2013
Annual Report

YORK TRADITIONS
B·A·N·K

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York Traditions Bank

Contents

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Independent Auditor's Report

To the Board of Directors
York Traditions Bank
York, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of York Traditions Bank, which comprise the balance sheet as of December 31, 2013, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

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Opinion

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

Other Matter

The 2012 financial statements of York Traditions Bank were audited by other auditors, whose report dated February 15, 2013 expressed an unmodified opinion on those statements.

BDO USA, LLP

February 19, 2014

Financial Statements

York Traditions Bank

Balance Sheets
(in thousands, except share data)

December 31,		**2013**		2012
Assets				
Cash and due from banks	$	**2,521**	$	4,207
Interest bearing deposits		**719**		6,091
Federal funds sold		**1,746**		12,974
Cash and cash equivalents		**4,986**		23,272
Securities available-for-sale		**39,203**		36,228
Loans held-for-sale		**6,669**		6,005
Loans receivable, net of allowance for loan losses 2013: $2,305; 2012: $2,220		**218,537**		204,315
Investment in restricted bank stocks		**1,788**		1,814
Property and equipment, net		**6,305**		4,493
Accrued interest receivable		**736**		745
Foreclosed real estate		**880**		120
Other assets		**5,395**		5,349
Total Assets	$	**284,499**	$	282,341
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Demand, non-interest bearing	$	**23,635**	$	31,972
Interest bearing		**221,336**		214,130
Total deposits		**244,971**		246,102
Long-term borrowings		**7,750**		5,750
Other liabilities		**1,357**		1,228
Total Liabilities		**254,078**		253,080
Shareholders' Equity				
Preferred stock, par value $1 per share; $1,000 liquidation preference; 5,000,000 shares authorized; 5,115 shares issued and outstanding; total liquidation value $5,115,000		**5,115**		5,115
Common stock, par value $1 per share; 10,000,000 shares authorized; issued and outstanding 2,154,429 shares in 2013 and 2,144,684 shares in 2012		**2,154**		2,145
Surplus		**18,163**		18,048
Retained earnings		**5,014**		3,205
Accumulated other comprehensive income (loss)		**(25)**		748
Total Shareholders' Equity		**30,421**		29,261
Total Liabilities and Shareholders' Equity	$	**284,499**	$	282,341

See accompanying notes to financial statements.

York Traditions Bank

Statements of Income
(in thousands)

Years Ended December 31,	**2013**	2012
Interest Income		
Loans receivable, including fees	$ **10,589**	$ 10,585
Securities:		
Taxable	**576**	656
Tax-exempt	**265**	233
Federal funds sold and other	**24**	21
Total Interest Income	**11,454**	11,495
Interest Expense		
Deposits	**1,845**	2,368
Federal funds purchased and short-term borrowings	**23**	2
Long-term borrowings	**164**	178
Total Interest Expense	**2,032**	2,548
Net interest income	**9,422**	8,947
Provision for Loan Losses	**484**	525
Net Interest Income After Provision for Loan Losses	**8,938**	8,422
Noninterest Income		
Service charges on deposits	**255**	217
Gain on sale/call of securities	**63**	-
Gain on sale of loans	**1,696**	3,039
Other	**645**	601
Total Noninterest Income	**2,659**	3,857
Noninterest Expenses		
Salaries and employee benefits	**5,140**	4,652
Occupancy and equipment	**1,265**	1,214
Advertising and marketing	**232**	228
Professional fees	**397**	343
Data processing	**542**	434
FDIC deposit insurance	**168**	169
Bank shares tax	**194**	173
Foreclosed real estate	**7**	117
Other	**989**	844
Total Noninterest Expenses	**8,934**	8,174
Income before income taxes	**2,663**	4,105
Income Tax Expense	**803**	1,289
Net income	**1,860**	2,816
Preferred Stock Dividends	**51**	205
Net Income Available to Common Shareholders	$ **1,809**	$ 2,611

See accompanying notes to financial statements.

York Traditions Bank

Statements of Comprehensive Income
(in thousands)

Years Ended December 31,		**2013**		2012
Net Income	**$**	**1,860**	$	2,816
Other Comprehensive Loss, Net of Income Tax				
Unrealized losses arising on available-for-sale securities, net of income tax benefits of $377 and $32, respectively		**(731)**		(63)
Reclassification adjustment for gains realized in net income, net of income tax of $21, and included in noninterest income on the statements of income		**(42)**		-
Other comprehensive loss, net of income tax		**(773)**		(63)
Total Comprehensive Income	**$**	**1,087**	$	2,753

See accompanying notes to financial statements.

York Traditions Bank

Statements of Shareholders' Equity
(in thousands)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehen-sive Income (Loss)	Total
Balance, January 1, 2012	$ 5,115	$ 2,064	$ 17,458	$ 808	$ 811	$ 26,256
Net income	-	-	-	2,816	-	2,816
Total other comprehensive loss, net of taxes	-	-	-	-	(63)	(63)
Stock-based compensation awards	-	6	52	-	-	58
Exercise of stock options and warrants	-	75	538	-	-	613
Preferred stock dividends	-	-	-	(205)	-	(205)
Common stock dividends	-	-	-	(214)	-	(214)
Balance, December 31, 2012	5,115	2,145	18,048	3,205	748	29,261
Net income	**-**	**-**	**-**	**1,860**	**-**	**1,860**
Total other comprehensive loss, net of taxes	**-**	**-**	**-**	**-**	**(773)**	**(773)**
Stock-based compensation awards	**-**	**7**	**97**	**-**	**-**	**104**
Exercise of stock options	**-**	**2**	**18**	**-**	**-**	**20**
Preferred stock dividends	**-**	**-**	**-**	**(51)**	**-**	**(51)**
Balance, December 31, 2013	**$ 5,115**	**$ 2,154**	**$ 18,163**	**$ 5,014**	**$ (25)**	**$ 30,421**

See accompanying notes to financial statements.

York Traditions Bank

Statements of Cash Flows
(in thousands)

Years Ended December 31,	**2013**	2012
Cash Flows from Operating Activities		
Net income	$ **1,860**	$ 2,816
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	**484**	525
Provision for depreciation and amortization	**452**	446
Amortization of securities, net	**377**	313
Gain on sale of loans	**(1,696)**	(3,039)
Proceeds from sale of loans	**104,062**	135,093
Loans originated for sale	**(103,030)**	(132,037)
Deferred loan fees, net	**(41)**	14
Gain on sale/call of investment securities	**(63)**	-
(Gain) loss on sale of foreclosed real estate	**11**	(16)
Provision for loss on foreclosed real estate	**-**	100
Loss on sale of fixed assets	**1**	-
Deferred income tax (benefit) expense	**185**	(120)
Stock-based compensation expense	**104**	58
Net increase in cash surrender value of bank-owned life insurance	**(139)**	(146)
(Increase) decrease in accrued interest receivable and other assets	**311**	(90)
Increase in other liabilities	**133**	414
Net Cash Provided by Operating Activities	**3,011**	4,331
Cash Flows from Investing Activities		
Proceeds from sales of available-for-sale securities	**1,439**	-
Proceeds from calls, paydowns and maturities of securities available-for-sale	**9,628**	10,175
Purchase of securities available-for-sale	**(15,527)**	(14,012)
Net sale of investment in restricted bank stocks	**26**	166
Net increase in loans	**(15,545)**	(10,889)
Purchases of property and equipment	**(2,265)**	(1,608)
Proceeds from sale of foreclosed real estate	**109**	367
Net Cash Used in Investing Activities	**(22,135)**	(15,801)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	**(1,131)**	30,752
Proceeds of long-term borrowings	**2,000**	-
Payments of long-term borrowings	**-**	(3,750)
Cash dividends paid to preferred shareholders	**(51)**	(205)
Cash dividends paid on common stock	**-**	(214)
Proceeds from issuance of common stock	**20**	613
Net Cash Provided by Financing Activities	**838**	27,196
Net (decrease) increase in cash and cash equivalents	**(18,286)**	15,726
Cash and Cash Equivalents, Beginning of Year	**23,272**	7,546
Cash and Cash Equivalents, End of Year	$ **4,986**	$ 23,272
Supplementary Cash Flows Information		
Interest paid	$ **2,070**	$ 2,625
Income taxes paid	$ **904**	$ 1,140
Loans transferred to foreclosed real estate	$ **880**	$ -

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

The accounting policies discussed below are followed consistently by York Traditions Bank (the Bank). These policies are in accordance with accounting principles generally accepted in the United States of America and conform to common practices in the banking industry.

Nature of Operations

The Bank is a Pennsylvania-chartered commercial bank, regulated by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation, that was incorporated on March 14, 2002 and commenced operations on October 28, 2002.

The Bank operates as a traditional community bank serving the Central Pennsylvania market with an emphasis on commercial and consumer banking.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2013, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 19, 2014, the date these financial statements were available to be issued.

Reclassifications

For comparative purposes, the prior years' financial statements may be reclassified to conform to report classifications of the current year. These reclassifications, if any, had no impact on net income or shareholders' equity.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the determination of other-than-temporary impairment on investment securities.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with businesses and individuals located in Central Pennsylvania. Note 2 discusses the types of securities in the Bank's investment portfolio. Note 3 discusses the types of loans the Bank makes to its customers. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and short-term investments purchased with a maturity date of three months or less. Generally, federal funds are purchased or sold for one-day periods.

Transfers of Financial Assets

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

Loans Held-for-Sale

Loans held-for-sale consist of residential mortgages. All residential mortgages held-for-sale are sold servicing released.

Fair Value Option

Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for items for which the fair value option is applied.

The Bank records mortgage loans held-for-sale at fair value. The Bank measures mortgage loans held-for-sale at fair value to more accurately reflect the performance of its entire mortgage banking activities in its financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as detailed under the heading “Derivative Financial Instruments” below. The Bank determines fair value for its mortgage loans held-for-sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of gains on sales of loans on the statement of income. Interest income earned on mortgage loans held-for-sale is classified within interest income on the statement of income.

The following table presents a summary of the Bank’s fair value elections and their impact on the Bank’s financial statements as of and for the years ended December 31, 2013 and 2012 (in thousands):

December 31, 2013	Cost	Fair Value	Balance Sheet Classification	Fair Value Adjustment Gain	Statement of Income Classifications
Mortgage loans held-for-sale	**$ 6,583**	**$ 6,669**	Loans held-for-sale	**$ 86**	Gains on sale of loans
December 31, 2012					
Mortgage loans held-for-sale	$ 5,845	$ 6,005	Loans held-for-sale	$ 160	Gains on sale of loans

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, and (4) whether it is likely the Bank intends to sell or will have to sell the security prior to recovery. Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Receivable

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

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

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on 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 and is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors reflecting current conditions. 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. The allowance is subject to change based on the outcome of financial examinations by bank regulators.

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

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

In the normal course of business, the Bank modifies loan terms for various reasons. A modified loan is considered a troubled debt restructuring (TDR) if the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the debtor that it would not otherwise consider. In evaluating whether a modification constitutes a TDR, the Bank concludes that the borrower is experiencing financial difficulty and the modification constitutes a concession.

When the Bank restructures a loan to a troubled borrower, the loan terms (i.e., interest rate, payment, amortization period and/or maturity date) are modified in such a way to enable the borrower to cover the modified payments based on current cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Bank obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Bank in the best possible position if the borrower is not able to meet the modified terms. To date, the Bank has not forgiven any principal as a restructuring concession.

All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Bank's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition. A loan designated as a TDR is no longer reported as a TDR following the modification if the interest rate at the time of modification was consistent with the interest rate for a loan with comparable credit risk and the loan has performed according to its modified terms for at least twelve months.

If a loan was considered to be impaired prior to modification as a TDR, then there is no impact on the allowance for loan losses as a result of the modification, because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a TDR, then there could be an impact on the allowance for loan losses, either positive or negative, as a result of the modification because of the movement of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives and amortization of leasehold improvements is computed on the straight-line method over the shorter of the assets' estimated useful lives or lease term of the related assets, as follows:

	Years
Buildings and leasehold improvements	10 - 30
Furniture, fixture and equipment	3 - 7
Software	3 - 5

Investment in Restricted Bank Stocks

Investment in restricted bank stocks, which represent required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank of Pittsburgh (FHLB) of $1,748,000 and $1,774,000, as of December 31, 2013 and 2012, respectively, and Atlantic Central Bankers Bank (ACBB) of $40,000 as of December 31, 2013 and 2012.

Management evaluates the restricted stock for impairment in accordance with FASB ASC 942-325-35. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount of the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge was necessary related to restricted stock during 2013 or 2012.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure less costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed real estate.

Bank Owned Life Insurance

The Bank invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies and reported in other assets on the balance sheet. Income from the increase in the cash surrender value of the policies is included with other income on the statement of income.

Derivative Financial Instruments

In connection with its mortgage banking activities, the Bank enters into commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Bank enters into forward commitments to sell individual mortgage loans at a fixed price at a future date to third-party investors to hedge the effect of changes in interest rates on the value of interest rate locks. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the reporting date. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the balance sheet, with changes in fair value during the period recorded within gain on sale of loans on the statement of income.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising costs totaled $118,000 and $110,000 for the years ended December 31, 2013 and 2012, respectively.

Stock Based Compensation

The Bank follows the provisions of FASB ASC 718-10 to account for its stock compensation plans. This guidance requires an entity to recognize the expense of employee services received in share-based payment transactions and measure the expense based on the grant date fair value of the award. The expense is recognized over the period during which an employee is required to provide service in exchange for the award.

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 Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

The Bank accounts for Income Taxes in accordance with income tax accounting guidance in FASB ASC 740, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the term sustained upon examination also includes resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Bank recognizes interest and penalties on income taxes as a component of income tax expense. With limited exception, tax years prior to 2010 are no longer subject to examination by tax authorities.

Off-Balance Sheet Financial Instruments

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

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

2. Securities Available-for-Sale

A summary of amortized cost and fair values of securities available-for-sale as of December 31, 2013 and 2012 is as follows (in thousands):

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ -	$ -	$ -	$ -
U.S. agency securities	1,294	47	-	1,341
State and municipal securities	11,557	137	(273)	11,421
Mortgage-backed securities	20,891	318	(320)	20,889
Collateralized mortgage obligations	5,498	74	(20)	5,552
	$ 39,240	$ 576	$ (613)	$ 39,203

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 246	$ -	$ -	$ 246
U.S. agency securities	1,305	107	-	1,412
State and municipal securities	8,732	315	(19)	9,028
Mortgage-backed securities	16,477	602	(28)	17,051
Collateralized mortgage obligations	8,334	158	(1)	8,491
	$ 35,094	$ 1,182	$ (48)	$ 36,228

All state and municipal securities undergo an initial and ongoing credit analysis. The analysis includes the review of various financial and demographic information. All municipal securities have a minimum evaluation rating of investment grade. All mortgage-backed securities and collateralized mortgage obligations are issued by government-sponsored enterprises (GSE) or by the Government National Mortgage Association (GNMA). GSE securities carry an implied U.S. Government guarantee and the GSE guarantees the timely payment of principal and interest. GNMA carries the full faith and credit guarantee of the U.S. Government.

Gross gains totaling $63,000 and $-0- were realized on the sale or call of securities in 2013 and 2012, respectively. There were no gross losses in 2013 and 2012.

The amortized cost and fair value of securities as of December 31, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalty (in thousands):

	Book Amortized Cost	Market Fair Value
Due in one year or less	**$ 250**	**$ 255**
Due after one year through five years	**3,540**	**3,631**
Due after five years through ten years	**5,638**	**5,497**
Due after ten years	**3,423**	**3,379**
Mortgage-backed securities	**20,891**	**20,889**
Collateralized mortgage obligations	**5,498**	**5,552**
	$ 39,240	**$ 39,203**

The following tables show the Bank's securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012 (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ -	$ -	$ -	$ -	$ -	$ -
State and municipal securities	5,464	(258)	218	(15)	5,682	(273)
Mortgage-backed securities	10,670	(313)	839	(7)	11,509	(320)
Collateralized mortgage obligations	1,278	(20)	-	-	1,278	(20)
	$ 17,412	$ (591)	$ 1,057	$ (22)	$ 18,469	$ (613)

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ -	$ -	$ -	$ -	$ -	$ -
State and municipal securities	1,280	(19)	-	-	1,280	(19)
Mortgage-backed securities	2,895	(28)	-	-	2,895	(28)
Collateralized mortgage obligations	253	(1)	-	-	253	(1)
	$ 4,428	$ (48)	$ -	$ -	$ 4,428	$ (48)

The 2013 unrealized losses relate principally to changes in interest rates and prepayment assumptions subsequent to the acquisition of specific securities. In management's opinion, credit risk for these securities is minimal. As management has the intent and ability to hold debt securities until recovery and does not believe it will have to sell the securities prior to recovery, no declines are deemed to be other-than-temporary. At December 31, 2013, the Bank had two securities in an unrealized loss position for 12 months or more and thirty-two securities in an unrealized loss position less than 12 months, none of which exceeded 10.63% of the security's carrying amount.

3. Loans Receivable

The Bank's loan portfolio is segmented to an appropriate level of disaggregation to allow management to monitor the performance of the borrowers and measure credit risk. Segments are based on the underlying collateral types. For purposes of ASU 2010-20, "Disclosures About the Credit Quality of Financing Receivables and the Allowance for Loan Losses", the Bank does not differentiate between segments and classes. Loans secured by real estate may be made for commercial or consumer purposes.

The loans receivable portfolio is segmented into the following:

Commercial loans may be secured or unsecured. Collateral often includes accounts receivable, inventory and equipment. Repayment is dependent on the successful operation of the borrower's business and is often susceptible to higher risk during an economic downturn. Commercial loans generally have greater credit risk compared to residential real estate and consumer loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers.

Consumer loans may be secured or unsecured. Collateral may include autos, cash or marketable securities. Such loans generally have smaller balances and are dependent on the credit worthiness of the borrower and their personal financial stability.

Construction and land development loans generally carry greater credit risk as payment expectations are dependent upon the successful and timely completion of the construction, sales of the subject property and the operation of the related business. As a result, such loans may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

Loans secured by farmland and 1-4 family residential properties have risks depending on the underlying purpose. Loans for consumer purposes are dependent on the credit worthiness of the individual borrower. Loans for a commercial purpose may be dependent on the borrower's ability to generate a sufficient level of occupancy to produce sufficient rental income or may be dependent on the successful operation of the borrower's business.

Commercial real estate loans secured by nonfarm nonresidential real estate can be owner or non-owner occupied. Commercial real estate loans generally have greater credit risk as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Multi-family and non-owner occupied share similar risk characteristics as repayment is based on occupancy levels and cash flows. Owner-occupied nonfarm, nonresidential real estate is dependent on the successful operation of the borrower's business.

The composition of net loans receivable consists of the following as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Commercial	**$ 56,797**	$ 55,430
Construction and land development	**11,602**	10,073
Farmland	**1,773**	2,252
Residential real estate	**71,937**	64,049
Commercial real estate	**78,009**	72,982
Consumer	**724**	1,749
Total loans	**220,842**	206,535
Allowance for loan losses	**(2,305)**	(2,220)
Net Loans	**$ 218,537**	$ 204,315

The above amounts are recorded net of unamortized deferred fees of $159,000 at December 31, 2013 and $200,000 at December 31, 2012.

The Bank monitors ongoing risk for loans with a commercial purpose using an eight point internal grading system. The first four rating categories, representing the lowest risk to the Bank, are combined and given a Pass rating. The Special Mention category includes loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Bank's position at some future date. These assets pose elevated risk, but their weakness does not justify a more severe, or criticized rating.

Management generally follows regulatory definitions in assigning criticized ratings to loans, including substandard, doubtful or loss. Substandard loans are classified as they have a well-defined weakness, or weaknesses that jeopardize liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans include loans that management has determined not to be impaired, as well as loans considered to be impaired. A doubtful loan has the same weaknesses as a substandard loan, however, collection or liquidation of principal in full is questionable and improbable. A doubtful loan is considered to be impaired; loss is present, but may not be determined until specific factors occur. Loss assets are considered uncollectible, as the underlying borrowers are often in bankruptcy, have suspended debt repayments, or ceased business operations. Once a loan is classified as Loss, there is little prospect of collecting the loan's principal or interest and it is generally written off.

Loans with a consumer purpose are not-rated and are monitored based on the length of time a loan is past due. Not-rated loans are categorized as either Performing or Non-performing. Non-performing loans would be those in non-accrual status, which generally occurs when a loan is maintained on a cash basis due to deterioration in the financial condition of the borrower, full payment of principal or interest is not expected or principal or interest has been in default for a period of 90 days or more.

The Bank's Senior Credit Committee, which meets weekly, monitors loan quality on an ongoing basis. The Credit Review Committee meets quarterly and reviews the ratings of all criticized loans. In addition, an independent third-party performs an annual loan review. The review focuses on business purpose loans over a certain dollar threshold and all previously criticized loans over a certain dollar threshold.

The following tables summarize the Bank's disaggregated loan portfolio based on its internal risk rating system and not-rated loans as either Performing or Non-performing. All dollar amounts are as of December 31, 2013 and 2012 (in thousands):

December 31, 2013	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Total
Pass	$ 49,913	$ 9,590	$ 732	$ 25,315	$ 73,949	$ -	$ 159,499
Special mention	3,608	-	-	275	1,250	-	5,133
Substandard	3,276	-	1,041	1,898	2,810	-	9,025
Doubtful	-	-	-	-	-	-	-
Not-rated	-	2,012	-	44,449	-	724	47,185
	$ 56,797	$ 11,602	$ 1,773	$ 71,937	$ 78,009	$ 724	$ 220,842
Non-rated loans:							
Performing	$ -	$ 2,012	$ -	$ 44,449	$ -	$ 724	$ 47,185
Non-performing	-	-	-	-	-	-	-
	$ -	$ 2,012	$ -	$ 44,449	$ -	$ 724	$ 47,185

December 31, 2012	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Total
Pass	$ 51,532	$ 7,592	$ 1,154	$ 26,277	$ 68,352	$ -	$ 154,907
Special mention	1,121	247	-	1,730	724	-	3,822
Substandard	2,750	-	1,098	2,881	3,906	-	10,635
Doubtful	27	-	-	-	-	-	27
Not-rated	-	2,234	-	33,161	-	1,749	37,144
	$ 55,430	$ 10,073	$ 2,252	$ 64,049	$ 72,982	$ 1,749	$ 206,535
Non-rated loans:							
Performing	$ -	$ 2,234	$ -	$ 33,161	$ -	$ 1,749	$ 37,144
Non-performing	-	-	-	-	-	-	-
	$ -	$ 2,234	$ -	$ 33,161	$ -	$ 1,749	$ 37,144

Management further monitors the performance and credit quality of the loan portfolio by analyzing the length of time a recorded payment is past due, by aggregating loans based on their delinquencies.

The following tables present the segments of the loan portfolio summarized by aging categories of performing loans and nonaccrual loans as of December 31, 2013 and 2012 (in thousands):

December 31, 2013	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (Still Accruing)	Non-Accrual	Total
Commercial	**$ 56,768**	**$ 29**	**$ -**	**$ -**	**$ -**	**$ 56,797**
Construction and land development	**11,602**	**-**	**-**	**-**	**-**	**11,602**
Farmland	**732**	**-**	**-**	**-**	**1,041**	**1,773**
Residential real estate	**71,634**	**280**	**-**	**-**	**23**	**71,937**
Commercial real estate	**76,908**	**729**	**-**	**-**	**372**	**78,009**
Consumer	**724**	**-**	**-**	**-**	**-**	**724**
	$ 218,368	**$ 1,038**	**$ -**	**$ -**	**$ 1,436**	**$ 220,842**

December 31, 2012	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (Still Accruing)	Non-Accrual	Total
Commercial	$ 54,952	$ -	$ -	$ -	$ 478	$ 55,430
Construction and land development	10,073	-	-	-	-	10,073
Farmland	1,154	-	1,098	-	-	2,252
Residential real estate	62,112	26	1,911	-	-	64,049
Commercial real estate	71,230	378	-	315	1,059	72,982
Consumer	1,749	-	-	-	-	1,749
	$ 201,270	$ 404	$ 3,009	$ 315	$ 1,537	$ 206,535

The Bank maintains the allowance for loan losses at a level believed adequate by management to absorb losses inherent in the portfolio. It is established and maintained through a provision for loan losses charged to earnings. Quarterly, management assesses the adequacy of the allowance for loan losses utilizing a defined methodology, which considers specific credit evaluation of impaired loans, past loan loss historical experience, and qualitative factors.

For each loan segment, general allowances are provided for loans that are collectively evaluated for impairment, which is based on quantitative factors, principally historical loss trends for the respective segment, adjusted for qualitative factors. The historical loss factor is based on the average charge-offs for the last two calendar years of the Bank and a peer group of Pennsylvania banks of relative equal size.

In addition to the quantitative analysis, additional reserves are allocated on loans collectively evaluated for impairment based on additional qualitative factors. The qualitative factors used by management to adjust the historical loss factor to the total loss allocation, range from 0-40 basis points per factor. Factors include local unemployment, national gross domestic product, real estate collateral trends, changes in lending policies, percentage of classified loans, portfolio growth and composition, recent past due loan ratios and lending staff experience.

Loans with principal or interest payments 90 or more days past due are considered for potential charge-off. Commercial purpose loans are individually reviewed and a charge-off recognized when it is unlikely that the loan balance will be collected in full. Consumer purpose loans secured by real estate are individually reviewed. An appropriate loss will be recognized when it is determined that the value of the real estate collateral is not sufficient to pay the loan in full.

Activity in the allowance for loan losses for the years ended December 31, 2013 and 2012 is as follows (in thousands):

December 31, 2013	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 729	$ 67	$ 13	$ 559	$ 593	$ 13	$ 246	$ 2,220
Charge-offs	256	-	-	-	179	-	-	435
Recoveries	35	-	-	-	-	1	-	36
Provision	7	46	98	36	158	(9)	148	484
Ending balance	$ 515	$ 113	$ 111	$ 595	$ 572	$ 5	$ 394	$ 2,305
Ending balance: Individually evaluated for impairment	$ 40	$ -	$ 110	$ 146	$ -	$ -	$ -	$ 296
Collectively evaluated for impairment	$ 475	$ 113	$ 1	$ 449	$ 572	$ 5	$ 394	$ 2,009
Loan receivables:								
Ending balance	$ 56,797	$ 11,602	$ 1,773	$ 71,937	$ 78,009	$ 724		$ 220,842
Ending balance: Individually evaluated for impairment	$ 208	$ -	$ 1,041	$ 1,823	$ 682	$ -		$ 3,754
Collectively evaluated for impairment	$ 56,589	$ 11,602	$ 732	$ 70,114	$ 77,327	$ 724		$ 217,088

December 31, 2012	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 686	$ 132	$ 11	$ 572	$ 577	$ 5	$ 296	$ 2,279
Charge-offs	465	-	-	62	55	2	-	584
Recoveries	-	-	-	-	-	-	-	-
Provision	508	(65)	2	49	71	10	(50)	525
Ending balance	$ 729	$ 67	$ 13	$ 559	$ 593	$ 13	$ 246	$ 2,220
Ending balance: Individually evaluated for impairment	$ 234	$ -	$ -	$ 180	$ 110	$ -	$ -	$ 524
Collectively evaluated for impairment	$ 495	$ 67	$ 13	$ 379	$ 483	$ 13	$ 246	$ 1,696
Loan receivables: Ending balance	$ 55,430	$ 10,073	$ 2,252	$ 64,049	$ 72,982	$ 1,749		$ 206,535
Ending balance: Individually evaluated for impairment	$ 686	$ -	$ 1,098	$ 2,881	$ 2,181	$ -		$ 6,846
Collectively evaluated for impairment	$ 54,744	$ 10,073	$ 1,154	$ 61,168	$ 70,801	$ 1,749		$ 199,689

The following summarizes the information in regards to impaired loans by loan portfolio segment as of December 31, 2013 and 2012 (in thousands):

	2013			2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$ -	$ -	$ -	$ 176	$ 176	$ -
Construction and land development	-	-	-	-	-	-
Farmland	**806**	**806**	-	1,098	1,098	-
Residential real estate	**1,097**	**1,097**	-	794	794	-
Commercial real estate	**682**	**682**	-	1,122	1,122	-
Consumer	-	-	-	-	-	-
With an allowance recorded:						
Commercial	**$ 208**	**$ 208**	**$ 40**	$ 510	$ 614	$ 234
Construction and land development	-	-	-	-	-	-
Farmland	**235**	**235**	**110**	-	-	-
Residential real estate	**726**	**726**	**146**	2,087	2,087	180
Commercial real estate	-	-	-	1,059	1,059	110
Consumer	-	-	-	-	-	-
Total:						
Commercial	**$ 208**	**$ 208**	**$ 40**	$ 686	$ 790	$ 234
Construction and land development	-	-	-	-	-	-
Farmland	**1,041**	**1,041**	**110**	1,098	1,098	-
Residential real estate	**1,823**	**1,823**	**146**	2,881	2,881	180
Commercial real estate	**682**	**682**	-	2,181	2,181	110
Consumer	-	-	-	-	-	-
	$ 3,754	**$ 3,754**	**$ 296**	$ 6,846	$ 6,950	$ 524

No additional funds are committed to be advanced in connection with impaired loans.

The following summarizes the average recorded investment of impaired loans and related interest income recognized by loan portfolio segment for the years ended December 31, 2013 and 2012 (in thousands):

	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	**$ 425**	**$ -**	$ 429	$ -
Construction and land development	**-**	**-**	599	9
Farmland	**812**	**-**	1,103	26
Residential real estate	**2,480**	**62**	1,223	60
Commercial real estate	**2,127**	**32**	1,697	36
Consumer	**-**	**-**	-	-
With an allowance recorded:				
Commercial	**$ 212**	**$ 13**	$ 532	$ 13
Construction and land development	**-**	**-**	-	-
Farmland	**262**	**-**	-	-
Residential real estate	**805**	**41**	2,186	76
Commercial real estate	**-**	**-**	1,062	-
Consumer	**-**	**-**	-	-
Total:				
Commercial	**$ 637**	**$ 13**	$ 961	$ 13
Construction and land development	**-**	**-**	599	9
Farmland	**1,074**	**-**	1,103	26
Residential real estate	**3,285**	**103**	3,409	136
Commercial real estate	**2,127**	**32**	2,759	36
Consumer	**-**	**-**	-	-
	$ 7,123	**$ 148**	$ 8,831	$ 220

There were no troubled debt restructurings in 2013. The following summarizes troubled debt restructurings, including the type of modifications, during the year ended December 31, 2012 (in thousands):

	Number of Loans	Rate	Term	Payment	Combination	Total	Pre-Modification Balance	Post-Modification Balance
Commercial	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction and land development	-	-	-	-	-	-	-	-
Farmland	1	-	278	-	-	278	287	287
Residential real estate	-	-	-	-	-	-	-	-
Commercial real estate	2	-	-	315	430	745	691	755
Consumer	-	-	-	-	-	-	-	-
	$ 3	$ -	$ 278	$ 315	$ 430	$ 1,023	$ 978	$ 1,042

During 2013 and 2012, there were no loans modified as troubled debt restructurings within the previous 12 months that have subsequently defaulted.

4. Property and Equipment

The components of property and equipment consist of the following as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Land	**$ 985**	$ 575
Building and leasehold improvements	**5,584**	2,842
Furniture, fixtures and equipment	**2,121**	1,654
Software	**709**	702
Construction in process	**5**	1,442
	9,404	7,215
Accumulated depreciation	**(3,099)**	(2,722)
	$ 6,305	$ 4,493

5. Deposits

The components of deposits consist of the following as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Demand, non-interest bearing	**$ 23,635**	$ 31,972
Demand, interest bearing	**32,945**	31,179
Savings and money market	**96,919**	89,645
Time, $100,000 and over	**28,936**	29,721
Time, other	**62,536**	63,585
	$ 244,971	$ 246,102

As of December 31, 2013, the scheduled maturities of time deposits are as follows (in thousands):

Year ending December 31,		
2014	$	35,504
2015		21,782
2016		10,616
2017		17,765
2018		5,805
Thereafter		-
	$	91,472

6. Borrowings and Lease Commitments

The Bank has a $2,000,000 secured and a $2,000,000 unsecured federal funds lines of credit with Atlantic Central Bankers Bank. $2,963,000 of securities available-for-sale are held in safekeeping at Atlantic Central Bankers Bank to collateralize the secured federal funds line. There were no federal funds purchased outstanding at December 31, 2013 and 2012.

The Bank has an agreement with the Federal Home Loan Bank of Pittsburgh (FHLB) which allows for borrowings up to a percentage of qualifying assets. All FHLB advances are collateralized by a security agreement covering qualifying loans and pledged agency and mortgage-backed securities. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Bank having a par value of $1,748,000 at December 31, 2013 and $1,774,000 at December 31, 2012. The Bank can borrow a maximum of $139,143,000 from the FHLB of which $7,750,000 was outstanding at December 31, 2013. Available-for-sale securities totaling $24,819,000 are held in safekeeping at FHLB to collateralize the secured advances.

A summary of long-term debt as of December 31 is as follows (dollars in thousands):

	2013		2012	
	Amount	Rate	Amount	Rate
FHLB fixed-rate advances maturing:				
2014	**$ 4,750**	**2.86 %**	$ 4,750	2.86 %
2016	**1,000**	**1.60**	1,000	1.60
2017	**1,000**	**1.60**	-	-
2018	**1,000**	**2.01**	-	-
	$ 7,750	**2.43 %**	$ 5,750	2.64 %

The Bank leases two of its branch office facilities under ten-year renewable operating leases. The rental expense under such leases amounted to $377,000 in 2013 and $436,000 in 2012.

Future minimum lease payments by year on these non-cancellable leases are as follows (in thousands):

Year ending December 31,		
2014	$	277
2015		219
2016		176
2017		164
2018		-
Thereafter		-
	$	836

In February 2014, the Bank entered into a 10 year renewable operating lease for land on which the Bank plans to construct a new branch office facility. The rent for each of the first three years will be $75,000. Beginning in the fourth year and each year thereafter, the rent will increase by an amount of 3%. The future minimum lease payments related to this land lease are not reflected in the table above.

7. Derivative Financial Instruments

The following table presents a summary of the notional amounts and fair values of derivative financial instruments as of December 31, 2013 and 2012 (dollars in thousands):

	2013		2012	
	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value	Notional Amount
Interest rate lock commitments:				
Assets	**$ 292**	**$ 15,881**	$ 336	$ 28,140
Liabilities	**-**	**-**	-	66
Net interest rate lock commitments asset	**292**		336	
Forward commitments:				
Assets	**89**	**11,539**	16	4,993
Liabilities	**(1)**	**735**	(35)	14,483
Net forward commitments asset (liability)	**88**		(19)	
Net Derivative Instruments Asset	**$ 380**		$ 317	

Asset related derivatives are included in other assets on the balance sheet. Liability related derivatives are included in other liabilities on the balance sheet.

The following table presents a summary of the fair value gains and losses on derivative financial instruments for the year ended December 31, 2013 and 2012 (in thousands):

	Fair Value Gains (Losses)		
	2013	2012	Statement of Income Classification
Interest rate locks with customers	$ **292**	$ 336	Gains on sale of loans
Forward commitments	**88**	(19)	Gains on sale of loans
	$ **380**	$ 317	

8. Shareholders' Equity

On July 14, 2011, as part of the Treasury Small Business Lending Fund (SBLF) program, the Bank entered into a Securities Purchase Agreement (SBLF Purchase Agreement) with the United States Department of the Treasury (Treasury) pursuant to which the Bank sold to the Treasury, for an aggregate purchase price of $5,115,000, 5,115 shares of senior non-cumulative, perpetual preferred stock, Series C, $1,000 liquidation value, $1.00 par value. The preferred stock was issued pursuant to the SBLF program, a $30 billion fund established under the Small Business Lending Jobs Act of 2010 that was created to encourage lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion.

The SBLF Preferred Stock qualifies as Tier 1 regulatory capital and pays quarterly non-cumulative dividends. The dividend rate fluctuates for the first nine quarters based upon changes in the Bank's level of "Qualified Small Business Lending" or "QSBL" (as defined in the SBLF Purchase Agreement). The dividend rate may be adjusted between one percent (1%) and five percent (5%) per annum to reflect the amount of change in the Bank's level of QSBL. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QSBL as compared to the baseline (as defined in the SBLF Purchase Agreement). After four and one half years from issuance, the dividend rate will increase to 9%. At December 31, 2013 and 2012, the Bank was paying a 1% dividend on SBLF Preferred Stock.

The SBLF Preferred Stock is non-voting, except in limited circumstances. The SBLF Preferred Stock Agreement imposes limits on the ability of the Bank to pay dividends and repurchase shares of common stock. No repurchases may be effected, and no dividends may be declared or paid on common stock during the current calendar quarter and for the next three calendar quarters following the failure to declare and pay dividends on the SBLF Preferred Stock.

The Bank may only declare and pay a dividend on its common stock or repurchase shares if the dollar amount of the Bank's Tier 1 Capital would be at least 90% of Tier 1 Capital at the date of the SBLF Purchase Agreement. This threshold is subject to reduction by 10% for each one percent increase in QSBL over the baseline level.

9. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Federal:		
Current	$ 618	$ 1,409
Deferred (benefit)	185	(120)
	$ 803	$ 1,289

The components of the net deferred tax asset (liability), included in other assets (liabilities) on the balance sheet, consist of the following as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Deferred Tax Assets:		
Allowance for loan losses	$ 664	$ 651
Stock-based compensation	57	38
Accrued bonus	40	73
Non-accrual interest receivable	43	45
Unrealized holding losses on available-for-sale securities	13	-
Other	64	64
Total Deferred Tax Assets	881	871
Deferred Tax Liabilities:		
Depreciation	(256)	(159)
Derivative and fair value adjustment	(158)	(162)
Loan origination costs	(136)	(81)
Prepaid expenses	(122)	(88)
Unrealized holding gains on available-for-sale securities	-	(385)
Total Deferred Tax Liabilities	(672)	(875)
Net Deferred Tax Asset (Liability)	$ 209	$ (4)

The provision for income taxes differs from that computed by applying statutory rates to income before income taxes primarily due to the effects of tax-exempt income, non-deductible expenses and incentive stock options.

10. Transactions with Executive Officers, Directors and Affiliated Companies

The Bank has had, and is expected to have in the future, banking transactions with its executive officers, directors, their immediate families and affiliated companies (commonly referred to as related parties) on comparable terms with similar interest rates as those prevailing from time to time for other customers of the Bank. As of December 31, 2013 and 2012, related party loans totaled $4,670,000 and $8,329,000, respectively. During 2013, loan advances and repayments totaled $1,680,000 and $5,339,000, respectively.

The Bank leases its main office from a related party under a five-year renewable lease. During 2013 and 2012, $277,000 and $324,000, respectively, was paid to the related party for rent, taxes and maintenance charges.

The Bank receives network and computer support services from a related party. In addition, the Bank also purchases computer equipment and software. Total payments to this related party in 2013 and 2012 were $184,000 and $142,000, respectively.

During 2013, the Bank renovated a recently acquired building to serve as its corporate headquarters. A Director of the Bank is affiliated with the general contractor and electrical contractor that performed the renovations. Total amounts paid to the general and electrical contractors were $1,517,000 and $66,000, respectively.

11. Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on our credit evaluation of the counter-party. Collateral held varies but may include cash, accounts receivable, inventory, equipment and real estate.

The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Commitments to grant loans	**$ 6,416**	$ 3,817
Unfunded commitments under lines of credit	**63,485**	49,215
Letters of credit	**6,071**	5,853
	$ 75,972	$ 58,885

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2013 and 2012 for guarantees under standby letters of credit is not material.

12. Employee Benefit Plan

The Bank provides a defined contribution 401(k) retirement plan that covers eligible employees. The Bank's matching contribution is 100% of each participant's elective contribution up to 4% of employee compensation. The expense of this plan included in salaries and employee benefits was $172,000 in 2013 and $152,000 in 2012.

13. Warrants and Stock-Based Compensation Plans

The Bank issued stock purchase warrants in connection with its initial stock offering, giving certain organizers the right to purchase a total of 62,500 shares of common stock at the initial offering price of $8 per share. These warrants were granted in consideration of the risks undertaken by the organizers, are exercisable in full and expired in October 2012. Warrant holders exercised 40,936 warrants in 2012.

Under the 2002 Directors' Compensation Plan (the "2002 Directors Plan"), each initial Director who is not an employee of the Bank was granted an option to purchase 1,250 shares of common stock at the fair value on the date the option was granted. Thereafter, each additional non-employee Director was entitled to a grant of an option to purchase 500 shares of common stock, upon their initial election or appointment to the Board. Additionally, as annual compensation for serving on the Board, as soon as practical after each annual meeting of shareholders, each non-employee Director was granted an option to purchase 500 shares of common stock if the Director attended at least 75% of the meetings of the Board during the time period commencing on the date of the last annual meeting of shareholders, or on the date such Director was appointed to the Board, and ending on the date of the most recent annual meeting of shareholders. All options granted under the 2002 Directors Plan were immediately exercisable, other than the options granted to the initial non-employee Directors, one-fourth of which vested immediately and the remainder vested over a three-year period, and expire no later than ten years from the date of the grant. A Director eligible to receive options could have elected to receive in lieu of such options $5,000 in cash. The 2002 Director's Plan expired October 28, 2012.

On June 21, 2012, the Board of Directors adopted the 2012 Non-Employee Directors Stock Incentive Plan ("2012 Directors Plan"). The 2012 Directors Plan provides for nonqualified stock options, stock appreciation rights, restricted stock and deferred stock units up to 50,000 shares. Each Non-Employee Director who first becomes a member of the Board after the effective date of the 2012 Directors Plan shall receive an automatic grant of a stock option to purchase 1,000 shares of stock. During the term of the 2012 Directors Plan, the annual grants to directors attending at least 75 percent of the meetings of the Board will receive a grant of restricted stock having an aggregate fair market value of not less than $5,000. An eligible Director may still elect to receive in lieu of such restricted stock $5,000 in cash.

Under the 2002 Equity Incentive Stock Option Plan and the 2006 Stock Incentive Plan, employees are eligible to receive options to purchase shares of common stock at the fair market value on the date the option is granted. Each grant vests over a three-year period and will expire no later than ten years from the date of the grant. The 2002 Equity Incentive Stock Option Plan expired October 28, 2012.

The 2006 Stock Incentive Plan also provides for stock-based incentives in the form of stock appreciation rights, restricted stock and deferred stock awards up to 100,000 shares.

The weighted average grant-date calculated value of options granted in 2013 and 2012 was $3.02 and $3.00 , respectively. The calculated value of the options awarded under the option plans is estimated on the date of grant using the Black-Scholes valuation model, which is dependent upon certain assumptions as presented below:

December 31,	**2013**	2012
Expected life (in years)	**7**	7
Risk-free interest rate	**1.23** %	1.38 %
Expected volatility	**23.22** %	22.55 %
Expected dividend yield	**-** %	- %

The expected life of the options was estimated using the average vesting period of the options granted and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the grant date. Volatility of the Company's stock price in 2013 and 2012 was based on historical volatility of the NASDAQ Bank Index.

Information regarding the Company's stock option plans for the year ended December 31, 2013 is as follows (dollars in thousands, except exercise prices):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding,				
January 1, 2013	77,260	$ 10.83	5.0 years	$ 55
Options granted	**8,250**	**11.00**		
Options exercised	**(2,470)**	**8.00**		
Options forfeited	**(4,194)**	**8.00**		
Options Outstanding,				
December 31, 2013	**78,846**	**$ 11.09**	**4.9 years**	**$ 35**
Options Exercisable,				
December 31, 2013	**55,926**	**$ 11.12**	**3.5 years**	**$ 35**

Information pertaining to options outstanding at December 31, 2013 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8.00 - $11.49	**40,246**	5.9 years	$ **10.12**	**17,326**	$ **8.95**
$11.50 - $12.50	**38,600**	3.8 years	**12.10**	**38,600**	**12.10**
Outstanding at End of Year	**78,846**	4.9 years	$ **11.09**	**55,926**	$ **11.12**

	Shares	Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2013	16,670	$ 3.14
Granted	**8,250**	**3.02**
Vested	**(2,000)**	**3.45**
Forfeited/expired	-	-
Nonvested options, December 31, 2013	**22,920**	**$ 3.07**

Stock-based compensation expense related to the stock options for the years then ended December 31, 2013 and 2012 totaled $21,000 and $21,000, respectively. The unamortized stock option expense was $29,000 at December 31, 2013. This amount will be amortized over a period of 3 years.

The following table provides information about nonvested restricted stock for the year ended December 31, 2013:

	Shares	Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2013	12,050	$ 11.03
Granted	**7,275**	**11.00**
Vested	**(2,275)**	**11.00**
Forfeited	-	-
Outstanding at December 31, 2013	**17,050**	**$ 11.02**

Stock-based compensation expense related to the non-vested restricted stock for the years then ended December 31, 2013 and 2012 totaled $83,000 and $37,000, respectively. The unamortized compensation cost related to restricted stock at December 31, 2013 was $73,000.

14. Employment Agreements

The Bank entered into a new three-year employment agreement in January 2007 with its President, which includes minimum annual salary commitments and change of control provisions. The agreement contains rolling-term options to renew for additional one-year periods. Additionally, the Bank has entered into change of control agreements with its Managing Director and Chief Financial Officer, its Managing Director and Chief Lending Officer, and its Managing Director of Personal Banking. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreements, subject to the Emergency Economic Stabilization Act of 2008.

15. Salary Continuation Plan

The Bank entered into salary continuation agreements with its President and its Managing Director and Chief Financial Officer in March 2012. This is an unfunded plan that provides for target retirement benefits beginning at age 65. The agreements also provide for benefits in the event of early retirement, disability, death during active service or change in control of the Bank. At December 31, 2013 and 2012, the Bank's total accrued liability under these agreements was $106,000 and $47,000, respectively. Total expense related to this plan as provided for in these agreements amounted to $59,000 and $47,000 for the years ended December 31, 2013 and 2012, respectively.

16. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation. Failure to meet the 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and 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 below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2013, that the Bank meets all capital adequacy requirements to which it is subject, to be considered well capitalized.

A comparison of the Bank's actual capital amounts to the regulatory requirements as of December 31 is presented below:

December 31, 2013	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)	$ 32,751	14.16%	$ ≥18,507	≥8.0%	$ ≥23,134	≥10.0%
Tier 1 capital (to risk-weighted assets)	30,446	13.16%	≥ 9,251	≥4.0%	≥13,876	≥ 6.0%
Tier 1 capital (to average assets)	30,446	10.84%	≥11,233	≥4.0%	≥14,042	≥ 5.0%

December 31, 2012	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)	$ 30,733	14.07%	$ ≥17,472	≥8.0%	$ ≥21,841	≥10.0%
Tier 1 capital (to risk-weighted assets)	28,513	13.05%	≥ 8,736	≥4.0%	≥13,105	≥ 6.0%
Tier 1 capital (to average assets)	28,513	10.26%	≥11,114	≥4.0%	≥13,893	≥ 5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2013, the reserve balance amounted to $548,000. At December 31, 2012, the reserve balance amounted to $761,000.

17. Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are as follows:

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

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

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

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

December 31, 2013	Level 1	Level 2	Level 3	Total
U.S. agency securities	**$ -**	**$ 1,341**	**$ -**	**$ 1,341**
State and municipal securities	**-**	**11,421**	**-**	**11,421**
Mortgage-backed securities	**-**	**20,889**	**-**	**20,889**
Collateralized mortgage obligations	**-**	**5,552**	**-**	**5,552**
Loans held-for-sale	**-**	**6,669**	**-**	**6,669**
Asset derivatives	**-**	**381**	**-**	**381**
	$ -	**$ 46,253**	**$ -**	**$ 46,253**
Liability derivatives	**$ -**	**$ 1**	**$ -**	**$ 1**

December 31, 2012	Level 1	Level 2	Level 3	Total
U.S. treasury securities	$ -	$ 246	$ -	$ 246
U.S. agency securities	-	1,412	-	1,412
State and municipal securities	-	9,028	-	9,028
Mortgage-backed securities	-	17,051	-	17,051
Collateralized mortgage obligations	-	8,491	-	8,491
Loans held-for-sale	-	6,005	-	6,005
Asset derivatives	-	352	-	352
	$ -	$ 42,585	$ -	$ 42,585
Liability derivatives	$ -	$ 35	$ -	$ 35

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

December 31, 2013	Level 1	Level 2	Level 3	Total
Impaired loans	**$ -**	**$ -**	**$ 873**	**$ 873**
	$ -	**$ -**	**$ 873**	**$ 873**

December 31, 2012	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 3,132	$ 3,132
Foreclosed real estate	-	-	120	120
	$ -	$ -	$ 3,252	$ 3,252

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Bank has utilized Level 3 inputs to determine the fair value (in thousands):

December 31, 2013	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	**$ 873**	Appraisal of collateral (1)	Appraisal adjustments (2)	-10% to -29% (-26%)

December 31, 2012	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 3,132	Appraisal of collateral (1)	Appraisal adjustments(2)	-20% to -49% (-33%)
Foreclosed assets held for sale	$ 120	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	-6% (-6%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of certain of the Bank's assets and liabilities at December 31, 2013 and 2012:

Cash and Short-Term Investments (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities Available-for-Sale (Carried at Fair Value)

Fair values for securities available-for-sale were based upon a market approach. Securities that are debenture bonds and pass through mortgage-backed investments that are not quoted on an exchange, but are traded in active markets, were obtained through third-party data service providers who use matrix pricing on similar securities. The Bank compares evaluations provided by more than one service provider to judge the adequacy of the estimated fair value.

Loans Held-for-Sale (Carried at Fair Value)

The fair value of loans held-for-sale is determined, when possible, using quoted secondary-market prices. If no such quotes prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Loans Receivable (Generally Carried at Cost)

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (e.g., residential real estate and consumer loans) are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Impaired loans are those that are accounted for under FASB AC 310-10-35, in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value of impaired loans with an impairment allowance were $1,169,000 and $3,656,000, net of valuation allowances, of $296,000 and $524,000 as of December 31, 2013 and 2012, respectively.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Derivative Financial Instruments (Carried at Fair Value)

Derivative financial instruments include interest rate locks and forward commitments to sell mortgage loans. Fair values are based on the underlying mortgage loans and the probability of commitments being exercised.

Foreclosed Real Estate (Generally Carried at Cost)

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell at the time of acquisition thereby establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at lower of carrying amount or fair value less cost to sell. Fair value is based upon independent market prices, appraised value or management's estimation of the value of the property. These assets are included in Level 3 assets.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Funds Purchased and Short-Term Borrowings (Carried at Cost)

The carrying amounts of federal funds purchased and short-term borrowings approximate their fair values.

Long-Term Borrowings (Carried at Cost)

Fair values of long-term borrowings are estimated using discounted cash flow analysis, based on rates currently available to the Bank for advances from the FHLB with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The information presented is based on pertinent information available as of December 31, 2013 and 2012. Although the Bank is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that time and current estimated fair value of these financial instruments might have changed significantly (in thousands).

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 4,986**	**$ 4,986**	$ 23,272	$ 23,272
Securities available-for-sale	**39,203**	**39,203**	36,228	36,228
Loans held-for-sale	**6,669**	**6,669**	6,005	6,005
Loans receivable, net	**218,537**	**220,186**	204,315	206,330
Restricted investment in bank stocks	**1,788**	**1,788**	1,814	1,814
Accrued interest receivable	**736**	**736**	745	745
Asset derivatives	**381**	**381**	352	352
Financial liabilities:				
Demand and savings deposits	**153,499**	**153,499**	152,796	152,796
Time deposits	**91,472**	**92,226**	93,306	94,963
Accrued interest payable	**220**	**220**	258	258
Long-term borrowings	**7,750**	**7,818**	5,750	5,935
Liability derivatives	**1**	**1**	35	35
Off-balance sheet financial instruments:				
Commitments to extend credit and letters of credit	**-**	**-**	-	-