COMMERCIAL NATIONAL FINANCIAL CORPORATION

2015 ANNUAL REPORT

Stock Information

Commercial National Financial Corporation's common stock is quoted under the symbol "CNAF" on the OTCQX Marketplace, operated by OTC Markets Group. Stock information may be accessed on the OTC Markets website via the following address: www.otcmarkets.com. At this website, investors have the ability to see all of the broker-dealer quotes and the size of those quotes.

Transfer Agent

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Market Makers

The following firms have committed to make a market in the stock of Commercial National Financial Corporation. Inquiries concerning their services should be directed to:

Boenning & Scattergood, Inc.
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4 Tower Bridge, Suite 300
W Conshohocken, PA 19428-2979
boenningandscattergood.com
800.883.1212

Canaccord Genuity Securities
350 Madison Ave., 10th Fl.
New York, NY 10005
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39 Ave of the Commons, Suite 205
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732.380.3800

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787 Seventh Ave., 4th Fl.
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Wedbush Securities
142 W. 57th Street
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Subsidiary Bank Workforce Composition

As disclosed each year in the Annual Report to Shareholders, on December 31, 2015, the Company employed 110 people in full-time and part-time positions. Fifty-six (56) employees are represented by the United Auto Workers, Local 1799. The Company has had unionized employees since 1972. In 2013, the Company and the bargaining unit entered into a labor agreement that will expire in February 2019. The Commonwealth of Pennsylvania and the National Labor Relations Board both afford protection to the organized status of pre-existing collective bargaining units. The Company has been advised that bargaining unit status may limit the Company's strategic options relative to those of non-unionized insured depository institutions. The Company continues to consider this as a factor in its strategic and capital management decisions.

COMMERCIAL NATIONAL FINANCIAL CORPORATION

BOARD OF DIRECTORS

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President, Arc Weld, Inc.

George A. Conti, Jr.
Attorney at Law

Gregg E. Hunter
Vice-Chairman
Commercial National
Financial Corporation
Chairman, President & CEO,
Commercial Bank & Trust of PA

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Water Treatment Services, Inc.

Steven H. Landers
Vice President, Service,
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Mosso's Pharmacy, Inc.

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Bruce A. Robinson
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George V. Welty
Attorney at Law,
Chairman,
Commercial National
Financial Corporation

Posthumous Director Emeritus
Roy M. Landers

COMMERCIAL NATIONAL FINANCIAL CORPORATION

A LETTER TO OUR SHAREHOLDERS

Commercial National Financial Corporation earned $5,688,000 during 2015. Earnings per share were $1.99. Cash dividends paid per share were $2.04 which included four quarterly $0.26 regular dividends plus a special extra dividend of $1.00. The Company's regular dividend payout ratio remains strong and this strength is evident in the very high dividend yield of the Company's stock shares.

The Company's annualized return on average assets and average equity for 2015 were 1.48% and 10.23%, respectively. Tax equivalent net interest margin was 4.64% and on a linked sequential quarter basis actual net interest income generation substantially improved throughout 2015. Asset quality continued to be outstanding with 2015 representing the eighth consecutive year without any need for loan loss provisioning – a time span that encompassed the worst depths of the financial crisis driven Great Recession. Tier one risk-based, total risk-based, leverage and common equity tier one capital ratios for year-end 2015 were 21.96%, 22.63%, 13.42% and 21.96%, respectively.

All of the aforementioned financial diagnostics materially exceed prevailing banking industry norms as per public data available via the internet from the Federal Deposit Insurance Corporation's Uniform Bank Performance Reports.

The Company's underlying core earnings in conjunction with its solid capital base provide ample capacity to maintain the regular $0.26 per share quarterly common stock cash dividend payments to shareholders.

The special extra cash dividend of $1.00 per share which was paid in May 2015 was based on atypically favorable multi-year results being supplemented by sizeable current year realized net securities sale related gains in much the same manner as the previous $1.00 per share special cash dividend of December 2012 was facilitated.

Providing an attractive and reliable cash dividend income stream to all our shareholders in the most equitable manner possible through the prudent operation of the subsidiary bank remains a long-standing top priority for the Company. In this regard, Commercial National Financial Corporation's actions over an extended number of years stand as a concrete testament to its delivering on that priority as we work to merit your continued support.

Respectfully,

Board of Directors, Commercial National Financial Corporation

COMMERCIAL NATIONAL FINANCIAL CORPORATION

FINANCIAL INFORMATION

BAKER TILLY

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Independent Auditors' Report

Board of Directors and Shareholders
Commercial National Financial Corporation

We have audited the accompanying consolidated financial statements of Commercial National Financial Corporation and subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 Commercial National Financial Corporation and 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
March 16, 2016

Consolidated Statements of Financial Condition

	December 31,	
	2015	2014
	(Dollars in Thousands, Except per Share Amounts)	
Assets		
Cash and due from banks	**$ 6,092**	$ 5,286
Interest bearing deposits with banks	**3,032**	90
Cash and Cash Equivalents	**9,124**	5,376
Investment securities available for sale	**184,442**	187,070
Restricted investments in bank stock	**992**	722
Loans receivable	**182,751**	171,223
Allowance for loan losses	**(1,603)**	(1,616)
Net Loans	**181,148**	169,607
Premises and equipment, net	**3,298**	3,207
Accrued interest receivable	**1,912**	2,004
Investment in life insurance	**18,181**	17,650
Other assets	**405**	1,883
Total Assets	**$399,502**	$387,519
Liabilities and Shareholders' Equity		
Liabilities		
Deposits (all domestic):		
Non-interest bearing	**$115,197**	$105,717
Interest bearing	**204,716**	207,669
Total Deposits	**319,913**	313,386
Short-term borrowings	**22,158**	12,225
Other liabilities	**2,311**	3,603
Total Liabilities	**344,382**	329,214
Shareholders' Equity		
Common stock, par value $2 per share; authorized 10,000,000 shares; issued 3,600,000 shares; outstanding 2,860,953 shares in 2015 and 2014	**7,200**	7,200
Retained earnings	**58,106**	58,254
Accumulated other comprehensive income	**2,358**	5,395
Treasury stock, at cost, 739,047 shares in 2015 and 2014	**(12,544)**	(12,544)
Total Shareholders' Equity	**55,120**	58,305
Total Liabilities and Shareholders' Equity	**$399,502**	$387,519

See notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,	
	2015	2014
	(In Thousands, Except per Share Amounts)	
Interest Income		
Interest and fees on loans	**$ 7,848**	$ 7,667
Interest and dividends on investments:		
Taxable	**2,085**	833
Exempt from federal income taxes	**4,454**	6,711
Other	**71**	54
Total Interest Income	**14,458**	15,265
Interest Expense		
Deposits	**398**	569
Short-term borrowings	**34**	74
Total Interest Expense	**432**	643
Net Interest Income	**14,026**	14,622
Provision for Loan Losses	**0**	0
Net Interest Income after Provision for Loan Losses	**14,026**	14,622
Other Operating Income		
Trust department income	**1,356**	1,142
Service charges on deposit accounts	**894**	976
Net security gains	**3,605**	21
Income from investment in life insurance	**489**	497
Other income	**226**	240
Total Other Operating Income	**6,570**	2,876
Other Operating Expenses		
Salaries and employee benefits	**7,018**	7,017
Net occupancy	**836**	853
Furniture and equipment expense	**529**	503
Pennsylvania shares tax	**512**	404
Legal and professional fees	**413**	340
FDIC insurance	**180**	192
ATM expenses	**314**	403
Director fees	**500**	449
Software expense	**275**	266
Other expenses	**1,731**	1,592
Total Other Operating Expenses	**12,308**	12,019
Income before Income Taxes	**8,288**	5,479
Income Tax Expense/(Benefit)	**2,600**	(731)
Net Income	**$ 5,688**	$ 6,210
Earnings per Share, Basic	**$ 1.99**	$ 2.17

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

	Years Ended December 31,	
	2015	2014
	(In Thousands)	
Net Income	$ 5,688	$ 6,210
Other comprehensive (losses)/income, net of tax:		
Unrealized net (losses)/gains on securities		
Unrealized holding (losses)/gains arising during period (net of income tax (benefit)/expense of $337 in 2015 and $4,608 in 2014)	(658)	8,948
Less: Reclassification adjustment for gains included in net income (net of income tax expense of $1,226 in 2015 and $7 in 2014) (1)(2)	(2,379)	(14)
Other comprehensive (loss)/income	(3,037)	8,934
Total Comprehensive Income	$ 2,651	$15,144

(1) Gross amount included in net security gains on consolidated statements of income 2015 - $3,605 and 2014 - $21
(2) The income tax effect included in income tax expense/(benefit) on consolidated statements of income

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2015 and 2014

(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)/Income	Total Shareholders' Equity
Balance at December 31, 2013	$7,200	$55,020	$(12,544)	$(3,539)	$46,137
Net income	0	6,210	0	0	6,210
Other comprehensive income	0	0	0	8,934	8,934
Cash dividends paid $1.04 per share	0	(2,976)	0	0	(2,976)
Balance at December 31, 2014	**$7,200**	**$58,254**	**$(12,544)**	**$ 5,395**	**$58,305**
Net income	**0**	**5,688**	**0**	**0**	**5,688**
Other comprehensive loss	**0**	**0**	**0**	**(3,037)**	**(3,037)**
Cash dividends paid $2.04 per share	**0**	**(5,836)**	**0**	**0**	**(5,836)**
Balance at December 31, 2015	**$7,200**	**$58,106**	**$(12,544)**	**$ 2,358**	**$55,120**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2015	2014
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	**$ 5,688**	$ 6,210
Adjustments to reconcile net income to net cash provided by Operating activities:		
Depreciation and amortization	**473**	451
Net security gains	**(3,605)**	(21)
Net amortization of securities and loan fees	**160**	426
Income from investment in life insurance	**(489)**	(497)
Loss/(Gain) on other real estate owned	**5**	(2)
Loss on disposal of equipment	**1**	2
Deferred tax expense/(benefit)	**217**	(847)
Net decrease/(increase) in accrued interest receivable and other assets	**1,522**	(345)
Net increase in accrued interest payable and other liabilities	**55**	851
Net Cash Provided by Operating Activities	**4,027**	6,228
Cash Flows from Investing Activities		
Purchases of securities	**(96,142)**	(11,645)
Sale of securities	**62,680**	622
Maturities, calls and principal repayments of securities	**34,935**	22,521
Redemption of restricted investments in bank stock	**1,350**	1,817
Purchase of restricted investments in bank stock	**(1,620)**	(1,114)
Net increase in loans	**(11,541)**	(7,303)
Proceeds from sale of foreclosed real estate	**0**	16
Purchases of premises and equipment	**(565)**	(564)
Net Cash (Used in) Provided by Investing Activities	**(10,903)**	4,350
Cash Flows from Financing Activities		
Net increase/(decrease) in deposits	**6,527**	(3,175)
Net increase/(decrease) in short-term borrowings	**9,933**	(11,086)
Dividends paid	**(5,836)**	(2,976)
Net Cash Provided by (Used in) Financing Activities	**10,624**	(17,237)
Net Increase (Decrease) in Cash and Cash Equivalents	**3,748**	(6,659)
Cash and Cash Equivalents – Beginning	**5,376**	12,035
Cash and Cash Equivalents – Ending	**$ 9,124**	$ 5,376
Supplementary Cash Flows Information		
Interest paid	**$ 461**	$ 678
Income taxes paid/(refunded)	**$ 833**	$ (222)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

General

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation and its wholly-owned subsidiary, Commercial Bank & Trust of PA (the Bank). All material intercompany transactions have been eliminated in consolidation.

As used in these notes to the consolidated financial statements, Commercial National Financial Corporation and its consolidated subsidiary are collectively referred to as the "Corporation."

The Bank operates under a state bank charter and provides full banking services. Commercial National Financial Corporation is subject to regulation by the Federal Reserve Board and the Bank is subject to regulation by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. The Bank's primary business consists of taking deposits and granting loans to customers who generally do business in the area of Westmoreland County, Pennsylvania.

As of December 31, 2015, the Corporation employed 110 people in full-time and part-time positions. Fifty-six (56) employees are represented by the United Auto Workers, Local 1799. In 2013, the Corporation and bargaining unit employees entered into a labor agreement that will expire in February 2019.

The following summary of accounting and reporting policies is presented to aid the reader in obtaining a better understanding of the consolidated financial statements and related financial data of the Corporation and its wholly-owned subsidiaries contained in this report. Such policies conform to generally accepted accounting principles (GAAP) and to general practice within the banking industry.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the realization of deferred tax assets, and the evaluation of other than temporary impairment of securities.

Significant Concentrations of Credit Risk

Most of the Corporation's activities are with customers located within Westmoreland County, Pennsylvania. Note 3 discusses the types of securities that the Corporation invests in. Note 4 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer. Although the Corporation has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

Securities

Debt securities are classified as "securities available for sale" and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of comprehensive income, net of the related deferred income tax effect.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been

Note 1 – Summary of Significant Accounting Policies (Continued)

Securities (Continued)

less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Corporation is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into commercial, residential mortgage, and loans to individuals. Commercial loans consist of the following classes: commercial, industrial and other commercial financing, and commercial real estate. The residential loan segment has one class, one- to four-family first lien residential mortgage loans. Loans to individuals consist of one class, which includes all consumer loans to individuals.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally twelve months) and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable is charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 90 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors.

These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Quality of the Corporation's loan review system, and the degree of oversight by the Corporation's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The following discusses key risks within each portfolio segment:

Commercial, industrial and other financing – These loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the company is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

Commercial real estate – These loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as strip malls and apartment buildings. Individual projects as well as global cash flows are the primary sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

Residential mortgages – These are loans secured by 1-4 family residences, including purchase money mortgages. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also have a significant impact on this portfolio, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Loans to individuals – Loans made to individuals may be secured by junior lien positions on a borrower's primary residence or other assets of the borrower, as well as unsecured loans. This segment includes home equity loans, auto loans, and secured or unsecured lines. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging's or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

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

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for twelve consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance for loan loss calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans. Such evaluations for commercial and consumer loans are also made when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets which do not currently expose the insured institution to sufficient risk, warrant classification as "pass." Assets that are not classified as "pass" and possess weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated statements of financial condition when they are funded.

Foreclosed Real Estate

Foreclosed real estate is comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed real estate is initially recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. Foreclosed residential real estate at December 31, 2015 and 2014 was $1,000 and $6,000, respectively, and is included in other assets on the consolidated statements of financial condition. In addition, residential foreclosures in process at December 31, 2015 and 2014 was $186,000 and $240,000, respectively.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. For financial statement reporting purposes, depreciation is computed both on straight-line and accelerated methods over the estimated useful life of the premises and equipment. Charges for maintenance and repairs are expensed as incurred. Amortization is charged over the term of the respective lease or the estimated useful life of the asset, whichever is shorter.

Bank Owned Life Insurance

The Corporation invests in bank owned life insurance (BOLI) as a tax deferred investment and a source of funding for employee benefit expenses. BOLI involves the purchase of life insurance by the Corporation on a chosen group of employees. The Corporation is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the investment in the policies is included in other operating income on the consolidated statements of income and are not subject to income taxes unless surrendered. The Corporation does not intend to surrender these policies, and, accordingly, no deferred taxes have been recorded on the earnings from these policies.

Advertising Costs

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2015 and 2014 was $43,000 and $60,000, respectively.

Note 1 – Summary of Significant Accounting Policies (Continued)

Trust Operations

Trust income is recorded on the cash basis, which approximates the accrual basis. Securities and other property held by the Corporation in a fiduciary or agency capacity for customers of the Trust Department are not assets of the Corporation and, accordingly, are not included in the accompanying consolidated financial statements. Assets under management in the trust department totaled $154,926,000 and $155,592,000 at December 31, 2015 and 2014, respectively.

Income Taxes

Deferred income tax assets and liabilities are determined based on the differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. These differences are measured at the enacted tax rates that will be in effect when these differences reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Corporation and its subsidiary file a consolidated federal income tax return.

Earnings per Share

Basic earnings per share have been calculated on the weighted average number of shares outstanding of 2,860,953 in 2015 and 2014. The Corporation currently maintains a simple capital structure, thus there are no dilutive effects on earnings per share.

Treasury Stock

The acquisition of treasury stock is recorded under the cost method. At the date of subsequent reissue, the treasury stock is reduced by the cost of such stock on the average cost basis, with any excess proceeds being credited to retained earnings.

Segment Reporting

The Corporation acts as an independent community financial services provider and offers traditional banking and related financial services to individual, business and government customers. The Corporation offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits, the making of commercial, consumer and mortgage loans and providing other financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial and retail operations of the Corporation. As such, discrete information is not available and segment reporting would not be meaningful.

Statements of Cash Flows

For purposes of reporting cash flows, the Corporation has defined cash and cash equivalents as those amounts included in the balance sheet captions, “Cash and due from banks” and “Interest bearing deposits with banks.”

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Restricted Investment in Bank Stock

Federal law requires the Bank, a member institution of the Federal Home Loan Bank system, to hold stock of its district Federal Home Loan Bank (FHLB) according to a predetermined formula. This restricted stock is carried at cost and consists of the common stock of FHLB of Pittsburgh.

Note 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2015 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through March 16, 2016, the date these consolidated financial statements were available to be issued.

New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases." ASU 2016-02 is intended to improve financial reporting about leasing transactions by requiring organizations that lease assets – referred to as "lessees" – to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The amendments will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to all public business entities for annual and interim periods after December 15, 2018, and for all other entities for annual periods beginning after December 15, 2019 and interim periods beginning after December 15, 2020 with early adoption permitted. The Corporation is evaluating the provisions of ASU 2016-02, but believes that its adoption will not have a material impact on the Corporation's consolidated financial statements or results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall" (Subtopic 825-10). The update requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The update also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the update eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measure at amortized cost on the balance sheet for public entities. For public business entities, the amendments are effective for annual periods beginning after December 15, 2017, including interim periods within the annual period, and for all other entities, effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Early application is permitted. The Corporation is evaluating the provisions of ASU 2016-01, but believes that its adoption will not have a material impact on the Corporation's consolidated financial statements or results of operations.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items." ASU 2015-01 simplified income statement presentation by eliminating from GAAP the concept of extraordinary items. The ASU is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply ASU 2015-01 prospectively or retrospectively to all prior periods presented in the financial statements. The adoption of this standard will not have an effect on the Corporation's consolidated financial statements or results of operations, as the Corporation has not reported extraordinary items.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors." ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the

Note 1 – Summary of Significant Accounting Policies (Continued)

New Accounting Standards (Continued)

ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. An entity can adopt the amendments in this guidance using either a prospective transition method or a modified retrospective method. For prospective transition, an entity should apply the amendments in this update to foreclosures that occur after the date of adoption. For modified retrospective transition, an entity should apply the amendments in this update by means of a cumulative-effect adjustment as of the beginning of the annual period of adoption. Prior periods should not be adjusted. The requirements of ASU 2014-14 were effective for reporting periods beginning after December 15, 2014, with early adoption permitted. The adoption of this update did not have a material effect on the Corporation's consolidated financial statements or results of operations.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. ASU 2014-09 specifies that an entity shall recognize revenue when, or as, the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when, or as, the customer obtains control of the asset. Entities are required to disclose qualitative and quantitative information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Management does not expect the adoption of this update to have a material impact on the Corporation's consolidated financial statements or results of operations.

Note 2 - Cash and Due from Banks

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts and non-personal time deposits. Reserves are maintained in the form of vault cash and balances held with the Federal Reserve Bank. The Bank also maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing.

Notes to Consolidated Financial Statements

Note 3 - Securities

The amortized cost and fair values of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2015:				
Obligations of states and political subdivisions	**$172,198**	**$3,957**	**$(1,559)**	**$174,596**
Mortgage-backed securities - GSE	**8,671**	**1,175**	**0**	**9,846**
	$180,869	**$5,132**	**$(1,559)**	**$184,442**
December 31, 2014:				
Obligations of states and political subdivisions	$167,103	$6,748	$ (205)	$173,646
Mortgage-backed securities - GSE	11,794	1,630	0	13,424
	$178,897	$8,378	$ (205)	$187,070

The amortized cost and fair value of 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
	(In Thousands)	
Due within one year	**$ 2,339**	**$ 2,347**
Due after one year through five years	**0**	**0**
Due after five years through ten years	**19,353**	**20,738**
Due after ten years	**159,177**	**161,357**
	$180,869	**$184,442**

Securities with amortized cost and fair values of $24,035,000 and $24,727,000, respectively, at December 31, 2015 and $16,494,000 and $17,566,000, respectively, at December 31, 2014 were pledged to secure public deposits and for other purposes required or permitted by law.

In 2015, the Corporation sold available for sale securities with gross realized gains of $3,691,000 and gross losses of $122,000. In addition, there were gains of $36,000 on municipal bonds called in 2015.

In 2014, the Corporation had calls on municipal bonds with gross realized gains and losses of $30,000 and $9,000, respectively.

Note 3 – Securities (Continued)

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

	(In Thousands) December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	**$57,379**	**$ (1,559)**	**$ 0**	**$ 0**	**$57,379**	**$(1,559)**
	$57,379	**$ (1,559)**	**$ 0**	**$ 0**	**$57,379**	**$(1,559)**

	(In Thousands) December 31, 2014					
Obligations of states and political subdivisions	$ 4,215	$ (15)	$19,941	$ (190)	$24,156	$ (205)
	$ 4,215	$ (15)	$19,941	$ (190)	$24,156	$ (205)

The Corporation reviews its position quarterly to determine if there is Other-Than-Temporary Impairment (OTTI) on any of its securities. All of the Corporation's securities are debt securities and we assess whether OTTI is present when the fair value of a security is less than its amortized cost basis. The Corporation monitors the credit ratings of all securities for downgrades as well as any other indication of OTTI condition. As of December 31, 2015, there were thirty-five (35) municipal bonds in an unrealized loss position. These unrealized losses are considered to be temporary impairments. The decline in the value of these debt securities is due only to interest rate fluctuations and not any deterioration in credit quality. As a result, the Corporation currently expects full payment of contractual cash flows, including principal from these securities. Management has the intent and ability to hold these securities until market recovery or maturity, therefore none of the unrealized losses on securities are deemed to be other than temporary.

At December 31, 2015, all debt securities with temporarily impaired losses have been rated by Moody's and/or S&P with an "A" or better debt rating.

Notes to Consolidated Financial Statements

Note 4 - Loans

Loans are summarized as follows:

	December 31,	
	2015	**2014**
	(In Thousands)	
Commercial		
Commercial, Industrial & Other	**$ 37,114**	$ 37,482
Commercial real estate	**84,755**	79,372
Residential mortgages	**42,238**	34,914
Loans to Individuals	**18,644**	19,455
	$182,751	$171,223

Note 5 – Allowance for Loan Loss

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 Corporation's internal risk rating system as of December 31, 2015:

(Dollars in Thousands)

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial, Industrial & Other	$ 36,818	$ 0	$ 296	$ 0	$ 37,114
Commercial real estate	81,037	455	3,263	0	84,755
Residential mortgages	42,238	0	0	0	42,238
Loans to Individuals	18,630	0	14	0	18,644
Total	$178,723	$ 455	$ 3,573	$ 0	$182,751

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 Corporation's internal risk rating system as of December 31, 2014:

(Dollars in Thousands)

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial, Industrial & Other	$ 36,940	$ 0	$ 542	$ 0	$ 37,482
Commercial real estate	73,257	489	5,626	0	79,372
Residential mortgages	34,828	0	86	0	34,914
Loans to Individuals	19,455	0	0	0	19,455
Total	$164,480	$ 489	$ 6,254	$ 0	$171,223

Note 5 – Allowance for Loan Loss (Continued)

Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The Corporation generally places a loan on non-accrual status and discontinues interest accruals when principal or interest is due and has remained unpaid for 90 days. When a loan is placed on non-accrual status, all unpaid interest recognized in the current year is reversed and interest accrued in prior years is charged to the allowance for loan losses. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid and the ultimate collectability of the remaining principal and interest is reasonably assured.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2015:

(Dollars in Thousands)

	30-89 Days Past Due	≥90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
Commercial						
Commercial, Industrial & Other	$ 0	$ 0	$ 0	$ 0	$ 37,114	$ 37,114
Commercial real estate	0	0	0	0	84,755	84,755
Residential mortgages	97	0	642	739	41,499	42,238
Loans to individuals	49	0	53	102	18,542	18,644
Total	$ 146	$ 0	$ 695	$ 841	$181,910	$182,751

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2014:

(Dollars in Thousands)

	30-89 Days Past Due	≥90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
Commercial						
Commercial, Industrial & Other	$ 0	$ 0	$ 12	$ 12	$ 37,470	$ 37,482
Commercial real estate	29	0	153	182	79,190	79,372
Residential mortgages	0	0	75	75	34,839	34,914
Loans to individuals	9	0	0	9	19,446	19,455
Total	$ 38	$ 0	$ 240	$ 278	$170,945	$171,223

Note 5 – Allowance for Loan Loss (Continued)

The Corporation has determined that, as of December 31, 2015, one loan with a recorded investment and unpaid principal balance of $511,000 was considered impaired. This loan had a related allowance of $286,000 at December 31, 2015. For the year ended December 31, 2015, the average recorded investment in this loan was $537,000 and $10,000 in interest income was recognized.

There were no loans considered to be impaired as of and for the period ended December 31, 2014.

The following table provides detail related to the allowance for loan losses:

Year ended
December 31, 2015
(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for loan losses:						
Beginning Balance	$ 226	$ 930	$ 400	$ 36	$ 24	$ 1,616
Charge-offs	(9)	0	(5)	(1)	0	(15)
Recoveries	2	0	0	0	0	2
Provision	11	(252)	(21)	(1)	263	0
Ending Balance	$ 230	$ 678	$ 374	$ 34	$ 287	$ 1,603

Year ended
December 31, 2014
(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for loan losses:						
Beginning Balance	$ 171	$ 962	$ 377	$ 27	$ 82	$ 1,619
Charge-offs	0	0	0	(6)	0	(6)
Recoveries	2	0	0	1	0	3
Provision	53	(32)	23	14	(58)	0
Ending Balance	$ 226	$ 930	$ 400	$ 36	$ 24	$ 1,616

Note 5 – Allowance for Loan Loss (Continued)

The following table provides detail related to the allowance for loan losses and recorded investment in loans receivable as of December 31, 2015:

(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 286	$ 0	$ 0	$ 286
Ending balance: collectively evaluated for impairment	$ 230	$ 678	$ 88	$ 34	$ 287	$ 1,317
Loans receivable:						
Ending Balance	$37,114	$84,755	$42,238	$18,644	$ 0	$182,751
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 511	$ 0	$ 0	$ 511
Ending balance: collectively evaluated for impairment	$37,114	$84,755	$41,727	$18,644	$ 0	$182,240

Note 5 – Allowance for Loan Loss (Continued)

The following table provides detail related to the allowance for loan losses and recorded investment in loans receivable as of December 31, 2014:

(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Ending balance: collectively evaluated for impairment	$ 226	$ 930	$ 400	$ 36	$ 24	$ 1,616
Loans receivable:						
Ending Balance	$37,482	$79,372	$34,914	$19,455	$ 0	$171,223
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Ending balance: collectively evaluated for impairment	$37,482	$79,372	$34,914	$19,455	$ 0	$171,223

The Corporation adopted ASU No. 2011-02, *A Creditor's Determination of Whether A Restructuring Is a Troubled Debt Restructuring*, which clarifies when a loan modification or restructuring is considered a troubled debt restructuring (TDR). The Corporation has determined that as of and for the periods ended December 31, 2015 and December 31, 2014, there were no loans considered as troubled debt restructures.

Note 6 - Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amount of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not issue any other instruments with significant off-balance-sheet risk.

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

Note 6 - Financial Instruments with Off-Balance Sheet Risk (Continued)

	December 31,	
	2015	2014
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit, including unused lines of credit	**$33,665**	$35,554
Standby letters of credit	**947**	444

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

Outstanding letters of credit written are conditional commitments issued by the Corporation to secure the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Corporation requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2015 and 2014 was $947,000 and $444,000, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was $25,000 for both years. The amount of the liability as of December 31, 2015 and 2014 for guarantees under standby letters of credit issued is not material.

Note 7 - Premises and Equipment

The composition of premises and equipment at December 31, 2015 and 2014 is as follows:

	2015	2014
	(In Thousands)	
Land	**$ 437**	$ 437
Premises	**6,104**	5,974
Leasehold improvements	**301**	301
Furniture and equipment	**6,187**	6,021
	13,029	12,733
Accumulated depreciation and amortization	**(9,731)**	(9,526)
	$ 3,298	$ 3,207

Depreciation and amortization expense was $473,000 and $451,000 for the years ended December 31, 2015 and 2014, respectively.

Note 7 - Premises and Equipment (Continued)

The Corporation rents offices under operating leases that expire through 2021. Lease expense amounted to $149,000 in 2015 and $145,000 in 2014. Operating lease obligations at December 31, 2015 are as follows (in thousands):

2016	**$152**
2017	**109**
2018	**108**
2019	**86**
2020	**44**
Thereafter	**21**
	$520

Note 8 - Deposits

Deposits at December 31, 2015 and 2014 are detailed as follows:

	2015	2014
	(In Thousands)	
Non-interest bearing accounts	**$115,197**	$105,717
Savings accounts	**72,881**	71,383
NOW accounts	**27,608**	27,142
Money market accounts	**47,909**	38,308
Time deposits	**56,318**	70,836
	$319,913	$313,386

Interest bearing deposits include time deposits issued in denominations of $100,000 or more which amounted to $23,072,000 and $33,235,000 at December 31, 2015 and 2014, respectively.

In July 2010, the FDIC permanently increased the limits for FDIC insurance from $100,000 to $250,000 per depositor. Time deposit amounts with balances in excess of $250,000 amounted to $18,810,000 and $27,837,000 at December 31, 2015 and 2014, respectively.

Time deposits at December 31, 2015 had the following scheduled maturities (in thousands):

2016	**$36,734**
2017	**6,251**
2018	**4,355**
2019	**4,636**
2020	**4,247**
Thereafter	**95**
	$56,318

Note 9 - Short-Term Borrowings

Short-term borrowings at December 31, 2015 consisted of $22,158,000 of FHLB borrowings. The December 31, 2014 borrowings consisted of $2,225,000 in Federal Funds Purchased and $10,000,000 in FHLB borrowings.

The outstanding balances and related information of short-term borrowings are summarized as follows**:**

	Years Ended December 31,	
	2015	**2014**
	(Dollars in Thousands)	
Average balance during the year	**$ 9,385**	$23,796
Average interest rate during the year	**0.36%**	0.31%
Maximum month-end balance	**$22,158**	$30,400
Balance at year-end	**$22,158**	$12,225
Weighted average interest rate at end of the year	**0.51%**	0.30%

At December 31, 2015, the Corporation had approved but unused funding availability from lines of credit of $22,000,000.

Note 10 - Long-Term Borrowings

Long-term borrowings outstanding were zero at December 31, 2015 and 2014. Advances from the FHLB of Pittsburgh are secured by the Bank's stock in the FHLB of Pittsburgh and qualifying loans. The maximum remaining borrowing capacity from the FHLB at December 31, 2015 is approximately $78,000,000.

Note 11 - Employee Benefit Plans

The Corporation sponsors an employee profit sharing plan available to all employees with at least one year of service. The Corporation contributes to the plan, as determined by the Board of Directors, in an amount not to exceed 15% of compensation of eligible participants. For the years ended December 31, 2015 and 2014, the amount was 5% of compensation of eligible participants. The Corporation also has a supplemental retirement plan for certain retired employees. The expense for the employee benefit plans was $276,000 and $271,000 for the years ended December 31, 2015 and 2014, respectively.

Notes to Consolidated Financial Statements

Note 12 - Income Taxes

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

	2015	2014
	(In Thousands)	
Allowance for loan losses	**$ 340**	$ 340
Accrued benefits	**2**	4
Intangible assets	**33**	55
Federal net operating loss	**0**	710
Alternative minimum tax	**1,488**	871
Other	**13**	41
Total Deferred Tax Assets	**1,876**	2,021
Deferred loan fees	**45**	46
Securities accretion	**23**	27
Unrealized net gain on securities available for sale	**1,215**	2,779
Depreciation	**418**	341
Total Deferred Tax Liabilities	**1,701**	3,193
Valuation Allowance	**(1,488)**	0
Net Deferred Tax Liability	**$(1,313)**	$(1,172)

The income tax provision for the years ended December 31, 2015 and 2014 is summarized as follows:

	2015	2014
	(In Thousands)	
Current	**$ 895**	$116
Valuation Allowance	**1,488**	0
Deferred	**217**	(847)
	$2,600	$(731)

The tax provision for financial reporting purposes differs from the amount computed by applying the statutory federal income tax rate of 34% to income before income taxes. The differences for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	(Dollars in Thousands)			
Tax at statutory rates	**$ 2,818**	34.0%	$ 1,863	34.0%
Increase (decrease) resulting from:				
Tax-exempt income	**(1,597)**	(19.3)	(2,509)	(45.8)
Non-deductible interest expense	**26**	0.3	67	1.2
Increase in investment in life insurance	**(157)**	(1.9)	(159)	(2.9)
Valuation Allowance	**1,488**	18.0	0	0.0
Other	**22**	0.3	7	0.1
	$ 2,600	31.4%	$ (731)	(13.4)%

Note 12 - Income Taxes (Continued)

The Corporation periodically reviews its tax position and applies a "more likely than not" recognition threshold for all tax uncertainties. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Corporation establishes a valuation allowance when it is more likely than not that the Corporation will not be able to realize the benefit of the deferred tax assets or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessment of realizable deferred tax assets. Based upon the level of historical taxable income and projections for the future taxable income over the periods which deferred tax assets are deductible, management determined that it is more likely than not the Corporation will not generate sufficient taxable income to realize the benefits of the deferred tax assets related to alternative minimum tax at December 31, 2015. As such, management recorded a valuation allowance of $1,488,000 for the year ended December 31, 2015. The Corporation had no unrecognized tax positions at December 31, 2015 and 2014. The Corporation is no longer subject to U.S. federal income tax examinations for the years prior to 2012. With limited exception, the Corporation is no longer subject to state income tax examinations for years prior to 2012. Net deferred taxes are included in other liabilities on the consolidated statements of condition.

Note 13 - Fair Value of Financial Instruments

FASB ASC-820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC-820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

Note 13 - Fair Value of Financial Instruments (Continued)

For assets measured at fair value on a recurring basis, the fair value measurement by level within the fair value hierarchy are as follows:

	(Level 1) Quoted Prices In active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)	
December 31, 2015:			
Obligations of states and political subdivisions	**$ 0**	**$174,596**	**$ 0**
Mortgage-backed securities	**0**	**9,846**	**0**
	$ 0	**$184,442**	**$ 0**
December 31, 2014:			
Obligations of states and political subdivisions	$ 0	$173,646	$ 0
Mortgage-backed securities	0	13,424	0
	$ 0	$187,070	$ 0

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The Level 3 disclosures shown below represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination of fair value. There were no realized or unrealized gains or losses relating to Level 3 financial assets and liabilities measured on a nonrecurring basis for the years ended December 31, 2015 and December 31, 2014.

Note 13 - Fair Value of Financial Instruments (Continued)

For assets measured at fair value on a nonrecurring basis, the fair value measurement by level within the fair value hierarchy used are as follows:

	(Level 1) Quoted Prices In active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)	
December 31, 2015:			
Impaired Loans	**$ 0**	**$ 0**	**$ 225**
Other Real Estate Owned	**$ 0**	**$ 0**	**$ 0**
December 31, 2014:			
Impaired Loans	$ 0	$ 0	$ 0
Other Real Estate Owned	$ 0	$ 0	$ 0

At December 31, 2015, impaired loans valued using Level 3 inputs had a carrying amount of $511,000 and valuation allowances of $286,000. Impaired loans were valued based on the market valuation of underlying collateral, which was determined through independent third-party appraisals of the underlying collateral. Unobservable inputs related to this valuation include direct disposal costs which were 10% of the market value. Disposal costs can include, but not necessarily limited to, real estate brokerage commissions, legal fees, and delinquent property taxes.

There were no impaired loans at December 31, 2014 which were measured using the fair value of the collateral less estimated costs to sell.

There was no other real estate owned at December 31, 2015 and December 31, 2014, which was measured using the fair value of the collateral less estimated costs to sell.

ASC 825-10-65, Transition Related to FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets that are measured at fair value on a non-recurring basis are as discussed above. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis are discussed below. The methodologies for other financial assets and financial liabilities are also discussed below.

The following methods and assumptions were used by the Corporation in estimating financial instrument fair values:

Cash and Cash Equivalents (carried at cost)

The carrying amounts for cash and cash equivalents approximate the estimated fair values of such assets.

Note 13 - Fair Value of Financial Instruments (Continued)

Investment Securities Available for Sale (carried at fair value)

The Corporation utilizes a third party in determining the fair values for securities held as available for sale. For the Corporation's U.S. agency bonds, the third party utilizes benchmark yields, reported trades, broker/dealer quotes, issuer spreads and reference data including market research publications. For the Corporation's municipal bonds, the third party utilizes benchmark yields, reported trades, broker/dealer quotes, issuer spreads, Municipal Market Data benchmarks (MMD) and reference data including market research publications. To determine fair values for the Corporation's GSE mortgage backed securities, the model uses bench mark yields, reported trades, broker/dealer quotes, issuer spreads, TBA prices, monthly payment information and reference data including market research publications.

Restricted Investments in Bank Stock (carried at cost)

The carrying amounts of restricted investments in bank stock approximate the estimated fair value of such assets.

Loans Receivable (carried at cost)

The estimated fair values of our fixed rate loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. Fair values of variable rate loans subject to frequent re-pricing and which entail no significant credit risk are based on the carrying values.

Deposits (carried at cost)

For deposits which are payable on demand at the reporting date, representing all deposits other than time deposits, management estimated that the carrying value of such deposits is a reasonable estimate of fair value. Fair values of time deposits are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregate expected maturities.

Short-Term Borrowings (carried at cost)

The carrying amounts for short-term borrowings approximate the estimated fair value of such liabilities.

Long-Term Borrowings (carried at cost)

Fair values of long-term borrowings are estimated by discounting the future cash flows using interest rates currently available for borrowings with similar terms and maturity.

Accrued Interest Receivable and Payable (carried at cost)

The carrying amount of accrued interest receivable and payable is considered a reasonable estimate of fair value.

Off-Balance Sheet Instruments (disclosed at cost)

The fair value of commitments to extend credit and for outstanding letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

Note 13 - Fair Value of Financial Instruments (Continued)

The carrying amounts and fair values of the Corporation's financial instruments as of December 31, 2015 are presented in the following table:

(Dollars in Thousands)

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices In Active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Financial Assets:					
Cash and equivalents	**$ 9,124**	**$ 9,124**	**$ 9,124**	**$ 0**	**$ 0**
Securities available for sale	**184,442**	**184,442**	**0**	**184,442**	**0**
Restricted investment in bank stock	**992**	**992**	**0**	**992**	**0**
Net loans receivable	**181,148**	**181,379**	**0**	**0**	**181,379**
Accrued interest receivable	**1,912**	**1,912**	**0**	**1,912**	**0**
Financial liabilities:					
Deposits	**$319,913**	**$311,295**	**$ 0**	**$311,295**	**$ 0**
Short-term borrowings	**22,158**	**22,158**	**0**	**22,158**	**0**
Long-term borrowings	**0**	**0**	**0**	**0**	**0**
Accrued interest payable	**63**	**63**	**0**	**63**	**0**
Off-balance sheet financial instruments	**0**	**0**	**0**	**0**	**0**

The carrying amounts and fair values of the Corporation's financial instruments as of December 31, 2014 are presented in the following table:

(Dollars in Thousands)

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices In Active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Financial Assets:					
Cash and equivalents	**$ 5,376**	**$ 5,376**	**$ 5,376**	**$ 0**	**$ 0**
Securities available for sale	**187,070**	**187,070**	**0**	**187,070**	**0**
Restricted investment in bank stock	**722**	**722**	**0**	**722**	**0**
Net loans receivable	**169,607**	**172,114**	**0**	**0**	**172,114**
Accrued interest receivable	**2,004**	**2,004**	**0**	**2,004**	**0**
Financial liabilities:					
Deposits	**$313,386**	**$305,790**	**$ 0**	**$305,790**	**$ 0**
Short-term borrowings	**12,225**	**12,225**	**0**	**12,225**	**0**
Long-term borrowings	**0**	**0**	**0**	**0**	**0**
Accrued interest payable	**92**	**92**	**0**	**92**	**0**
Off-balance sheet financial instruments	**0**	**0**	**0**	**0**	**0**

Note 14 - Related Party Transactions

Some of the Corporation's or the Bank's directors, principal officers, and their related interests had transactions with the Bank in the ordinary course of business. All loans and loan commitments in such transactions were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions with others. In the opinion of management, these transactions with related parties do not involve more than normal risk of collectibility or present other unfavorable features. It is anticipated that further such extensions of credit will be made in the future. The aggregate amount outstanding to these directors and principal officers was approximately $277,000 and $387,000 at December 31, 2015 and 2014, respectively. During 2015, there were $139,000 in advances and repayments totaled $249,000.

In the ordinary course of business, executive officers and directors of the Corporation, including their families and companies in which certain directors are principal owners, were deposit customers of the Bank. Pursuant to the Bank's policies, such deposits are on the same terms as those prevailing at the time for comparable deposits with persons who are not related to the Corporation. At December 31, 2015 and 2014, executive officers and directors had approximately $7,015,000 and $6,105,000, respectively, in deposits with the Bank.

Note 15 - Capital Requirements and Regulatory Restrictions

The Bank is subject to legal limitations on the amount of dividends that can be paid to the Corporation. The Pennsylvania Banking Code restricts the payment of dividends, generally to the extent of its retained earnings.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated 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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weighting and other factors.

Effective January 1, 2015, the Bank became subject to new capital requirements adopted by federal banking agencies. These new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increase the Tier 1 capital ratio requirements, change the risk weight of certain assets for purposes of the risk-based capital ratios, and change what qualifies as capital for purposes of meeting these various capital requirements.

In addition to the above new requirements, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends and discretionary bonuses. This new capital conservation buffer requirement will be phased in beginning in January 2016.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the tables below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 Capital (as defined) to average assets (as defined) and the common equity Tier 1 capital (as defined). Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity Tier 1 ratios as set forth in the table below. There are no conditions or events since those notifications that management believes have changed those categories.

Note 15 - Capital Requirements and Regulatory Restrictions (Continued)

The Corporation's capital ratios are substantially the same as the Bank's capital ratios disclosed below.

The following table presents the risk-based and leverage capital amounts and ratios at December 31, 2015 and 2014 for Commercial Bank & Trust of PA:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2015						
Total capital (to risk-weighted assets)	**$54,125**	**22.6%**	**$≥19,130**	**≥8.0%**	**$≥23,913**	**≥10.0%**
Tier 1 capital (to risk-weighted assets)	**52,522**	**22.0**	**≥14,348**	**≥6.0**	**≥19,130**	**≥ 8.0**
Tier 1 capital (to average assets)	**52,522**	**13.4**	**≥15,656**	**≥4.0**	**≥19,570**	**≥ 5.0**
CET1 capital (to risk-weighted assets)	**52,522**	**22.0**	**≥10,761**	**≥4.5**	**≥15,543**	**≥ 6.5**
As of December 31, 2014						
Total capital (to risk-weighted assets)	$54,287	23.8%	$≥18,238	≥8.0%	$≥22,798	≥10.0%
Tier 1 capital (to risk-weighted assets)	52,671	23.1	≥ 9,119	≥4.0	≥13,679	≥ 6.0
Tier 1 capital (to average assets)	52,671	13.9	≥15,197	≥4.0	≥18,996	≥ 5.0

COMMERCIAL BANK & TRUST of PA

BANK LOCATIONS

Corporate Headquarters
900 Ligonier Street, Latrobe
724-539-3501 I 724-539-1137 (fax)

Courthouse Square Office
19 North Main Street, Greensburg
724-836-7699 I 724-836-7697 (fax)
Monday-Friday 8:30 A.M.-4:30 P.M.

Eastgate Office
867 Georges Station Road, Greensburg
724-836-7600 I 724-836-7604 (fax)
Monday-Thursday 9 A.M.-5 P.M.
Friday 9 A.M.-6 P.M., Saturday 9 A.M.-1 P.M.

Latrobe Office
900 Ligonier Street, Latrobe
724-539-3501 I 724-537-9966 (fax)
Monday-Thursday 9 A.M.-4 P.M.
Friday 9 A.M.-5 P.M.

Lawson Heights Office
11 Terry Way, Latrobe
724-539-9774 I 724-539-3523 (fax)
Monday-Thursday 9 A.M.-5 P.M.
Friday 9 A.M.-6 P.M., Saturday 9 A.M.-1 P.M.

Ligonier Office
201 West Main Street, Ligonier
724-238-9538 I 724-238-9530 (fax)
Monday-Thursday 8:30 A.M.-4:30 P.M.
Friday 8:30 A.M.-6 P.M., Saturday 9 A.M.-12 Noon

Lincoln Road Office
Lincoln Road Shopping Center
1920 Lincoln Avenue, Latrobe
724-537-9980 I 724-537-9982 (fax)
Monday-Thursday 9 A.M.-4 P.M.
Friday 9 A.M.-5 P.M., Saturday 9 A.M.-1 P.M.

Lincoln Road Drive-Up
2004 Lincoln Avenue, Latrobe
Monday-Thursday 9 A.M.-5 P.M.
Friday 9 A.M.-6 P.M., Saturday 9 A.M.-1 P.M.

Norwin Hills Office
Norwin Hills Shopping Center
8775 Norwin Avenue, North Huntingdon
724-864-7536 I 724-864-7531 (fax)
Monday-Thursday 9 A.M.-4 P.M.
Friday 9 A.M.-6 P.M., Saturday 9 A.M.-1 P.M.

Pleasant Unity Office
2059 Route 130, Pleasant Unity
724-423-5222 I 724-423-1155 (fax)
Monday-Thursday 9 A.M.-4 P.M.
Friday 9 A.M.-5 P.M., Saturday 9 A.M.-12 Noon

West Newton Office
109 East Main Street, West Newton
724-872-5100 I 724-872-5143 (fax)
Monday-Thursday 9 A.M.-4 P.M.
Friday 9 A.M.-6 P.M., Saturday 9 A.M.-12 Noon

West Point Office
West Point Plaza
106 West Point Drive, Greensburg
724-552-0137 I 724-552-0145 (fax)
Monday-Wednesday, Friday 8:30 A.M.-4 P.M.
Thursday 8:30 A.M.-6 P.M., Saturday 9 A.M.-12 Noon

Asset Management and Trust Division
19 North Main Street, Greensburg
724-836-7670 I 724-836-7675 (fax)
Monday-Friday 8 A.M.-4:30 P.M.

CORPORATE HEADQUARTERS
900 LIGONIER STREET, LATROBE, PENNSYLVANIA