for loan and lease losses ("ALLL") is maintained to absorb losses from the loan and lease portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan and lease portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The Bank's methodology for determining the ALLL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALLL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The segments described above, which are based on the Federal Deposit Insurance Corporation ("FDIC") call code assigned to each loan, provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity at the segment level. A historical charge-off factor is calculated utilizing a defined number of consecutive historical years. Currently, the Company utilizes a five year historical charge-off factor.

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors are evaluated periodically and updated using information obtained from internal, regulatory, and governmental sources including, but not limited to: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry, and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged-off against the ALLL.

The following table summarizes the ALLL as of December 31, 2015 and December 31, 2014, respectively.

		Real Estate Mortgage						
2015	**Construction**	**Residential**	**Commercial**	**Commercial**	**Consumer**	**Lease financing**	**Other**	**Total**
Allowance for credit losses:								
Beginning balance	**$ —**	**$ 165,000**	**$ 1,487,187**	**$ 1,090,000**	**$ 576,000**	**$ 229,000**	**$ —**	**$ 3,547,187**
Charge-offs	**—**	**—**	**(9,103)**	**(231,601)**	**(117,661)**	**(169,848)**	**—**	**(528,213)**
Recoveries	**—**	**—**	**—**	**—**	**10,300**	**200,000**	**—**	**210,300**
Provisions	**154,000**	**(19,000)**	**(177,810)**	**261,601**	**378,361**	**(247,152)**	**—**	**350,000**
Ending Balance	**$154,000**	**$ 146,000**	**$ 1,300,274**	**$ 1,120,000**	**$ 847,000**	**$ 12,000**	**$ —**	**$ 3,579,274**

		Real Estate Mortgage						
2014	**Construction**	**Residential**	**Commercial**	**Commercial**	**Consumer**	**Lease financing**	**Other**	**Total**
Allowance for credit losses:								
Beginning balance	$ 5,000	$ 226,000	$ 1,164,000	$ 1,202,936	$ 526,000	$ 197,000	$ —	$ 3,320,936
Charge-offs	—	—	(31,403)	(86,069)	(49,393)	—	—	(166,865)
Recoveries	—	—	—	—	1,449	—	—	1,449
Provisions	(5,000)	(61,000)	354,590	(26,867)	97,944	32,000	—	391,667
Ending Balance	$ —	$ 165,000	$ 1,487,187	$ 1,090,000	$ 576,000	$ 229,000	$ —	$ 3,547,187

The allowance for loan and lease losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALLL that is representative of the risk found in the components of the portfolio at any given date. In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan and lease losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to Management. Based on Management's comprehensive analysis of the loan portfolio, they believe the current level of the allowance for loan and lease losses is adequate.

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31, 2015 and 2014, are summarized as follows:

	2015	2014
Land and land improvements	**$ 1,092,501**	$ 1,092,501
Buildings and building improvements	**2,834,617**	2,813,366
Furnitures, fixtures, and equipment	**2,955,210**	2,919,157
Leasehold improvements	**1,146,785**	1,486,888
Total	**$ 8,029,113**	$ 8,311,912
Less accumulated depreciation	**(5,004,641)**	(5,080,289)
Plus projects in progress	**90,820**	102,100
Premises and Equipment, Net	**$ 3,115,292**	$ 3,333,723

Depreciation charged to operations was $478,278 and $496,948 in 2015 and 2014, respectively.

6. DEPOSITS

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $19,442,249 and $22,282,690 at December 31, 2015 and 2014, respectively. Interest expense related to such deposits was $449,525 and $536,266 in 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of certificates of deposits are shown at right:

2016	$29,975,811
2017	12,238,196
2018	2,419,408
2019	9,230,731
2020 and thereafter	12,626,337
Total	$ 66,490,484

7. BORROWED FUNDS

The Bank is a member of the FHLB. This membership allows the Bank to borrow funds from the FHLB which are collateralized by qualifying securities and loans. At December 31, 2015, the Bank had approximately $154 million in maximum borrowing capacity available as collateral for existing and future borrowings. Included in the $154 million is a revolving line of credit agreement the Bank has established with the FHLB whereby it can borrow up to approximately $73 million on a short-term basis. The outstanding balance under this agreement was approximately $49 million and $36 million at December 31, 2015 and 2014, respectively. The interest rate in effect on those borrowings were .43% and .27% on December 31, 2015 and 2014, respectively.

Advances, which are typically more long-term in nature, are also available from the FHLB. At December 31, 2015 and 2014, the Bank's advances consisted of the following:

		2015		2014	
Loan Type	**Maturity Date**	**Amount**	**Interest Rate**	**Amount**	**Interest Rate**
Variable Term	9/29/15	**$ –**	**0.00%**	$ 5,989,501	4.00%

The Company maintains a secured revolving line of credit in the amount of $3 million with Atlantic Community Bankers Bank. At December 31, 2015, the full amount of the established line of credit was available to the Company. Additionally, the Bank has borrowing capacity with the Federal Reserve. The amount that the Bank is able to borrow is equal to the collateral value assigned to loans and/or securities pledged to the Federal Reserve. As of December 31, 2015, the Bank's collateral value with the Federal Reserve was $40,982,582.

8. INCOME TAXES

Income tax expense consists of:

	2015	2014
Current	**$ 824,324**	$ 831,674
Deferred	**140,712**	136,514
Total	**$ 965,036**	$ 968,188

The following temporary differences gave rise to the deferred tax assets (liabilities), included in accrued interest and other liabilities and accrued interest and other assets, at December 31, 2015 and 2014 respectively:

	2015	2014
Deferred tax assets:		
Allowance for loan and lease losses	**$ 1,211,211**	$ 1,211,577
AMT credit	**7,909**	244,687
Purchase accounting	**86,350**	82,786
Non-accrual interest	**28,671**	32,561
Stock option expense	**45,224**	46,744
Core deposit intangibles	**21,420**	27,179
Other	**915**	959
Total Gross Deferred Tax Assets	**1,401,700**	1,646,493
Deferred tax liabilities:		
Premises and equipment	**(541,636)**	(580,609)
Deferred loan origination fees, net	**(33,950)**	(96,283)
Prepaid expenses	**(145,612)**	(167,657)
Net unrealized gain on securities	**(795,147)**	(916,762)
Other	**(41,711)**	(22,441)
Total Gross Deferred Tax Liabilities	**(1,558,056)**	(1,783,752)
Net Deferred Tax Liability	**$ (156,356)**	$ (137,259)

No valuation allowance was established against the deferred tax assets in view of taxable income in the carryback period as well as certain tax strategies and anticipated future taxable income.

The Company is subject to routine audits of our tax returns by the Internal Revenue Service. As of December 31, 2015, income tax years 2012 through 2014 are open for examination.

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

	2015		2014	
	Amount	**% of Pre-tax Income**	**Amount**	**% of Pre-tax Income**
Provision at statutory rate	**$1,462,390**	**34.00%**	$ 1,387,530	34.00%
Effect of tax-exempt income	**(379,378)**	**(8.82)**	(366,263)	(8.97)
Bank-owned life insurance	**(58,779)**	**(1.36)**	(57,546)	(1.41)
Nondeductible interest expense	**8,529**	**0.20**	8,734	0.21
Dividend received deduction	**(76,907)**	**(1.79)**	(22,765)	(0.56)
Other	**9,181**	**0.21**	18,498	0.45
Actual Tax Expense and Effective Rate	**$ 965,036**	**22.44%**	$ 968,188	23.72%

9. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are various outstanding commitments and certain contingent liabilities not reflected in the accompanying Consolidated Financial Statements. These commitments and contingent liabilities represent financial instruments with off-balance-sheet risk. The contract or notional amounts of those instruments reflect the extent of involvement in particular types of financial instruments, which were comprised of the following:

	2015	2014
Lines of credit	**$ 41,001,524**	$ 36,491,341
Construction loans	**535,457**	3,174,028
Credit card lines	**3,721,358**	3,832,243
Other commitments	**10,573,960**	4,657,849
Standby letters of credit	**830,297**	482,346
Total	**$ 56,662,596**	$ 48,637,807

The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The same credit policies are used in making commitments and conditional obligations as for on-balance-sheet instruments. Generally, collateral is required to support financial instruments with credit risk. The terms are typically for a one-year period with an annual renewal option subject to prior approval by management.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments are comprised primarily of available commercial and personal lines of credit. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party.

The exposure to loss under these commitments is limited by subjecting them to credit approval and monitoring procedures. Substantially all commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of the loan funding. Since at times commitments expire without being drawn upon, the total contractual amounts do not necessarily represent future funding requirements.

The Company rents certain branch office buildings under long-term lease agreements expiring through 2017 and thereafter. These leases contain renewal options and generally provide that the Company will pay for insurance, taxes, and maintenance.

At December 31, 2015, the Company was committed under noncancelable lease agreements for minimum rental payments to lessors as follows:

YEARS ENDING DECEMBER 31:	
2016	$ 392,151
2017	348,158
2018	345,522
2019	345,522
2020	263,022
Thereafter	525,002
Total	$ 2,219,377

Total rentals charged to operations amounted to $468,050 in 2015 and $481,343 in 2014.

The Company and the Bank are subject to various legal actions in the normal course of business activities. Management believes that liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

10. EMPLOYEE BENEFIT PLANS

The Bank maintains a qualified 401(k) deferred compensation plan for all eligible employees. An annual contribution to the plan is determined each year by the Board of Directors. Contributions to the plan are based on a percentage of the salaries of the plan participants. The contributions for 2015 and 2014 amounted to $146,136 and $163,129, respectively.

The Bank has an Employee Stock Ownership Plan ("ESOP") for employees who have attained age 21 and who have completed a 12-month period of employment with the Bank during which they worked at least 1,000 hours. The Bank can make contributions to the ESOP at the Board's discretion. Company shares are then purchased in the open market or issued from Treasury stock and allocated to employee accounts based on each employee's relative portion of the Bank's total eligible compensation recorded during the year. During the years ended December 31, 2015 and 2014, the Bank recognized $125,000 and $100,000 in contribution expense related to the ESOP, respectively.

11. STOCK COMPENSATION PROGRAM

On April 10, 2007, the Company's shareholders approved the Company's 2007 Stock Incentive Plan (the "Plan"), which reserves for issuance 49,000 shares of authorized, unissued Company common stock. The Plan provides for the granting of incentive stock options (as defined in section 422 of the Internal Revenue Code), nonstatutory stock options, restricted stock, and stock appreciation rights to eligible employees and directors. The Plan has a term of ten years and is administered by the Board of Directors or a committee designated by the Board. As of December 31, 2015, 35,365 stock options have been granted under the Plan and 33,338 are currently exercisable. Restricted awards totaling 13,515 have been granted under the Plan and 11,225 have vested and are unrestricted as of December 31, 2015.

On April 12, 2011, the Company's shareholders approved the Company's 2011 Stock Incentive Plan (the "2011 Plan"), which reserves for issuance 48,000 shares of authorized, unissued Company common stock. The Plan provides for the granting of incentive stock options (as defined in section 422 of the Internal Revenue Code), nonstatutory stock options, restricted stock, and stock appreciation rights to eligible employees and directors. The Plan has a term of ten years and is administered by the Board of Directors or a committee designated by the Board. As of December 31, 2015, 0 stock options and 7,440 restricted awards have been granted under the 2011 Plan. Restricted awards totaling 5,121 have vested and are unrestricted as of December 31, 2015.

The Company has elected to recognize compensation expense for stock options and restricted stock awards on a straight-line basis over the requisite service period. Compensation expense of $108,654 and $108,202 related to the awards granted was recognized for the year ended December 31, 2015 and 2014, respectively. At December 31, 2015, there was $59,611 of total unrecognized compensation cost related to non-vested stock options and restricted stock awards under the Plan. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.96 years.

Stock Options

The following table summarizes the stock option activity in the Plan during the years ended December 31, 2015 and 2014:

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	2007 Stock Incentive Plan	**Weighted Average Exercise Price**	**2007 Stock Incentive Plan**	**Weighted Average Exercise Price**
Balance, beginning of year	**33,365**	**$ 39.55**	33,365	$ 39.55
Granted	**—**	**—**	—	—
Exercised	**(27.00)**	**37.75**	—	—
Forfeited	**—**	**—**	—	—
Balance, End of Year	**33,338**	**$ 39.69**	33,365	$ 39.55
Weighted average contractual life remaining in years	**3.76**		5.01	
Exercise price per share	**$ 31.00 – $ 55.20**		$ 31.00 – $ 55.20	

	2015		2014	
	Number of Options	Fair Value	Number of Options	Fair Value
Nonvested, beginning of year	—	$ —	1,500	$ 3.31
Granted	—	—	—	—
Vested	—	—	(1,500)	3.31
Forfeited	—	—	—	—
Nonvested, End of Year	—	$ —	—	$ —

Restricted Stock

On February 26, 2015, 1,775 restricted stock awards were granted to senior management. On April 14, 2015, 1,500 restricted stock awards were granted to outside directors. The shares issued to senior management will vest over a three-year period while the shares issued to outside directors vested on December 31, 2015. The February 26, 2015 awards to senior management were granted in accordance with 2014 performance levels set by the Compensation Committee. These awards were granted out of the 2011 Plan.

On April 8, 2014, 1,186 restricted stock awards were granted to outside directors out of the 2011 Plan. Those shares vested on December 31, 2014. There were no shares issued to senior management during 2014.

During the restricted period, the recipient receives dividends and can vote the shares. Generally, if the recipient leaves the Company before the end of the restricted period, the shares will be forfeited.

12. REGULATORY RESTRICTIONS

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount to 10% of the Bank's capital.

Included in cash and due from banks are required federal reserves of $2,835,000 and $3,295,000 at December 31, 2015 and 2014, respectively, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These reserves are held in the form of cash on-hand and a balance maintained with the Federal Reserve Bank.

13. REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revises capital standards to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-weighted assets requirement (from 4% to 6% of risk-weighted assets), and modifies the calculation of risk-weighted assets to enhance risk sensitivity. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule became effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016, and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. When filing the March 31, 2015 Call Report, the Bank opted-out of including unrealized gains and losses on certain "available–for–sale" securities holdings in the calculation of regulatory capital requirements.

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

As of December 31, 2015 and 2014, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier I risk-based, and Tier I leverage capital ratios must be at least 10%, 8%, and 5%, respectively. Prompt corrective action provisions are not applicable to bank holding companies.

The Bank's actual capital ratios are presented in the following table, which reflects that the Bank met all capital adequacy requirements. The Company's capital and ratios are comparable to those shown for the Bank.

	2015		2014	
	Amount	**Ratio**	**Amount**	**Ratio**
As of December 31:				
Total risk-based:				
Actual	**$42,234,000**	**14.13%**	$ 40,464,000	13.67%
For capital adequacy purposes	**23,917,000**	**8.00**	23,683,520	8.00
To be well capitalized	**29,896,000**	**10.00**	29,604,400	10.00
Tier I risk-based:				
Actual	**$38,488,000**	**12.87%**	$ 36,737,000	12.41%
For capital adequacy purposes	**17,937,000**	**6.00**	11,841,760	4.00
To be well capitalized	**23,917,000**	**8.00**	17,762,640	6.00
Common equity tier I risk-based:				
Actual	**$38,488,000**	**12.87%**	$ —	—
For capital adequacy purposes	**13,453,000**	**4.50**	—	—
To be well capitalized	**19,432,000**	**6.50**	—	—
Tier I leverage:				
Actual	**$38,488,000**	**9.62%**	$ 36,737,000	9.10%
For capital adequacy purposes	**15,999,000**	**4.00**	16,150,880	4.00
To be well capitalized	**19,999,000**	**5.00**	20,188,600	5.00

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities recognized or disclosed at fair value on a recurring basis and certain financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis are accounted for using a three-level hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable market inputs (Level III). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest level input that has a significant impact on the fair value measurement is used.

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

Level I	Quoted prices are available in the active markets for identical assets or liabilities as of the reported date.
Level II	Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.
Level III	Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company is responsible for the valuation process and as part of this process may use data from outside sources in establishing fair value. The Company performs due diligence to understand the inputs used or how the data was calculated or derived. The Company corroborates the reasonableness of external inputs in the valuation process.

The estimated fair values (in thousands) of the Company's financial instruments at December 31, 2015 and 2014, are as follows:

2015	Carrying Value	Estimated Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and interest-earning deposits with other institutions	**$ 9,145**	**$ 9,145**	**$ 9,145**	**$ —**	**$ —**
Investment securities available for sale	**98,304**	**98,304**	**3,519**	**94,785**	**—**
Net loans	**282,832**	**282,169**	**—**	**—**	**282,169**
Federal Home Loan Bank Stock	**3,970**	**3,970**	**—**	**3,970**	**—**
Accrued interest receivable	**1,157**	**1,157**	**—**	**1,157**	**—**
Financial liabilities:					
Deposits	**$ 315,346**	**$ 316,411**	**$ —**	**$316,411**	**$ —**
Short-term borrowings	**48,659**	**48,659**	**—**	**48,659**	**—**
Long-term debt	**—**	**—**	**—**	**—**	**—**
Accrued interest payable	**650**	**650**	**—**	**650**	**—**

2014	Carrying Value	Estimated Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and interest-earning deposits with other institutions	$ 11,412	$ 11,412	$ 11,412	$ —	$ —
Investment securities available for sale	103,376	103,376	3,357	100,019	—
Net loans	275,262	277,904	—	—	277,904
Federal Home Loan Bank Stock	3,456	3,456	—	3,456	—
Accrued interest receivable	1,105	1,105	—	1,105	—
Financial liabilities:					
Deposits	$ 322,446	$ 324,125	$ —	$324,125	$ —
Short-term borrowings	36,128	36,128	—	36,128	—
Long-term debt	5,990	6,074	—	6,074	—
Accrued interest payable	709	709	—	709	—

Cash and Interest-Earning Deposits with Other Institutions, Federal Home Loan Bank Stock, Accrued Interest Receivable, and Accrued Interest Payable

The carrying amounts reported for these instruments approximate fair value.

Loans and Deposits

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for the purposes of the calculations. Demand, savings, and money market deposit accounts are valued at the amount payable on-demand as of year-end. Fair values for time deposits are estimated using a discounted cash flow calculation that applies contractual cost currently being offered in the existing portfolio to current market rates being offered for deposits of similar remaining maturities.

Borrowings

The fair value of fixed rate advances are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements with similar credit. The carrying amount on variable rate advances approximates their fair value.

Off-balance Sheet Financial Instruments

Many of the Company's off-balance sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon; therefore, the commitment amounts do not necessarily represent future cash requirements. Management has determined that due to the uncertainties of cash flows and difficulty in predicting the timing of cash flows for loan commitments, fair values were not estimated for either period. See Note 9, "Commitments and Contingent Liabilities," for additional information.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014, by level within the fair value hierarchy. Equity securities in the available-for-sale security portfolio are measured at fair value using quoted market prices for identical assets and are classified within Level I of the valuation hierarchy. Debt securities are measured at fair value by using matrix pricing, which is a mathematical technique widely used 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.

2015	Level I	Level II	Level III	Total
Assets:				
Debt securities				
U.S. government agency securities	**$ —**	**$ 8,919,278**	**$ —**	**$ 8,919,278**
Corporate bonds	**—**	**4,455,863**	**—**	**4,455,863**
Obligations of states and political subdivisions	**—**	**29,430,501**	**—**	**29,430,501**
Mortgage-backed securities – residential	**—**	**51,979,809**	**—**	**51,979,809**
Subtotal, debt securities	**—**	**94,785,451**	**—**	**94,785,451**
Equity securities	**3,518,527**	**—**	**—**	**3,518,527**
Liabilities	**—**	**—**	**—**	**—**

2014	Level I	Level II	Level III	Total
Assets:				
Debt securities				
U.S. government agency securities	$ —	$ 9,809,700	$ —	$ 9,809,700
Corporate bonds	—	4,503,985	—	4,503,985
Obligations of states and political subdivisions	—	29,814,781	—	29,814,781
Mortgage-backed securities – residential	—	55,889,858	—	55,889,858
Subtotal, debt securities	—	100,018,324	—	100,018,324
Equity securities	3,357,352	—	—	3,357,352
Liabilities:	—	—	—	—

The following table presents the assets measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secures the impaired loan includes observable inputs as employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III.

2015	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	**$ —**	**$ —**	**$ 2,353,363**	**$ 2,353,363**

2014	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 4,094,353	$ 4,094,353

Impaired loans are individually reviewed to determine the amount of each loan that is considered to be at risk of noncollection. The impaired loans are reported at fair value less any specific allowance. Fair value is generally determined by an appraisal of collateral, which includes various Level III inputs that are not identifiable. Appraisals may also be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. Estimated liquidation expenses are typically 0% to 30% of the appraised value of the collateral.

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Assistant Vice President, Credit Analyst III

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Assistant Vice President, Controller

**Also an Officer of Allegheny Valley Bancorp, Inc.*

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Chartered 2013

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President, Seven Z Enterprises, Inc.

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Transfer Agent

Computershare Investor Services
P.O. Box 30170
College Station, TX 77842
Toll-free phone: 1 (800) 368-5948
Website: www.computershare.com

Stock Listing

Allegheny Valley Bancorp Inc.'s Common Stock is traded on the OTCQX Marketplace under the symbol AVLY.

Information Requests

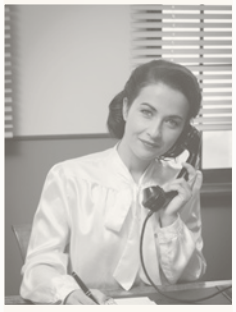
A copy of the 2015 Annual Report of Allegheny Valley Bancorp, Inc. will be furnished to shareholders without charge upon their request to the Chief Financial Officer and Treasurer of the Corporation at its Headquarters Office, 5137 Butler Street, Pittsburgh, PA 15201. The telephone number is (412) 781-0318. Alternatively, the annual report can be found at www.ilovethatbank.com under the "Investor Relations" page.

Broker Information

The following brokers have agreed to use their best efforts to buy or sell Allegheny Valley Bancorp, Inc. stock:

Boenning & Scattergood
2025 Greentree Road
Suite 200
Pittsburgh, PA 15220
1 (800) 889-6440

Stifel, Nicolaus & Company, Inc.
2000 Oxford Drive
Suite 605
Bethel Park, PA 15102
1 (866) 253-0500


A MESSAGE TO OUR CUSTOMERS

Allegheny Valley Bank and its employees are committed to helping you meet your financial needs. We are unique in our approach as we have dedicated ourselves to serving business clients in the Pittsburgh market by putting well-seasoned, qualified personnel at your doorstep when you need them. This is our business and your success is our success. We have positioned ourselves to offer all of the same products and services as our larger competitors, pricing ourselves competitively but being much more flexible and nimble to react to your fast changing needs. I assure you will not be lost in the numbers at AVB, but instead you will be one of our most strategic clients.

Allegheny Valley Bancorp, Inc.

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