ANNUAL REPORT 2015



Dear Shareholder:

On behalf of the Board of Directors and the management team of County First Bank, we are pleased to report on the Bank's performance for the year-ending December 31, 2015.

2015 Comments

For the past two years, the management team at County First Bank has worked diligently to improve the asset quality issues that have lingered through the past few years and prepare the company for the opportunities that present themselves as the economy continues to improve. This has required trust and patience on the part of our shareholders, for whom I am grateful. The company earned $1.1 million from operations, or $1.21 per diluted share. We strengthened our balance sheet by reducing problem loans and increasing capital, which further positions us for future growth. The improvement in asset quality was significant, with classified loans declining by 30%, or $8 million. At the end of 2015 Troubled Debt Restructuring stood at $5.9 million, of which $4.8 million were performing loans. This represents the lowest level of TDR's in three years. Our capital position remains strong as our Tier 1 Capital ratio at year-end stood at 10.87% and Total Capital at 16.93%. I am confident that the steps we have taken over the past few years have positioned County First Bank to capture our share of growth in one of the better markets in the country. Given that our loan-to-deposit ratio remains relatively low at 70%, we still have substantial lending capacity to tap as the economy continues to strengthen and as our customers borrowing needs increase. The Federal Reserve agreed to a small increase in rates at year-end; however the probability of a continued low interest rate environment through 2016 seems reasonably high. While the low rate environment is not the ideal scenario for improved bank spreads, the Bank continues to maintain a stable net interest margin at 3.55%, a slight decline from 3.59% in 2014.

Financial Highlights

County First Bank's total assets increased just over $16.9 million to $226 million as of December 31, 2015. Net income before taxes was $1.14 million for 2015, $447 thousand higher than the $696 thousand for the year-ending December 31, 2014. The increase in net income year-over-year was primarily the result of bank owned life insurance income and a gain on foreclosed real estate. The loan portfolio increased $9.3 million, or just over 7%; however non-interest expense items increased $284 thousand, or 4.4% mainly driven by OREO write downs and increased health care expenses.

Net Interest Income
Net interest income was $7.2 million for 2015, an increase of $220 thousand from 2014. The increase resulted from lower deposit costs, continued improvement in the loan portfolio and solid investment performance. Net interest margin remained stable averaging 3.55 percent for the year-ending December 31, 2015, compared with 3.59 percent for 2014. County First Bank's securities portfolio balance was $56.6 million as of year-end 2015, compared with $51.4 million as of year-end 2014. The result was an increase in revenue of $38 thousand year-over-year.

Loans increased to $140.5 million as of year-end 2015, while the allowance for loan loss remained at $2.1 million. Deposits ended the year at $199.2 million, compared to $184.2 million in 2014.

Non-interest Income
Non-interest income generated $1.5 million in revenue, an increase of 81% percent above the $799 thousand the previous year. The increase is a result of bank owned life insurance distributions and gains on foreclosed real estate. The Bank continues to see a declining trend in account service charges due to increased average balances in both checking and savings accounts.

Non-interest Expense
Non-interest expense for the year-ending December 31, 2015, was $6.7 million, 4.4 percent higher than 2014. This year-over-year increase in non-interest expense was principally due to increases in healthcare cost, OREO write downs and increased costs in data processing. Salary expense was $2.6 million, or 2.7% above year-end 2014.

Credit Quality
County First Bank charged off $461 thousand during 2015 and experienced $93 thousand in recoveries. Non-accrual loans were $4.6 million as of December 31, 2015, compared to $3.5 million at year-end 2014; however total classified

loans ended at $18.3 million, or $8 million below year-end 2014. Current loan balances (less than 30 days) increased $10 million year-over-year to $136 million.

County First Bank's allowance for loan losses balance was $2.1 million, or 1.52 percent of the total loans outstanding as of December 31, 2015. Management believes the allowance for loan losses is appropriate given current economic conditions and the Bank's asset quality.

Capital

County First Bank maintains a Tier I leverage capital ratio of 10.9 percent as of December 31, 2015, compared with 10.9 percent as of December 31, 2014. This represents $24.3 million of capital to support the Bank and future growth. All Bank capital ratios continue to be in excess of "well-capitalized" regulatory requirements.

Summary Comments

This past year represented County First Bank's 25th anniversary serving our clients in Maryland and the Greater Washington Region. Looking back, this institution was born in the midst of the savings and loan crisis where 1,043 out of 3,234 institutions failed. Over its history this organization rode a roller coaster of economic disasters including, stock market crashes, terrorist attacks, multiple wars, recessions, banking crisis, increased regulation, and most recently the longest period of zero interest rates in history. Despite the turbulence the Bank has grown steadily to $226 million, capital levels are strong, and the Bank is profitable. Given the headwinds, our shareholders, Board members, employees and clients can be very proud of what has been accomplished. I am sure there will be more twists and turns in our future, but the opportunities for a Bank such as ours are abundant. We saw over $13 million in loan growth in just five months from our Virginia LPO in 2015, which exceeded our initial expectations. The Greater Washington Region provides excellent opportunities for County First Bank to expand our customer base and balance sheet. At the same time we will remain focused on what makes us a community bank. We recognize our business is about "Putting People First" and we are proud of our employees who know firsthand the importance of our clients, communities, fellow employees and shareholders.

As always, our accomplishments would not be possible without the support of many dedicated employees. We would like to thank our past and present Board of Directors, Officers, and Staff of County First Bank. We also thank you, our Shareholders, and our many customers for your support.

Kind Regards,

Douglas T. Mitchell
President & CEO

E Larry Sanders III
Chairman of the Board



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



Risk Management Team
Standing, left-to-right: Suzanne Barncord, Karen Zamostny, Will Groves, Doug Mitchell, Chuck Bryer, Patti Murphy, and Jenn Smith.
Seated, left-to-right: Mary Baxter, Jessica Loving, and Lisa Reid Ragen.

County First BANK

Growing in Southern Maryland

Board of Directors



Stephen H. Brandt



Charles D. Carruth
CEO
Carruth & Son, Inc.



G. Wade Compton



Joseph R. Densford
Attorney



Earl R. Gieseman, III
Retired



Thomas C. Hayden, Jr.
Attorney



Helen E. Keller
Vice President
Keller Transportation Inc.



Douglas T. Mitchell
President and CEO
County First Bank



Van T. Mitchell
President
MSI, Incorporated

County First BANK

Growing in Southern Maryland

Board of Directors



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



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



Thomas F. Mudd
Attorney



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



Robert Thompson
President
Southern Maryland Floor Company

County First Bank

Financial Highlights

	2015	2014	2013
At year end			
Assets	**$226,427,184**	$209,480,450	$207,860,247
Deposits	**199,192,838**	184,208,867	182,913,990
Loans, net	**138,416,345**	129,100,202	132,229,505
Stockholders' equity	**24,277,361**	23,278,390	22,893,594
Average balances			
Assets	**$218,976,133**	$213,163,386	$203,483,529
Deposits	**192,575,627**	187,945,718	178,533,639
Loans, net	**138,403,472**	130,024,976	138,376,171
Stockholders' equity	**23,779,617**	23,163,020	22,829,478
For the year			
Net interest income	**$ 7,242,689**	$ 7,022,890	$ 6,872,335
Net income	**1,142,226**	695,795	857,989
Cash dividends declared	**227,626**	497,932	748,952
Per share data			
Net income-basic and diluted	**$ 1.21**	$ 0.74	$ 0.93
Cash dividends declared	**0.25**	0.59	0.90
Book value	**25.60**	24.66	24.71
Ratios			
Return on average assets	**0.52%**	0.33%	0.42%
Return on average equity	**4.80%**	3.00%	3.76%
Average equity to average assets	**10.86%**	10.87%	11.22%

ROWLES & Company, LLP
Certified Public Accountants

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

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying financial statements of County First Bank, which comprise the balance sheets as of December 31, 2015, 2014, and 2013, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of County First Bank as of December 31, 2015, 2014, and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 22, 2016

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County First Bank

Balance Sheets

December 31,	**2015**	2014	2013
	Assets		
Cash and due from banks	**$ 887,074**	$ 831,907	$ 1,103,157
Federal funds sold and interest-bearing deposits	**18,071,269**	14,594,342	48,556,529
Cash and cash equivalents	**18,958,343**	15,426,249	49,659,686
Certificates of deposit in other financial institutions	**-**	-	600,000
Investment securities held to maturity (fair value of **$56,607,504**, $51,535,969, and $12,946,580)	**56,601,731**	51,358,083	12,987,604
Restricted equity securities at cost	**374,900**	373,500	363,800
Loans, less allowance for loan losses of **$2,129,071**, $2,118,859, and $2,080,891	**138,416,345**	129,100,202	132,229,505
Premises and equipment	**3,639,353**	3,767,638	3,893,134
Foreclosed real estate	**390,000**	1,244,640	1,254,840
Cash surrender value of life insurance	**6,007,731**	6,117,328	4,839,288
Accrued interest receivable	**448,733**	442,275	331,014
Deferred income taxes	**1,224,179**	1,117,562	1,136,765
Prepaid income taxes	**-**	159,340	193,760
Other assets	**365,869**	373,633	370,851
	$226,427,184	$209,480,450	$207,860,247
	Liabilities and Stockholders' Equity		
Deposits			
Noninterest-bearing	**$ 59,600,129**	$ 48,359,247	$ 43,353,605
Interest-bearing	**139,592,709**	135,849,620	139,560,385
Total deposits	**199,192,838**	184,208,867	182,913,990
Securities sold under repurchase agreements	**1,316,874**	716,749	1,003,504
Accrued interest payable	**47,750**	52,420	60,344
Income tax payable	**160,526**	-	-
Other liabilities	**1,431,835**	1,224,024	988,815
	202,149,823	186,202,060	184,966,653
Stockholders' equity			
Common stock, par value $1 per share, authorized 5,000,000 shares; issued and outstanding **948,314** in 2015, 858,044 in 2014, and 842,065 in 2013	**948,314**	858,044	842,065
Surplus	**16,179,224**	14,511,937	14,205,203
Undivided profits	**7,149,823**	7,908,409	7,846,326
	24,277,361	23,278,390	22,893,594
	$226,427,184	$209,480,450	$207,860,247
Book value per share	**$ 25.60**	$ 24.66	$ 24.71

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

County First Bank

Statements of Income

Years Ended December 31,	2015	2014	2013
Interest revenue			
Loans, including fees	**$6,824,992**	$6,706,596	$7,364,173
U.S. government agency securities	**435,748**	442,137	85,965
Mortgage-backed securities	**318,467**	265,751	-
Federal funds sold and interest-bearing deposits	**75,078**	82,022	94,369
Other	**8,980**	9,501	6,093
Total interest revenue	**7,663,265**	7,506,007	7,550,600
Interest expense			
Deposits	**420,037**	482,286	676,906
Borrowed funds	**539**	831	1,359
Total interest expense	**420,576**	483,117	678,265
Net interest income	**7,242,689**	7,022,890	6,872,335
Provision for loan losses	**378,000**	410,000	350,000
Net interest income after provision for loan losses	**6,864,689**	6,612,890	6,522,335
Noninterest revenue			
Service charges on deposit accounts	**272,792**	288,874	316,414
Bank-owned life insurance income, including death benefit	**403,423**	208,535	166,341
Gain (loss) on disposal of foreclosed real estate	**484,139**	-	(24,791)
Other fees and commissions	**289,671**	301,764	393,658
Total noninterest revenue	**1,450,025**	799,173	851,622
Noninterest expenses			
Salaries	**2,675,040**	2,605,393	2,517,488
Employee benefits	**890,210**	814,863	735,051
Occupancy	**408,179**	480,418	477,619
Furniture and equipment	**217,243**	228,659	245,856
Data processing	**474,106**	440,550	415,555
Write-down of foreclosed real estate	**137,817**	10,200	-
Other operating	**1,902,393**	1,840,260	1,673,971
Total noninterest expenses	**6,704,988**	6,420,343	6,065,540
Income before income taxes	**1,609,726**	991,720	1,308,417
Income taxes	**467,500**	295,925	450,428
Net income	**$1,142,226**	$ 695,795	$ 857,989
Basic earnings per share	**$ 1.21**	$ 0.74	$ 0.93
Diluted earnings per share	**$ 1.21**	$ 0.74	$ 0.93

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

County First Bank

Statements of Changes in Stockholders' Equity

	Common stock		Surplus	Undivided profits	Total
	Shares	Par value			
Balance, December 31, 2012	828,920	$ 828,920	$ 13,929,272	$ 7,737,289	$ 22,495,481
Net income	-	-	-	857,989	857,989
Cash dividends, $0.90 per share	-	-	-	(748,952)	(748,952)
Dividends reinvested	13,145	13,145	269,472	-	282,617
Stock-based compensation	-	-	6,459	-	6,459
Balance, December 31, 2013	842,065	842,065	14,205,203	7,846,326	22,893,594
Net income	-	-	-	695,795	695,795
Cash dividends, $0.59 per share	-	-	-	(497,932)	(497,932)
Dividends reinvested	9,190	9,190	174,610	-	183,800
Stock dividend, 0.8%	6,789	6,789	128,991	(135,780)	-
Stock-based compensation	-	-	3,133	-	3,133
Balance, December 31, 2014	858,044	858,044	14,511,937	7,908,409	23,278,390
Net income	-	-	-	1,142,226	1,142,226
Cash dividends, $0.25 per share	-	-	-	(227,626)	(227,626)
Dividends reinvested	4,466	4,466	79,763	-	84,229
Stock dividend, 10%	85,804	85,804	1,587,382	(1,673,186)	-
Stock-based compensation	-	-	142	-	142
Balance, December 31, 2015	**948,314**	**$ 948,314**	**$ 16,179,224**	**$ 7,149,823**	**$ 24,277,361**

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

County First Bank

Statements of Cash Flows

Years Ended December 31,	2015	2014	2013
Cash flows from operating activities			
Interest received	**$ 7,655,298**	$ 7,349,610	$ 7,639,662
Fees and commissions received	**809,864**	621,133	748,029
Interest paid	**(425,246)**	(491,041)	(716,842)
Cash paid to suppliers and employees	**(6,074,362)**	(5,932,211)	(5,519,748)
Income taxes paid	**(254,251)**	(242,302)	(594,118)
	1,711,303	1,305,189	1,556,983
Cash flows from investing activities			
Redemption of certificates of deposit in other financial institutions	**-**	600,000	500,000
Purchase of investment securities held to maturity	**(36,017,807)**	(51,379,674)	(15,978,600)
Proceeds from maturity and call of investment securities held to maturity	**30,807,388**	13,034,068	16,850,000
(Purchase) redemption of restricted equity securities	**(1,400)**	(9,700)	37,700
Loans made, net of principal collected	**(9,725,863)**	2,739,566	8,787,736
Purchase of bank owned life insurance	**-**	(1,100,000)	-
Life insurance proceeds - cash surrender value	**265,619**	-	-
Purchase of premises and equipment	**(118,766)**	(115,976)	(89,921)
Purchase of software	**(30,041)**	(900)	(26,523)
Proceeds from sale of foreclosed real estate	**1,200,962**	-	489,233
Improvements to foreclosed real estate	**-**	-	(37,788)
	(13,619,908)	(36,232,616)	10,531,837
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	**(1,061,334)**	(3,734,371)	(6,283,636)
Other deposits	**16,045,305**	5,029,248	15,143,727
Securities sold under repurchase agreements	**600,125**	(286,755)	(166,890)
Dividends reinvested	**84,229**	183,800	282,617
Dividends paid	**(227,626)**	(497,932)	(748,952)
	15,440,699	693,990	8,226,866
Net increase (decrease) in cash and cash equivalents	**3,532,094**	(34,233,437)	20,315,686
Cash and cash equivalents at beginning of year	**15,426,249**	49,659,686	29,344,000
Cash and cash equivalents at end of year	**$18,958,343**	$15,426,249	$49,659,686

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

County First Bank

Statements of Cash Flows
(Continued)

Years Ended December 31,	2015	2014	2013
Reconciliation of net income to net cash provided by operating activities			
Net income	**$1,142,226**	$ 695,795	$ 857,989
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of premises, equipment, and software	**262,851**	257,473	278,942
Provision for loan losses	**378,000**	410,000	350,000
Accretion of discounts, net of amortization	**(33,229)**	(24,873)	(13,908)
Stock-based compensation	**142**	3,133	6,459
Write-down of foreclosed real estate	**137,817**	10,200	-
(Gain) loss on disposal of foreclosed real estate	**(484,139)**	-	24,791
Deferred income taxes	**(106,617)**	19,203	(36,639)
Increase (decrease) in			
Deferred loan fees and costs, net	**31,720**	(20,263)	11,088
Accrued interest payable	**(4,670)**	(7,924)	(38,577)
Income taxes payable	**160,526**	-	-
Other liabilities	**207,811**	235,209	177,423
Decrease (increase) in			
Accrued interest receivable	**(6,458)**	(111,261)	91,882
Cash surrender value of life insurance	**(156,022)**	(178,040)	(128,384)
Prepaid income taxes	**159,340**	34,420	(107,051)
Other assets	**22,005**	(17,883)	82,968
	$1,711,303	$1,305,189	$1,556,983

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

1. **Summary of Significant Accounting Policies**

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

Business

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

Cash and cash equivalents

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

Certificates of deposit in other financial institutions

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

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized and discounts are accreted using the interest method. All of the Bank's investment securities are classified as held to maturity as of December 31, 2015, 2014, and 2013.

Restricted equity securities

Restricted equity securities include the Bank's investment in Federal Home Loan Bank of Atlanta stock, in the amount of **$188,900**, $187,500, and $238,800 as of December 31, 2015, 2014, and 2013, respectively. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on outstanding Federal Home Loan Bank advances. The stock is carried at cost. The remaining balance of restricted equity securities represents investments in the common stock of two bankers' banks.

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

Loans and the allowance for loan losses

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

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

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

1. **Summary of Significant Accounting Policies** (Continued)

Loans and the allowance for loan losses (Continued)

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

Premises and equipment

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

Foreclosed real estate

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

Computer software

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

Income taxes

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

Comprehensive income

Comprehensive income includes net income and the unrealized gain or loss net of related income taxes on investment securities available for sale. For the years ended December 31, 2015, 2014, and 2013, comprehensive income equals net income.

1. **Summary of Significant Accounting Policies** (Continued)

Earnings per share

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

	2015	2014	2013
Average shares outstanding	**945,423**	940,746	925,535
Dilutive common stock equivalents	**-**	-	-
Diluted shares	**945,423**	940,746	925,535
Average anti-dilutive shares	**50,904**	101,808	102,625

The weighted average number of shares outstanding for the years ended December 31, 2014 and 2013, have been adjusted to reflect the 10% stock dividend declared during the year ended December 31, 2015, and the 0.8% stock dividend declared during the year ended December 31, 2014.

Reclassifications

Certain reclassifications have been made to the amounts reported for 2014 and 2013 to conform to the current year presentation. These reclassifications had no effect on net income.

Stock options

The Bank accounts for employee and director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. The Bank is required to recognize compensation expense related to stock-based compensation awards in its income statements over the period during which an individual is required to provide service in exchange for such award. For the years ended December 31, 2015, 2014, and 2013, the Bank recorded stock-based compensation expense of **$142**, $3,133, and $6,459, respectively.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2015 through March 22, 2016, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. **Cash and Cash Equivalents**

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

At times, the Bank carries balances with other banks that exceed the federally insured limit. The average balances did not exceed the federally insured limit in 2015, 2014, or 2013. The Bank also sells federal funds on an unsecured basis to the same banks. Average balances sold were **$1,999,967** in 2015, $2,099,910 in 2014, and $4,527,709 in 2013.

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

3. **Investment Securities**

Investment securities are summarized as follows:

December 31, 2015	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Held to maturity				
U.S. government agency	**$38,000,167**	**$ 87,718**	**$120,182**	**$37,967,703**
Certificates of deposit	**4,550,000**	**9,658**	**488**	**4,559,170**
Mortgage-backed securities	**14,051,564**	**74,035**	**44,968**	**14,080,631**
	$56,601,731	**$171,411**	**$165,638**	**$56,607,504**
December 31, 2014				
Held to maturity				
U.S. government agency	$ 31,760,179	$ 39,017	$ 40,994	$ 31,758,202
Certificates of deposit	5,850,000	1,268	2,597	5,848,671
Mortgage-backed securities	13,747,904	184,122	2,930	13,929,096
	$ 51,358,083	$ 224,407	$ 46,521	$ 51,535,969
December 31, 2013				
Held to maturity				
U.S. government agency	$ 12,987,604	$ 8,617	$ 49,641	$ 12,946,580

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

	Less than 12 months		12 months or longer		Total	
December 31, 2015	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. government agency	**$117,352**	**$17,220,775**	**$ 2,830**	**$ 811,145**	**$120,182**	**$18,031,920**
Certificates of deposit	**488**	**249,513**	**-**	**-**	**488**	**249,513**
Mortgage-backed securities	**40,170**	**5,441,077**	**4,798**	**451,303**	**44,968**	**5,892,380**
	$158,010	**$22,911,365**	**$ 7,628**	**$1,262,448**	**$165,638**	**$24,173,813**
December 31, 2014						
U.S. government agency	$ 21,871	$ 9,772,722	$ 19,123	$ 7,954,967	$ 40,994	$ 17,727,689
Certificates of deposit	2,597	1,247,404	-	-	2,597	1,247,404
Mortgage-backed securities	2,930	510,700	-	-	2,930	510,700
	$ 27,398	$ 11,530,826	$ 19,123	$ 7,954,967	$ 46,521	$ 19,485,793

3. **Investment Securities** (Continued)

	Less than 12 months		12 months or longer		Total	
December 31, 2013	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. government agency	$ 49,641	$ 7,941,880	$ -	$ -	$ 49,641	$ 7,941,880

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

Contractual maturities at December 31, 2015, 2014, and 2013, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are due in monthly installments.

	Held to maturity	
December 31, 2015	Amortized cost	Fair value
Maturing		
Within one year	**$15,544,244**	**$15,614,272**
Over one to five years	**22,088,337**	**22,027,708**
Over five to ten years	**4,917,586**	**4,884,893**
Mortgage-backed securities	**14,051,564**	**14,080,631**
	$56,601,731	**$56,607,504**
December 31, 2014		
Maturing		
Within one year	$ 11,227,000	$ 11,236,155
Over one to five years	23,526,524	23,495,078
Over five to ten years	2,856,655	2,875,640
Mortgage-backed securities	13,747,904	13,929,096
	$ 51,358,083	$ 51,535,969
December 31, 2013		
Maturing		
Within one year	$ -	$ -
Over one to five years	12,987,604	12,946,580
	$ 12,987,604	$ 12,946,580

No investment securities were sold prior to maturity in 2015, 2014, and 2013.

At December 31, 2015, 2014, and 2013, securities with an amortized cost of **$2,000,000**, $1,999,251, and $2,000,000, and fair value of **$1,995,220**, $1,989,480, and $2,003,200, respectively, are pledged as collateral for securities sold under repurchase agreements.

4. **Loans**

Major classifications of loans are as follows:

	2015	2014	2013
Real estate			
Commercial	**$ 65,421,147**	$ 53,051,841	$ 54,476,905
Residential	**22,803,802**	18,763,060	19,215,133
Construction, land development, and land	**22,481,129**	23,482,181	24,914,548
Commercial	**8,930,123**	15,732,364	16,432,013
Home equity	**20,433,412**	19,804,165	18,898,153
Consumer	**475,803**	385,450	373,644
	140,545,416	131,219,061	134,310,396
Allowance for loan losses	**2,129,071**	2,118,859	2,080,891
	$138,416,345	$129,100,202	$132,229,505

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

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

	2015	2014	2013
Variable rate	**$ 26,684,382**	$ 33,643,525	$ 30,195,645
Within one year	**15,349,364**	12,856,775	30,113,005
Over one to five years	**51,496,326**	40,375,134	34,325,055
Over five years	**47,182,708**	44,479,271	39,832,598
	140,712,780	131,354,705	134,466,303
Deferred loan origination fees, net of costs	**(167,364)**	(135,644)	(155,907)
	$140,545,416	$131,219,061	$134,310,396

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

4. **Loans** (Continued)

A summary of transactions in the allowance for loan losses, by loan classification, during the year ended December 31, 2015, 2014, and 2013, follows:

December 31, 2015	Beginning balance	Provision for loan losses	Charge offs	Recoveries	Ending balance	Allowance for loan losses ending balance evaluated for impairment: Individually	Allowance for loan losses ending balance evaluated for impairment: Collectively	Outstanding loan balances evaluated for impairment: Individually	Outstanding loan balances evaluated for impairment: Collectively
Real estate									
Commercial	**$1,439,169**	**$367,917**	**$(216,442)**	**$52,452**	**$1,643,096**	**$635,818**	**$1,007,278**	**$8,469,547**	**$ 56,951,600**
Residential	**11,104**	**21,889**	**-**	**16,000**	**48,993**	**803**	**48,190**	**497,091**	**22,306,711**
Construction, land development, and land	**271,676**	**231,227**	**(244,269)**	**19,088**	**277,722**	**50,737**	**226,985**	**162,925**	**22,318,204**
Commercial	**255,283**	**(192,550)**	**-**	**1,211**	**63,944**	**48,977**	**14,967**	**68,845**	**8,861,278**
Home equity	**138,638**	**(48,319)**	**-**	**4,172**	**94,491**	**-**	**94,491**	**-**	**20,433,412**
Consumer	**2,989**	**(2,164)**	**-**	**-**	**825**	**-**	**825**	**-**	**475,803**
	$2,118,859	**$378,000**	**$(460,711)**	**$92,923**	**$2,129,071**	**$736,335**	**$1,392,736**	**$9,198,408**	**$131,347,008**
December 31, 2014									
Real estate									
Commercial	$ 819,426	$ 769,145	$ (149,837)	$ 435	$ 1,439,169	$ 859,830	$ 579,339	$ 8,452,952	$ 44,598,889
Residential	24,601	(13,497)	-	-	11,104	-	11,104	-	18,763,060
Construction, land development, and land	202,379	326,841	(264,125)	6,581	271,676	40,681	230,995	133,891	23,348,290
Commercial	549,834	(340,762)	-	46,211	255,283	99,987	155,296	1,294,392	14,437,972
Home equity	481,589	(331,654)	(13,840)	2,543	138,638	-	138,638	-	19,804,165
Consumer	3,062	(73)	-	-	2,989	-	2,989	-	385,450
	$ 2,080,891	$ 410,000	$ (427,802)	$ 55,770	$ 2,118,859	$1,000,498	$ 1,118,361	$ 9,881,235	$ 121,337,826
December 31, 2013									
Real estate									
Commercial	$ 909,411	$ 155,776	$ (257,932)	$ 12,171	$ 819,426	$ 325,110	$ 494,316	$ 7,428,816	$ 47,048,089
Residential	31,303	(6,702)	-	-	24,601	-	24,601	186,970	19,028,163
Construction, land development, and land	338,669	(143,290)	-	7,000	202,379	40,681	161,698	1,103,641	23,810,907
Commercial	281,906	369,325	(102,608)	1,211	549,834	406,786	143,048	1,742,213	14,689,800
Home equity	644,742	(26,941)	(140,036)	3,824	481,589	-	481,589	-	18,898,153
Consumer	3,573	1,832	(2,343)	-	3,062	-	3,062	-	373,644
	$ 2,209,604	$ 350,000	$ (502,919)	$ 24,206	$ 2,080,891	$ 772,577	$ 1,308,314	$ 10,461,640	$ 123,848,756

4. **Loans** (Continued)

Past due loans, segregated by age and class of loans, as of December 31, 2015, 2014, and 2013, were as follows:

December 31, 2015	Loans 30-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
Real estate								
Commercial	**$1,117,719**	**$3,094,026**	**$4,211,745**	**$ 61,209,402**	**$ 65,421,147**	**$ -**	**$4,466,718**	**$420,489**
Residential	**-**	**-**	**-**	**22,803,802**	**22,803,802**	**-**	**-**	**-**
Construction, land development, and land	**-**	**91,865**	**91,865**	**22,389,264**	**22,481,129**	**-**	**91,865**	**92,777**
Commercial	**13,524**	**44,170**	**57,694**	**8,872,429**	**8,930,123**	**-**	**44,170**	**4,205**
Home equity	**-**	**-**	**-**	**20,433,412**	**20,433,412**	**-**	**-**	**-**
Consumer	**21,687**	**-**	**21,687**	**454,116**	**475,803**	**-**	**24,131**	**-**
	$1,152,930	**$3,230,061**	**$4,382,991**	**$136,162,425**	**$140,545,416**	**$ -**	**$4,626,884**	**$517,471**
December 31, 2014								
Real estate								
Commercial	$ 1,606,553	$ 2,372,003	$ 3,978,556	$ 49,073,285	$ 53,051,841	$ -	$ 2,372,003	$ 258,174
Residential	-	-	-	18,763,060	18,763,060	-	-	-
Construction, land development, and land	-	133,891	133,891	23,348,290	23,482,181	-	133,891	29,333
Commercial	17,981	1,006,366	1,024,347	14,708,017	15,732,364	-	1,006,366	131,007
Home equity	167,984	-	167,984	19,636,181	19,804,165	-	-	-
Consumer	26,415	-	26,415	359,035	385,450	-	-	-
	$ 1,818,933	$ 3,512,260	$ 5,331,193	$ 125,887,868	$ 131,219,061	$ -	$ 3,512,260	$ 418,514
December 31, 2013								
Real estate								
Commercial	$ 3,332,897	$ 2,746,871	$ 6,079,768	$ 48,397,137	$ 54,476,905	$431,839	$ 3,503,050	$ 320,816
Residential	-	186,970	186,970	19,028,163	19,215,133	-	186,970	6,398
Construction, land development, and land	99,884	1,103,640	1,203,524	23,711,024	24,914,548	-	1,103,640	74,377
Commercial	719,824	295,084	1,014,908	15,417,105	16,432,013	-	734,266	101,582
Home equity	-	-	-	18,898,153	18,898,153	-	-	-
Consumer	3,587	-	3,587	370,057	373,644	-	-	-
	$ 4,156,192	$ 4,332,565	$ 8,488,757	$ 125,821,639	$ 134,310,396	$431,839	$ 5,527,926	$ 503,173

4. **Loans** (Continued)

Impaired loans are loans that have been assessed for impairment, although management may determine that the loan does not require a specific reserve. Impaired loans as of December 31, 2015, 2014, and 2013, were as follows:

December 31, 2015	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment balance	Related allowance	Average recorded investment	Interest recognized
Real estate							
Commercial	**$8,501,877**	**$2,769,908**	**$5,699,639**	**$8,469,547**	**$635,818**	**$8,553,206**	**$262,843**
Residential	**497,091**	**467,196**	**29,895**	**497,091**	**803**	**501,505**	**1,790**
Construction, land development, and land	**162,925**	**91,865**	**71,060**	**162,925**	**50,737**	**181,308**	**-**
Commercial	**68,845**	**-**	**68,845**	**68,845**	**48,977**	**89,623**	**1,480**
Home equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$9,230,738	**$3,328,969**	**$5,869,439**	**$9,198,408**	**$736,335**	**$9,325,642**	**$266,113**
December 31, 2014							
Real estate							
Commercial	$ 8,452,952	$ 3,970,097	$ 4,482,855	$ 8,452,952	$ 859,830	$ 8,435,518	$ 278,863
Residential	-	-	-	-	-	-	-
Construction, land development, and land	133,891	93,210	40,681	133,891	40,681	137,909	514
Commercial	1,294,392	1,194,405	99,987	1,294,392	99,987	1,313,418	19,367
Home equity	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
	$ 9,881,235	$ 5,257,712	$ 4,623,523	$ 9,881,235	$1,000,498	$ 9,886,845	$ 298,744
December 31, 2013							
Real estate							
Commercial	$ 7,428,816	$ 6,185,442	$ 1,243,374	$ 7,428,816	$ 325,110	$ 7,291,724	$ 238,067
Residential	186,970	186,970	-	186,970	-	188,591	7,437
Construction, land development, and land	1,103,641	1,062,960	40,681	1,103,641	40,681	1,117,308	-
Commercial	1,772,823	428,440	1,313,773	1,742,213	406,786	1,811,605	82,069
Home equity	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
	$ 10,492,250	$ 7,863,812	$ 2,597,828	$ 10,461,640	$ 772,577	$ 10,409,228	$ 327,573

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2015, 2014, or 2013.

4. **Loans** (Continued)

Credit quality indicators

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

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

Special mention

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

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

Substandard

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

Doubtful

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

4. **Loans** (Continued)

The following table presents the December 31, 2015, 2014, and 2013, balances of classified loans based on the risk grade. Classified loans include Special mention, Substandard, and Doubtful loans.

December 31, 2015	Special mention	Substandard	Doubtful	Total
Real estate				
Commercial	**$2,649,310**	**$ 9,646,171**	**$ -**	**$12,295,481**
Residential	**1,009,489**	**510,525**	**-**	**1,520,014**
Construction, land development, and land	**3,342,826**	**162,925**	**-**	**3,505,751**
Commercial	**30,382**	**158,157**	**-**	**188,539**
Home equity	**435,264**	**364,610**	**-**	**799,874**
Consumer	**-**	**-**	**-**	**-**
	$7,467,271	**$10,842,388**	**$ -**	**$18,309,659**
December 31, 2014				
Real estate				
Commercial	$ 4,288,926	$ 11,529,970	$ -	$ 15,818,896
Residential	757,300	-	-	757,300
Construction, land development, and land	3,617,418	2,694,021	40,681	6,352,120
Commercial	94,219	2,683,641	-	2,777,860
Home equity	-	584,693	-	584,693
Consumer	-	-	-	-
	$ 8,757,863	$ 17,492,325	$ 40,681	$ 26,290,869
December 31, 2013				
Real estate				
Commercial	$ 6,389,768	$ 3,883,899	$1,127,147	$ 11,400,814
Residential	186,970	-	-	186,970
Construction, land development, and land	5,373,041	1,062,960	40,681	6,476,682
Commercial	1,887,348	920,438	90,749	2,898,535
Home equity	-	346,086	-	346,086
Consumer	-	-	-	-
	$ 13,837,127	$ 6,213,383	$1,258,577	$ 21,309,087

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

4. **Loans** (Continued)

A summary of TDR loans as of December 31, 2015, 2014, and 2013, follows:

	Number of	Recorded investment		
December 31, 2015	contracts	Performing	Nonperforming	Total
Real estate				
Commercial	**9**	**$ 2,882,588**	**$ 1,117,114**	**$ 3,999,702**
Residential	**2**	**1,943,969**	**-**	**1,943,969**
Construction, land development, and land	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**
Home equity	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	11	**$4,826,557**	**$1,117,114**	**$5,943,671**
December 31, 2014				
Real estate				
Commercial	9	$ 3,448,328	$ 625,340	$ 4,073,668
Residential	2	1,955,850	-	1,955,850
Construction, land development, and land	1	-	13,588	13,588
Commercial	-	-	-	-
Home equity	-	-	-	-
Consumer	-	-	-	-
	12	$ 5,404,178	$ 638,928	$ 6,043,106
December 31, 2013				
Real estate				
Commercial	8	$ 3,912,389	$ 1,916,716	$ 5,829,105
Residential	1	-	186,970	186,970
Construction, land development, and land	1	-	1,062,960	1,062,960
Commercial	4	301,186	85,569	386,755
Home equity	-	-	-	-
Consumer	-	-	-	-
	14	$ 4,213,575	$ 3,252,215	$ 7,465,790

The Bank did not classify modifications of any loans as TDRs during 2015. The Bank classified one modified commercial real estate loan for $13,588 as a TDR during 2014. It was charged off in 2015.

5. **Credit Commitments**

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

	2015	2014	2013
Unused lines of credit			
Commercial lines	**$10,731,010**	$ 9,939,167	$ 9,835,338
Home equity lines	**15,244,729**	13,486,181	13,685,367
Unsecured consumer credit	**210,401**	218,384	219,807
	$26,186,140	$23,643,732	$23,740,512
Loan commitments			
Construction and land development	**$ 3,801,702**	$ 4,790,458	$ 5,893,733
Letters of credit	**$ 4,905,121**	$ 6,164,492	$ 7,988,847

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

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

6. **Related-Party Transactions**

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

Activity in these loans during the years ended December 31, 2015, 2014, and 2013, was as follows:

	2015	2014	2013
Beginning balance	**$ 3,281,660**	$ 2,389,521	$ 2,226,946
Advances	**2,235,202**	2,448,633	710,293
Payments	**(1,342,297)**	(773,102)	(547,718)
Change in related parties	**-**	(783,392)	-
Ending balance	**$ 4,174,565**	$ 3,281,660	$ 2,389,521

Deposits from executive officers and directors, including their related interests, were **$12,704,375**, $11,415,370, and $15,007,347 as of December 31, 2015, 2014, and 2013, respectively.

6. **Related-Party Transactions** (Continued)

Three directors of the Bank are partners in law firms that provide legal services to the Bank. During the years ended December 31, 2015, 2014, and 2013, amounts paid to the law firms in connection with those services were **$10,740**, $67,291, and $29,586, respectively.

A director of the Bank is president of an insurance brokerage through which the Bank places various insurance policies. During the years ended December 31, 2015, 2014, and 2013, amounts paid to the insurance brokerage for insurance premiums were approximately **$89,202**, $118,466, and $87,098, respectively.

A director of the Bank owns an interest in an entity from which the Bank leases its operations center. During the years ended December 31, 2015, 2014, and 2013, payments to the entity were **$63,548**, $62,411, and $62,163, respectively.

7. **Premises and Equipment**

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

	Useful lives	**2015**	2014	2013
Land and improvements	15 - 40 years	**$1,873,017**	$1,873,017	$1,873,017
Building and improvements	5 - 40 years	**2,591,517**	2,572,646	2,558,339
Furniture and equipment	3 - 25 years	**1,899,663**	1,937,000	2,036,748
Leasehold improvements	5 - 20 years	**106,232**	100,285	214,032
		6,470,429	6,482,948	6,682,136
Accumulated depreciation and amortization		**2,831,076**	2,715,310	2,789,002
Net premises and equipment		**$3,639,353**	$3,767,638	$3,893,134
Depreciation and amortization expense		**$ 247,051**	$ 241,472	$ 260,508

Included in other assets at December 31, 2015, 2014, and 2013, is computer software carried at an amortized cost of **$50,805**, $36,565, and $51,666, respectively. Software amortization expense was **$15,800**, $16,001, and $18,434 in 2015, 2014, and 2013, respectively.

8. **Borrowings**

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

	2015	2014	2013
Average amount outstanding	**$ 1,082,362**	$ 803,322	$ 1,036,651
Maximum month-end amount outstanding	**1,319,434**	976,957	1,201,054
Average rate paid during the year	**0.05%**	0.10%	0.13%
Investment securities underlying the agreements at year-end			
Amortized cost	**$ 2,000,000**	$ 1,999,251	$ 2,000,000
Estimated fair value	**1,995,220**	1,989,480	2,003,200

The Bank has available lines of credit of $1,500,000 in overnight federal funds and $5,000,000 in a secured federal funds facility from a correspondent bank. The Bank may also borrow up to 20% of its assets from the Federal Home Loan Bank; however, the amount the Bank could borrow would be limited by the balance of qualified loans it could pledge to the FHLB. As of December 31, 2015, the Bank could borrow up to **$44,554,800** from the Federal Home Loan Bank subject to qualifying available collateral. The Bank had pledged loans that provided a borrowing capacity of **$35,377,311** as of December 31, 2015.

The Bank had no advances during 2015, 2014, or 2013.

9. **Deposits**

Major classifications of interest-bearing deposits are as follows:

	2015	2014	2013
Checking	**$ 16,672,677**	$ 15,130,184	$ 16,697,783
Savings	**17,352,571**	15,414,505	14,749,113
Money market	**64,008,825**	62,684,961	61,859,148
Certificates of deposit, $250,000 or more	**4,142,825**	4,145,353	4,143,179
Other certificates of deposit	**37,415,811**	38,474,617	42,111,162
	$139,592,709	$135,849,620	$139,560,385

Interest on deposits for the years ended December 31, 2015, 2014, and 2013, consisted of the following:

	2015	2014	2013
Checking	**$ 9,616**	$ 14,394	$ 25,665
Savings	**16,919**	17,637	31,418
Money market	**144,541**	158,699	245,071
Other time deposits	**248,961**	291,556	374,752
	$ 420,037	$ 482,286	$ 676,906

9. **Deposits** (Continued)

Certificates of deposit mature as follows:

	2015	2014	2013
Three months or less	**$10,254,216**	$10,574,680	$10,406,885
Over three through twelve months	**20,389,283**	23,405,592	21,027,325
Over one year to three years	**5,524,350**	5,632,408	11,172,685
Over three years to five years	**5,390,787**	3,007,290	3,647,446
	$41,558,636	$42,619,970	$46,254,341

10. **Lease Commitments**

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

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

The Bank entered into a lease dated March 4, 2015, for a loan production office in Fairfax, Virginia. The lease has a two-year term.

The leases require the following minimum payments:

Year	Payments
2016	$132,324
2017	70,930
2018	43,158
	$246,412

Rent expense was **$114,439**, $156,248, and $155,557 for 2015, 2014, and 2013, respectively. The Bank closed the Lusby branch in 2014. Future payments due under the Lusby lease were recorded as expense during the year ended December 31, 2014.

11. **Other Noninterest Expenses**

A summary of other noninterest expenses follows:

	2015	2014	2013
Professional services	**$ 439,919**	$ 421,567	$ 308,496
FDIC assessment	**288,500**	225,824	174,762
Telephone, postage, and freight	**245,563**	239,043	239,921
Directors fees	**135,655**	146,659	178,710
ATM and credit card processing	**120,435**	103,171	98,960
Stationery, printing, and supplies	**106,148**	90,733	91,978
Meals and entertainment	**100,497**	89,133	110,278
Liability insurance	**67,829**	46,640	40,748
Dues and meetings	**36,742**	22,715	23,325
Armored carrier and courier	**35,830**	34,892	35,122
Security	**35,478**	40,016	43,988
Education and training	**32,920**	20,134	20,563
Correspondent bank charges	**26,767**	30,084	34,227
Advertising and promotion	**26,635**	27,781	41,685
Amortization of software	**15,800**	16,001	18,434
Publications and subscriptions	**5,676**	4,878	11,412
Foreclosed real estate expense	**3,013**	20,005	65,759
Other	**178,986**	260,984	135,603
	$1,902,393	$ 1,840,260	$ 1,673,971

12. **Income Taxes**

The components of income tax expense are as follows:

	2015	2014	2013
Current			
Federal	**$ 481,443**	$ 251,497	$ 400,273
State	**92,674**	25,225	86,794
	574,117	276,722	487,067
Deferred	**(106,617)**	19,203	(36,639)
	$ 467,500	$ 295,925	$ 450,428

12. **Income Taxes** (Continued)

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

	2015	2014	2013
Allowance for loan losses	**$ (1,937)**	$ 10,156	$ 74,969
Reserve for unfunded commitments	**-**	(8,284)	-
Nonaccrual interest	**39,034**	33,394	(31,217)
Deferred compensation plan	**55,166**	(40,325)	(37,394)
Post-retirement death benefit	**420**	(3,597)	-
Foreclosed real estate write-downs and expense	**(7,330)**	21,324	(11,798)
Accumulated depreciation and amortization	**21,264**	6,535	(31,199)
	$ 106,617	$ 19,203	$ (36,639)

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

Deferred tax assets			
Allowance for loan losses	**$ 712,509**	$ 714,446	$ 724,602
Reserve for unfunded commitments	**8,284**	8,284	-
Nonaccrual interest	**204,117**	165,083	198,477
Deferred compensation plan	**410,663**	355,497	315,172
Post-retirement death benefit	**4,017**	3,597	-
Other-than-temporary impairment of equity security	**39,445**	39,445	39,445
Foreclosed real estate write-downs	**53,691**	61,021	82,345
	1,432,726	1,347,373	1,360,041
Deferred tax liabilities			
Accumulated depreciation and amortization	**93,442**	114,706	108,171
Deferred casualty gain	**115,105**	115,105	115,105
	208,547	229,811	223,276
Net deferred tax asset	**$ 1,224,179**	$1,117,562	$1,136,765

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

	2015	2014	2013
Statutory federal income tax rate	**34.0 %**	34.0 %	34.0 %
Increase (decrease) resulting from			
State income taxes, net of federal income tax benefit	**2.8**	2.1	4.2
Nondeductible expenses	**0.6**	1.1	0.9
Tax-exempt income	**(8.3)**	(7.4)	(4.4)
Other	**(0.1)**	-	(0.3)
	29.0 %	29.8 %	34.4 %

12. **Income Taxes** (Continued)

The Bank's tax returns are subject to review and examination by federal and state taxing authorities. The Bank's tax returns are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2012 through 2015. In management's opinion, the Bank does not have any uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits.

13. **Stock Options**

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

Information with respect to options outstanding is as follows for the years ended December 31, 2015, 2014, and 2013:

	2015		2014		2013	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	**101,808**	**$ 27.78**	101,808	$ 27.78	111,888	$ 27.92
Granted	**-**	**-**	-	-	-	-
Exercised	**-**	**-**	-	-	-	-
Expired and forfeited	**(101,808)**	**27.78**	-	-	(10,080)	29.41
Outstanding at end of year	**-**	**$ -**	101,808	$ 27.78	101,808	$ 27.78
Exercisable at December 31	**-**	**$ -**	101,808	$ 27.78	98,078	$ 27.78

There were no outstanding options as of December 31, 2015.

No stock options were exercised during the years ended December 31, 2015, 2014, or 2013.

14. Retirement Plan

The Bank has a retirement plan qualifying under Section 401(k) of the Internal Revenue Code. The plan covers all full-time employees with one year of service who have reached 21 years of age. The Bank's contributions to the plan, approved by the Board of Directors, were **$86,803**, $79,366, and $81,073 in 2015, 2014, and 2013, respectively.

In 2005, the Bank offered Supplemental Executive Retirement Plans (SERPs) to its executive officers providing for retirement income benefits as well as preretirement death benefits. The Bank accrues the present value of these benefits over the remaining number of years to the executives' retirement dates. The Bank's expenses for the SERPs were **$177,541**, $136,778, and $94,800 in 2015, 2014, and 2013, respectively.

Accounting standards require the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Bank-owned life insurance policies purchased for this purpose do not effectively settle the Bank's obligation to the employee in this regard and thus the Bank records a benefit cost and a related liability. As of December 31, 2015 and 2014, the Bank has recorded a liability of **$10,184** and $5,562, respectively, for this benefit.

15. Capital Standards

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%. Management believes that, as of December 31, 2015, the Bank met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

15. **Capital Standards** (Continued)

The implementation of the capital conservation buffer will begin on January 1, 2016, at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2015, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. The table presents actual and required capital ratios as of December 31, 2014 and 2013, under the rules in effect prior to the Basel III Capital Rules.

As of December 31, 2015, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2015	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio	**$24,277**	**10.87%**	**$ 8,936**	**4.00%**	**$11,170**	**5.00%**
Tier 1 capital (to risk-weighted assets)	**24,277**	**15.68%**	**9,289**	**6.00%**	**12,385**	**8.00%**
Common equity tier 1 capital ratio (to risk-weighted assets)	**24,277**	**15.68%**	**6,966**	**4.50%**	**10,063**	**6.50%**
Total capital ratio (to risk-weighted assets)	**26,215**	**16.93%**	**12,385**	**8.00%**	**5,481**	**10.00%**
December 31, 2014						
Tier 1 capital (to average assets)	$ 23,278	10.86%	$ 8,577	4.00%	$ 10,722	5.00%
Tier 1 capital (to risk-weighted assets)	23,278	14.73%	6,321	4.00%	9,481	6.00%
Total capital (to risk-weighted assets)	25,255	15.98%	12,642	8.00%	15,802	10.00%

15. **Capital Standards** (Continued)

December 31, 2013	Actual Amount	Actual Ratio	Minimum capital adequacy Amount	Minimum capital adequacy Ratio	To be well capitalized Amount	To be well capitalized Ratio
Tier 1 capital (to average assets)	$ 22,894	11.04%	$ 8,293	4.00%	$ 10,367	5.00%
Tier 1 capital (to risk-weighted assets)	22,894	14.72%	6,221	4.00%	9,331	6.00%
Total capital (to risk-weighted assets)	24,839	15.97%	12,442	8.00%	15,552	10.00%

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

16. **Fair Value Measurements**

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

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

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

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

Fair value measurements on a nonrecurring basis

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

Foreclosed real estate is measured at fair value less estimated cost to sell. The fair value of foreclosed real estate is based on offers and/or appraisals. Cost to sell the real estate is based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3. Transactions in foreclosed real estate during the year ended December 31, 2015, 2014, and 2013, are as follows:

	2015	2014	2013
Balance, beginning of year	**$1,244,640**	$1,254,840	$ 1,731,076
Additions and improvements	**-**	-	37,788
Write-downs	**(137,817)**	(10,200)	-
Proceeds from sale	**(1,200,962)**	-	(489,233)
Gain (loss) on sales	**484,139**	-	(24,791)
Balance, end of year	**$ 390,000**	$1,244,640	$ 1,254,840

16. **Fair Value Measurements** (Continued)

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

December 31, 2015	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Impaired loans	**$8,462,073**	**$ -**	**$ -**	**$8,462,073**
Foreclosed real estate	**390,000**	**-**	**-**	**390,000**
December 31, 2014				
Impaired loans	$ 8,880,737	$ -	$ -	$ 8,880,737
Foreclosed real estate	1,244,640	-	-	1,244,640
December 31, 2013				
Impaired loans	$ 9,689,063	$ -	$ -	$ 9,689,063
Foreclosed real estate	1,254,840	-	-	1,254,840

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

	December 31, 2015		December 31, 2014		December 31, 2013	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Investment securities held to maturity	**$ 56,601,731**	**$ 56,607,504**	$ 51,358,083	$ 51,535,969	$ 12,987,604	$ 12,946,580
Loans, net	**138,416,345**	**138,703,000**	129,100,202	128,095,000	132,229,505	132,472,568
Financial liabilities						
Interest-bearing deposits	**$139,592,709**	**$133,095,000**	$135,849,620	$130,671,000	$139,560,385	$140,028,767

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

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

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

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

County First Bank
OFFICERS

E. Larry Sanders, III
Chairman of the Board

Van T. Mitchell
Vice Chairman of the Board

Thomas C. Hayden, Jr.
Secretary

Douglas T. Mitchell
President &
Chief Executive Officer

Charles A. Bryer
Senior Vice President &
Chief Financial Officer

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

Brandy Jacoby
Market President & Senior Vice President
Commercial Lending

Suzanne M. Barncord
Vice President, Commercial Lending

Mary M. Baxter
Vice President,
Director of Information Technology

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

Patricia R. Murphy
Vice President,
Director of Branch Administration

Cynthia L. Morgan
Vice President, Commercial Lending

Deborah R. Blackwell
Assistant Vice President,
Branch Manager

Vicki Mills
Assistant Vice President,
Director of Operations

Lori Stickel
Assistant Vice President,
Director of Finance & Accounting

Lisa Reid Ragen
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Jennifer LD Smith
Compliance Officer, BSA Officer

Jessica Loving
Director of Human Resources

Holly H. Pham
Loan Administration Officer

Jenna Shall
Credit Analyst

Kevin Broadwater
Credit Administration Specialist

Philip M. Cranford
Appraisal Review & Property Inspections

Linda J. Bramell
Branch Manager

Matthew Jones
Branch Manager

Kim Money
Bank Security Officer, Branch Manager

ADVISORY BOARD MEMBERS

Julia Forbes
Accountant

Syd Moreland
CPA

Michael J. Whitson
President
Tri-County Abstract Inc.

County First Bank

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(301) 932-BANK (2265)
(301) 870-3278 (Metro)
(301) 934-2237 (Fax)

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

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

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

Prince Frederick Branch
ATM Location
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Prince Frederick, MD 20678
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(301) 494-3110 (Metro)
(410) 414-7157 (Fax)

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

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

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