Peoples Ltd. and Subsidiaries

Financial Statements

December 31, 2015 and 2014

BAKER TILLY

Candor. Insight. Results.

Peoples Ltd. and Subsidiaries

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December 31, 2015 and 2014

BAKER TILLY

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Independent Auditors' Report

Board of Directors
Peoples Ltd. and Subsidiaries

We have audited the accompanying consolidated financial statements of Peoples Ltd. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Ltd. and Subsidiaries 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

Wilkes-Barre, Pennsylvania
March 21, 2016

Peoples Ltd. and Subsidiaries

Consolidated Balance Sheet
December 31, 2015 and 2014
(In thousands, except share amounts)

	2015	2014
Assets		
Cash and due from banks	$ 19,941	$ 23,111
Available-for-sale securities	79,769	80,367
Loans, net	192,819	181,652
Cash surrender value, life insurance	6,095	5,897
Bank premises and equipment	4,621	4,962
Accrued interest receivable	767	782
Restricted equity securities	1,004	827
Deferred income taxes	412	521
Other assets	1,193	1,139
Total	$ 306,621	$ 299,258
Liabilities and Shareholders' Equity		
Liabilities		
Demand deposits:		
Noninterest-bearing	$ 60,832	$ 63,963
Interest-bearing	74,750	71,788
Total	135,582	135,751
Savings deposits	48,808	49,596
Time deposits	75,540	72,189
Total deposits	259,930	257,536
Borrowed funds	17,715	14,723
Accrued interest payable	64	73
Other liabilities	2,073	2,130
Total liabilities	279,782	274,462
Shareholders' Equity		
Common stock, $.50 par value, authorized 2,000,000 shares		
2015 - 564,252 shares issued, 549,644 outstanding		
2014 - 538,232 shares issued, 523,635 outstanding	282	269
Surplus	8,751	7,177
Retained earnings	18,458	17,927
Treasury stock, at cost	(509)	(509)
Accumulated other comprehensive loss	(143)	(68)
Total shareholders' equity	26,839	24,796
Total	$ 306,621	$ 299,258

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statement of Income
Years Ended December 31, 2015 and 2014
(In thousands, except per share amounts)

	2015	2014
Interest Income		
Interest and fees on loans	$ 9,754	$ 9,762
Interest and dividends on investments:		
Taxable interest and dividends	1,249	1,043
Nontaxable interest	457	443
Total interest income	11,460	11,248
Interest Expense		
Interest on deposits	970	1,014
Interest on borrowed funds	129	127
Total interest expense	1,099	1,141
Net Interest Income	10,361	10,107
Credit for Loan Losses	-	(400)
Net Interest Income After Credit for Loan Losses	10,361	10,507
Noninterest Income		
Service charges	1,173	1,220
Commissions	100	361
Increase in cash surrender value, life insurance	184	142
Gain on sale of foreclosed assets	-	22
Gain on sale of available-for-sale securities	42	-
Gain on sale of bank premises	105	-
Loss on abandonment of leasehold improvements	-	(129)
Other income	490	479
Total noninterest income	2,094	2,095
Noninterest Expenses		
Salaries and employee benefits	4,605	4,781
Occupancy and equipment	1,101	1,076
FDIC insurance	202	216
Professional fees	222	334
Data processing	443	455
Other expenses	1,733	1,740
Total noninterest expenses	8,306	8,602
Income Before Provision for Income Taxes	4,149	4,000
Provision for Income Taxes	1,120	1,056
Net Income	$ 3,029	$ 2,944
Earnings Per Share	$ 5.51	$ 5.36

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statement of Comprehensive Income
Years Ended December 31, 2015 and 2014
(In thousands)

	2015	2014
Net Income	$ 3,029	$ 2,944
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on securities available-for-sale	(113)	1,070
Tax effect	38	(364)
Total other comprehensive income (loss)	(75)	706
Total Comprehensive Income	$ 2,954	$ 3,650

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statement of Changes in Shareholders' Equity
Years Ended December 31, 2015 and 2014
(In thousands, except share amounts)

	Common Stock		Treasury Stock				Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Retained Earnings	Income (Loss)	Total
Balance, January 1, 2014	513,424	$ 257	14,585	$ (508)	$ 5,744	$ 17,265	$ (774)	$ 21,984
Net income						2,944		2,944
Other comprehensive income							706	706
Purchase of treasury stock			12	(1)				(1)
Cash dividend ($1.66 per share)						(828)		(828)
5% stock dividend	24,808	12			1,433	(1,454)		(9)
Balance, December 31, 2014	538,232	269	14,597	(509)	7,177	17,927	(68)	24,796
Net income						3,029		3,029
Other comprehensive loss							(75)	(75)
Purchase of treasury stock			11	-				-
Cash dividend ($1.72 per share)						(901)		(901)
5% stock dividend	26,020	13			1,574	(1,597)		(10)
Balance, December 31, 2015	564,252	$ 282	14,608	$ (509)	$ 8,751	$ 18,458	$ (143)	$ 26,839

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statement of Cash Flows
Years Ended December 31, 2015 and 2014
(In thousands)

	2015	2014
Operating Activities		
Net income	$ 3,029	$ 2,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit for loan losses	-	(400)
Depreciation	491	435
Amortization and accretion, net	5	71
Gain loss on sale of foreclosed assets	-	(22)
Gain on sale of available-for-sale securities	(42)	-
Loss on abandonment of leasehold improvements	-	129
Gain on sale of bank premises	(105)	-
Deferred income taxes	147	236
Increase in cash surrender value, life insurance	(184)	(142)
Change in:		
Accrued interest receivable	15	(52)
Other assets	(54)	269
Accrued interest payable	(9)	(16)
Other liabilities	(57)	75
Net cash provided by operating activities	3,236	3,527
Investing Activities		
Proceeds from calls and maturities of available-for-sale securities	38,590	14,287
Purchase of available-for-sale securities	(39,522)	(29,461)
Proceeds from sales of available-for-sale securities	1,454	-
Proceeds from redemption of restricted equity securities	24	377
Purchase of restricted equity securities	(201)	(66)
Net increase in loans	(11,167)	(9,541)
Life insurance premiums paid	(14)	(134)
Purchase of bank premises and equipment	(164)	(241)
Proceeds from sale of bank premises and equipment	119	-
Proceeds from the sale of foreclosed assets	-	324
Net cash used in investing activities	(10,881)	(24,455)
Financing Activities		
Net increase in deposits	2,394	25,915
Proceeds from borrowed funds	3,000	-
Repayment of borrowed funds	(8)	(9)
Dividends paid	(911)	(837)
Purchase of treasury stock	-	(1)
Net cash provided by financing activities	4,475	25,068
Increase (Decrease) in Cash and Due from Banks	(3,170)	4,140
Cash and Due from Banks, Beginning of Year	23,111	18,971
Cash and Due from Banks, End of Year	$ 19,941	$ 23,111

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Peoples Ltd. and its wholly-owned subsidiaries, PS Bank (the "Bank") and DEPPLL Corp. (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of basic financial services to individuals, small businesses and corporate customers through offices in Bradford, Sullivan and Wyoming counties of Pennsylvania. The area is a rural and suburban market with an economic base made up of light manufacturing, retail and agricultural businesses. The Company's primary deposit products are demand deposits and interest bearing time and savings accounts. It offers a full array of loan products to meet the needs of retail and commercial customers.

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. Peoples Ltd. is subject to regulation by the Federal Reserve Bank of Philadelphia.

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 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 relate to the determination of the allowance for loan losses and the valuation of investment securities.

In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company's investment securities are comprised of a variety of financial instruments. The fair values of these securities are subject to various risks including changes in the interest rate environment and general economic conditions. Due to the increased level of these risks and their potential impact on the fair values of the securities, it is possible that the amounts reported in the accompanying consolidated financial statements could materially change in the near term.

Significant Group Concentrations of Credit Risk

The Company grants loans to customers primarily located in Bradford, Sullivan and Wyoming counties of Pennsylvania. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic sector in which the Company operates. The Company does not have any significant concentrations from one industry or customer.

Investments

Debt and equity securities are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

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 costs that are deemed to be credit-related are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Equity Securities

Restricted equity securities are carried at cost.

The Company, as a member of the Pittsburgh branch of the Federal Home Loan Bank system ("FHLB"), is required to maintain an investment in capital stock of the FHLB. The carrying value of this stock was $994,000 at December 31, 2015 and $817,000 at December 31, 2014. Based on redemption provisions of the FHLB, the stock has no quoted market value. The Company is also required to maintain an investment in the Atlantic Community Bankers Bank. The carrying value of this stock was $10,000 at December 31, 2015 and 2014.

Management considers whether these investments are impaired based on the ultimate recoverability of the cost basis rather than by recognizing temporary declines in value. Management believes no impairment has occurred related to these investments at December 31, 2015 and 2014.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans. 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 related loan yield over the contractual life of the loan using the interest method.

The loan receivable portfolio is segmented into commercial, residential, municipal and consumer loans. Commercial loans include commercial and industrial and commercial real estate loans. Residential loans include 1-4 family mortgage loans and home equity loans. Consumer loans consist of personal installment loans and municipal loans consist of loans to local municipalities and authorities. The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. Common risk characteristics include loan type, collateral type and geographic location.

For all classes of loans receivable except certain residential loans, 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 collectability of principal or interest, even though the loan is currently performing. For residential loans that are well secured and in the process of collection, the accrual of interest is discontinued after one year of past due payments. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans, including impaired loans, is either applied to principal or recognized as interest income, depending on management's judgment as to the collectability 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 six months) and the ultimate collectability 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 are 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. Consumer loans are generally charged off no later than 120 days past due on a contractual basis (earlier in the event of bankruptcy) or if there is an amount deemed uncollectible.

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 Company'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, a specific allowance is established when the collateral value, observable market price, or discounted cash flows of the impaired loan is lower than the carrying value of that loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis. The Company does not separately evaluate individual residential and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For 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, when necessary, 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 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 agings or equipment appraisals, invoices or online pricing sources. Indications of value from these sources are generally discounted, as appropriate, based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential 1-4 family, home equity and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative risk 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. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

7. Oversight, including the impact of banking laws and regulations as well as the overall regulatory environment.

8. External factors which may have either a direct or indirect impact on the quality of the loan portfolio.

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 allowance 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 or when credit deficiencies arise, such as delinquent loan payments, for residential, municipal and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are immediately charged to the allowance for loan losses. Loans not classified are rated pass. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process encompassing both internal and external oversight. Generally, residential and consumer loans are included in the pass category unless on nonaccrual status at which time they are classified as substandard, or they are associated with a closely related criticized commercial credit. The Company's commercial loan officers are responsible for the timely and accurate risk rating of the commercial loans in their portfolio at origination and on an ongoing basis. The Company utilizes an external loan review consultant to conduct a loan review of its portfolio each year. The external consultant generally reviews all commercial loan relationships exceeding a specified threshold.

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.

Loans whose terms are modified are classified as troubled debt restructurings if the Company 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 six consecutive months after modification. Loans classified as troubled debt restructurings are generally designated as impaired.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company 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.

The Company made no significant changes to its accounting policies or methodologies for the allowance for loan losses in 2015 or 2014.

Cash Surrender Value, Life Insurance

The Company is the owner and beneficiary of life insurance policies on certain employees and directors. The Company is also the beneficiary of insurance proceeds to the extent of cumulative premiums paid through collateral assignments on other non-owned life insurance policies on certain employees. The life insurance investment is carried at the cash surrender value of the underlying owned policies plus the cumulative premiums paid on non-owned policies. The increase in the cash surrender value is recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Bank Premises and Equipment

Bank premises (including leasehold improvements) and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated lives of the assets for owned assets or the lesser of the lease term or the estimated lives of the assets for leasehold improvements.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses. Foreclosed assets totaled $495,000 and $500,000 at December 31, 2015 and 2014, respectively and are included in other assets. Foreclosed assets include $95,000 of residential real estate at December 31, 2015. Residential real estate in process of foreclosure was $89,000 at December 31, 2015.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

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 Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Advertising Costs

Advertising costs are expensed as incurred and totaled $139,000 in 2015 and $145,000 in 2014.

Earnings Per Share

Earnings per share is based on the weighted average number of shares of common stock outstanding. 2014 earnings per share is adjusted for the effect of the 2015 stock dividend. The Company's basic and diluted earnings per share are the same since there are no dilutive shares of potential common stock outstanding.

Treasury Stock

Treasury stock is recorded at cost. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Interest paid totaled $1,108,000 in 2015 and $1,157,000 in 2014. The Company paid $1,000,000 of income tax payments in 2015 and $700,000 in 2014. Amounts transferred from loans to foreclosed assets were $-0- in 2015 and $401,000 in 2014.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income (loss) consists solely of the net unrealized losses on available-for-sale securities, net of deferred income taxes. Accumulated other comprehensive loss consists of net unrealized losses of $216,000 less deferred income taxes of $73,000 at December 31, 2015 and net unrealized losses of $103,000 less deferred income taxes of $35,000 at December 31, 2014.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through March 21, 2016, the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The ASU clarifies that an in substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the ASU requires disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to the requirements of the applicable jurisdiction. An entity can elect to adopt this ASU using either a modified retrospective transition method or a prospective transition method. The Company has elected the prospective transition method and will apply the ASU to all instances of an entity receiving physical possession of residential real estate property collateralizing consumer mortgage loans that occur after the date of adoption. The Company adopted this ASU beginning in 2015 and it did not have a material effect on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a principles-based framework for revenue recognition that supersedes virtually all previously issued revenue recognition guidance under U.S. GAAP. Additionally, the ASU requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The core principle of the five-step revenue recognition framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015 the FASB issued ASU 2015-14, which deferred the effective date of the revenue recognition standard by a year, making it applicable for the Company in 2018. The ASU should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is in the process of evaluating the potential impact of adopting this ASU, including determining which transition method to apply.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. This makes significant changes in U.S. GAAP related to certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The changes provided for in this ASU include the following: (1) require most equity investments to be measured at fair value with changes in fair value recognized in net income; however, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) for equity investments without readily determinable fair values, require a qualitative assessment to identify impairment, and if a qualitative assessment indicates that impairment exists, requiring an entity to measure the investment at fair value; (3) eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (4) require use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) require 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 (at December 31, 2015 and 2014, the Company has no liabilities for which the fair value measurement option has been elected); (6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this Update will become effective for the Company in 2018. With limited exceptions, early adoption of the ASU is not permitted. The ASU will be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. The amendments related to equity securities without readily determinable fair values should be applied prospectively. The Company is in the process of evaluating the potential impact of adopting this ASU.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which increases the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will require lessees to recognize a right-of-use (ROU) asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation for leases with terms of more than twelve months. Both the ROU asset and lease liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Accounting by lessors will remain largely unchanged from current U.S. GAAP. ASU 2016-02 is effective for the Company in 2019, with early adoption permitted, and is to be applied as of the beginning of the earliest period presented using a modified retrospective approach. The Company is in the process of evaluating the potential impact of adopting this ASU.

2. Investments

The amortized cost and fair value of available-for-sale securities at December 31 are summarized as follows (in thousands):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises ("GSE")	$ 18,985	$ 18	$ 95	$ 18,908
State and municipal obligations - tax free	20,266	276	5	20,537
Mortgage-backed securities - GSE - residential	40,665	88	505	40,248
Total debt securities	79,916	382	605	79,693
Equity securities - financial services	68	8	-	76
Total	$ 79,984	$ 390	$ 605	$ 79,769

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises ("GSE")	$ 17,478	$ 12	$ 122	$ 17,368
State and municipal obligations - tax free	19,909	265	12	20,162
Mortgage-backed securities - GSE - residential	43,016	188	443	42,761
Total debt securities	80,403	465	577	80,291
Equity securities - financial services	68	8	-	76
Total	$ 80,471	$ 473	$ 577	$ 80,367

Proceeds from sales of available-for-sale securities in 2015 totaled $1,454,000 and resulted in gross gains of $42,000. There were no losses on the sales in 2015. There were no sales of available-for-sale securities in 2014.

Investments with a fair value of $28,932,000 at December 31, 2015 and $24,849,000 at December 31, 2014 are pledged as collateral to secure public deposits and for other purposes as required by law.

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

	Amortized Cost	Fair Value
Due in one year or less	$ 476	$ 478
Due after one year through five years	23,803	23,779
Due after five years through fifteen years	14,972	15,188
Subtotal	39,251	39,445
Mortgage-backed securities - GSE - residential	40,665	40,248
Total	$ 79,916	$ 79,693

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous loss position (in thousands):

	December 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government sponsored enterprises (“GSE”)	$ 4,957	$ 41	$ 4,444	$ 54	$ 9,401	$ 95
State and municipal obligations - tax free	1,514	4	534	1	2,048	5
Mortgage-backed securities - GSE - residential	9,839	108	19,348	397	29,187	505
Total debt securities	$ 16,310	$ 153	$ 24,326	$ 452	$ 40,636	$ 605
	December 31, 2014					
U.S. government sponsored enterprises (“GSE”)	$ 3,496	$ 2	$ 7,375	$ 120	$ 10,871	$ 122
State and municipal obligations - tax free	2,056	12	-	-	2,056	12
Mortgage-backed securities - GSE - residential	9,628	67	16,960	376	26,588	443
Total debt securities	$ 15,180	$ 81	$ 24,335	$ 496	$ 39,515	$ 577

The Company had 57 debt securities in unrealized loss positions at December 31, 2015. The unrealized losses are considered to result from changes in interest rates and not from downgrades in the creditworthiness of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are general obligation or revenue bonds, whether they are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The Company does not intend to sell these securities nor is it more likely than not that it will be required to sell these securities prior to recovery. No declines are deemed to be other-than-temporary.

3. Loans and Allowance for Loan Losses

Loans at December 31 are summarized as follows (in thousands):

	2015	2014
Mortgage loans on real estate:		
Residential 1-4 family	$ 75,095	$ 79,196
Commercial	70,321	53,661
Home equity	17,893	16,423
Total mortgage loans on real estate	163,309	149,280
Commercial and industrial	20,408	21,620
Municipal	8,329	9,911
Consumer	2,957	3,069
Subtotal	195,003	183,880
Allowance for loan losses	(2,184)	(2,228)
Loans, net	$ 192,819	$ 181,652

Changes in the allowance for loan losses in 2015 are as follows (in thousands):

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2015	$ 385	$ 1,088	$ 199	$ 247	$ 30	$ 39	$ 240	$ 2,228
Charge-offs	(29)	(109)	-	-	-	(33)	-	(171)
Recoveries	37	88	-	-	-	2	-	127
Provision	61	(64)	(52)	19	8	30	(2)	-
Ending balance, December 31, 2015	$ 454	$ 1,003	$ 147	$ 266	$ 38	$ 38	$ 238	$ 2,184
Ending balance individually evaluated for impairment	$ -	$ 280	$ -	$ 39	$ -	$ -	$ -	$ 319
Ending balance collectively evaluated for impairment	$ 454	$ 723	$ 147	$ 227	$ 38	$ 38	$ 238	$ 1,865
Loans receivable at December 31, 2015:								
Total balance	$ 75,095	$ 70,321	$ 17,893	$ 20,408	$ 8,329	$ 2,957	$ -	$ 195,003
Ending balance individually evaluated for impairment	$ 329	$ 2,666	$ 263	$ 74	$ -	$ -	$ -	$ 3,332
Ending balance collectively evaluated for impairment	$ 74,766	$ 67,655	$ 17,630	$ 20,334	$ 8,329	$ 2,957	$ -	$ 191,671

Changes in the allowance for loan losses in 2014 are as follows (in thousands):

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2014	$ 298	$ 1,602	$ 160	$ 358	$ 5	$ 45	$ 275	$ 2,743
Charge-offs	(48)	(129)	-	-	-	(209)	-	(386)
Recoveries	1	267	-	-	-	3	-	271
Provision	134	(652)	39	(111)	25	200	(35)	(400)
Ending balance, December 31, 2014	$ 385	$ 1,088	$ 199	$ 247	$ 30	$ 39	$ 240	$ 2,228
Ending balance individually evaluated for impairment	$ -	$ 319	$ 87	$ 73	$ -	$ -	$ -	$ 479
Ending balance collectively evaluated for impairment	$ 385	$ 769	$ 112	$ 174	$ 30	$ 39	$ 240	$ 1,749
Loans receivable at December 31, 2014:								
Total balance	$ 79,196	$ 53,661	$ 16,423	$ 21,620	$ 9,911	$ 3,069	$ -	$ 183,880
Ending balance individually evaluated for impairment	$ 589	$ 1,161	$ 363	$ 99	$ -	$ -	$ -	$ 2,212
Ending balance collectively evaluated for impairment	$ 78,607	$ 52,500	$ 16,060	$ 21,521	$ 9,911	$ 3,069	$ -	$ 181,668

The following table summarizes information on impaired loans by loan portfolio class at December 31 (in thousands):

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1-4 family	$ 329	$ 364	$ -	$ 356	$ 21
Commercial real estate	1,894	1,947	-	1,894	74
Home equity	263	500	-	505	1
With an allowance recorded:					
Commercial real estate	772	904	280	772	48
Home equity	-	-	-	-	-
Commercial and industrial	74	74	39	75	3
Total:					
Residential 1-4 family	329	364	-	356	21
Commercial real estate	2,666	2,851	280	2,666	122
Home equity	263	500	-	505	1
Commercial and industrial	74	74	39	75	3
	December 31, 2014				
With no related allowance recorded:					
Residential 1-4 family	$ 589	$ 670	$ -	$ 644	$ 30
Commercial real estate	501	569	-	541	17
Home equity	145	220	-	196	1
With an allowance recorded:					
Commercial real estate	660	807	319	793	38
Home equity	218	638	87	430	4
Commercial and industrial	99	115	73	109	3
Total:					
Residential 1-4 family	589	670	-	644	30
Commercial real estate	1,161	1,376	319	1,334	55
Home equity	363	858	87	626	5
Commercial and industrial	99	115	73	109	3

The following table presents information on nonaccrual loans by loan portfolio class at December 31 (in thousands):

	2015	2014
Residential 1-4 family	$ 283	$ 261
Commercial real estate	510	233
Home equity	333	338
Commercial and industrial	-	20
Total	$ 1,126	$ 852

The following table presents information on the loan portfolio classes by the Company's internal risk ratings system at December 31, 2015 (in thousands):

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 74,665	$ 67,304	$ 17,850	$ 20,334	$ 8,329	$ 2,957	$ 191,439
Special mention	-	-	-	-	-	-	-
Substandard	430	3,017	43	74	-	-	3,564
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 75,095	$ 70,321	$ 17,893	$ 20,408	$ 8,329	$ 2,957	$ 195,003

The following table presents information on the loan portfolio classes by the Company's internal risk ratings system at December 31, 2014 (in thousands):

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 78,584	$ 52,222	$ 16,367	$ 21,429	$ 9,911	$ 3,069	$ 181,582
Special mention	-	-	-	-	-	-	-
Substandard	612	1,439	56	191	-	-	2,298
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 79,196	$ 53,661	$ 16,423	$ 21,620	$ 9,911	$ 3,069	$ 183,880

The following table presents information on the loan portfolio classes by past due status at December 31, 2015 (in thousands):

	30-59 Days Past Due	60-89 Day Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment ≥ 90 Days and Accruing
Residential 1-4 family	$ 852	$ 249	$ 383	$ 1,484	$ 73,611	$ 75,095	$ 208
Commercial real estate	216	510	-	726	69,595	70,321	-
Home equity	66	-	306	372	17,521	17,893	-
Commercial and industrial	91	297	-	388	20,020	20,408	-
Municipal	-	-	-	-	8,329	8,329	-
Consumer	2	2	5	9	2,948	2,957	5
Total	$ 1,227	$ 1,058	$ 694	$ 2,979	$ 192,024	$ 195,003	$ 213

The following table presents information on the loan portfolio classes by past due status at December 31, 2014 (in thousands):

	30-59 Days Past Due	60-89 Day Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment ≥ 90 Days and Accruing
Residential 1-4 family	$ 491	$ 122	$ 431	$ 1,044	$ 78,152	$ 79,196	$ 301
Commercial real estate	91	-	217	308	53,353	53,661	-
Home equity	11	74	338	423	16,000	16,423	-
Commercial and industrial	128	49	20	197	21,423	21,620	-
Municipal	-	-	-	-	9,911	9,911	-
Consumer	14	16	-	30	3,039	3,069	-
Total	$ 735	$ 261	$ 1,006	$ 2,002	$ 181,878	$ 183,880	$ 301

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restricting ("TDR"). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are generally considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The following table reflects information on loans modified during 2015 and 2014 which are considered TDRs (in thousands):

	Number of Contracts	Recorded Investment at Time of Modification
Troubled debt restructurings - 2015	-	$ -
Troubled debt restructurings - 2014		
Commercial real estate	2	$ 749

There were no changes to the recorded investment resulting from modification. No modified loans defaulted in 2015 or 2014.

There are no commitments to lend additional funds to borrowers whose loans were modified.

4. Bank Premises and Equipment

Bank premises and equipment at December 31 is summarized as follows (in thousands):

	2015	2014
Land	$ 555	$ 555
Bank premises	5,743	5,741
Equipment, furniture and fixtures	4,826	4,725
Total	11,124	11,021
Less accumulated depreciation	6,503	6,059
Total	$ 4,621	$ 4,962

5. Deposits

The aggregate amount of certificates of deposit with a minimum denomination of $250,000 was $9,364,000 and $7,729,000 at December 31, 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31:	
2016	$ 53,394
2017	11,377
2018	3,493
2019	2,801
2020	4,475
Total	$ 75,540

6. Borrowed Funds

The Company has a maximum borrowing capacity with the FHLB of $100,340,000, including a $49,000,000 line of credit. The Company had no borrowings under this line at December 31, 2015 and 2014. The Company has used $375,000 in 2015 and 2014 of its borrowing capacity to issue irrevocable letters of credit to collateralize public deposits. Advances from the FHLB are secured by qualifying assets of the Company, which include FHLB stock, certain U.S. government sponsored enterprise securities, and first mortgage loans.

The Company has a $2,500,000 unsecured federal funds borrowing agreement with Atlantic Community Bankers Bank. There were no borrowings at December 31, 2015 and 2014.

Borrowed funds from FHLB consisted of the following at December 31 (in thousands):

	2015	2014
Fixed rate advances:		
Due in 2015	$ -	$ 9
Due in 2016	3,009	9
Due in 2017	14,706	14,705
Total	$ 17,715	$ 14,723

The weighted average rate was 0.83% in 2015 and 0.86% in 2014.

7. Income Taxes

The provision for income taxes consists of the following (in thousands):

	2015	2014
Current	$ 973	$ 820
Deferred	147	236
Total	$ 1,120	$ 1,056

A reconciliation between the effective income tax expense and the amount computed using the federal statutory rate of 34% is as follows:

	2015	2014
Federal income tax expense at statutory rate	$ 1,410	$ 1,360
Effect of:		
Tax-exempt income	(318)	(298)
Other items	28	(6)
Total	$ 1,120	$ 1,056

The following temporary differences gave rise to the net deferred tax asset at December 31 (in thousands):

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 253	$ 268
Deferred compensation	145	174
AMT credit	-	50
Nonaccrual interest	7	139
Other	80	79
Unrealized losses on available-for-sale securities	73	35
Total deferred tax assets	558	745
Deferred tax liabilities,		
Depreciation	(146)	(224)
Total	$ 412	$ 521

A valuation allowance has not been established as the Company believes that the deferred tax assets are more likely than not realizable.

The Company had no unrecognized tax benefits at December 31, 2015 and 2014. There were no interest and penalties recognized in 2015 and 2014.

8. Retirement Plan

The Company sponsors a defined contribution retirement plan. Retirement plan expense was $223,000 in 2015 and $209,000 in 2014.

9. Financial Instruments with Off-Balance-Sheet Risk

Overview

The Company is a party to credit related 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with off-balance-sheet credit risk.

Commitments to Extend Credit

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These commitments may or may not be collateralized and usually contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate. The Company has not incurred any losses on its commitments in either 2015 or 2014.

Financial instruments whose contract amount represents credit risk were as follows (in thousands):

	2015	2014
Commitments to extend credit	$ 39,817	$ 35,767
Standby letters of credit	2,358	2,125

10. Leases

The Company leases certain of its offices under the terms of lease agreements classified as operating leases. These agreements expire at varying dates. Rent expense was $227,000 in 2015 and $202,000 in 2014.

Minimum future payments as of December 31, 2015 under noncancelable operating leases are as follows (in thousands):

Years ending December 31	
2016	$ 185
2017	178
2018	179
2019	180
2020	180
Thereafter	862
Total	$ 1,764

11. Related Party Transactions

The Company has granted loans to principal officers, directors, significant shareholders (greater than 10%) and their affiliates. The following table summarizes the activity in these loans (in thousands):

	2015	2014
Balance, beginning	$ 2,623	$ 2,493
New loans	5,608	3,425
Repayment	(5,157)	(3,295)
Balance ending	$ 3,074	$ 2,623

Related party deposits were $4,305,000 at December 31, 2015 and $6,268,000 at December 31, 2014.

12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. The final rules implementing BASEL Committee on Banking Supervisor's Capital Guidance for U.S. banks (BASEL III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. The regulatory capital amounts and ratios for December 31, 2014 are calculated using BASEL I rules. 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 its 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 weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the bank to maintain minimum amounts and ratios (set forth in the following table) of total, common equity Tier 1 and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which they are subject.

The Federal Reserve Bank has established capital guidelines for bank holding companies. These guidelines allow holding companies with less than $500 million in assets an exemption from regulatory capital requirements. Peoples Ltd. meets the eligibility criteria and is exempt from regulatory capital requirements.

	December 31, 2015					
	Actual		**For Capital Adequacy Purposes**		**To be Well Capitalized under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)	$ 29,040	14.4 %	$ 16,140	≥8.0 %	$ 20,175	≥10.0 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	26,856	13.3	≥ 9,079	≥4.5	≥13,114	≥ 6.5
Tier 1 capital (to risk-weighted assets)	26,856	13.3	12,105	≥6.0	12,105	≥ 8.0
Tier 1 capital (to average assets)	26,856	8.9	12,022	≥4.0	15,028	≥ 5.0
	December 31, 2014					
Total capital (to risk-weighted assets)	$ 26,957	13.5 %	$ ≥16,010	≥8.0 %	$ ≥20,012	≥10.0 %
Tier 1 capital (to risk-weighted assets)	24,729	12.4	≥ 8,005	≥4.0	≥12,007	≥ 6.0
Tier 1 capital (to average assets)	24,729	8.3	≥11,985	≥4.0	≥14,982	≥ 5.0

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to Peoples Ltd. The amount of total dividends is generally limited to the retained earnings of the Bank. However, dividend payments would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements as discussed above.

13. Fair Value Disclosures

Fair value is defined as an exit price representing the amount that would be received to sell an asset or settle a liability in an orderly transaction between market participants. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation is determined from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that a market participant would use to value the asset or liability.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
U.S. government sponsored enterprises	$ 18,908	$ -	$ 18,908	$ -
State and municipal obligations - tax free	20,537	-	20,537	-
Mortgage-backed securities - GSE - residential	40,248	-	40,248	-
Total debt securities	79,693	-	79,693	-
Equity securities - financial services	76	76	-	-
Total	$ 79,769	$ 76	$ 79,693	$ -

	December 31, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. government sponsored enterprises	$ 17,368	$ -	$ 17,368	$ -
State and municipal obligations - tax free	20,162	-	20,162	-
Mortgage-backed securities - GSE - residential	42,761	-	42,761	-
Total debt securities	80,291	-	80,291	-
Equity securities - financial services	76	76	-	-
Total	$ 80,367	$ 76	$ 80,291	$ -

The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Equity securities are measured at fair value using quoted market prices for identical assets and are classified as Level 1 in the hierarchy. All debt securities are measured at fair value using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices and are classified as Level 2 in the hierarchy.

The following table presents the Company's financial instruments subject to fair value adjustments on a nonrecurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans, net	$ 527	$ -	$ -	$ 527
Foreclosed assets	85	-	-	85
	December 31, 2014			
Impaired loans, net	$ 498	$ -	$ -	$ 498

Impaired loans that are collateral dependent are written down to fair value through partial charge-offs or the establishment of specific reserves. Such collateral is primarily real estate whose value is based on appraisals performed by certified appraisers. These values are generally adjusted based on management's knowledge of changes in market conditions or other factors and include estimated liquidation expenses which are generally 10% of the collateral value. Management's assumptions of the collateral value include consideration of location and occupancy as well as condition of the property or asset. At December 31, 2015, management adjustments to the collateral value for these factors ranged from 10% to 100%. At December 31, 2014, management adjustments to the collateral value for these factors ranged from 10% to 85%. Since the adjustments may be significant, are based on management's estimates and are generally unobservable, they have been classified as Level 3.

Assets taken in foreclosure of defaulted loans are measured at the lower of cost or fair value less costs to sell of 10%. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3. There were no foreclosed assets that had been written down to fair value less costs to sell at December 31, 2014.

In addition to the disclosures of financial instruments recorded at fair value, generally accepted accounting principles require the disclosure of the estimated fair value of all the Company's financial instruments. The majority of the Company's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Company's general practice and intent is to hold its financial instruments to maturity. The Company has considered the fair value measurement criteria as required under the accounting standard relating to fair value measurement as noted above. Fair value estimates have been determined based on the methodologies management considers most appropriate for each financial instrument.

The following are the estimated fair values of the Company's financial instruments as of December 31, recorded carrying values and a general description of the methods and assumptions used to estimate such fair values (in thousands):

	2015				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 19,941	$ 19,941	$ 19,941	$ -	$ -
Available-for-sale securities	79,769	79,769	76	76,693	-
Loans, net	192,819	201,854	-	-	201,854
Accrued interest receivable	767	767	-	767	-
Restricted equity securities	1,004	1,004	-	1,004	-
Financial liabilities:					
Deposits	259,930	260,145	-	260,145	-
Borrowed funds	17,715	14,637	-	14,637	-
Accrued interest payable	64	64	-	64	-
	2014				
Financial assets:					
Cash and due from banks	$ 23,111	$ 23,111	$ 23,111	$ -	$ -
Available-for-sale securities	80,367	80,367	76	80,291	-
Loans, net	181,652	191,995	-	-	191,995
Accrued interest receivable	782	782	-	782	-
Restricted equity securities	827	827	-	827	-
Financial liabilities:					
Deposits	257,536	258,048	-	258,048	-
Borrowed funds	14,723	14,589	-	14,589	-
Accrued interest payable	73	73	-	73	-

The carrying value of short-term financial instruments, as listed below, approximates their fair value. These instruments generally have limited credit exposure, no stated or short-term maturities and carry interest rates that approximate market.

Assets	Liabilities
Cash and due from banks	Demand and savings deposits
Accrued interest receivable	Accrued interest payable

The fair value methodology for available-for-sale securities is described above. The fair value of restricted equity securities is considered to approximate its carrying value as there is no market for these securities and the stock is redeemable at par value.

For short-term loans and variable rate loans which reprice within 90 days, the carrying value was considered to approximate fair value. For other types of loans, fair value was estimated by discounting cash flows using current interest rates for similar loans, adjusted to reflect credit risk.

The fair value of interest-bearing time deposits was estimated by discounting contractual cash flows using current rates for instruments with similar maturities.

The fair value of long-term debt was estimated based on current market rates for debt with similar maturities.

The fair value of commitments to extend credit is estimated using the fees currently charged for similar agreements. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements plus the estimated cost to terminate or otherwise settle the obligations. The fair value of these instruments is considered immaterial and has not been presented.