Annual Report
2015

CALVIN B. TAYLOR BANKSHARES, INC.

Parent Company of
CALVIN B. TAYLOR BANKING COMPANY
BERLIN, MARYLAND

CELEBRATING 125 years

CALVIN B. TAYLOR BANKSHARES, INC.
AND SUBSIDIARY

Financial Highlights

	2015	2014	% Change
At Year End			
Assets	$ 467,009,029	$ 451,042,947	3.54%
Deposits	$ 381,863,734	$ 366,303,211	4.25%
Loans, net	$ 243,241,704	$ 225,483,766	7.88%
Total capital	$ 79,781,215	$ 78,490,941	1.64%
For the Year			
Average assets	$ 465,674,488	$ 455,042,833	2.34%
Average equity	$ 79,730,183	$ 78,680,965	1.33%
Net interest income	$ 13,863,874	$ 13,772,700	0.66%
Net income	$ 4,614,981	$ 4,506,454	2.41%
Per Share Data			
Book value	$ 27.52	$ 26.91	2.27%
Net income	$ 1.59	$ 1.53	3.92%
Ratios			
Return on average assets	0.99%	0.99%	
Return on average equity	5.79%	5.73%	
Total capital to total assets	17.08%	17.40%	
Efficiency ratio	54.64%	54.09%	

CALVIN B. TAYLOR BANKSHARES, INC.

P. O. Box 5, 24 North Main Street, Berlin, Maryland 21811

(410) 641-1700

March 9, 2016

Dear Stockholder:

We are pleased to present the financial report of Calvin B. Taylor Bankshares, Inc., and its subsidiary, Calvin B. Taylor Bank. Results of operations for 2015, as compared to those from 2014 and 2013, are presented in the reports and comments that follow.

Net income for 2015 increased 2.41% to $4,614,981 as compared to $4,506,454 in 2014. Average assets increased 2.34% to $465,674,488 as compared to $455,042,833 in 2014. The bank's Return on Average Assets remained at 0.99% in 2015, and ranked 9th best among the 61 banks headquartered in Maryland at year end. The bank's Efficiency Ratio, which is an indicator of expense control effectiveness, was 54.41% in 2015 and ranked 4th best among the 61 banks headquartered in Maryland at year end. Your company remained very well-capitalized at year end, with total capital of $79,781,215 or 17.08% of assets. Our 2015 financial performance provided for yet another increase to the annual dividend. The annual dividend for 2015 of $0.96 per share represents a yield of 3.49% based on year end book value per share and continues as a consistent and attractive return on investment to stockholders.

In 2015 the bank marked its 125th Anniversary, and we celebrated this remarkable achievement with customer appreciation events at our branches, and a return to the Ocean City Air Show. Throughout the year we took the opportunity to thank our customers for their loyalty and support, which has positioned Taylor Bank as a top performing community bank locally, regionally and nationally.

While earnings maximization continues to be our core focus, during 2015 we launched several strategic initiatives to position the company for continued long-term success. In August, we announced the acquisition of our newest branch site in the Ocean Landings Retail Center, in front of Home Depot in Berlin. Construction commenced in October, and we expect to open this new location during the 2nd quarter of this year. Internally, we concluded key information technology projects such as the virtualization of our servers and a complete re-design of our website to make it more user and mobile friendly. These projects have enhanced the bank's information security and data recovery postures, improved customer access, and our ability to efficiently deliver products and services.

While our quantitative success speaks for itself, the qualitative success of the company can be attributed to a number of other key strengths: personalized service, innovative and competitively priced products and services, outstanding customer loyalty, hard-working and dedicated employees, experienced officers, a tenured and committed Board of Directors, and finally, loyal and supportive stockholders. As we look toward the next 125 years, we will leverage these strengths for even greater levels of success.

Please do not hesitate to contact me to discuss any of the information contained within this financial report, or your banking needs.

Sincerely,

Raymond M. Thompson
President and CEO

CALVIN B. TAYLOR BANKSHARES, INC. AND SUBSIDIARY

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ROWLES
& Company, LLP
Certified Public Accountants

The Board of Directors and Stockholders
Calvin B. Taylor Bankshares, Inc.
Berlin, Maryland

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Calvin B. Taylor Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015, 2014, and 2013, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 audits 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 Bank'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 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 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 Calvin B. Taylor Bankshares, Inc. and Subsidiary 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 9, 2016

8100 Sandpiper Circle, Suite 308, Baltimore, Maryland 21236
443-725-5395 Fax 443-725-5074
Website: www.Rowles.com

CALVIN B. TAYLOR BANKSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	December 31, 2015	2014	2013
Assets			
Cash and due from banks	$ 41,169,588	$ 37,937,508	$ 36,351,065
Federal funds sold	13,755,231	12,752,587	24,700,637
Interest-bearing bank deposits	22,675,185	20,080,489	20,353,091
Investment securities available for sale	42,647,083	47,170,443	41,916,197
Investment securities held to maturity (approximate fair value of $85,598,972, $91,292,681, and $85,483,137)	85,701,626	91,386,521	85,395,290
Loans, less allowance for loan losses of $889,072, $908,588, and $907,821	243,241,704	225,483,766	222,098,060
Premises and equipment	6,794,012	5,458,034	5,748,926
Other real estate owned	355,000	410,500	410,500
Accrued interest receivable	1,253,911	1,093,821	1,187,112
Computer software	196,833	146,198	167,161
Bank owned life insurance	8,506,595	8,201,496	7,949,941
Prepaid expenses	401,061	433,781	387,899
Other assets	311,200	487,803	681,181
Total assets	$ 467,009,029	$ 451,042,947	$ 447,347,060
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 119,011,175	$ 111,213,527	$ 102,435,574
Interest-bearing	262,852,559	255,089,684	261,684,387
Total deposits	381,863,734	366,303,211	364,119,961
Securities sold under agreements to repurchase	4,875,379	5,702,986	5,407,921
Accrued interest payable	20,937	22,624	27,024
Deferred income taxes	188,912	285,213	141,782
Other liabilities	278,852	237,972	186,540
Total liabilities	387,227,814	372,552,006	369,883,228
Stockholders' equity			
Common stock, par value $1 per share; authorized 10,000,000 shares; issued and outstanding 2,899,412 shares at December 31, 2015, 2,917,119 shares at December 31, 2014 and 2,951,828 shares at December 31, 2013	2,899,412	2,917,119	2,951,828
Additional paid-in capital	6,247,043	6,697,024	7,543,333
Retained earnings	69,780,409	67,954,143	66,228,706
Total tier 1 capital	78,926,864	77,568,286	76,723,867
Accumulated other comprehensive income, net of tax	854,351	922,655	739,965
Total stockholders' equity	79,781,215	78,490,941	77,463,832
Total liabilities and stockholders' equity	$ 467,009,029	$ 451,042,947	$ 447,347,060

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

Consolidated Statements of Comprehensive Income

	Years Ended December 31, 2015	2014	2013
Interest and dividend revenue			
Loans, including fees	$ 12,761,888	$ 13,048,887	$ 13,924,182
U. S. Treasury and government agency securities	1,019,056	773,674	603,703
State and municipal securities	143,532	74,868	46,355
Federal funds sold and due from banks	134,602	138,216	82,671
Interest-bearing bank deposits	126,644	85,152	44,271
Equity securities	38,537	40,932	37,029
Total interest and dividend revenue	14,224,259	14,161,729	14,738,211
Interest expense			
Deposits	350,793	378,576	459,485
Borrowings	9,592	10,453	8,880
Total interest expense	360,385	389,029	468,365
Net interest income	13,863,874	13,772,700	14,269,846
Provision for loan losses	57,000	270,000	801,000
Net interest income after provision for loan losses	13,806,874	13,502,700	13,468,846
Noninterest revenue			
Service charges on deposit accounts	619,739	668,750	704,348
ATM and debit card	775,573	737,070	713,667
Increase in cash surrender value of bank owned life insurance	248,067	251,555	259,126
Gain on disposition of assets	59,852	4,019	1,250
Loss on sale and revaluation of other real estate owned and repossessed assets	(95,500)	-	(388,926)
Other than temporary impairment of investment value	-	(16,650)	(199,389)
Miscellaneous	466,843	422,974	397,065
Total noninterest revenue	2,074,574	2,067,718	1,487,141
Noninterest expenses			
Salaries	3,780,918	3,724,530	3,806,244
Employee benefits	1,351,156	1,248,584	1,184,771
Occupancy	717,384	737,706	721,323
Furniture and equipment	449,391	429,965	445,086
Data processing	277,005	269,669	240,085
ATM and debit card	305,425	332,114	321,333
Deposit insurance premiums	214,414	210,106	206,008
Other operating	1,613,274	1,623,790	1,645,727
Total noninterest expenses	8,708,967	8,576,464	8,570,577
Income before income taxes	7,172,481	6,993,954	6,385,410
Income taxes	2,557,500	2,487,500	2,263,851
Net income	4,614,981	4,506,454	4,121,559
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on available for sale investment securities arising during the period, net of taxes of $(30,655), $121,442, and $(11,348)	(68,304)	182,690	(58,881)
Comprehensive income	$ 4,546,677	$ 4,689,144	$ 4,062,678
Earnings per common share - basic and diluted	$ 1.59	$ 1.53	$ 1.39

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

Consolidated Statements of Changes in Stockholders' Equity

	Common stock Shares	Common stock Par value	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income, net of tax	Total stockholders' equity
Balance, December 31, 2012	2,978,554	$ 2,978,554	$ 8,216,785	$ 64,885,625	$ 798,846	$ 76,879,810
Net income	-	-	-	4,121,559	-	4,121,559
Other comprehensive loss, net of tax	-	-	-	-	(58,881)	(58,881)
Common shares repurchased	(26,726)	(26,726)	(673,452)	-	-	(700,178)
Cash dividend, $0.94 per share	-	-	-	(2,778,478)	-	(2,778,478)
Balance, December 31, 2013	2,951,828	2,951,828	7,543,333	66,228,706	739,965	77,463,832
Net income	-	-	-	4,506,454	-	4,506,454
Other comprehensive income, net of tax	-	-	-	-	182,690	182,690
Common shares repurchased	(34,709)	(34,709)	(846,309)	-	-	(881,018)
Cash dividend, $0.95 per share	-	-	-	(2,781,017)	-	(2,781,017)
Balance, December 31, 2014	2,917,119	2,917,119	6,697,024	67,954,143	922,655	78,490,941
Net income	-	-	-	4,614,981	-	4,614,981
Other comprehensive loss, net of tax	-	-	-	-	(68,304)	(68,304)
Common shares repurchased	(17,707)	(17,707)	(449,981)	-	-	(467,688)
Cash dividend, $0.96 per share	-	-	-	(2,788,715)	-	(2,788,715)
Balance, December 31, 2015	2,899,412	$ 2,899,412	$ 6,247,043	$ 69,780,409	$ 854,351	$ 79,781,215

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

Consolidated Statements of Cash Flows

	Years Ended December 31, 2015	2014	2013
Cash flows from operating activities			
Interest and dividends received	$ 14,711,414	$ 14,747,446	$ 14,971,438
Fees and commissions received	2,141,683	1,636,146	1,825,086
Interest paid	(362,073)	(393,428)	(488,130)
Cash paid to suppliers and employees	(8,164,080)	(8,104,142)	(7,624,420)
Income taxes paid	(2,729,437)	(2,085,000)	(2,590,198)
Net cash from operating activities	5,597,507	5,801,022	6,093,776
Cash flows from investing activities			
Certificates of deposit purchased, net of maturities	(2,594,689)	263,454	(6,763,898)
Proceeds from maturities of investments available for sale	19,275,000	12,060,000	41,025,000
Purchase of investments available for sale	(15,173,574)	(17,092,596)	(8,988,741)
Proceeds from maturities of investments held to maturity	41,160,000	41,265,000	45,325,000
Purchase of investments held to maturity	(36,143,309)	(47,709,178)	(65,134,774)
Proceeds from sale of investments available for sale	407,151	30,530	-
Loans made, net of principal reductions	(17,854,938)	(3,655,706)	3,902,348
Proceeds from sale of premises and equipment	-	725	1,250
Purchases of premises, equipment, and computer software	(1,857,899)	(150,286)	(286,587)
Proceeds from sale of other real estate and repossessed assets, net	-	-	1,186,624
Purchase of bank owned life insurance	(57,031)	-	-
Net cash from investing activities	(12,839,289)	(14,988,057)	10,266,222
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	(4,651,692)	(8,816,651)	(9,783,634)
Other deposits	20,212,215	10,999,901	13,348,539
Securities sold under agreements to repurchase	(827,607)	295,065	177,348
Common shares repurchased	(467,688)	(881,018)	(700,178)
Dividends paid	(2,788,715)	(2,781,017)	(2,778,478)
Net cash from financing activities	11,476,513	(1,183,720)	263,597
Net increase (decrease) in cash and cash equivalents	4,234,731	(10,370,755)	16,623,595
Cash and cash equivalents at beginning of year	50,696,141	61,066,896	44,443,301
Cash and cash equivalents at end of year	$ 54,930,872	$ 50,696,141	$ 61,066,896

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

Consolidated 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	$ 4,614,981	$ 4,506,454	$ 4,121,559
Adjustments to reconcile net income to net cash provided by operating activities			
Premium amortization and discount accretion	647,244	492,428	267,619
Other than temporary impairment of investment value	-	16,650	199,389
Gain on disposition of investment securities	(63,217)	(4,179)	-
Provision for loan losses	57,000	270,000	801,000
Depreciation and amortization	467,922	461,256	485,614
Loss (gain) on disposition of premises, equipment, and software	3,365	160	(1,250)
Loss on sale of other real estate and repossessed assets	-	-	388,926
Loss on revaluation of other real estate	95,500	-	-
Decrease (increase) in			
Accrued interest receivable	(160,090)	93,291	(34,391)
Cash surrender value of bank owned life insurance	(248,068)	(251,555)	(259,126)
Other assets	315,613	(233,015)	402,274
Increase (decrease) in			
Accrued interest payable	(1,687)	(4,400)	(19,765)
Accrued and deferred income taxes	(171,936)	402,500	(326,347)
Other liabilities	40,880	51,432	68,274
Net cash from operating activities	$ 5,597,507	$ 5,801,022	$ 6,093,776
Composition of cash and cash equivalents			
Cash and due from banks	$ 41,169,588	$ 37,937,508	$ 36,351,065
Federal funds sold	13,755,231	12,752,587	24,700,637
Interest-bearing bank deposits, except for time deposits	6,053	6,046	15,194
Total cash and cash equivalents	$ 54,930,872	$ 50,696,141	$ 61,066,896
Supplemental cash flows information			
Non-cash transfers from loans to other real estate owned	$ 40,000	$ -	$ 545,150

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

1. Summary of Significant Accounting Policies

The consolidated financial statements of Calvin B. Taylor Bankshares, Inc. (the Company) include the accounts of its wholly owned subsidiary, Calvin B. Taylor Banking Company of Berlin, Maryland (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies reflected in these financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Nature of operations

Calvin B. Taylor Bankshares, Inc. is a bank holding company. Its subsidiary, Calvin B. Taylor Banking Company of Berlin, Maryland, is a financial institution operating primarily in Worcester County, Maryland and Sussex County, Delaware. The Bank is a full-service commercial bank, offering deposit services and loans to individuals, small- to medium-sized businesses, associations and government entities.

Use of 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. These estimates and assumptions may affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits except for time deposits. Federal funds are purchased and sold for one-day periods.

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 classified as available-for-sale are recorded at fair value with adjustments recorded as other comprehensive income.

Purchase premiums and discounts are recognized in interest revenue using the effective interest rate method over the terms of the securities. Gains and losses on disposal are determined using the specific-identification method.

In estimating other than temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans are stated at their outstanding principal amounts less the allowance for loan losses. Interest on loans is accrued and credited to income based on contractual interest rates applied to principal amounts outstanding. A loan is considered to be past due when principal or interest due is not paid on or before the payment date agreed upon by the borrower and the Bank. The accrual of interest is discontinued when principal or interest is ninety days past due or when the loan is determined to be impaired, unless collateral is sufficient to discharge the debt in full and the loan is in process of collection. When a loan is placed in nonaccruing status, any interest previously accrued but unpaid is reversed from interest revenue. Interest payments received on nonaccrual loans are generally recorded as a reduction of principal, but may be recorded as cash basis income depending on management's judgment determined on a loan by loan basis. Accrual of interest may be restored when all principal and interest are current and management believes that future payments will be received in accordance with the loan agreement.

The Company does not defer loan origination fee income or related costs as management determined the amounts to be immaterial.

1. Summary of Significant Accounting Policies (continued)

Loans (continued)

Loans are considered impaired when, based on current information, management considers it unlikely that collection of all principal and interest payments will be made according to original contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, although management may categorize a performing loan as impaired based on knowledge of the borrower's financial condition, devaluation of collateral, agreement to a troubled debt restructuring or other circumstances that are deemed relevant to loan collection. Impaired loans may have specific reserves allocated to them in the allowance for loan losses or have been subject to partial charge-offs if the loans are deemed to be collateral dependent.

Allowance for loan losses

The allowance for loan losses represents an amount which management judges to be adequate to absorb identified and inherent losses in the loan portfolio as of the balance sheet date. Valuation of the allowance is completed no less than quarterly. The determination of the allowance is inherently subjective as it relies on estimates of potential loss related to specific loans, the effects of portfolio trends, and other internal and external factors.

In determining an adequate level for the allowance, management considers historical loss experience for major types of loans. However, historical data may not be an accurate predictor of loss potential in the current loan portfolio. Management reviews the current portfolio giving consideration to problem loans, delinquencies, the composition of the portfolio, concentrations of credit, and changes in lending products, processes, or staffing. Additionally, management monitors collateral adequacy and lien perfection. Management considers external factors such as the interest rate environment, competition, current local and national economic trends, and the results of recent independent reviews by auditors and banking regulators.

The allowance is increased by current period provisions recorded as expense and by recoveries of amounts previously charged-off. The allowance is decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. Provisions for loan losses are made to bring the balance in the allowance to the level established by application of management's allowance methodology, and may result in an increase or decrease to expense.

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed under both straight-line and accelerated methods over the estimated useful lives of the assets.

Other real estate owned

Other real estate owned is comprised of real estate acquired in satisfaction of a loan receivable either by foreclosure or deed taken in lieu of foreclosure. Other real estate owned is recorded at the lower of cost or net realizable value, which is fair value less estimated costs to hold and sell the property. If net realizable value is less than the book value of the related loan at the time of foreclosure, a loan loss is recorded through the allowance for loan losses. Quarterly, the Company reviews net realizable value estimates and records declines in value through expense. Costs to maintain properties, such as maintenance, utilities, taxes and insurance are expensed as they are incurred. Gains or losses resulting from revaluation or sale of other real estate owned are included in noninterest revenue.

Computer software

The Company amortizes software costs over the estimated useful lives using the straight-line method.

Bank owned life insurance

The Company records increases in cash surrender value of bank owned life insurance as current period income based on projections provided by the underwriting company.

Advertising

Advertising costs are expensed during the period of the related marketing effort.

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income. Tax expense and tax benefits are allocated to the Bank and Company based on their proportional share of taxable income.

Comprehensive Income

Comprehensive income represents the change in stockholders' equity from all sources other than investments by, or distributions to stockholders. Besides net income, the other component of the Company's comprehensive income is the after tax effect of changes in the net unrealized gain/loss on securities available for sale.

Per share data

Earnings per common share are determined by dividing net income by the weighted average number of common shares outstanding for the period, which was 2,909,139, 2,937,248, and 2,961,688 for the years ended December 31, 2015, 2014, and 2013, respectively. There were no dilutive common share equivalents outstanding during the years ended December 31, 2015, 2014 and 2013.

Subsequent events

The Company has evaluated events and transactions subsequent to December 31, 2015 through March 9, 2016, the date these financials statements were available to be issued. No significant subsequent events were identified which would affect the presentation of the financial statements.

2. Cash and Due From Banks

The Company normally carries balances with other banks that exceed the federally insured limit. Average balances carried in excess of the limit, including unsecured federal funds sold to the same banks, were $16,624,715 for 2015, $18,013,005 for 2014, and $29,323,545 for 2013.

Banks are required to carry cash reserves at specified percentages of deposit balances. The Company's normal amount of cash on hand and on deposit with the Federal Reserve is sufficient to satisfy the reserve requirements.

3. Lines of Credit

The Company has available lines of credit, including overnight federal funds, reverse repurchase agreements and letters of credit, totaling $28,000,000 as of December 31, 2015. This includes $23,000,000 of unsecured lines and $5,000,000 of lines that will be secured by investment securities if utilized.

4. Investment Securities

Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
December 31, 2015				
Available for sale				
U.S. Treasury	$ 39,980,485	$ 670,240	$ 55,555	$ 40,595,170
State and municipal	347,117	678	331	347,464
Equity	967,408	827,142	90,101	1,704,449
	$ 41,295,010	$ 1,498,060	$ 145,987	$ 42,647,083
Held to maturity				
U.S. Treasury	$ 39,989,744	$ 10,418	$ 47,123	$ 39,953,039
U.S. Government agency	22,133,940	4,063	67,465	22,070,538
State and municipal	23,577,942	16,204	18,751	23,575,395
	$ 85,701,626	$ 30,685	$ 133,339	$ 85,598,972
December 31, 2014				
Available for sale				
U.S. Treasury	$ 43,897,969	$ 767,433	$ 17,111	$ 44,648,291
State and municipal	499,034	3,687	820	501,901
Equity	1,322,408	818,510	120,667	2,020,251
	$ 45,719,411	$ 1,589,630	$ 138,598	$ 47,170,443
Held to maturity				
U.S. Treasury	$ 55,958,752	$ 36,365	$ 52,827	$ 55,942,290
U.S. Government agency	24,996,405	5,949	109,021	24,893,333
State and municipal	10,431,364	29,175	3,481	10,457,058
	$ 91,386,521	$ 71,489	$ 165,329	$ 91,292,681
December 31, 2013				
Available for sale				
U.S. Treasury	$ 39,032,129	$ 749,253	$ 2,803	$ 39,778,579
State and municipal	369,644	7,146	-	376,790
Equity	1,367,524	604,256	210,952	1,760,828
	$ 40,769,297	$ 1,360,655	$ 213,755	$ 41,916,197
Held to maturity				
U.S. Treasury	$ 54,977,546	$ 88,677	$ 14,233	$ 55,051,990
U.S. Government agency	19,876,112	10,672	26,973	19,859,811
State and municipal	10,541,632	31,503	1,799	10,571,336
	$ 85,395,290	$ 130,852	$ 43,005	$ 85,483,137

The debt securities in unrealized loss positions are issues of the U.S. Treasury, Federal Home Loan Bank (a U. S. Government agency), and highly rated obligations of states and municipalities. The Company has the ability and the intent to hold these securities until they are called or mature at face value. Fluctuations in fair value reflect market conditions and are not indicative of other than temporary impairment (OTTI) of the security.

Equity securities in unrealized loss positions are common stock investments in community banks or bank holding companies located in the same general geographic area as the Company. The Company recorded OTTI of $16,650 and $199,389 in 2014 and 2013, respectively, related to certain community bank equity securities. In 2015, equity securities of two community bank holding companies were sold resulting in a gain of $52,151 which represented a partial recovery of the OTTI of $181,997 recorded on those securities in 2013. The securities sold in 2015 also had unrealized losses of $13,794 as of December 31, 2014 which were reclassified from other comprehensive income to net income upon sale. Management believes that the remaining unrealized losses in equity securities as of December 31, 2015 reflect market conditions and are not indicative of an other than temporary impairment of the investment. Management continues to monitor the financial condition of the issuers.

4. Investment Securities (continued)

The table below shows the gross unrealized losses and fair value of securities that are in an unrealized loss position, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2015						
U. S. Treasury	$ 47,970,090	$ 102,678	$ -	$ -	$ 47,970,090	$ 102,678
U. S. Government agency	17,614,389	67,465	-	-	17,614,389	67,465
State and municipal	12,699,899	19,082	-	-	12,699,899	19,082
Equity	-	-	207,897	90,101	207,897	90,101
	$ 78,284,378	$ 189,225	$ 207,897	$ 90,101	$ 78,492,275	$ 279,326
December 31, 2014						
U. S. Treasury	$ 39,833,040	$ 69,938	$ -	$ -	$ 39,833,040	$ 69,938
U. S. Government agency	17,532,452	100,561	1,991,540	8,460	19,523,992	109,021
State and municipal	2,140,906	4,301	-	-	2,140,906	4,301
Equity	194,041	959	606,243	119,708	800,284	120,667
	$ 59,700,439	$ 175,759	$ 2,597,783	$ 128,168	$ 62,298,222	$ 303,927
December 31, 2013						
U. S. Treasury	$ 4,980,860	$ 17,036	$ -	$ -	$ 4,980,860	$ 17,036
U. S. Government agency	10,178,591	26,973	-	-	10,178,591	26,973
State and municipal	1,079,527	1,799	-	-	1,079,527	1,799
Equity	4,760	7,940	539,588	203,012	544,348	210,952
	$ 16,243,738	$ 53,748	$ 539,588	$ 203,012	$ 16,783,326	$ 256,760

The amortized cost and estimated fair value of debt securities, by contractual maturity and the amount of pledged securities, follow. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments are pledged to secure deposits of state and local governments. Pledged securities also serve as collateral for repurchase agreements with our customers.

	December 31, 2015		December 31, 2014		December 31, 2013	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale						
Within one year	$ 10,026,567	$ 10,030,986	$ 19,276,189	$ 19,292,872	$ 12,060,689	$ 12,071,114
After one through five years	28,303,045	28,260,168	23,123,038	23,121,060	25,343,507	25,379,875
After five through ten years	1,997,990	2,651,480	1,997,776	2,736,260	1,997,577	2,704,380
	$ 40,327,602	$ 40,942,634	$ 44,397,003	$ 45,150,192	$ 39,401,773	$ 40,155,369
Held to maturity						
Within one year	$ 21,599,470	$ 21,608,318	$ 28,456,112	$ 28,478,172	$ 32,051,875	$ 32,087,789
After one through five years	64,102,156	63,990,654	62,930,409	62,814,509	53,343,415	53,395,348
	$ 85,701,626	$ 85,598,972	$ 91,386,521	$ 91,292,681	$ 85,395,290	$ 85,483,137
Pledged securities	$ 24,293,310	$ 24,267,058	$ 25,438,156	$ 25,427,186	$ 26,126,085	$ 26,165,297

5. Loans and Allowance for Loan Losses

Major classifications of loans	2015	2014	2013
Real estate mortgages			
Construction, land development, and land	$ 13,262,930	$ 8,655,013	$ 12,155,069
Residential 1 to 4 family, 1st liens	88,222,633	83,960,850	82,235,353
Residential 1 to 4 family, subordinate liens	1,957,404	1,901,925	1,955,924
Commercial properties	121,870,892	114,944,098	110,429,464
Commercial	17,561,365	15,470,054	14,300,916
Consumer	1,255,552	1,460,414	1,929,155
Total loans	244,130,776	226,392,354	223,005,881
Allowance for loan losses	889,072	908,588	907,821
Loans, net	$ 243,241,704	$ 225,483,766	$ 222,098,060

Rate repricing distribution of loans	2015	2014	2013
Immediately	$ 171,190,079	$ 174,414,288	$ 204,363,599
Within one year	1,028,212	2,776,195	3,716,506
After one year through five years	45,121,974	38,297,512	9,858,763
After five years	26,790,511	10,904,359	5,067,013
Total loans	$ 244,130,776	$ 226,392,354	$ 223,005,881

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale (other real estate owned). The following table details the composition of nonperforming assets:

	2015	2014	2013
Loans 90 or more days past due and still accruing			
Residential 1 to 4 family	$ 55,428	$ 432,273	$ 389,626
Commercial properties	-	-	684,422
Consumer	-	12,963	-
Total loans 90 or more days past due and still accruing	55,428	445,236	1,074,048
Nonaccruing loans			
Nonaccruing loans - current			
Residential 1 to 4 family	591,727	215,466	79,617
Total nonaccruing loans - current	591,727	215,466	79,617
Nonaccruing loans - past due 30 days or more			
Construction, land development, and land	234,822	362,974	316,822
Residential 1 to 4 family	388,627	422,561	452,363
Total nonaccruing loans - past due 30 days or more	623,449	785,535	769,185
Total nonaccruing loans	1,215,176	1,001,001	848,802
Total nonperforming loans	1,270,604	1,446,237	1,922,850
Other real estate owned	355,000	410,500	410,500
Total nonperforming assets	$ 1,625,604	$ 1,856,737	$ 2,333,350
Interest not recognized on nonaccruing loans	$ 65,117	$ 49,533	$ 144,011

Interest revenue of $106,934 was recognized on a cash-basis during 2013 related to the full payoff of a nonaccrual loan. No interest revenue was recognized on a cash-basis on nonaccruing loans during 2015 or 2014. Other than previously noted, payments received on non accruing loans were applied as reductions of principal.

5. Loans and Allowance for Loan Losses (continued)

The following is a schedule of transactions in the allowance for loan losses by type of loan. The Company did not acquire any loans with deteriorated credit quality during the periods presented.

	Real estate mortgages						
December 31, 2015	Construction and land	Residential	Commercial	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 26,642	$ 264,305	$ 353,823	$ 213,786	$ 40,971	$ 9,061	$ 908,588
Loans charged off	(83,958)	(73,747)	-	(140)	(5,231)		(163,076)
Recoveries	18	81,864	2,451	14	2,213		86,560
Provision expense	99,139	12,073	28,197	(66,996)	(8,242)	(7,171)	57,000
Ending balance	$ 41,841	$ 284,495	$ 384,471	$ 146,664	$ 29,711	$ 1,890	$ 889,072
Individually evaluated:							
Balance in allowance	$ -	$ 95,163	$ -	$ -	$ -		$ 95,163
Related loan balance	$ 234,822	$ 3,766,992	$ 4,097,650	$ -	$ -		$ 8,099,464
Collectively evaluated:							
Balance in allowance	$ 41,841	$ 189,332	$ 384,471	$ 146,664	$ 29,711	$ 1,890	$ 793,909
Related loan balance	$ 13,028,108	$ 86,413,045	$ 117,773,242	$ 17,561,365	$ 1,255,552		$ 236,031,312
December 31, 2014							
Beginning balance	$ 106,836	$ 219,108	$ 298,400	$ 200,893	$ 58,015	$ 24,569	$ 907,821
Loans charged off	(21,478)	(176,913)	-	(88,361)	(11,232)		(297,984)
Recoveries	9,831	14,760	-	230	3,930		28,751
Provision expense	(68,547)	207,350	55,423	101,024	(9,742)	(15,508)	270,000
Ending balance	$ 26,642	$ 264,305	$ 353,823	$ 213,786	$ 40,971	$ 9,061	$ 908,588
Individually evaluated:							
Balance in allowance	$ -	$ -	$ -	$ -	$ -		$ -
Related loan balance	$ 362,974	$ 4,282,121	$ 4,333,468	$ -	$ 12,894		$ 8,991,457
Collectively evaluated:							
Balance in allowance	$ 26,642	$ 264,305	$ 353,823	$ 213,786	$ 40,971	$ 9,061	$ 908,588
Related loan balance	$ 8,292,039	$ 81,580,654	$ 110,610,630	$ 15,470,054	$ 1,447,520		$ 217,400,897
December 31, 2013							
Beginning balance	$ 119,036	$ 161,984	$ 250,781	$ 168,033	$ 55,595	$ 25,064	$ 780,493
Loans charged off	-	(315,200)	(368,816)	(178)	(13,385)		(697,579)
Recoveries	12,000	6,629	-	600	4,678		23,907
Provision expense	(24,200)	365,695	416,435	32,438	11,127	(495)	801,000
Ending balance	$ 106,836	$ 219,108	$ 298,400	$ 200,893	$ 58,015	$ 24,569	$ 907,821
Individually evaluated:							
Balance in allowance	$ -	$ -	$ -	$ -	$ -		$ -
Related loan balance	$ 316,822	$ 4,106,897	$ 4,827,844	$ -	$ -		$ 9,251,563
Collectively evaluated:							
Balance in allowance	$ 106,836	$ 219,108	$ 298,400	$ 200,893	$ 58,015	$ 24,569	$ 907,821
Related loan balance	$ 11,838,247	$ 80,084,380	$ 105,601,620	$ 14,300,916	$ 1,929,155		$ 213,754,318

5. Loans and Allowance for Loan Losses (continued)

The table below shows the relationship of net charged-off loans and the balance in the allowance to gross loans and average loans.

	2015	2014	2013
Net loans charged-off	$ 76,516	$ 269,233	$ 673,672
Allowance for loan losses at the end of the period	$ 889,072	$ 908,588	$ 907,821
Gross loans outstanding at the end of the period	$ 244,130,776	$ 226,392,354	$ 223,005,881
Allowance for loan losses to gross loans outstanding	0.36%	0.40%	0.41%
Average loans outstanding during the period	$ 235,274,286	$ 223,221,834	$ 230,748,927
Net charge-offs as a percentage of average loans	0.03%	0.12%	0.29%

Loans are considered past due when either principal or interest is not paid by the date on which payment is due. The following table is an analysis of past due loans by days past due and type of loan.

December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due or Greater	Total Past Due	Current	Total Loans	90 Days Past Due or Greater and Accruing
Real estate mortgages							
Construction, land development, and land	$ -	$ -	$ 234,822	$ 234,822	$ 13,028,108	$ 13,262,930	$ -
Residential 1-4 family, 1st liens	708,170	112,728	55,428	876,326	87,346,307	88,222,633	55,428
Residential 1-4 family, sub. liens	-	-	-	-	1,957,404	1,957,404	-
Commercial properties	-	-	-	-	121,870,892	121,870,892	-
Commercial	-	-	-	-	17,561,365	17,561,365	-
Consumer	-	-	-	-	1,255,552	1,255,552	-
Total	$ 708,170	$ 112,728	$ 290,250	$ 1,111,148	$ 243,019,628	$ 244,130,776	$ 55,428
December 31, 2014							
Real estate mortgages							
Construction, land development, and land	$ -	$ -	$ 362,974	$ 362,974	$ 8,292,039	$ 8,655,013	$ -
Residential 1-4 family, 1st liens	320,069	369,345	640,319	1,329,733	82,631,117	83,960,850	432,273
Residential 1-4 family, sub. liens	-	-	-	-	1,901,925	1,901,925	-
Commercial properties	-	-	-	-	114,944,098	114,944,098	-
Commercial	887	-	-	887	15,469,167	15,470,054	-
Consumer	-	3,832	12,963	16,795	1,443,619	1,460,414	12,963
Total	$ 320,956	$ 373,177	$ 1,016,256	$ 1,710,389	$ 224,681,965	$ 226,392,354	$ 445,236
December 31, 2013							
Real estate mortgages							
Construction, land development, and land	$ -	$ -	$ 316,822	$ 316,822	$ 11,838,247	$ 12,155,069	$ -
Residential 1-4 family, 1st liens	1,184,135	488,429	841,989	2,514,553	79,720,800	82,235,353	389,626
Residential 1-4 family, sub. liens	-	-	-	-	1,955,924	1,955,924	-
Commercial properties	1,243,614	395,911	684,422	2,323,947	108,105,517	110,429,464	684,422
Commercial	-	-	-	-	14,300,916	14,300,916	-
Consumer	18,100	-	-	18,100	1,911,055	1,929,155	-
Total	$ 2,445,849	$ 884,340	$ 1,843,233	$ 5,173,422	$ 217,832,459	$ 223,005,881	$ 1,074,048

5. Loans and Allowance for Loan Losses (continued)

Credit quality is measured based on an internally designed grading scale. The grades correspond to regulatory rating categories of pass, special mention, substandard, and doubtful. Evaluation of grades assigned to individual loans is completed no less than quarterly. Pass credits are secured or unsecured loans with satisfactory payment history and supporting documentation. Special mention loans are those with satisfactory payment history that have a defect in supporting documentation which is defined by the Bank as a critical defect. This may include missing financial data or improperly executed collateral documents. Substandard credits are those with a weakness that may jeopardize repayment, such as deteriorating collateral value, or for which the borrower's ability to meet payment obligations is questionable. Doubtful credits are loans in which the borrower's ability to repay the loan in full is improbable and some loss is expected. Loans graded as doubtful are most likely to result in the loss of principal or loss of revenue due to placement in nonaccrual status. Management evaluates loans graded as doubtful individually and provides for anticipated losses through adjustment of the allowance for loan losses and charges to current earnings.

Credit quality, as measured by internally assigned grades, is an important component in the calculation of an adequate allowance for loan losses. The following table summarizes the recorded investment in loans by credit quality indicator.

	2015	2014	2013
Real Estate Credit Risk Profile by Internally Assigned Grade			
Construction, land development, and land			
Pass	$ 13,028,108	$ 8,292,039	$ 11,838,247
Doubtful			
Nonperforming: 90 days or more past due and/or non-accruing	234,822	362,974	316,822
Total	$ 13,262,930	$ 8,655,013	$ 12,155,069
Residential 1-4 family			
Pass	$ 87,154,932	$ 81,813,667	$ 80,144,528
Substandard			
Less than 90 days past due and accruing	1,989,323	2,978,808	3,125,143
Nonperforming: 90 days or more past due and/or non-accruing	55,428	324,850	-
Doubtful			
Nonperforming: 90 days or more past due and/or non-accruing	980,354	745,450	921,606
Total	$ 90,180,037	$ 85,862,775	$ 84,191,277
Commercial properties			
Pass	$ 119,713,158	$ 112,707,531	$ 107,719,890
Special Mention	658,398	-	-
Substandard	2,157,734	2,236,567	2,025,152
Doubtful			
Nonperforming: 90 days or more past due and/or non-accruing	-	-	684,422
Total	$ 121,870,892	$ 114,944,098	$ 110,429,464
Commercial Credit Risk Profile by Internally Assigned Grade			
Pass	$ 17,561,365	$ 15,470,054	$ 14,298,806
Special Mention	-	-	2,110
Total	$ 17,561,365	$ 15,470,054	$ 14,300,916
Consumer Credit Risk Profile by Internally Assigned Grade			
Pass			
Less than 90 days past due and accruing	$ 1,245,635	$ 1,447,451	$ 1,906,925
Nonperforming: 90 days or more past due and/or non-accruing	-	69	-
Special Mention	9,917	-	7,192
Substandard	-	-	15,038
Doubtful			
Nonperforming: 90 days or more past due and/or non-accruing	-	12,894	-
Total	$ 1,255,552	$ 1,460,414	$ 1,929,155

5. Loans and Allowance for Loan Losses (continued)

Loans are considered impaired when management considers it unlikely that collection of all principal and interest payments will be made according to contractual terms. Troubled debt restructurings are considered impaired since all principal and interest payments according to the original contractual terms will not be collected under the modified terms of the restructuring. A performing loan may be categorized as impaired based on knowledge of circumstances that are deemed relevant to loan collection. Not all impaired loans are past due nor are losses expected for every impaired loan. If a loss is expected, an impaired loan may have specific reserves allocated to it in the allowance for loan losses or result in a charge-off if the loan is deemed to be collateral dependent. The following table details impaired loans at each period end.

	Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With An Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized During Impairment
December 31, 2015						
Real estate mortgages						
Construction, land development, and land	$ 344,794	$ 234,822	$ -	$ -	$ 269,822	$ -
Residential 1-4 family, 1st liens	3,574,841	2,495,035	979,719	91,681	3,513,132	76,860
Residential 1-4 family, subordinate liens	94,702	-	94,702	3,482	95,567	4,777
Commercial properties	4,097,650	4,097,650	-	-	4,215,559	232,016
Consumer	-	-	-	-	-	-
Total	$ 8,111,987	$ 6,827,507	$ 1,074,421	$ 95,163	$ 8,094,080	$ 313,653
December 31, 2014						
Real estate mortgages						
Construction, land development, and land	$ 424,442	$ 362,974	$ -	$ -	$ 380,527	$ -
Residential 1-4 family, 1st liens	4,332,685	4,171,539	-	-	4,299,067	172,751
Residential 1-4 family, subordinate liens	110,582	110,582	-	-	112,345	5,690
Commercial properties	4,333,700	4,333,468	-	-	4,351,576	250,457
Consumer	12,894	12,894	-	-	13,966	1,406
Total	$ 9,214,303	$ 8,991,457	$ -	$ -	$ 9,157,481	$ 430,304
December 31, 2013						
Real estate mortgages						
Construction, land development, and land	$ 344,794	$ 316,822	$ -	$ -	$ 322,119	$ -
Residential 1-4 family, 1st liens	4,041,007	3,992,789	-	-	4,129,431	136,371
Residential 1-4 family, subordinate liens	114,108	114,108	-	-	115,779	5,871
Commercial properties	4,827,941	4,827,844	-	-	4,862,295	315,995
Total	$ 9,327,850	$ 9,251,563	$ -	$ -	$ 9,429,624	$ 458,237

The modification or restructuring of terms on a loan is considered a troubled debt restructuring if it is done to accommodate a borrower who is experiencing financial difficulties. The lender may forgive principal, lower the interest rate or payment amount, or may modify the payment due dates or maturity date of a loan for a borrower experiencing financial difficulties.

Troubled debt restructurings are evaluated for impairment at the time of restructuring and each subsequent reporting period. An identified loss is recorded as a specific reserve in the allowance for loan losses or charged-off if the loan is deemed to be collateral dependent. No losses were recorded as part of restructures completed in 2015 or 2014. Losses of $260,614 were recorded as part of restructurings completed during 2013. Troubled debt restructurings may require additional restructuring to accommodate changes in the borrower's financial position and are included as restructurings in the table below. Other restructured loans have been collected with no loss of principal, returned to their original contractual terms, refinanced at market rates and terms, or paid in full. Payment defaults on restructured loans within 12 months of the restructuring did not occur in 2015, 2014 or 2013. Restructured loans that become 90 days past due or greater, require an additional restructuring, or have a charge-off recorded are considered to have a payment default.

5. Loans and Allowance for Loan Losses (continued)

The following table details information about troubled debt restructurings or payment defaults occurring within the periods presented.

	At the time of restructuring			Within 12 months of restructuring		
	Number of contracts	Balance prior to restructuring	Balance after restructuring	Number of defaults	Defaults on restructures	Losses recognized upon default
December 31, 2015						
Real estate mortgages						
Residential 1-4 family, 1st liens	1	$ 286,191	$ 286,191	-	$ -	$ -
Total	1	$ 286,191	$ 286,191	-	$ -	$ -
December 31, 2014						
Real estate mortgages						
Residential 1-4 family, 1st liens	3	$ 360,984	$ 360,984	-	$ -	$ -
Commercial properties	1	222,863	222,863	-	-	-
Total	4	$ 583,847	$ 583,847	-	$ -	$ -
December 31, 2013						
Real estate mortgages						
Residential 1-4 family, 1st liens	3	$ 1,504,381	$ 1,287,000	-	$ -	$ -
Commercial properties	1	528,233	485,000	-	-	-
Total	4	$ 2,032,614	$ 1,772,000	-	$ -	$ -

Troubled debt restructurings with outstanding principal balances as of December 31 were as follows:

	Total		Paying as agreed under modified terms		Past due 30 days or more or non-accruing	
	Number of contracts	Current Balance	Number of contracts	Current Balance	Number of contracts	Current Balance
December 31, 2015						
Real estate mortgages						
Construction, land development, and land	1	$ 234,822	-	$ -	1	$ 234,822
Residential 1-4 family, 1st liens	10	3,123,121	7	2,438,971	3	684,150
Residential 1-4 family, subordinate liens	1	94,702	1	94,702	-	-
Commercial properties	7	4,097,650	7	4,097,650	-	-
Total	19	$ 7,550,295	15	$ 6,631,323	4	$ 918,972
December 31, 2014						
Real estate mortgages						
Construction, land development, and land	1	$ 304,822	-	$ -	1	$ 304,822
Residential 1-4 family, 1st liens	10	3,245,029	7	2,815,048	3	429,981
Residential 1-4 family, subordinate liens	2	110,582	2	110,582	-	-
Commercial properties	7	4,333,468	7	4,333,468	-	-
Total	20	$ 7,993,901	16	$ 7,259,098	4	$ 734,803
December 31, 2013						
Real estate mortgages						
Construction, land development, and land	1	$ 316,822	-	$ -	1	$ 316,822
Residential 1-4 family, 1st liens	10	3,301,101	8	2,720,169	2	580,932
Residential 1-4 family, subordinate liens	2	114,108	2	114,108	-	-
Commercial properties	6	4,143,518	3	2,503,993	3	1,639,525
Total	19	$ 7,875,549	13	$ 5,338,270	6	$ 2,537,279

6. Loan Commitments

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates at current market rates, fixed expiration dates, and may require payment of a fee. Letters of credit are commitments issued to guarantee the performance of a customer to a third party. Loan commitments and letters of credit are made on the same terms, including collateral, as outstanding loans. The Company's exposure to loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment.

Outstanding loan commitments (including the unutilized portion of lines of credit) and letters of credit as of December 31 were as follows:

	2015	2014	2013
Loan commitments (including unutilized portion of lines of credit)			
Real estate mortgages			
Construction, land development, and land	$ 13,272,623	$ 4,605,050	$ 6,571,642
Residential 1 to 4 family	5,231,945	3,815,929	3,159,879
Commercial properties	13,165,567	9,277,072	4,350,322
Commercial	12,156,307	11,059,369	8,635,373
Total loan commitments	$ 43,826,442	$ 28,757,420	$ 22,717,216
Standby letters of credit	$ 1,213,175	$ 1,197,232	$ 1,145,016

7. Other Real Estate Owned

Changes in other real estate owned during the year were as follows:

	2015	2014	2013
Beginning balance	$ 410,500	$ 410,500	$ 1,440,900
Net realizable value of foreclosed properties	40,000	-	545,150
	450,500	410,500	1,986,050
Proceeds from sales, net of selling expenses	-	-	(1,186,624)
Loss on sale	-	-	(388,926)
Revaluation loss	(95,500)	-	-
Ending balance	$ 355,000	$ 410,500	$ 410,500

The following table presents the number of and types of property in other real estate owned at December 31:

	2015		2014		2013	
	Number	Balance	Number	Balance	Number	Balance
Construction, land development, and land	2	$ 355,000	1	$ 410,500	1	$ 410,500
Total other real estate owned	2	$ 355,000	1	$ 410,500	1	$ 410,500

8. Premises, Equipment, and Computer Software

A summary of premises and equipment and the related depreciation is as follows:

	Estimated useful life	2015	2014	2013
Land		$ 3,128,835	$ 2,094,624	$ 2,087,011
Premises	5 - 50 years	7,278,309	7,278,309	7,517,020
Furniture and equipment	3 - 20 years	3,615,186	3,472,421	3,410,751
Construction in progress		413,526	-	-
Total premises and equipment		14,435,856	12,845,354	13,014,782
Accumulated depreciation		7,641,844	7,387,320	7,265,856
Net premises and equipment		$ 6,794,012	$ 5,458,034	$ 5,748,926
Depreciation expense		$ 415,202	$ 421,398	$ 447,277

On April 29, 2015, the Company purchased approximately 1.88 acres of land along US Route 50 east of Berlin, Maryland for purposes of building a new bank branch. The purchase price of the land and related costs were $1,034,211. On September 21, 2015, the Company entered into a construction contract to build a new branch on this property. The total contract value as of December 31, 2015 was $1,073,225 of which $240,507 was paid and included in construction in progress. In conjunction with the opening of the new branch, the existing branch located on a leased parcel of land east of Berlin, Maryland will simultaneously close. Management expects the opening of the new branch to occur in the 2nd quarter of 2016. Net premises and equipment associated with the existing branch is not significant.

A summary of capitalized computer software and the related amortization is as follows:

	Estimated useful life	2015	2014	2013
Computer software	2 - 10 years	$ 984,523	$ 926,691	$ 1,001,208
Accumulated amortization		787,690	780,493	834,047
Net computer software		$ 196,833	$ 146,198	$ 167,161
Amortization expense		$ 52,720	$ 39,858	$ 38,337

9. Lease Commitments

The Company leases a parcel of land east of Berlin, Maryland and operates a branch on the property. Rent expense for this lease was $25,416, $24,415, and $23,417 for the years ended December 31, 2015, 2014, and 2013, respectively. The lease was extended on February 20, 2014 and will now expire August 31, 2019. As previously discussed, the existing branch located on the leased parcel of land will be closed in the 2nd quarter of 2016. The closure of the branch will result in the acceleration of the remaining lease costs noted in the table below, net of expected sublease payments. The lease currently in effect requires the following minimum payments:

Period	Minimum payments
2016	$ 26,336
2017	27,332
2018	28,332
2019	19,336
	$ 101,336

10. Interest-bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	2015	2014	2013
NOW	$ 70,882,770	$ 69,618,149	$ 69,089,720
Money market	58,008,000	55,448,242	56,077,332
Savings	74,849,810	66,259,622	63,937,013
Time deposits of $250,000 or more	8,200,454	9,085,619	10,743,412
Time deposits of less than $250,000	50,911,525	54,678,052	61,836,910
	$ 262,852,559	$ 255,089,684	$ 261,684,387

The maturity distribution of time deposits follows:

	2015	2014	2013
Three months or less	$ 24,773,029	$ 24,870,413	$ 27,709,397
Over three through twelve months	27,021,329	29,773,136	36,231,280
Over one through two years	7,317,621	9,120,122	8,639,645
	$ 59,111,979	$ 63,763,671	$ 72,580,322

11. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent overnight borrowings from customers. The U.S. Government securities that collateralize these agreements are owned by the Company but maintained in the custody of an unaffiliated bank designated by the Company. Additional information for repurchase agreements follows:

	2015	2014	2013
Maximum month-end amount outstanding	$ 8,185,044	$ 8,530,386	$ 7,742,758
Average amount outstanding	$ 6,388,331	$ 6,732,909	$ 5,927,085
Average rate paid during the year	0.15%	0.16%	0.15%
Investment securities underlying the agreements at year end			
Carrying value	$ 12,080,515	$ 12,564,077	$ 12,836,200
Estimated fair value	$ 12,067,058	$ 12,557,803	$ 12,855,644

12. Employee Benefits

In 1999, the Company adopted a defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code. The plan covers substantially all of the employees and allows discretionary contributions by the Company. The plan provides for a matching contribution by the Company equal to 50% of an employee's contributions each pay period. The matching contribution by the Company does not apply to employee contributions over 6% of the employee's wages each pay period. Annually, the Board of Directors determines if a discretionary contribution will be made which is based upon the overall performance of the Company. The total cost of the profit sharing plan including matching and discretionary contributions for 2015, 2014, and 2013, was $196,841, $190,146, and $168,665, respectively.

Effective May 1, 2015, the Company adopted an executive nonqualified deferred compensation plan. The plan participants are currently limited to the Chief Executive Officer. The plan allows for discretionary employer and employee contributions to the plan. In 2015, the Company made a discretionary contribution of $57,011 which immediately vested and thus was recorded as compensation expense. As of December 31, 2015, the deferred compensation liability associated with this plan was $54,360. The plan was funded by the purchase of bank owned life insurance on the participant with premiums of $57,011 due annually. The cash surrender value of the policy as of December 31, 2015 was $53,611.

On January 1, 2015, the Company transitioned from a fully insured employee health insurance plan to a partially self-insured plan. The partially self-insured plan requires the Company to pay for claims up to a certain limit per participant and up to a certain aggregate limit for all participants. As of December 31, 2015 a liability of $6,027 was recorded for the difference between claims paid in 2015 and the aggregate limit for all participants.

13. Other Noninterest Expenses

The components of other noninterest expenses follow:

	2015	2014	2013
Advertising	$ 170,614	$ 160,062	$ 162,595
Armored car service	91,591	99,260	95,854
Deposit product services	58,988	57,917	59,934
Correspondent bank fees	55,146	53,941	57,551
Courier service	45,360	45,180	45,180
Director fees	263,150	222,200	150,900
Dues, donations, and subscriptions	94,760	78,174	61,225
Liability insurance	46,256	40,841	39,771
Postage	147,459	146,510	145,810
Professional fees	92,424	103,911	323,615
Stationery and supplies	95,475	121,299	111,351
Telecommunications	173,226	169,242	170,062
Miscellaneous	278,825	325,253	221,879
	$ 1,613,274	$ 1,623,790	$ 1,645,727

14. Related Party Transactions

The executive officers and directors of the Company enter into loan transactions with the Bank in the ordinary course of business. The terms of these transactions are similar to the terms provided to other borrowers entering into similar loan transactions. Executive officers and directors make deposits in the Bank, and provide overnight borrowings to the Bank that are recorded as securities sold under agreements to repurchase (repurchase agreements). They receive the same rates and terms on insured deposit accounts and repurchase agreements as other customers with similar accounts.

	2015	2014	2013
Related party loan activity			
Beginning balance	$ 18,615,894	$ 17,220,958	$ 16,620,902
Advances	13,996,350	17,994,770	13,406,048
Repayments	(12,785,897)	(16,599,834)	(12,713,447)
Other increases/(decreases)	516,344	-	(92,545)
Ending balance	$ 20,342,691	$ 18,615,894	$ 17,220,958
Unfunded loan commitments	$ 3,742,720	$ 4,303,649	$ 1,196,115
Deposits and repurchase agreements	$ 7,801,307	$ 5,657,112	$ 7,541,226

The Company obtains legal services from a law firm in which one of the principal attorneys is also a member of the Board of Directors. Fees charged for these services are at similar rates charged by unrelated law firms for similar legal work. Amounts paid to this related party totaled $36,428, $36,411, and $34,163 during the years ended December 31, 2015, 2014, and 2013, respectively.

15. Income Taxes

The components of income tax expense are as follows:	2015	2014	2013
Current income tax expense			
Federal	$ 2,152,461	$ 2,024,978	$ 1,750,911
State	470,685	440,533	422,392
Total current income tax expense	2,623,146	2,465,511	2,173,303
Deferred tax expense (benefit)	(65,646)	21,989	90,548
Total income tax expense	$ 2,557,500	$ 2,487,500	$ 2,263,851

The components of the deferred tax expense (benefit) follows:	2015	2014	2013
Nonaccrual loan interest	$ (43,613)	$ (3,737)	$ 112,689
Provision for loan losses	(20,283)	5,881	(28,324)
Provision for impairment of investment value	71,789	7,752	(78,648)
Other real estate owned	(37,670)	58,170	64,888
Employee benefit	(18,662)	2,795	2,810
Depreciation	25,544	(60,333)	19,207
Discount accretion	11,809	12,792	5,035
State loss carryforwards	(54,560)	(1,331)	(7,109)
Total deferred income tax expense (benefit)	$ (65,646)	$ 21,989	$ 90,548

The components of the net deferred tax liability follows:	2015	2014	2013
Deferred tax assets			
Nonaccrual loan interest	$ 54,580	$ 10,967	$ 7,230
Allowance for loan losses	104,311	84,028	89,909
Other than temporary impairment of investment value	42,459	114,248	122,000
Other real estate owned	181,447	143,777	201,947
Employee benefit	21,442	2,780	5,575
Federal and state loss carryforwards	63,000	8,440	7,109
Total deferred tax assets	467,239	364,240	433,770
Deferred tax liabilities			
Depreciation	112,678	87,134	147,467
Discount accretion	45,751	33,942	21,150
Unrealized gain on available for sale securities	497,722	528,377	406,935
Total deferred tax liabilities	656,151	649,453	575,552
Net deferred tax liability	$ (188,912)	$ (285,213)	$ (141,782)

A reconciliation of income tax expense on income from the statutory federal income tax rate to the effective income tax rate follows:

	2015	2014	2013
Statutory federal income tax rate	34.00 %	34.00 %	34.00 %
Increase (decrease) in tax rate resulting from			
Tax-exempt income	(2.61)	(2.62)	(2.88)
Non-deductible expenses	0.06	0.03	0.03
State income taxes net of federal income tax benefit	4.21	4.16	4.30
Effective income tax rate	35.66 %	35.57 %	35.45 %

There were no unrecognized tax benefits during any of the reported periods. The Company and its subsidiary file income tax returns in the U.S. federal and state jurisdictions. The Company and its subsidiary are no longer subject to U.S. federal and state income tax examinations for tax years prior to 2012. Certain loss carrybacks have been filed for years prior to 2012 which allow federal and state tax authorities to examine those years to the extent of the carryback amount.

16. Other Comprehensive Income (Loss)

The tax expense (benefit) allocated to each component of other comprehensive income (loss) were as follows:

December 31, 2015	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Securities available for sale:			
Change in net unrealized gain/loss during the period	$ (112,753)	$ (36,096)	$ (76,657)
Reclassification of net (gains) losses on sale included net income	13,794	5,441	8,353
Total other comprehensive income (loss)	$ (98,959)	$ (30,655)	$ (68,304)
December 31, 2014			
Securities available for sale:			
Change in net unrealized gain/loss during the period	$ 284,383	$ 113,652	$ 170,731
Reclassification of net (gains) losses on sale included net income	3,099	1,222	1,877
Reclassification of loss on other than temporary impairment of investment value included in net income	16,650	6,568	10,082
Total other comprehensive income (loss)	$ 304,132	$ 121,442	$ 182,690
December 31, 2013			
Securities available for sale:			
Change in net unrealized gain/loss during the period	$ (269,618)	$ (89,997)	$ (179,621)
Reclassification of loss on other than temporary impairment of investment value included in net income	199,389	78,649	120,740
Total other comprehensive income (loss)	$ (70,229)	$ (11,348)	$ (58,881)

Activity in accumulated other comprehensive income, net of tax, was as follows:

	Securities Available for Sale	Accumulated Other Comprehensive Income/(Loss)
Balance January 1, 2015	$ 922,655	$ 922,655
Other comprehensive income (loss) before reclassification	(76,657)	(76,657)
Net (gains) losses reclassified from accumulated other comprehensive income	8,353	8,353
Net other comprehensive income (loss) during the period	(68,304)	(68,304)
Balance December 31, 2015	$ 854,351	$ 854,351
Balance January 1, 2014	$ 739,965	$ 739,965
Other comprehensive income (loss) before reclassification	170,731	170,731
Net (gains) losses reclassified from accumulated other comprehensive income	1,877	1,877
Loss on other than temporary impairment of investment value reclassified from accumulated other comprehensive income (loss)	10,082	10,082
Net other comprehensive income (loss) during the period	182,690	182,690
Balance December 31, 2014	$ 922,655	$ 922,655
Balance January 1, 2013	$ 798,846	$ 798,846
Other comprehensive income (loss) before reclassification	(179,621)	(179,621)
Loss on other than temporary impairment of investment value reclassified from accumulated other comprehensive income (loss)	120,740	120,740
Net other comprehensive income (loss) during the period	(58,881)	(58,881)
Balance December 31, 2013	$ 739,965	$ 739,965

17. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market for such asset or liability. The fair value hierarchy established in the Financial Accounting Standards Board accounting standards codification topic titled *Fair Value Measurements* establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Level 1 inputs are based on unadjusted quoted market prices in active markets for identical assets or liabilities. Level 2 inputs are based on significant observable inputs other than those in Level 1, either directly or indirectly. Level 3 inputs are based on significant unobservable inputs. The level in the hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Financial assets measured at fair value on a recurring basis include investment securities classified as available for sale. U.S. Treasury securities and an equity investment in an actively traded public utility are valued utilizing Level 1 inputs. Municipal debt securities and equity investments in community banks are valued using Level 2 inputs. The Company has no financial assets measured at fair value on a recurring basis that are valued with Level 3 inputs. The fair values for available for sale investment securities measured on a recurring basis were established as follows:

	Total Fair Value	Level 1 Inputs	Level 2 Inputs
December 31, 2015			
Securities available for sale:			
U.S. Treasury	$ 40,595,170	$ 40,595,170	$ -
State and municipal	347,464	-	347,464
Equity	1,704,449	529,144	1,175,305
Total assets measured on a recurring basis	$ 42,647,083	$ 41,124,314	$ 1,522,769
December 31, 2014			
Securities available for sale:			
U.S. Treasury	$ 44,648,291	$ 44,648,291	$ -
State and municipal	501,901	-	501,901
Equity	2,020,251	543,840	1,476,411
Total assets measured on a recurring basis	$ 47,170,443	$ 45,192,131	$ 1,978,312
December 31, 2013			
Securities available for sale:			
U.S. Treasury	$ 39,778,579	$ 39,778,579	$ -
State and municipal	376,790	-	376,790
Equity	1,760,828	413,336	1,347,492
Total assets measured on a recurring basis	$ 41,916,197	$ 40,191,915	$ 1,724,282

17. Fair Value Measurements (continued)

The Company measures and reports certain financial and non-financial assets at fair value on a non-recurring basis. Financial assets measured and reported at fair value on a non-recurring basis include impaired loans that are deemed by management to be collateral dependent and have been recorded at the fair value of the underlying collateral by recording partial charge-offs. Non-financial assets measured and reported on a non-recurring basis included other real estate owned acquired through foreclosure.

The Company utilizes appraisals from independent 3rd party licensed appraisers to determine the fair value of collateral underlying impaired loans that are deemed collateral dependent and other real estate owned. The vast majority of appraisals utilize the market approach valuation technique due to the nature of the underlying properties. Due to the significance of adjustments made to observable market prices of similar properties and lack of similarities between comparable properties, the Company considers the appraisals used in determination of fair value for collateral dependent impaired loans and other real estate owned to be Level 3 inputs. Management does not make adjustments to the independent appraised values except for the adjustment related to estimated holding and selling costs, when appropriate, or if the approved listing price of real estate for sale is lower than the appraised value. The valuation process includes a review of the appraisal by the Bank's loan department, which is experienced in appraisal review procedures set forth by bank regulatory guidance.

Financial and non-financial assets measured and reported at fair value on a non-recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value are detailed in the following table.

	Total Fair Value	Level 3 Inputs
December 31, 2015		
Impaired loans recorded at fair value of collateral:		
Construction, land development, and land	$ 234,822	$ 234,822
Residential 1-4 family	2,022,697	2,022,697
Commercial mortgages	371,085	371,085
Total impaired loans recorded at fair value of collateral	2,628,604	2,628,604
Other real estate owned recorded at fair value of collateral:		
Construction, land development, and land	355,000	355,000
Total other real estate owned recorded at fair value of collateral	355,000	355,000
Total assets measured on a non-recurring basis	$ 2,983,604	$ 2,983,604
December 31, 2014		
Impaired loans recorded at fair value of collateral:		
Construction, land development, and land	$ 59,152	$ 59,152
Residential 1-4 family	2,263,047	2,263,047
Commercial mortgages	376,599	376,599
Total impaired loans recorded at fair value of collateral	2,698,798	2,698,798
Other real estate owned recorded at fair value of collateral:		
Construction, land development, and land	410,500	410,500
Total other real estate owned recorded at fair value of collateral	410,500	410,500
Total assets measured on a non-recurring basis	$ 3,109,298	$ 3,109,298
December 31, 2013		
Impaired loans recorded at fair value of collateral:		
Residential 1-4 family	$ 2,173,442	$ 2,173,442
Commercial mortgages	384,493	384,493
Total impaired loans recorded at fair value of collateral	2,557,935	2,557,935
Other real estate owned recorded at fair value of collateral:		
Construction, land development, and land	410,500	410,500
Total other real estate owned recorded at fair value of collateral	410,500	410,500
Total assets measured on a non-recurring basis	$ 2,968,435	$ 2,968,435

17. Fair Value Measurements (continued)

The estimated fair values of the Company's financial assets and liabilities, including those assets and liabilities that are not measured and reported at fair value on a recurring or non-recurring basis are summarized in the table below. The fair value of cash and due from banks, federal funds sold, accrued interest receivable, bank owned life insurance, noninterest-bearing deposits, securities sold under agreements to repurchase, and accrued interest payable approximately equals their carrying value. These financial assets and financial liabilities are excluded from the table below. The fair values of a significant portion of the financial assets and financial liabilities presented in the table below are estimates derived using present value techniques prescribed by the Financial Accounting Standards Board and may not be indicative of the net realizable or liquidation values. 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 interest-bearing deposits with other financial institutions is estimated based on quoted interest rates for certificates of deposit with similar remaining terms.

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect for loans of the same class and term. Variable-rate loans, including loans with a demand feature, have an estimated fair value equal to their carrying amount. The carrying amount and fair value of loans presented in the table below is net of the allowance for loan losses. Impaired loans that are deemed by management to be collateral dependent and have been recorded at the fair value of the underlying collateral are valued utilizing Level 3 inputs. The fair value of outstanding loan commitments, letters of credit and unused lines of credit are considered to be the same as the contractual amounts, and are not included in the table below.

The fair value of interest-bearing checking, savings, and money market deposit accounts approximates the carrying value. The fair value of fixed-rate time deposits is estimated by discounting future cash flows using interest rates currently offered for deposits of similar remaining maturities.

	December 31, 2015		December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Level 1 inputs						
Investment securities	$ 103,247,998	$ 103,147,891	$ 126,147,288	$ 126,027,754	$ 115,045,573	$ 115,103,716
Level 2 inputs						
Interest-bearing deposits	$ 22,675,185	$ 22,704,361	$ 20,080,489	$ 20,133,547	$ 20,353,091	$ 20,376,425
Investment securities	$ 25,100,711	$ 25,098,164	$ 12,409,676	$ 12,435,370	$ 12,265,914	$ 12,295,618
Loans, net	$ 240,613,100	$ 240,891,253	$ 222,784,968	$ 223,116,143	$ 219,540,125	$ 219,496,117
Level 3 inputs						
Loans, net	$ 2,628,604	$ 2,628,604	$ 2,698,798	$ 2,698,798	$ 2,557,935	$ 2,557,935
Financial liabilities						
Level 2 inputs						
Interest-bearing deposits	$ 262,852,559	$ 262,868,507	$ 255,089,684	$ 255,107,603	$ 261,684,387	$ 261,716,195

18. Regulatory Capital Standards

The holding company’s primary regulator, the Federal Reserve, and the Bank’s primary regulator, the Federal Deposit Insurance Corporation (FDIC) have adopted leverage and risk-based capital standards for their supervised banking institutions. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. 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 Company's financial statements. Under these capital standards, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off balance sheet items as calculated under regulatory guidelines. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Federal Reserve and the FDIC have adopted a final rule that revises the risk-based and leverage capital requirements for their supervised banking institutions. The final rule implements the Basel III capital standards as established by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new regulatory capital requirements within the rule became effective January 1, 2015, subject to a phase-in period, and established higher minimum regulatory capital ratios, added a new Common Tier 1 regulatory capital ratio, established capital conservation buffers, and significantly revised the rules for calculating risk weighted assets. The holding company is not currently subject to the new regulatory capital requirements since its consolidated assets are less than $1 billion. The Bank is subject to the new regulatory capital requirements and management believes that, as of December 31, 2015, the Bank would exceed all requirements to be well capitalized under the new regulatory framework on a fully phased-in basis as if such requirements were currently in effect. The holding company may become subject to the new capital requirements in future periods if consolidated assets exceed $1 billion.

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 classification as well capitalized. The regulators, through formal or informal agreement, have the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized.

The following table presents actual and required regulatory capital ratios as of December 31, 2015, for the holding company and Bank under the new regulatory capital rules effective January 1, 2015. 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 new rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the new regulatory capital rules. The table presents actual and required capital ratios as of December 31, 2014 and 2013, under the rules in effect prior to new regulatory capital rules.

	Holding Company Actual		Bank Actual		To be well capitalized	Minimum adequacy
(in thousands)	Amount	Ratio	Amount	Ratio	Ratio	Ratio
December 31, 2015						
Common equity tier 1 capital	$ 78,927		$ 75,695			
To risk-weighted assets		32.3%		31.3%	6.5%	4.5%
Tier 1 capital	$ 78,927		$ 75,695			
To average fourth quarter assets		16.6%		16.0%	5.0%	4.0%
To risk-weighted assets		32.3%		31.3%	8.0%	6.0%
Total capital	$ 79,816		$ 76,584			
To risk-weighted assets		32.7%		31.7%	10.0%	8.0%
December 31, 2014						
Tier 1 capital	$ 77,568		$ 74,385			
To average fourth quarter assets		16.7%		16.1%	5.0%	4.0%
To risk-weighted assets		35.8%		34.8%	6.0%	4.0%
Total capital	$ 78,791		$ 75,294			
To risk-weighted assets		36.3%		35.2%	10.0%	8.0%
December 31, 2013						
Tier 1 capital	$ 76,724		$ 73,202			
To average fourth quarter assets		16.8%		16.2%	5.0%	4.0%
To risk-weighted assets		35.5%		34.3%	6.0%	4.0%
Total capital	$ 77,809		$ 74,110			
To risk-weighted assets		36.0%		34.7%	10.0%	8.0%

19. Holding Company Financial Information

Balance Sheets	December 31, 2015	2014	2013
Assets			
Cash and due from banks	$ 490,091	$ 37,612	$ 54,671
Interest-bearing bank deposits	471,053	471,047	755,369
Investment securities available for sale	1,704,449	2,020,251	1,760,828
Investment in subsidiary bank	76,100,683	74,883,307	73,701,833
Premises and equipment	1,017,210	1,044,647	1,055,178
Deferred income taxes	-	-	81,766
Other assets	73,796	80,285	54,187
Total assets	$ 79,857,282	$ 78,537,149	$ 77,463,832
Liabilities and Stockholders' Equity			
Deferred income taxes	$ 76,067	$ 46,208	$ -
Total liabilities	76,067	46,208	-
Common stock, par value $1 per share	2,899,412	2,917,119	2,951,828
Additional paid-in capital	6,247,043	6,697,024	7,543,333
Retained earnings	69,780,409	67,954,143	66,228,706
Accumulated other comprehensive income, net of tax	854,351	922,655	739,965
Total stockholders' equity	79,781,215	78,490,941	77,463,832
Total liabilities and stockholders' equity	$ 79,857,282	$ 78,537,149	$ 77,463,832

Statements of Comprehensive Income	Years Ended December 31, 2015	2014	2013
Interest revenue	$ 3,999	$ 2,883	$ 4,504
Dividend revenue	38,537	40,932	37,029
Dividends from subsidiary	3,256,858	3,312,922	3,278,467
Other than temporary impairment of investment value	-	(16,650)	(199,389)
Gain on disposition of investment securities	52,151	2,063	-
Equity in undistributed income of subsidiary	1,309,416	1,183,199	959,574
Rental income	43,200	43,200	43,200
Total revenue	4,704,161	4,568,549	4,123,385
Occupancy	34,495	38,413	37,211
Other	38,185	36,182	54,764
Total expenses	72,680	74,595	91,975
Income before income taxes	4,631,481	4,493,954	4,031,410
Income taxes	16,500	(12,500)	(90,149)
Net income	4,614,981	4,506,454	4,121,559
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on available for sale securities arising during the period, net of taxes of $(30,655), $121,442, and $(11,348)	(68,304)	182,690	(58,881)
Comprehensive income	$ 4,546,677	$ 4,689,144	$ 4,062,678

19. Holding Company Financial Information (continued)

Statements of Cash Flows	Years Ended December 31, 2015	2014	2013
Cash flows from operating activities			
Interest and dividends received	$ 3,296,965	$ 3,351,072	$ 3,320,356
Rental payments and fees received	43,200	43,200	43,200
Cash paid for operating expenses	(45,301)	(57,290)	(68,697)
Income tax refunds received	6,873	9,342	12,661
Net cash from operating activities	3,301,737	3,346,324	3,307,520
Cash flows from investing activities			
Certificates of deposit purchased, net of maturities	-	275,177	198,030
Proceeds from sale of investments available for sale	407,151	30,530	-
Purchases of premises and equipment	-	(16,201)	-
Net cash from investing activities	407,151	289,506	198,030
Cash flows from financing activities			
Common shares repurchased	(467,688)	(881,018)	(700,178)
Dividends paid	(2,788,715)	(2,781,017)	(2,778,478)
Net cash from financing activities	(3,256,403)	(3,662,035)	(3,478,656)
Net increase (decrease) in cash and cash equivalents	452,485	(26,205)	26,894
Cash and cash equivalents at beginning of year	43,659	69,864	42,970
Cash and cash equivalents at end of year	$ 496,144	$ 43,659	$ 69,864
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 4,614,981	$ 4,506,454	$ 4,121,559
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed net income of subsidiary	(1,309,416)	(1,183,199)	(959,574)
Depreciation	27,437	26,732	26,888
Other than temporary impairment of investment value	-	16,650	199,389
Gain on disposition of investment securities	(52,151)	(2,063)	-
Decrease (increase) in			
Accrued interest receivable	(2,239)	(97)	357
Prepaid expenses	(58)	(9,428)	(3,610)
Accrued dividends	(189)	(5,567)	-
Increase (decrease) in			
Deferred and accrued income taxes	23,372	(3,158)	(77,489)
Net cash from operating activities	$ 3,301,737	$ 3,346,324	$ 3,307,520
Composition of cash and cash equivalents			
Cash and due from banks	$ 490,091	$ 37,612	$ 54,671
Interest-bearing deposits, except for time deposits	6,053	6,047	15,193
Total cash and cash equivalents	$ 496,144	$ 43,659	$ 69,864

20. Quarterly Results of Operations (unaudited)

	Three months ended			
	December 31	September 30	June 30	March 31
2015				
Interest and dividend revenue	$ 3,612,267	$ 3,610,580	$ 3,549,481	$ 3,451,931
Interest expense	89,592	90,760	88,426	91,607
Net interest income	3,522,675	3,519,820	3,461,055	3,360,324
Provision for loan losses	(108,000)	-	85,000	80,000
Net income	1,188,294	1,182,230	1,145,327	1,099,130
Comprehensive income	1,057,756	1,287,022	1,082,809	1,119,090
Earnings per share	$ 0.41	$ 0.41	$ 0.39	$ 0.38
2014				
Interest and dividend revenue	$ 3,558,457	$ 3,540,866	$ 3,564,497	$ 3,497,909
Interest expense	97,063	98,102	95,730	98,134
Net interest income	3,461,394	3,442,764	3,468,767	3,399,775
Provision for loan losses	90,000	7,000	50,000	123,000
Net income	1,100,911	1,211,597	1,185,473	1,008,473
Comprehensive income	1,161,201	1,215,398	1,225,974	1,086,571
Earnings per share	$ 0.37	$ 0.42	$ 0.40	$ 0.34
2013				
Interest and dividend revenue	$ 3,605,872	$ 3,671,980	$ 3,745,208	$ 3,715,151
Interest expense	105,430	111,189	119,823	131,923
Net interest income	3,500,442	3,560,791	3,625,385	3,583,228
Provision for loan losses	131,000	261,000	64,000	345,000
Net income	770,026	1,150,722	1,188,062	1,012,749
Comprehensive income	831,625	1,193,737	1,111,757	925,559
Earnings per share	$ 0.26	$ 0.39	$ 0.40	$ 0.34

CALVIN B. TAYLOR BANKSHARES, INC.
CALVIN B. TAYLOR BANKING COMPANY

2015

BOARD OF DIRECTORS

James R. Bergey, Jr.
James R. Bergey, III
John H. Burbage, Jr.
Todd E. Burbage
Charlotte K. Cathell
Thomas K. Coates
Reese F. Cropper, III
G. Hale Harrison
Hale Harrison
M. Dean Lewis
William H. Mitchell
Joseph E. Moore
Louis H. Taylor
Raymond M. Thompson

DIRECTORS EMERITI

Richard L. Bunting
Reese F. Cropper, Jr., Chairman Emeritus
Michael L. Quillin, Sr.
Hugh F. Wilde, Sr.

EXECUTIVE COMMITTEE

Tina B. Kolarik
Raymond M. Thompson
Peggy Zellman-Welsh
Outside Directors* (3)

*Outside directors, those directors who are not officers of the Bank or Company, serve as rotating members of the Executive Committee. All outside directors serve as a rotating member of the Executive Committee during the year.

CALVIN B. TAYLOR BANKING COMPANY

Officers and Managers

EXECUTIVE OFFICERS

Raymond M. Thompson	President and Chief Executive Officer
Peggy Zellman-Welsh	Executive Vice President and Chief of Branch Administration
Tina B. Kolarik	Executive Vice President and Chief Operating Officer
M. Dean Lewis	Vice President and Chief Financial Officer

BRANCH MANAGEMENT

Raymond I. Robinson, Jr.	Vice President, Manager of 20th Street Branch, Security Officer
Margaret M. Mudron	Assistant Vice President, Manager of Fenwick Branch
Lori A. Simon	Assistant Vice President, Manager of Ocean Pines Branch
C. Ray Daisey	Assistant Vice President, Manager of Pocomoke Branch
Jennifer L. Figgs	Manager of West Ocean City Branch
Lynne A. Nicodemus	Manager of Ocean View, Delaware Branch
Casey E. Robinson	Manager of 91st Street Branch
Jennifer W. Scott	Manager of Main Office Branch
Jamie N. Hill	Manager of Snow Hill Branch

LENDING AND BUSINESS DEVELOPMENT

D. Kenneth Bates	Senior Vice President, Senior Loan and Business Development Officer
V. Wesley McCabe, III	Vice President, Loan and Business Development Officer
James R. Simon	Vice President, Loan and Business Development Officer
Lee I. Chisholm	Assistant Vice President, Loan and Business Development Officer
Cory B. Walsh	Assistant Vice President, Loan and Business Development Officer
Scott P. Williams	Loan Operations Supervisor
Ross A. Bergey	Credit Analyst

OPERATIONS AND ADMINISTRATION

Alysson E. DuPont	Vice President and Human Resources Manager
Sandra H. Duncan	Assistant Vice President and Account Processing Manager
Kathleen J. Allam	IT/Electronic Services Manager
Carl A. Vandivier	Information Systems Administrator
Stacy L. Schaffer	Marketing Officer

COMPLIANCE / AUDIT

Donna E. Weaver	Assistant Vice President, Compliance Officer and Internal Auditor

Branch Locations

MARYLAND

BERLIN

Main Office:

24 N. Main Street	Phone:	410-641-1700
Berlin, MD 21811	Fax:	410-641-0543

East Berlin Branch:

10524 Old Ocean City Boulevard	Phone:	410-641-1728
Berlin, MD 21811	Fax:	410-641-2078

Ocean Pines Branch:

11103 Cathell Road	Phone:	410-641-5111
Berlin, MD 21811	Fax:	410-641-6084

OCEAN CITY

20th Street Branch:

100 20th Street	Phone:	410-289-8171
Ocean City, MD 21842	Fax:	410-289-6507

North Ocean City/Fenwick Branch:

14200 Coastal Highway	Phone:	410-250-1405
Ocean City, MD 21842	Fax:	410-250-1379

Mid-Ocean City Branch:

9105 Coastal Highway	Phone:	410-723-2044
Ocean City, MD 21842	Fax:	410-723-3870

West Ocean City Branch:

9923 Golf Course Road	Phone:	410-213-1700
Ocean City, MD 21842	Fax:	410-213-2887

POCOMOKE

2140 Old Snow Hill Road	Phone:	410-957-3200
Pocomoke, MD 21851	Fax:	410-957-2125

SNOW HILL

108 West Market Street	Phone:	410-632-1700
Snow Hill, MD 21863	Fax:	410-632-1524

DELAWARE

OCEAN VIEW

50 Atlantic Avenue	Phone:	302-541-0500
Ocean View, DE 19970	Fax:	302-541-0665

Market for Common Stock and Related Matters

Stock Listing Information

The Company's common stock is traded in the "over the counter" (OTC) market under the ticker symbol TYCB. Stock quotes, trade prices, and volume information can be found on the OTCQX marketplace which is an electronic inter-dealer quotation system registered with the Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA).

There were 916 stockholders of record at December 31, 2015.

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Phone (800) 937-5449, toll free

Additional Information

The following officers of the Company can provide additional information:

Mr. Raymond M. Thompson, President and Chief Executive Officer
(410) 641-1700
Email: rthompson@taylorbank.com

Mr. M. Dean Lewis, Treasurer
(410) 641-1700
Email: mlewis@taylorbank.com