CBT FINANCIAL CORP.

2015 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

SUMMARY OF CONSOLIDATED STATEMENT OF INCOME	2015	2014
Interest income	**$15,854**	$15,564
Interest expense	**2,072**	2,275
Net interest income	**13,782**	13,289
Provision for loan losses	**475**	(250)
Total noninterest income	**5,042**	4,583
Total noninterest expense	**14,023**	13,965
Income before income taxes	**4,326**	4,157
Income taxes	**995**	974
Net income	**$3,331**	$3,183
Preferred stock dividends	**94**	100
Net income available to common shareholders	**$3,237**	$3,083
RATIOS		
Return on average assets (ROAA)	**0.77%**	0.73%
Return on shareholders' equity (ROAE)	**8.24%**	9.16%
PER SHARE DATA		
Net income	**$2.86**	$3.10
Cash dividend declared	**1.23**	1.23
Cash dividend paid	**1.23**	1.23
Book value	**32.47**	34.71
SUMMARY OF CONSOLIDATED BALANCE SHEET (at year end)		
Securities	**$73,189**	$95,743
Loans	**345,925**	298,474
Total assets	**455,559**	431,710
Deposits	**364,140**	363,094
Shareholders' equity	**46,935**	44,531
Trust and financial services assets*	**219,987**	220,704

(Dollar amounts in thousands except per share data) *Not included in the consolidated assets of CBT Financial Corp.

MISSION STATEMENT

Our mission at Clearfield Bank and Trust Company is to create an environment in which:

Our Customers perceive the Bank as a partner in achieving their financial goals;

Our Employees may achieve personal and professional success; and

Our Shareholders achieve the rewards of ownership.

DEAR SHAREHOLDERS, CUSTOMERS AND FRIENDS,

We are pleased to share the consolidated financial results of CBT Financial Corp. and its subsidiary Clearfield Bank & Trust Company. The Corporation had record net income for the fiscal year ending (FYE) December 31, 2015 of $3.331million, an increase of 4.7% or $148 thousand from net income of $3.183 million for FYE 2014.

In FY 2015, our assets continued to grow at a steady pace and were $455.6 million at FYE 2015 compared to $431.7 million at FYE 2014. The increase in assets was supported primarily by net loan growth of 15.9% or $47.5 million year over year. The Bank's asset quality remains very sound with a non-performing asset to asset ratio of 0.24% and a charge off ratio of 0.16% at FYE 2015. Our provision for loan loss in FY 2015 was $475 thousand. The Allowance for Loan Losses represents a 0.93% loan loss ratio and a coverage ratio of 288.7% at FYE 2015. This allocation is reasonable based on the high quality and growth of our loan portfolio.

2016

NEW CEO & PRESIDENT

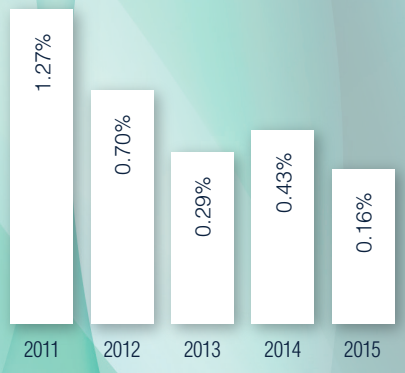
New 2016 President and CEO, Michael J. Bibak (above left) has worked closely with William E. Wood (former President and CEO, retired December 31, 2015) on all issues involving the Company and the Bank's strategy objectives and performance.

MANAGEMENT TEAM

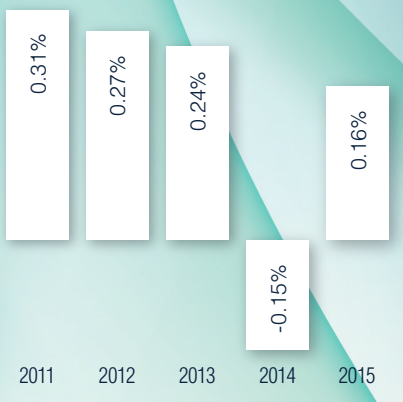
Left to Right (below): Judith K. Mitchell, William A. Shiner, Michael J. Bibak, Glenn E. Fisher, David M. McKeown, Dennis E. Hampton, William E. Wood, and Richard W. Ogden.

TOTAL LOANS
IN THOUSANDS

NON-PERFORMING
TO TOTAL LOANS



NET CHARGE-OFFS



Total deposits increased slightly year over year and were $364.1 million at FYE 2015.

The Corporation's Return on Average Equity of 8.24% and Return on Average Assets of 0.77% are both very strong and are notable considering the continued low interest rate environment and the continued pressure on net interest margin.

LOAN GROWTH

Loan growth was primarily centered in commercial loans. The Bank has a team of commercial lenders that have performed very well as evidenced by our credit quality and loan growth. In 2015, total loans grew by 15.9% or $47.5 million and our loan to deposit ratio improved from 82.2% to 95.0% year over year. We benefit greatly from the close relationships we have established with our borrowers, providing excellent service and advice.

CREDIT QUALITY

As mentioned earlier, the Bank's ratio of non-performing assets to total assets at December 31, 2015 was 0.24% which was lower than the previous fiscal year end, demonstrating the very good asset quality of our loan portfolio. This is attributable to our sound underwriting and conservative lending as well as our ability to identify and manage problem credits.

TRANSITION

With the announced retirement of William E. Wood effective December 31, 2015, the Board of Directors engaged in an extensive nine month search that concluded in March with the appointment of Michael J. Bibak as President of the Company and the Bank. Mr. Bibak is a senior level banking professional with 28 years of diverse banking experience. Mike has experience at both large and small community and regional banks. He is a Scranton native and earned a Bachelor of Science in Business Administration from the University of Scranton in 1987 and is a graduate of the Pennsylvania Banker's Association Executive Leadership program. Mike has extensive experience in all areas of banking with functional duties in asset liability management, strategic

planning, retail and commercial lending. Mike continues to work closely with Bill on all issues involving the Company and the Bank's strategy objectives and performance. Mr. Bibak will become President and CEO effective January 1, 2016 and Mr. Wood will remain Chairman of the Board.

STRATEGIC PLAN

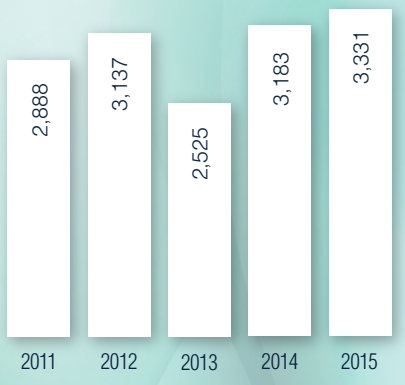
A new strategic plan, with the Board's direct oversight, was developed to assist the new President & CEO and his senior leadership on the direction of the Bank through 2018. The plan focuses on specific strategic objectives that will enhance the growth and stability of the corporation. We will continue to build upon our strong base of loyal customers and improve our market share in the counties in which we operate. We have identified three specific markets where we will concentrate our efforts as well as explore opportunities to penetrate and gain market share in new markets. In addition to these specific goals, we want to re-energize our employees to focus on the Bank's sales and service culture and reassess and improve our marketing and branding strategy.

A new strategic plan, with the Board's direct oversight, was developed to assist the new President & CEO and his senior leadership on the direction of the Bank through 2018.

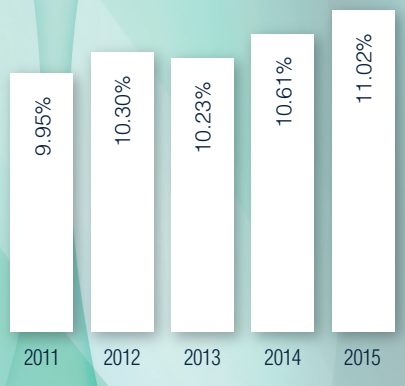
BOARD OF DIRECTORS

Standing Left to Right (below): Charles R. Johnston, Andrew J. Kohlhepp, Kevin D. McMillen, Michael R. Lytle, and John G. Soult, Jr.; Seated Left to Right: Paula M. Cherry, William E. Wood, Michael J. Bibak, and Marlene K. Sample.

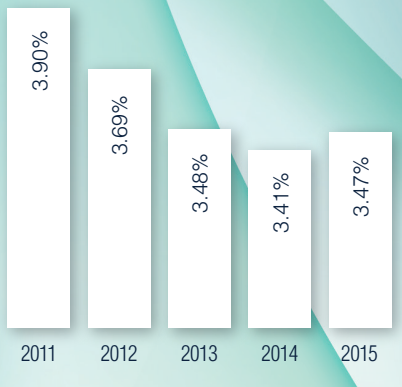
NET INCOME
IN THOUSANDS



CAPITAL



NET INTEREST MARGIN



We have also identified specific financial targets to enhance shareholder value while improving operational efficiency. This includes the review of all operating processes and procedures, rationalization of the branch network and effective utilization of technology.

In addition, several other initiatives have been identified that reflect our commitment to achieve profits from providing quality service to our customers and providing value to our shareholders.

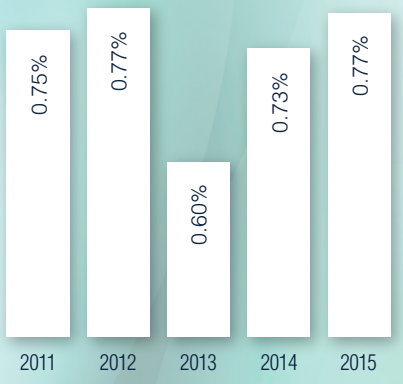
PRIVATE PLACEMENT CAPITAL

We completed a very successful private capital raise in the third quarter of 2015 that generated $11.7 million in additional common equity through the issuance of 450,000 shares of common stock. The proceeds were used to support general operations and growth of the Company along with repaying the remaining balance of the Small Business Lending Fund. As a result, all of our capital ratios are very strong.

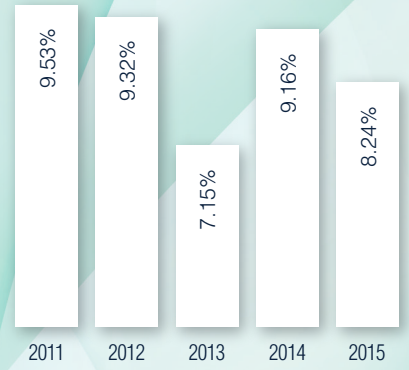
SMALL BUSINESS LENDING FUND (SBLF)

In 2011 the Company participated in the U.S, Treasury SBLF program to aid in lending activities to small business. With the rate scheduled to increase from 1% to 9% in 2016, the Company elected to redeem the Stock in 2015. In March 2015 we redeemed $5 million and in October 2015 we redeemed the remaining $5 million.

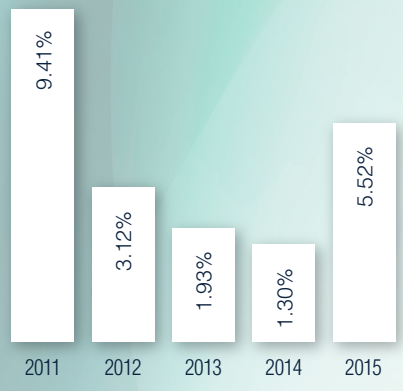
RETURN ON ASSETS



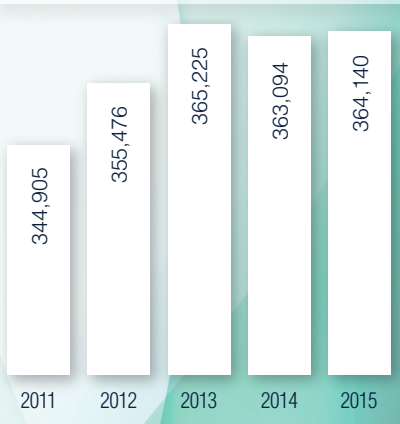
RETURN ON EQUITY



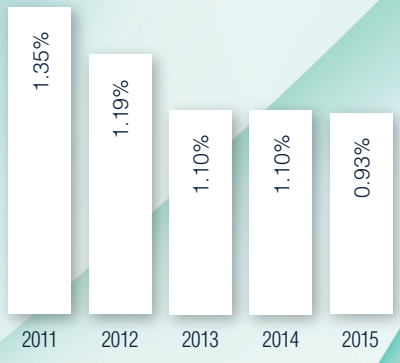
ASSET GROWTH



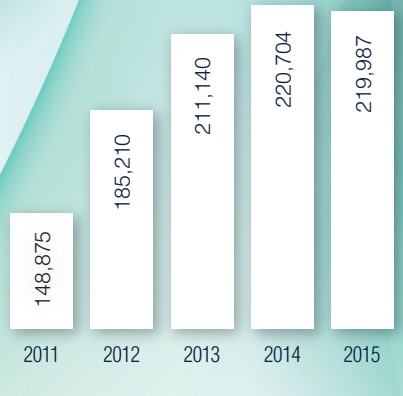
TOTAL DEPOSITS
IN THOUSANDS



LOAN LOSS RESERVE
TO TOTAL LOANS



TRUST & DIAMOND FINANCIAL SERVICES
ASSETS UNDER MANAGEMENT
IN THOUSANDS



PROFILE

MEET MIKE

NAME: Michael J. Bibak

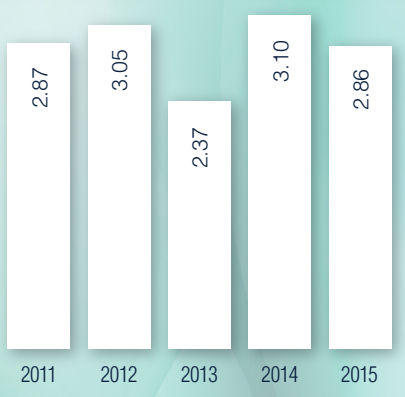
TITLE: President & CEO

HOMETOWN: Throop, PA

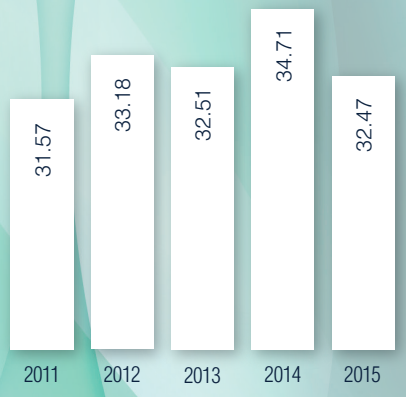
EDUCATION: Business Administration BS (University of Scranton, 1987)

EXPERIENCE: 28 years of banking experience, including both community banks and regional banks.

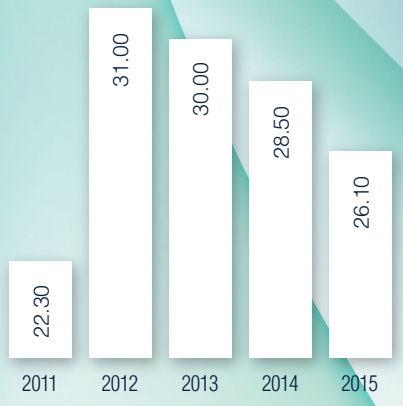
EARNINGS
PER SHARE



BOOK VALUE
PER SHARE



MARKET VALUE
PER SHARE



COMMUNITY COMMITMENT

In addition to monetary contributions totaling over $135 thousand, our employees have a vested interest in our communities and their dedication is evident in the thousands of volunteer hours they give to local charities, economic development agencies, sports teams and religious organizations that directly benefit from our employees' time and talents.

We were also again a proud sponsor of The education learning platform includes Financial Literacy, Student Loan Management, Digital Literacy, Cyber Bullying and Alcohol Abuse Awareness. For the past three years, the Bank has proudly supported the EverFi Financial Literacy Program. EverFi, Inc. is the leading education technology company to teach, assess and certify students in critical skills. This initiative reaches the digital age generation, our future, educating them on important financial information.

> ...our employees have a vested interest in our communities and their dedication is evident in the thousands of volunteer hours they give to...

SHAREHOLDER VALUE

We are proud of the stability of our stock and reliable dividend that our Shareholders enjoy. This was the seventy second consecutive years we have paid a dividend and the dividend yield as of FYE 2015 was 4.71% based on a market share price of $26.10.

With sincere appreciation, we extend gratitude on behalf of our Board of Directors, management and employees for your continued support.

William E. Wood
Chairman & CEO

Michael J. Bibak
President

CBT FINANCIAL CORP.

2015 Consolidated Financial Report

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CONSOLIDATED BALANCE SHEETS

As of December 31, 2015 and 2014 (Dollar and share amounts in thousands)

ASSETS	2015	2014
Cash and due from financial institutions	**$2,532**	$2,847
Interest-bearing deposits in other financial institutions	**3,363**	4,408
Securities available for sale	**73,189**	95,743
Loans held for sale	**-**	114
Loans, net of allowance of $3,219 and $3,292	**342,706**	295,182
Federal Home Loan Bank stock, at cost	**1,724**	616
Foreclosed assets, net	**558**	-
Premises and equipment, net	**10,638**	11,279
Goodwill	**9,760**	9,760
Other intangible assets	**-**	153
Bank owned life insurance	**8,204**	8,575
Accrued interest receivable and other assets	**2,885**	3,033
Total assets	**$455,559**	$431,710
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	**$67,321**	$60,634
Interest-bearing	**296,819**	302,460
Total deposits	**364,140**	363,094
Federal Home Loan Bank advances	**28,700**	8,800
Subordinated debentures	**9,000**	9,000
Accrued interest payable and other liabilities	**6,784**	6,285
Total liabilities	**408,624**	387,179
Shareholders' equity		
Preferred stock ($1 par value; non-cumulative; $10,000 liquidation value; 10,000 shares authorized; 10 shares issued)	**-**	9,993
Common stock (No par value; 10,000 shares authorized; 1,485 shares issued at 2015; 1,034 at 2014)	**-**	-
Additional paid in capital	**15,095**	4,309
Retained earnings	**33,057**	31,335
Accumulated other comprehensive income	**350**	461
Treasury stock at cost (40 shares)	**(1,567)**	(1,567)
Total shareholders' equity	**46,935**	44,531
Total liabilities and shareholders' equity	**$455,559**	$431,710

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

For the Years-ended December 31, 2015, 2014 and 2013 (Dollar amounts in thousands except per share data)

INTEREST AND DIVIDEND INCOME	2015	2014	2013
Taxable loans, including fees	**$13,854**	$13,124	$13,452
Tax exempt loans, including fees	**293**	325	311
Taxable securities	**899**	1,238	1,294
Tax exempt securities	**710**	798	876
Other interest earning assets	**98**	79	77
Total interest and dividend income	**15,854**	15,564	16,010
INTEREST EXPENSE			
Deposits	**1,646**	1,866	2,406
Federal Home Loan Bank advances	**75**	61	60
Subordinated debentures	**351**	348	350
Total interest expense	**2,072**	2,275	2,816
Net interest income	**13,782**	13,289	13,194
Provision for loan losses	**475**	(250)	350
Net interest income after provision for loan losses	**13,307**	13,539	12,844
NONINTEREST INCOME			
Service charges on deposits	**1,604**	1,586	1,596
Trust fees	**916**	875	710
Net gains on sales of securities	**78**	109	379
Commissions on other financial products	**510**	517	458
Earnings on bank owned life insurance, including death benefit	**460**	234	236
(Loss) from sale of bank branches	**-**	(126)	-
Other	**1,474**	1,388	1,411
Total noninterest income	**5,042**	4,583	4,790
NONINTEREST EXPENSE			
Salaries and employee benefits	**8,388**	8,245	8,590
Occupancy and equipment	**1,908**	1,954	2,625
Data processing	**1,224**	986	685
Advertising	**279**	314	334
Pennsylvania shares/franchise tax	**327**	374	365
Supplies	**240**	263	249
Federal deposit insurance	**281**	228	227
Foreclosed assets	**78**	51	80
Amortization of intangibles	**153**	204	213
Other	**1,145**	1,346	1,143
Total noninterest expense	**14,023**	13,965	14,511
Income before income taxes	**4,326**	4,157	3,123
Income tax expense	**995**	974	598
Net income	**$3,331**	$3,183	$2,525
Preferred stock dividends	**94**	100	166
Net income available to common shareholders	**$3,237**	$3,083	$2,359
EARNINGS PER COMMON SHARE			
Basic	**$2.86**	$3.10	$2.37

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2015, 2014 and 2013 (Dollar amounts in thousands except per share data)

	2015	2014	2013
Net Income	**$3,331**	$3,183	$2,525
Other comprehensive income (loss)			
Unrealized gain (loss) on securities:			
Unrealized holding gain (loss) arising during the period	**(294)**	806	(2,796)
Reclassification adjustments for loss (gain) included in net income	**(78)**	(109)	(379)
Tax effect	**126**	(237)	1,079
Net of tax	**(246)**	460	(2,096)
Unrealized gain (loss) on cash flow hedge:			
Unrealized holding gain (loss)	**88**	88	119
Reclassification adjustment for loss (gain) included in net income	**-**	-	-
Tax effect	**(30)**	(30)	(40)
Net of tax	**58**	58	79
Postretirement plans:			
Net gain (loss) arising during the period	**117**	(262)	295
Reclassification adjustment for amortization of prior service cost and net (gain) loss included in net periodic pension cost	**-**	(4)	13
Tax effect	**(40)**	90	(105)
Net of tax	**77**	(176)	203
Total other comprehensive income (loss)	**(111)**	342	(1,814)
Comprehensive income	**$3,220**	$3,525	$711

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years-ended December 31, 2015, 2014 and 2013 (Dollar and share amounts in thousands except per share data)

	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance - January 1, 2013	$9,981	$ -	$4,309	$28,354	$1,933	($1,567)	$43,010
Net income		-	-	2,525	-	-	2,525
Other comprehensive income (loss)		-	-	-	(1,814)	-	(1,814)
Amortization of preferred stock issuance cost	6	-	-	(6)	-	-	-
Preferred dividends		-	-	(166)	-	-	(166)
Cash dividends declared *($1.23 per share)*		-	-	(1,224)	-	-	(1,224)
Balance - December 31, 2013	9,987	-	4,309	29,483	119	(1,567)	42,331
Net income		-	-	3,183	-	-	3,183
Other comprehensive income (loss)		-	-	-	342	-	342
Amortization of preferred stock issuance cost	6	-	-	(6)	-	-	-
Preferred dividends		-	-	(100)	-	-	(100)
Cash dividends declared ($1.23 per share)		-	-	(1,225)	-	-	(1,225)
Balance - December 31, 2014	9,993	-	4,309	31,335	461	(1,567)	44,531
Net income		-	-	**3,331**	-	-	**3,331**
Other comprehensive income (loss)		-	-	-	**(111)**	-	**(111)**
Amortization of preferred stock issuance cost	7	-	-	**(7)**	-	-	-
Preferred dividends		-	-	**(94)**	-	-	**(94)**
Issuance of common stock, net of issuance cost	-	-	**10,786**	-	-	-	**10,786**
Redemption of preferred stock	**(10,000)**	-	-	-	-	-	**(10,000)**
Cash dividends declared *($1.23 per share)*		-	-	**(1,508)**	-	-	**(1,508)**
Balance - December 31, 2015	**$ -**	**$ -**	**$15,095**	**$33,057**	**$350**	**($1,567)**	**$46,935**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years-ended December 31, 2015, 2014 and 2013 (Dollar amounts in thousands)

	2015	2014	2013
Cash flows from operating activities			
Net income	**$3,331**	$3,183	$2,525
Adjustments to reconcile net income to net cash from operating activities			
Provision for loan losses	**475**	(250)	350
Depreciation and amortization	**859**	908	1,499
Net amortization of securities	**457**	519	635
Net realized gains on sale of securities	**(78)**	(109)	(379)
Net losses on sales of foreclosed assets	-	11	3
Earnings on bank owned life insurance	**(232)**	(234)	(236)
Amortization of core deposit intangible assets	**153**	204	213
Deferred income tax	**(113)**	101	305
Gross mortgage banking activity:			
Loans originated for resale	**(3,263)**	(2,225)	(6,319)
Proceeds from sales	**3,479**	2,160	6,504
Net gains on sales	**(102)**	(49)	(185)
Net loss on sale of bank branches	-	126	-
Net change in:			
Accrued interest receivable and other assets	**261**	(766)	606
Accrued interest payable and other liabilities	**760**	308	245
Net cash from operating activities	**5,987**	3,887	5,766
Cash flows from investing activities			
Net change in interest-bearing deposits in other financial institutions	**1,045**	7,691	6,643
Proceeds from bank owned life insurance benefit	**603**	-	-
Available for sale securities:			
Sales	**4,677**	4,739	11,170
Maturities, prepayments and calls	**17,376**	20,542	18,656
Purchases	**(250)**	(22,509)	(36,922)
Loan originations and payments, net	**(48,557)**	(16,084)	(14,524)
Net Change in Federal Home Loan Bank stock	**(1,108)**	202	67
Proceeds from sale of foreclosed assets	-	175	318
Proceeds from sale of bank branches	-	102	-
Net change to premises and equipment	**(218)**	(448)	(3,665)
Net cash from investing activities	**(26,432)**	(5,590)	(18,257)
Cash flows from financing activities			
Net change in deposits	**1,046**	(2,131)	9,749
Proceeds from Federal Home Loan Bank advances, net	**19,900**	4,800	-
Proceeds from common stock, net of issuance cost	**10,786**	-	-
Repayment of preferred stock	**(10,000)**	-	-
Cash dividends paid	**(1,602)**	(1,325)	(1,390)
Net cash from financing activities	**20,130**	1,344	8,359
Net change in cash and cash equivalents	**(315)**	(359)	(4,132)
Beginning cash and cash equivalents	**2,847**	3,206	7,338
Ending cash and cash equivalents	**$2,532**	$2,847	$3,206
Supplemental cash flow information			
Interest paid	**$2,057**	$2,320	$2,892
Income taxes paid	**828**	630	545
Supplemental non-cash disclosures			
Transfer from loans to foreclosed assets	**$558**	$109	$95
Transfer of premises and equipment to assets held for sale	-	227	-

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations and Principles of Consolidation

The consolidated financial statements include the accounts of CBT Financial Corp. and its wholly-owned subsidiary, Clearfield Bank & Trust Company (Bank), together referred to as the Company. Diamond Financial Services, Inc. is a wholly-owned subsidiary of the Bank. Intercompany transactions and balances are eliminated in consolidation.

The Bank provides financial services through its twelve community offices in Clearfield, Blair, Centre and Huntingdon Counties, Pennsylvania. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and consumer installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Diamond Financial Services, Inc. provides nondeposit investment products to its customers. Its diversified products include mutual funds, and fixed and variable annunities.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 5, 2016, which is the date the financial statements were available to be issued.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows

Cash and cash equivalents include cash and noninterest-bearing demand deposits with other financial institutions. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, fixed assets, Federal Home Loan Bank Stock and Federal Home Loan Bank overnight borrowings.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans is reduced by the fair value allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding plus net deferred loan costs, net of the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Direct loan origination costs and loan origination fees are deferred and recognized in interest income using the level yield method over the life of the loan without anticipating prepayments.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer and credit card loans are typically charged-off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to nonaccrual status in accordance with the Company's policy, typically after 90 days on non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off.

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The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession and for which the borrower is experiencing financial difficulties, are considered troubled debt restructuring and classified as impaired.

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 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.

For commercial and commercial real estate loans, the Company evaluates those classified in our internal risk grading system as substandard, doubtful or loss with individual principal loan balances greater than $100 to determine if they are impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructuring are separately identified for impairment disclosures and are measured at the present value of the estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructuring that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial, residential real estate, commercial real estate, construction, consumer and credit card.

Commercial credit is extended primarily to small and middle market customers. Such credits typically comprise working capital loans, loans for physical asset expansion, asset acquisition loans and other business loans. Loans to closely held businesses will generally be guaranteed in full or for a meaningful amount by the business's major owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Residential real estate loans are secured by real property through the use of a mortgage note which evidences the existence of the loan and the encumbrance of the property. These loans are repaid by the cash flow of the borrower.

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Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

The Company defines construction loans as loans where the loan proceeds are controlled by the Company and used exclusively for the improvement of real estate in which the Company holds a mortgage. Due to the inherent risk of this type of loan, they are subject to other industry specific policy guidelines outlined in the Company's Credit Risk Policy and are monitored closely.

The Company originates direct and indirect consumer loans including residential real estate, home equity lines and loans and credit card loans. Each loan type has a separate pricing matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and Company relationships with the borrower.

Credit card loans are revolving lines of credit that grants credit to the borrower from which the user can borrow money for payment to a merchant or as a cash advance. A credit card allows the consumer a continuing balance of debt subject to interest being charged and are repaid from the cash flow of the borrower.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB of Pittsburgh. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated cost to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 40 years. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging from 5 to 7 years.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of the business acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected October 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company’s balance sheet.

Other intangible assets consist of core deposit intangible assets arising from branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful life, which is approximately 10 years.

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Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other changes or other amounts due that are probable at settlement.

Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all of a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with other noninterest income on the income statement. The fair values of the servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is recorded on the income statement as other noninterest income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Long-term Assets

Premises and equipment, core deposit intangible assets and other intangible assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as stand by letters of credit, that are considered financial guarantees are recorded at fair value at inception.

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Derivatives

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are: 1) a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), 2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or 3) an instrument with no hedging designation (stand-alone derivative). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the item being hedged.

The Company formally documents the relationship between the derivatives and hedged items, as well as the risk management objective and the strategy for undertaking the swap at the inception of the hedging relationship. The documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties to income tax matters in income tax expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Transfer of Financial Assets

Transfer of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to purchase them before their maturity.

Retirement Plans

Employee 401(k) and profit sharing plan expense is the amount of matching contributions and discretionary additional contributions. Postretirement benefits and supplemental executive retirement plan expense are the net, in each case, of service and interest cost and amortization of gains and losses not immediately recognized in expense. Supplemental executive retirement plan expense allocates the benefits over the years of service.

Earnings Per Common Share

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The Company's capital structure contains no potentially diluted securities.

Comprehensive Income

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, changes in the funded status of the postretirement benefit plans, and unrealized gains or losses on cash flow hedges, which are also recognized as separate components of equity.

Restriction on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are any other such matters that will have a material effect on the financial statements.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SECURITIES:

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

2015	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State & municipal	**$19,552**	**$714**	**$1**	**$20,265**
Mortgage-backed - residential	**50,804**	**311**	**302**	**50,813**
Total debt securities	**70,356**	**1,025**	**303**	**71,078**
Mutual funds	**2,098**	**13**	**-**	**2,111**
Total securities	**$72,454**	**$1,038**	**$303**	**$73,189**

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State & municipal	$22,421	$847	$8	$23,260
Mortgage-backed - residential	70,161	556	300	70,417
Total debt securities	92,582	1,403	308	93,677
Mutual funds	2,054	12	-	2,066
Total securities	$94,636	$1,415	$308	$95,743

There were no securities held to maturity on December 31, 2015 and 2014.

Sales of available for sale securities were as follows:

	2015	2014	2013
Proceeds	**$4,677**	$4,739	$11,170
Gross gains	**82**	120	393
Gross losses	**(5)**	(11)	(14)

The tax provision related to these net realized gains and losses was $27, $37, and $129, respectively.

Securities pledged at year-end 2015 and 2014 had a carrying amount of $17,146 and $21,450 and were pledged to secure public deposits, trust department deposits and borrowings at the Federal Reserve Bank.

At year-end 2015 and 2014 there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders equity other than mortgage-backed securities issued by the Government National Mortgage Association (GNMA), which are backed by the full faith and credit of the U.S. Government, and mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA), entities that the U.S. Government has affirmed its commitment to support.

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The amortized cost and fair value of debt securities and carrying amount, if different, at year-end 2015 by contractual maturity were as follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, consisting of mortgage-backed securities, are shown separately.

	Available for Sale	
2015	**Amortized Cost**	**Fair Value**
Due in one year or less	**$ -**	**$ -**
Due from one year to five years	**1,765**	**1,837**
Due from five years to ten years	**12,389**	**12,889**
Due after ten years	**5,398**	**5,539**
Mortgage-backed - residential	**50,804**	**50,813**
Total debt securities	**$70,356**	**$71,078**

The following summarizes the investment securities with unrealized losses at December 31, 2015 and 2014 aggregated by major security type and length of time in a continuous loss position.

	Less Than 12 Months		12 Months or More		Total	
2015	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
State & municipal	**$495**	**$1**	**$ -**	**$ -**	**$495**	**$1**
Mortgage-backed - residential	**14,621**	**78**	**10,113**	**224**	**24,734**	**302**
Total temporarily impaired	**$15,116**	**$79**	**$10,113**	**$224**	**$25,229**	**$303**

	Less Than 12 Months		12 Months or More		Total	
2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State & municipal	$489	$8	$ -	$ -	$489	$8
Mortgage-backed - residential	22,572	50	12,958	250	35,530	300
Total temporarily impaired	$23,061	$58	$ 12,958	$ 250	$36,019	$308

As of December 31, 2015, the Company's security portfolio consisted of 70 securities, 17 of which were in an unrealized loss position. A portion of the unrealized losses is related to the Company's state and municipal securities. All of these securities are general obligations of the state or municipality. Because the decline in fair value of the securities is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2015.

The decline in the fair value of state and municipal securities is related to the broad market reaction to the municipal market in general. These securities continue to be highly rated. Mortgage-backed securities with unrealized losses are guaranteed by GNMA. The decline in fair value is the result of changes in market interest rates. The decline in fair value of mutual funds is a result of the decline in interest rates. The Company expects the fair value to recover.

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3. LOANS:

Loans at year-end were as follows:

	2015	2014
Commercial	**$69,336**	$58,848
Real Estate		
Residential	**103,715**	98,299
Commercial	**154,096**	122,669
Construction	**4,330**	5,731
Consumer	**11,552**	10,253
Credit card	**2,896**	2,674
Total loans	**345,925**	298,474
Allowance for loan losses	**(3,219)**	(3,292)
Total loans, net	**$342,706**	$295,182

Net deferred loan costs were $1,039 and $936 at year-end 2015 and 2014.

Activity in the allowance for loan losses is as follows. Activity for 2015, 2014 and 2013 was presented by portfolio segment.

2015	**Commercial**	**Real Estate Residential**	**Real Estate Commercial**	**Real Estate Construction**	**Consumer**	**Credit card**	**Unallocated**	**Total**
Beginning balance	**$821**	**$540**	**$1,609**	**$26**	**$239**	**$57**	**$ -**	**$3,292**
Provision for loan losses	**(4)**	**106**	**21**	**(5)**	**234**	**38**	**85**	**475**
Loans charged-off	**(48)**	**(22)**	**(275)**	**-**	**(315)**	**(38)**	**-**	**(698)**
Recoveries	**31**	**2**	**7**	**-**	**104**	**6**	**-**	**150**
Ending balance	**$800**	**$626**	**$1,362**	**$21**	**$262**	**$63**	**$ 85**	**$3,219**

2014	Commercial	Real Estate Residential	Real Estate Commercial	Real Estate Construction	Consumer	Credit card	Unallocated	Total
Beginning balance	$976	$567	$1,248	$29	$243	$45	$ -	$3,108
Provision for loan losses	(800)	11	308	(3)	178	56	-	(250)
Loans charged-off	(50)	(70)	-	-	(273)	(50)	-	(443)
Recoveries	695	32	53	-	91	6	-	877
Ending balance	$821	$540	$1,609	$26	$239	$57	$ -	$3,292

2013	Commercial	Real Estate Residential	Real Estate Commercial	Real Estate Construction	Consumer	Credit card	Unallocated	Total
Beginning balance	$522	$448	$1,951	$39	$172	$55	$ -	$3,187
Provision for loan losses	588	185	(682)	(10)	260	9	-	350
Loans charged-off	(187)	(89)	(35)	-	(258)	(29)	-	(598)
Recoveries	53	23	14	-	69	10	-	169
Ending balance	$976	$567	$1,248	$29	$243	$45	$ -	$3,108

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The following presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment methods as of December 31:

2015	**Commercial**	**Real Estate Residential**	**Real Estate Commercial**	**Real Estate Construction**	**Consumer**	**Credit card**	**Unallocated**	**Total**
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	**$2**	**$46**	**$55**	**$ -**	**$ -**	**$ -**	**$ -**	**$103**
Collectively evaluated for impairment	**798**	**580**	**1,307**	**21**	**262**	**63**	**85**	**$3,116**
Total ending allowance balance	**$800**	**$626**	**$1,362**	**$21**	**$262**	**$63**	**$85**	**$3,219**
Loans:								
Loans individually evaluated for impairment	**$1,042**	**$301**	**$3,674**	**$ -**	**$15**	**$ -**	**$ -**	**$5,032**
Loans collectively evaluated for impairment	**68,294**	**103,414**	**150,422**	**4,330**	**11,537**	**2,896**	**-**	**$340,893**
Total ending loan balances	**$69,336**	**$103,715**	**$154,096**	**$4,330**	**$11,552**	**$2,896**	**$ -**	**$345,925**

The recorded investment includes the unpaid balance and unamortized loan origination fees and costs, but excludes accrued interest receivable of $614 which is not considered to be material.

2014	Commercial	Real Estate Residential	Real Estate Commercial	Real Estate Construction	Consumer	Credit card	Unallocated	Total
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$290	$ -	$ -	$ -	$ -	$290
Collectively evaluated for impairment	821	540	1,319	26	239	57	-	$3,002
Total ending allowance balance	$821	$540	$1,609	$26	$239	$57	$ -	$3,292
Loans:								
Loans individually evaluated for impairment	$986	$118	$3,827	$ -	$3	$ -	$ -	$4,934
Loans collectively evaluated for impairment	57,862	98,181	118,842	5,731	10,250	2,674	-	$293,540
Total ending loan balances	$58,848	$98,299	$122,669	$5,731	$10,253	$2,674	$ -	$298,474

The recorded investment includes the unpaid balance and unamortized loan origination fees and costs, but excludes accrued interest receivable of $651 which is not considered to be material.

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The following table presents loans individually evaluated for impairment by class of loans as of December 31:

2015	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basi Interest Recognized**
With no related allowance recorded:						
Commercial	**$1,021**	**$956**	**$ -**	**$983**	**$47**	**$ -**
Real estate						
Residential	**225**	**226**	**-**	**116**	**12**	**-**
Commercial						
Owner occupied	**1,336**	**1,336**	**-**	**1,372**	**54**	**-**
Non-owner occupied	**756**	**757**	**-**	**95**	**-**	**-**
Consumer	**15**	**15**	**-**	**11**	**2**	**-**
With an allowance recorded:						
Commercial	**86**	**86**	**2**	**103**	**6**	**-**
Real estate						
Residential	**75**	**75**	**46**	**1**	**-**	**-**
Commercial						
Owner occupied -	**-**	**-**	**816**	**-**	**-**	
Non-owner occupied	**1,583**	**1,581**	**55**	**1,598**	**60**	**-**
Loans individually evaluated for impairment	**$5,097**	**$5,032**	**$103**	**$5,095**	**$181**	**$ -**

2014	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$1,065	$986	$ -	$1,123	$60	$ -
Real estate						
Residential	117	118	-	104	8	-
Commercial Owner occupied	1,413	1,413	-	1,593	64	-
Consumer	3	3	-	11	2	-
With an allowance recorded:						
Commercial	-	-	-	12	17	-
Real estate						
Commercial						
Owner occupied	808	803	205	2	-	-
Non-owner occupied	1,613	1,611	85	1,630	71	-
Loans individually evaluated for impairment	$5,019	$4,934	$290	$4,475	$222	$ -

2013	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$1,242	$1,150	$ -	$1,369	$105	$-
Real estate						
Residential	27	27	-	31	1	-
Commercial Owner occupied	2,306	2,304	-	2,250	159	-
Consumer	23	23	-	28	3	-
With an allowance recorded:						
Commercial	465	465	465	32	-	-
Real estate						
Commercial						
Owner occupied	1,646	1,644	118	1,660	68	-
Loans individually evaluated for impairment	$5,709	$5,613	$583	$5,370	$336	$-

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The following presents the aging of the recorded investment in past due loans as of December 31, 2015 and 2014 by class of loans:

2015	30 - 59 Days Past Due	60 - 89 Days Past Due	Still Accruing Greater than 89 Days Past Due	Total Past Due Still Accruing	Total Loans Not Past Due	Total Nonaccrual	Total Loans
Commercial	**$96**	**$ -**	**$ -**	**$96**	**$69,240**	**$ -**	**$69,336**
Real estate							
Residential	**730**	**158**	**-**	**888**	**102,358**	**469**	**103,715**
Commercial							
Owner occupied	**57**	**-**	**-**	**57**	**79,429**	**-**	**79,486**
Non-owner occupied	**-**	**-**	**-**	**-**	**74,610**	**-**	**74,610**
Construction	**-**	**-**	**-**	**-**	**4,330**	**-**	**4,330**
Consumer	**105**	**36**	**-**	**141**	**11,324**	**87**	**11,552**
Credit card	**20**	**22**	**-**	**42**	**2,853**	**1**	**2,896**
Total loans	**$1,008**	**$216**	**$ -**	**$1,224**	**$344,144**	**$557**	**$345,925**

2014	30 - 59 Days Past Due	60 - 89 Days Past Due	Still Accruing Greater than 89 Days Past Due	Total Past Due Still Accruing	Total Loans Not Past Due	Total Nonaccrual	Total Loans
Commercial	$235	$ -	$ -	$235	$58,565	$48	$58,848
Real estate							
Residential	860	150	-	1,010	96,937	352	98,299
Commercial							
Owner occupied	241	183	-	424	59,816	849	61,089
Non-owner occupied	-	-	-	-	61,580	-	61,580
Construction	-	-	-	-	5,731	-	5,731
Consumer	117	34	-	151	10,077	25	10,253
Credit card	11	8	-	19	2,654	1	2,674
Total loans	$1,464	$375	$ -	$1,839	$295,360	$1,275	$298,474

Troubled Debt Restructuring:

The Company has allocated $58 and $85 of specific reserves to customers whose loan terms have been modified in troubled debt restructuring as of December 31, 2015 and 2014 and has not committed to lend additional amounts.

During the years-ending December 31, 2015, 2014 and 2013, the terms of certain loans were modified as troubled debt restructuring. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from seventeen to sixty months. Modifications involving an extension of the maturity date were for a period of 12 months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

The following table presents the loans by class modified as troubled debt restructuring that occurred during the years-ending December 31, 2015, 2014 and 2013:

	2015		2014		2013	
Troubled debt restructuring:	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	Number of Loans	Pre-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment
Commercial	**1**	**$242**	4	$86	1	$2
Real estate						
Residential	**-**	**-**	1	117	-	-
Commercial						
Non-owner occupied	**1**	**756**	-	-	2	28
Total troubled debt restructuring	**2**	**$998**	5	$203	3	$30

The outstanding recorded investments in troubled debt restructuring described above remained the same after modification for the year ending December 31, 2015, 2014 and 2013. The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in charge-offs during the year-ending December 31, 2015, 2014 and 2013.

The following table presents loans by class modified as troubled debt restructuring for which there was a payment default within twelve months following the modification during the year-ended December 31, 2015, 2014 and 2013:

	2015		2014		2013	
Troubled debt restructuring:	**Number of Loans**	**Recorded Investment**	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial	**-**	**$ -**	-	$ -	-	$-
Real estate						
Residential	**-**	**-**	-	-	2	26
Commercial						
Owner occupied	**-**	**-**	-	-	-	-
Consumer	**-**	**-**	-	-	-	-
Total troubled debt restructuring	**-**	**$ -**	-	$ -	2	$26

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructuring that subsequently defaulted described above resulted in no additional allowance for loan losses and resulted in no charge-offs during the year-ending December 31, 2015, 2014 and 2013.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loan relationships with outstanding balances greater than $500 thousand. Other loan relationships are analyzed based on historic payment experience and collateral. Loans over 90 days past due are classified as substandard and loans over 120 days past due are classified as loss, unless the collateral is sufficient to cover the loan balance.

Loans listed as not rated are included in groups of homogeneous loans. As of December 31, 2015 and 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Special Mention. Loans classified as special mention have a potential weakness that deserves Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss. Loans classified as loss have all the weaknesses inherent in those classified as doubtful, with the added characteristic that the loan is unsecured and over 120 day past due.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $500 thousand or are included in groups of homogeneous loans. As of December 31, 2015 and 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

2015	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss
Commercial	$16,784	$49,689	$610	$2,253	$ -	$ -
Real Estate						
Residential	84,109	18,987	69	550	-	-
Commercial						
Owner occupied	16,418	62,138	302	628	-	-
Non-owner occupied	2,782	69,025	1,460	1,343	-	-
Construction	1,460	2,870	-	-	-	-
Consumer	11,457	8	-	85	2	-
Credit card	2,872	17	-	7	-	-
Total loans	$135,882	$202,734	$2,441	$4,866	$2	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2014	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss
Commercial	$11,899	$42,326	$1,673	$2,950	$ -	$ -
Real Estate						
Residential	77,118	20,636	106	439	-	-
Commercial						
Owner occupied	9,373	47,778	1,401	2,537	-	-
Non-owner occupied	988	57,185	-	3,407	-	-
Construction	1,631	4,100	-	-	-	-
Consumer	10,216	12	-	21	4	-
Credit card	2,653	8	-	13	-	-
Total loans	$113,878	$172,045	$3,180	$9,367	$4	$ -

The Company does not have loans that were considered to be subprime at origination.

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented and by payment activity.

The following table presents the recorded investment in residential and consumer loans based on payment activity:

2015	**Credit Card**	**Consumer**	**Residential**
Performing	**$2,895**	**$11,465**	**$103,246**
Nonperforming	**1**	**87**	**469**
Total residential and consumer loans	**$2,896**	**$11,552**	**$103,715**

2014	Credit Card	Consumer	Residential
Performing	$2,673	$10,228	$97,947
Nonperforming	1	25	352
Total residential and consumer loans	$2,674	$10,253	$98,299

4. REAL ESTATE OWNED

Real estate owned activity was as follows:

	2015	2014	2013
Beginning balance	**$ -**	$77	$503
Loans transferred to real estate owned	**558**	109	95
Sales of real estate owned	-	(186)	(521)
Ending balance	**$558**	$-	$77

Activity in the valuation allowance was as follows:

	2015	2014	2013
Beginning of year	**$ -**	$-	$ 200
Additions charged to expense	-	-	13
Reductions from sales of real estate owned	-	-	(213)
Ending balance	**$ -**	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

Expenses related to foreclosed assets include:

	2015	2014	2013
Net loss (gain) on sales	**$ -**	$11	$3
Provision for unrealized losses	**-**	-	15
Operating expenses, net of rental income	**77**	19	45
Total other real estate expense	**$77**	$30	$63

5. FAIR VALUE:

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels or inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2) using matrix pricing. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Derivatives: The fair value of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the position. The majority of the inputs can be validated through external sources, including brokers.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals or other valuations of the underlying collateral. Real estate appraisals may use a single valuation approach or a combination of approaches including use of comparable sales and the capitalization of income. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Loan Review Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied to properties with appraisals performed within 12 months.

Loans held for sale: Loans held for sale are carried at the lower of cost or fair value. The fair value is determined using quoted prices obtained from third party investors (Level 2).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Assets:	**2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale				
State & municipal	**$20,265**	**$ -**	**$20,265**	**$ -**
Mortgage-backed -residential	**50,813**	**-**	**50,813**	**-**
Mutual Funds	**2,111**	**2,111**	**-**	**-**
Liabilities:				
Interest rate swap	**64**	**-**	**64**	**-**

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Assets:	2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale				
State & municipal	$23,260	$ -	$23,260	$ -
Mortgage-backed-residential	70,417	-	70,417	-
Mutual Funds	2,066	2,066	-	-
Liabilities:				
Interest rate swap	152	-	152	-

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Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Assets:	2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Residential real estate	**$143**	**$ -**	**$ -**	**$143**
Other real estate, net				
Residential	**8**	**-**	**-**	**8**
Commerical owner occupied	**550**	**-**	**-**	**550**
Total impaired loans and other real estate	**$701**	**$ -**	**$ -**	**$701**

Assets:	2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Real estate				
Commercial Owner occupied	$603	$ -	$ -	$603
Total impaired loans and other real estate	$603	$ -	$ -	$603

At December 31, 2015, impaired loans measured at fair value had a recorded investment of $189, with a valuation allowance of $46, resulting in a increase in the provision of $46 for the year-ended December 31, 2015. At December 31, 2014, impaired loans measured at fair value had a recorded investment of $808, with a valuation allowance of $205, resulting in a increase in the provision of $205 for the year-ended December 31, 2014.

Other real estate owned with a fair value of $558 was held ad December 31, 2015 and there was no other real estate owned at December 31, 2014.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2015.

	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired loans:					
Residential real estate	$143	Sales comparison	Comparable sales adjustment	6% to 20%	14%
Other real estate, net					
Residential real estate	8	Sales comparison	Comparable sales adjustment	11% to 105%	67%
Commercial real estate					
Owner occupied	550	Income comparison	Capitalization rate	9%	9%

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014.

	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired loans:					
Commercial real estate					
Owner occupied	$603	Sales comparison	Comparable sales adjustment	-15% to 32%	24%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Carrying amount and estimated fair values of financial instruments were as follows at year-end:

		Fair Value Measurement at December 31, 2015 using			
Financial assets	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$2,532**	**$2,532**	**$ -**	**$ -**	**$2,532**
Interest-bearing deposits	**3,363**	**3,363**	**-**	**-**	**3,363**
Securities available for sale	**73,189**	**2,111**	**71,078**	**-**	**73,189**
Loans held for sale	**-**	**-**	**-**	**-**	**-**
Loans, net	**342,706**	**-**	**328,033**	**143**	**328,176**
Federal Home Loan Bank stock	**1,724**	**NA**	**NA**	**NA**	**NA**
Accrued interest receivable	**901**	**287**	**614**	**-**	**901**
Financial liabilities					
Deposits	**$364,140**	**$ -**	**$364,012**	**$ -**	**$364,012**
Federal Home Loan Bank advances	**28,700**	**-**	**28,713**	**-**	**28,713**
Subordinated debentures	**9,000**	**-**	**8,146**	**-**	**8,146**
Accrued interest payable	**196**	**-**	**196**	**-**	**196**
Interest rate swap	**64**	**-**	**64**	**-**	**64**

		Fair Value Measurement at December 31, 2014 using			
Financial assets	Carrying Amount	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$2,847	$2,847	$ -	$ -	$2,847
Interest-bearing deposits	4,408	4,408	-	-	4,408
Securities available for sale	95,743	2,066	93,677	-	95,743
Loans held for sale	114	-	116	-	116
Loans, net	295,182	-	283,493	603	284,096
Federal Home Loan Bank stock	616	NA	NA	NA	NA
Accrued interest receivable	1,009	358	651	-	1,009
Financial liabilities					
Deposits	$363,094	$ -	$363,159	$ -	$363,159
Federal Home Loan Bank advances	8,800	-	8,851	-	8,851
Subordinated debentures	9,000	-	8,147	-	8,147
Accrued interest payable	181	-	181	-	181
Interest rate swap	152	-	152	-	152

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and cash equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Interest-bearing deposits

The carrying amounts of interest-bearing deposits and short-term instruments approximate fair values.

FHLB stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

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Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposits

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

Other borrowings

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

Accrued interest receivable/payable

The carrying amounts of accrued interest approximate fair value.

Off-balance sheet instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter parties' credit standing. The fair value of commitments is not material.

6. LOAN SERVICING:

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans were $20,055 and $19,494 at year-end 2015 and 2014. The related capitalized mortgage servicing rights were not material for 2015 and 2014. Custodial escrow balances maintained in connection with serviced loans were $173 and $126 at year-end 2015 and 2014.

7. PREMISES AND EQUIPMENT:

Year-end premises and equipment were as follows:

	2015	2014
Land	**$2,177**	$2,177
Building	**12,493**	12,465
Furniture, fixtures and equipment	**5,678**	5,589
Total cost	**20,348**	20,231
Less: Accumulated depreciation and amortization	**(9,710)**	(8,952)
Premises and equipment, net	**$10,638**	$11,279

Depreciation expense was $859, $908, and $1,499 for 2015, 2014 and 2013

In 2014 the Company sold two branch offices with a total cost of $273 and accumulated depreciation of $46 which resulted in a net loss of $126.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company leases certain branch properties and equipment under operating leases. Rent expense was $114, $87, and $95 for 2015, 2014 and 2013. Rent commitments under non cancelable operating leases, before considering renewal options that generally are present, were as follows:

2016	**$145**
2017	**146**
2018	**142**
2019	**91**
2020	**46**
Thereafter	**-**
Total minimum rental commitments	**$570**

8. INTANGIBLE ASSETS:

GOODWILL

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At October 31, 2015, our annual impairment analysis date, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

ACQUIRED INTANGIBLE ASSETS

Ther was no acquired intangible assets as of December 31, 2015 and $153 as of December 31, 2014.

9. DEPOSITS:

Time deposits that meet or exceed the Federal Deposit Insurance limit of $250,000 at year-end 2015 and 2014 were $9,458 and $11,127.

Scheduled maturities of time deposits were as follows:

2016	**$39,540**
2017	**18,056**
2018	**26,708**
2019	**11,808**
2020	**5,409**
Thereafter	**22,509**
Total time deposits	**$124,030**

Included in deposits at year-end 2015 and 2014 is $32,910 and $36,836 that represent funds held in the Bank by the Trust Department.

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10. BORROWINGS:

LINES OF CREDIT AND FEDERAL HOME LOAN BANK ADVANCES

The Bank has lines of credit established with various financial institutions for overnight funding needs. Available credit under these lines was $2,506 and $3,395 on December 31, 2015 and 2014, with interest payable at the daily federal funds rate. There were no borrowings on these lines as of December 31, 2015 and 2014. Additionally, the Bank has a line of credit with the FHLB of Pittsburgh for its overnight funding needs with interest payable at the London Interbank Offered Rates (LIBOR) plus a margin. The interest rate was 0.43% on December 31, 2015 and 0.27% on December 31, 2014. The borrowing limit under this line of credit was $65,123 on December 31, 2015 and $65,123 on December 31, 2014. The Bank had $26,700 drawn on the line of credit at December 31, 2015 and $4,800 as of December 31, 2014.

The Bank has a long-term line of credit established with FHLB of Pittsburgh with a maximum borrowing capacity of $150,018 and $133,604 as of December 31, 2015 and 2014. The Bank is required to maintain certain eligible assets as collateral. The advances were collateralized by $225,739 and $193,669 of first mortgage loans and securities under a blanket lien arrangement at year-end 2015 and 2014. The FHLB of Pittsburgh also has stock purchase requirements that are determined by the amount of borrowings outstanding. Each advance is payable at its maturity date or earlier with a prepayment penalty.

At year-end, advances from the Federal Home Loan Bank were as follows:

	2015	2014
48 months interest only, 1.29% due 8/23/2015	**$ -**	$2,000
60 months interest only, 1.67% due 8/23/2016	**2,000**	2,000
Total Federal Home Loan Bank advances	**$2,000**	$4,000

11. SUBORDINATED DEBENTURES:

A trust formed by the Company issued $5,000 of floating rate trust preferred securities in 2003 as part of a pooled offering of such securities. The interest rate adjusts quarterly to the three-month LIBOR rate plus 2.95%. The Company issued subordinated debentures to the trust in exchange for ownership of all of the common securities of the trust and the proceeds of the offering; the debentures represent the sole asset of the trust. The Company became eligible to redeem the subordinated debentures, in whole but not in part, beginning in 2008 at a price of 100% of face value. The subordinated debentures must be redeemed no later than 2033. The interest rate on the subordinated debentures was 3.48% and 3.19% on December 31, 2015 and 2014.

A trust formed by the Company issued $4,000 of fixed rate trust preferred securities in 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for ownership of all of the common securities of the trust and the proceeds of the offering; the debentures represent the sole asset of the trust. The Company became eligible to redeem the subordinated debentures, in whole but not in part, beginning in 2010 at a price of 100% of face value. The Company did not redeem the subordinated debentures and the rate converted to a floating rate of three month LIBOR plus 1.54%. The subordinated debentures must be redeemed no later than 2035. The interest rate on the subordinated debentures was 2.05% and 1.78% on December 31, 2015 and 2014.

Interest payments on the debentures may be deferred at any time at the election of the Company for up to 20 consecutive quarterly periods (5 years). Interest on the debentures will accrue during the extension period, and all accrued principal and interest must be paid at the end of the extension period. During an extension period, the Company may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to any of the Company's capital stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

12. EMPLOYEE BENEFIT PLANS: POSTRETIREMENT BENEFITS

The Company has an unfunded postretirement benefit plan covering health insurance costs for certain retirees and postretirement life insurance benefits for substantially all of its full-time employees. The postretirement health care plan includes a limit on the Company's share of costs for retirees. The Company used a December 31 measurement date for its plan.

Information about changes in the Company's obligation under the postretirement benefit plan follows:

Changes in postretirement benefit obligations	**2015**	2014
Beginning benefit obligation	**$170**	$102
Service cost	**4**	5
Interest cost	**7**	9
Actuarial (gain) loss	**(12)**	57
Benefit paid	**(3)**	(3)
Ending benefit obligation	**$166**	$170

The plan is unfunded, so the funded status of the plan was ($166) at December 31, 2015 and ($170) at December 31, 2014.

Components of net periodic postretirement benefit costs and other amounts recognized in other comprehensive income:

	2015	2014	2013
Service cost	**$4**	$5	$4
Interest cost	**7**	9	4
Amortization of prior service (income) cost	**-**	(4)	(4)
Amortization of net (gain) loss	**-**	-	(3)
Net periodic benefit (income) cost	**11**	10	1
Net (gain) loss recognized in other comprehensive income	**12**	61	-
Total recognized in net periodic benefit cost and other comprehensive income	**$23**	$71	$1

The accumulated postretirement benefit obligation was $166 and $170 at year-end 2015 and 2014.

The discount rate used to determine the benefit obligations was 4.25% at December 31, 2015 and 4.00% at December 31, 2014.

The benefit offered under this plan is fixed, therefore, the accumulated postretirement benefit obligation is not impacted by health care cost trends or the rate of compensation increase.

Estimated Future Payments

The following benefit payments, which reflect expected future service, are expected:

2016	**$9**
2017	**9**
2018	**9**
2019	**9**
2020	**9**
Following five years	**47**

The estimated net gain and prior service cost for the postretirement that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year-ending December 31, 2016 are ($7) and ($3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

401(K) PLAN

A 401(k) benefit plan allows employees' contributions up to 50% of their compensation, which are matched equal to 50% of the first 6% of the compensation contributed. The Company's matching contribution was $148, $139, and $138 in 2015, 2014, and 2013. In addition, the Board of Directors authorized a profit sharing contribution of $234, $203, and $183 in 2015, 2014, and 2013. The combined contributions represent the Company's expense under the plan in each year presented.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

In 2005, the Company entered into SERP agreements with certain officers. In 2008, the legal form of these arrangements was changed such that it is now considered to be a retirement plan. Under the terms of the plan, certain officers of the Company are entitled to a fixed annual benefit for a period of fifteen years following his or her retirement or termination other than for cause. In December 2014, the defined benefit plan was frozen which will eliminate payments for future service cost. In 2015 the defined benefit plan was replaced by a defined contribution plan. The Company will contribute a deferred bonus to certain officers based on the performance of the Company as compared to the median performance of the Compensation Peer Group. In 2015 the Company contributed $103 to the plan.

Due to changes in status of these obligations of the Company from individual arrangements to a plan, the Company began accounting for these benefits in the aggregate.

Information about the Company's obligation under the SERP follows:

Changes in projected benefit obligation	**2015**	2014
Beginning benefit obligation	**$2,901**	$2,440
Service cost	**-**	141
Interest cost	**114**	115
Distribution	**-**	-
Actuarial (gain) loss	**(104)**	205
Ending benefit obligation	**$2,911**	$2,901

The plan is unfunded, so the funded status of the plan was ($2,911) and ($2,901) at December 31, 2015 and 2014.

Amounts recognized in accumulated other comprehensive income consist, pre-tax of $159 and $263 in net actuarial losses at year-end 2015 and 2014.

The accumulated benefit obligation was $3,070 and $3,164 at December 31, 2015 and 2014.

Components of net periodic pension costs and other amounts recognized in other comprehensive income:

	2015	2014	2013
Service cost	**$ -**	$141	$198
Interest cost	**114**	115	98
Amortization of net (gain) loss	**-**	-	20
Net periodic pension cost	**114**	256	316
Net (gain) loss	**(104)**	205	(308)
Total recognized in net periodic benefit cost and other comprehensive income	**$10**	$461	$8

The discount rate used to determine the benefit obligations was 4.25% at December 31, 2015 and 4.00% at December 31, 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

Estimated Future Payments

The following benefit payments, which reflect expected future service, are expected:

2016	**$131**
2017	**131**
2018	**131**
2019	**131**
2020	**177**
Following five years	**1,320**

ANNUAL INCENTIVE COMPENSATION PLAN

During 2015 the Company established an annual incentive compensation plan for certain executive offcers. The Company will contribute additional compensation based on the overall performance of the Company. The Company contributted $49 to the plan in 2015.

13. INCOME TAXES:

Income tax expense was as follows:

	2015	2014	2013
Current federal	**$1,108**	$873	$293
Deferred federal	**(113)**	101	305
Total tax expense	**$995**	$974	$598

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following:

	2015	2014	2013
Federal statutory rate times financial statement income	**$1,471**	$1,413	$1,062
Effect of:			
Tax-exempt income	**(337)**	(376)	(401)
Income from bank owned life insurance	**(156)**	(80)	(80)
Other, net	**17**	17	17
Total federal income tax	**$995**	$974	$598

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

Year-end deferred tax assets and liabilities were due to the following:

Deferred tax assets	**2015**	2014
Nonaccrual loan interest	**$8**	$15
Allowance for loan losses	**854**	682
Employee retirement benefits	**63**	60
Deferred compensation	**1,116**	1,053
Recognition of the funded status - SERP	**54**	89
Unrealized loss on interest rate swap	**22**	51
Other	**-**	-
Deferred tax assets	**2,117**	1,950
Deferred tax liabilities		
Recognition of over funded postretirement plan	**(6)**	(2)
Loan origination costs	**(350)**	(314)
Depreciation and amortization	**(2,728)**	(2,627)
Prepaid expenditures	**(48)**	(48)
Net unrealized gain on securities available for sale	**(250)**	(376)
Other	**(89)**	(108)
Deferred tax liabilities	**(3,471)**	(3,475)
Net deferred tax liabilities	**($1,354)**	($1,525)

The were no interest and penalties recorded in the income statement for the years-ended December 31, 2015, 2014 and 2013. The Company does not have any unrecognized tax benefits at December 31, 2015 or 2014.

The Company is subject only to federal income taxes and is no longer subject to examination by federal taxing authorities for the tax year 2013 and the prior years.

14. RELATED PARTY TRANSACTIONS:

Loans to principal officers, directors and their affiliates in 2015 and 2014 were as follows:

	2015	2014
Balance at beginning of year	**$4,726**	$3,012
New loans	**4,494**	118
Effects of changes in related parties	**154**	2,181
Repayments	**(1,581)**	(585)
Ending balance	**$7,793**	$4,726

Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were $1,034 and $924. The Company conducted business with certain directors or entities which they are associated. The Company paid $14, $18 and $2 to these entities of the Directors during 2015, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

15. REGULATORY CAPITAL MATTERS:

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines 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 net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules. Management believes as of December 31, 2015, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios at year-end for the Bank are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2015	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk weighted assets)	**$50,618**	**15.67%**	**$25,848**	**8.00%**	**$32,310**	**10.00%**
Tier 1 (core) capital (to risk weighted assets)	**47,393**	**14.67%**	**19,386**	**6.00%**	**25,848**	**8.00%**
Common Tier 1 (core) capital	**47,393**	**14.67%**	**14,540**	**4.50%**	**21,002**	**6.50%**
Tier 1 (core) capital (to average assets)	**47,393**	**10.91%**	**17,381**	**4.00%**	**21,726**	**5.00%**
2014						
Total capital (to risk weighted assets)	$47,860	17.00%	$22,529	8.00%	$28,161	10.00%
Tier 1 (core) capital (to risk weighted assets)	44,563	15.82%	11,264	4.00%	16,897	6.00%
Tier 1 (core) capital (to average assets)	44,563	10.51%	16,957	4.00%	21,196	5.00%

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the net profits of the preceding two years, subject to the capital requirements described above. During 2015, the Bank could, without prior approval, declare dividends of approximately $3,895 plus any 2015 net profits retained to the date of dividend declaration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

16. INTEREST RATE SWAPS:

The Company uses interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swaps Designated as Cash Flow Hedges: In 2008, the Company entered into an interest rate swap agreement with a notional amount of $5,000 which was designated as a cash flow hedge of the Company's interest payments on its $5,000 subordinated debenture issued in 2003. The term of the interest rate swap ended in September 2011. In 2010, the Company entered into a forward-starting interest rate swap with a notional amount of $5,000 also designated as a cash flow hedge of the Company's interest payments on its $5,000 subordinated debentures. The term of this swap began in March 2012 and continues until September 2016. By entering into the forward starting swap the Company was able to effect uninterrupted cash flow hedge treatment. Each of the interest rate swaps was determined to be fully effective during the periods presented. Therefore, the aggregate fair value of the swap is recorded in other assets (liabilities) with changes in the fair value recorded in other comprehensive income (loss). The amount included in accumulated other income (loss) would be reclassified to current earnings should the hedge no longer be considered effective. The Company expects the hedge to remain fully effective during the remaining term of the swap.

Summary information about the interest rate swaps designated as cash flow hedges as of year-end is as follows:

	2015	2014
Notional amount	**$5,000**	$5,000
Pay rates	**2.50%**	2.50%
Receive rates	**0.61%**	0.23%
Maturity in months	**9**	21
Unrealized gains (losses)	**(64)**	(152)

17. LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES:

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at year-end:

	2015		2014	
	Fixed Rate	**Variable Rate**	Fixed Rate	Variable Rate
Commitments to make loans	**$9,927**	**$11,426**	$1,453	$13,877
Unused lines of credit	**4,415**	**54,486**	1,775	54,053

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have tax equivalent interest rates ranging from 2.50% to 9.00% and maturities ranging from 1 year to 15 years except for personal lines of credit which carry a fixed rate of 15.00%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

18. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION:

CONDENSED BALANCE SHEETS As of December 31, 2015 and 2014

Assets	**2015**	2014
Cash and cash equivalents	**$1,050**	$856
Investment in banking subsidiary	**55,453**	53,153
Other assets	**7**	-
Total assets	**$56,510**	$54,009
Liabilities and shareholders' equity		
Subordinated debentures	**$9,000**	$9,000
Accrued expenses and other liabilities	**575**	478
Shareholders' equity	**46,935**	44,531
Total liabilities and shareholders' equity	**$56,510**	$54,009

CONDENSED STATEMENTS OF INCOME Years-ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Dividends from subsidiary	**$6,916**	$1,553	$789
Interest income	**1**	1	1
Interest expense	**(351)**	(348)	(350)
Other expense	**(57)**	(57)	(47)
Income before income tax and undistributed subsidiary income	**6,509**	1,149	393
Income tax benefit	**138**	137	134
Equity in undistributed net income of subsidiary	**(3,316)**	1,897	1,998
Net income	**$3,331**	$3,183	$2,525
Comprehensive income	**$3,220**	$3,525	$711

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

CONDENSED STATEMENTS OF CASH FLOWS Years-ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Cash flows from operating activities			
Net income	**$3,331**	$3,183	$2,525
Adjustments			
Equity in undistributed net income of subsidiary	**3,316**	(1,897)	(1,998)
Changes in other assets	**27**	51	57
Changes in other liabilities	**7**	9	1
Net cash from operating activities	**6,681**	1,346	585
Cash flows from investing activities			
Investment in subsidiaries	**(5,671)**	-	-
Net cash from investing activities	**(5,671)**	-	-
Cash flows from financing activities			
Repayment or preferred stock	**(10,000)**	-	-
Proceeds from issuance of common stock, net of issuance costs	**10,786**	-	-
Cash dividends paid	**(1,602)**	(1,325)	(1,390)
Net cash from financing activities	**(816)**	(1,325)	(1,390)
Net change in cash and cash equivalents	**194**	21	(805)
Beginning cash and cash equivalents	**856**	835	1,640
Ending cash and cash equivalents	**$1,050**	$856	$835

19. EARNINGS PER COMMON SHARE:

The factors used in the earnings per share computation follow:

	2015	2014	2013
Basic			
Net income	**$3,331**	$3,183	$2,525
Preferred stock dividend	**94**	100	166
Net income available to common shareholders	**$3,237**	$3,083	$2,359
Weighted average common shares outstanding	**1,132**	995	995
Basic earnings per common share	**$2.86**	$3.10	$2.37

The Company's capital structure contains no potentially dilutive instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax, for the year-ending December 31, 2015 and 2014:

December 31, 2015	Unrealized Gain and Loss on Available for Sale Securities	Gain and Loss on Cash Flow Hedge	Postretirement Plans	Total
Begining Balance	**$731**	**($100)**	**($170)**	**$461**
Other Comprehensive Income before reclassification	**(195)**	**58**	**77**	**(60)**
Amounts reclassified from accumulated other comprehensive income	**(51)**	**-**	**-**	**(51)**
Net current period other comprehensive income (loss)	**(246)**	**58**	**77**	**(111)**
Ending Balance	**$485**	**($42)**	**($93)**	**$350**

December 31, 2014	Unrealized Gain and Loss on Available for Sale Securities	Gain and Loss on Cash Flow Hedge	Postretirement Plans	Total
Begining Balance	$271	($158)	$6	$119
Other Comprehensive Income before reclassification	532	58	(174)	416
Amounts reclassified from accumulated other comprehensive income	(72)	-	(2)	(74)
Net current period other comprehensive income (loss)	460	58	(176)	342
Ending Balance	$731	($100)	($170)	$461

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) and their respective impact on net income for the year-ending December 31, 2015:

Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified**	**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gain and loss on available for sale securities	**$78**	Net gains on sale of securities
	78	Total before income taxes
	(27)	Income tax expense
	$51	**Net of tax**
Total reclassifications for the period	**$51**	**Net of tax**

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) and their respective impact on net income for the year-ending December 31, 2014:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gain and loss on available for sale securities	$109	Net gains on sale of securities
	109	Total before income taxes
	(37)	Income tax expense
	$72	Net of tax
Postretirement Plans		
Actuarial gain (loss)	$4	Salaries and employee benefits expense
	4	Total before income taxes
	(2)	Income tax benefit
	2	Net of tax
Total reclassifications for the period	$74	Net of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands except per share data)

21. PREFERRED STOCK:

On August 23, 2011, the Company entered into a Securities Purchase Agreement (SBLF Agreement) with the United States Department of the Treasury (Treasury). Under the SBLF Agreement, the Company issued 10 shares of Senior Non-cumulative Perpetual Preferred Stock Series A (Preferred Stock) to the Treasury, having a liquidation value of $1,000 per share, for the aggregate proceeds of $10 million. The issuance qualifies as Tier 1 capital.

The issuance was pursuant to the U.S. Treasury's SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010, which encourages lending to small businesses by providing capital to qualified community banks with assets less than ten billion dollars. The Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate was initially set at 1% per annum based upon the level of Qualified Small Business Lending (QSBL) by the Bank. The dividend rate for future periods will be set based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the SBLF Agreement was entered into. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods and will become a fixed rate between 1% per annum to 7% per annum for the eleventh through the eighteenth dividend periods. If the Preferred Stock remains outstanding beyond February 23, 2016 the dividend rate will be fixed at 9%. Prior to that time, the dividend rate is based on the activity and volume of the Bank's QSBL as defined in the SBLF Agreement. Such dividends are not cumulative, but the Company may only declare and pay dividends on its common shares if it has declared and paid dividends for the current dividend period on the Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities.

The following table summarizes the annual dividend rate for each quarterly period ending:

	2015	2014
January 1	**1.00%**	1.00%
April 1	**1.00%**	1.00%
July 1	**1.00%**	1.00%
October 1	**1.00%**	1.00%

The holders of the Preferred Stock have the right to vote on matters relating to the rights of the holders of Preferred Stock.

The Company may redeem the shares of Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the liquidation amount and the per-share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Company's primary federal banking regulator.

On March 31, 2015 the Company redeemed $5,000 of the preferred stock and on October 31, 2015 the remainder was redeemed from the U.S. Treasury.

22. SHAREHOLDERS' EQUITY

In September 2015, the Company successfully completed the sale of $11.7 million private placement of the Company's common stock by issuing 450,000 shares to accredited investors at a purchase price of $26.00 per share. Proceeds to the Company were $10.8 million, net of offering costs of $914 thousand. The Board of Directors authorized the Company to contribute $6.8 million of the proceeds to the Bank as equity.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
CBT Financial Corp.
Clearfield, Pennsylvania

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of CBT Financial Corp., which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015, 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 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.

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBT Financial Corp. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Livingston, New Jersey
February 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The following discussion and analysis of the consolidated financial statements of CBT Financial Corp. (Company) is presented to provide insight into Management's assessment of the Company's financial results. The Company's subsidiary, Clearfield Bank & Trust Company (Bank), provides financial services through its twelve community offices in Clearfield, Blair, Centre and Huntingdon Counties, Pennsylvania. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and consumer installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold. The Bank also operates a full service Trust Department that provides various trust services, including trust and estate planning. Diamond Financial Services, Inc., a wholly owned subsidiary of the Bank, is a Pennsylvania corporation that sells mutual funds and annuities. Management's discussion and analysis represents an evaluation of the Company's consolidated balance sheet and results of operations. The amounts in this Management's Discussion and Analysis are not audited and should be read in conjunction with the consolidated financial statements and related notes.

FORWARD-LOOKING STATEMENTS

The following financial review presents an analysis of the assets and liability structure of the Company and a discussion of the results of operations for each of the periods presented in this annual report of liquidity, capital, and credit quality. Certain statements in this report that relate to CBT Financial Corp.'s plans, objectives, or future performance may be deemed to be forward-looking statements. Such statements are based on Management's current expectations. Actual strategies and results in future periods may differ materially from those currently expected because of various risks and uncertainties.

Among the important facts that could cause actual results to differ materially are changes in interest rates, changes in the mix of the Company's business, competitive pressures on deposit and loan pricing, general economic conditions, asset quality and other risk factors.

BALANCE SHEET

Assets at December 31, 2015 totaled $455,559,000 compared to $431,710,000 at December 31, 2014, an increase of $23,849,000 or 5.5%. Total loans now make up approximately 75.9% of the assets compared to 69.1% at year-end 2014.

SECURITIES

The securities portfolio declined by $22,554,000 or 23.6%, from $95,743,000 at December 31, 2014 to $73,189,000 at December 31, 2015, and represents 16.1% of total assets. Proceeds from the sale, maturity, and repayment of securities that were not reinvested in loans were reinvested into state and municipal securities to create additional tax exempt income.

LOANS

Total loans increased 15.9% from $298,474,000 at December 31, 2014 to $345,925,000 at December 31, 2015. Average loans increased from $289.6 million in 2014 to $314.3 million in 2015. The loan portfolio was influenced by local demand for small business loans and home equity loans.

Commercial loans, commercial real estate loans and construction loans totaled $227,762,000 at December 31, 2015, an increase of $40,514,000 or 21.6% from $187,248,000 at December 31, 2014. These loans accounted for 65.8% of total loans at December 31, 2015.

Consumer and credit card loans totaled $14,448,000 at December 31, 2015, increasing from $12,927,000 at December 31, 2014. At December 31, 2015, consumer loans represented 4.2% of the loan portfolio.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mortgage loans totaled $103,715,000 at December 31, 2015, an increase of $5,486,000 or 5.6% from the prior year. The Bank has continued to maintain a strategy of selling a majority of the fixed rate loan production in order to minimize the investment in long-term, fixed rate assets that have the potential to expose the Company to long-term interest rate risk. Mortgage loans accounted for 30.0% of total loans at December 31, 2015.

NONPERFORMING ASSETS

Nonperforming assets consist of loans past due greater than 90 days, nonaccrual loans and foreclosed assets. There were no loans 90 days past due and still accruing interest on December 31, 2015 and 2014. Nonperforming assets totaled $1,115,000 at December 31, 2015 compared to $1,275,000 on December 31, 2014. At December 31, 2015, nonperforming assets consisted of $557,000 in nonaccrual loans and $558,000 in foreclosed assets. At December 31, 2014, nonperforming assets consisted of $1,275,000 in nonaccrual loans. The decrease in nonperforming assets was primarily due to the decrease in nonaccrual loans and offset by the increase in foreclosed assets. The ratio of allowance for loan losses to nonperforming loans was 288.7% at December 31, 2015 compared to 258.2% at December 31, 2014. Nonperforming assets as a percentage of total assets were 0.24% at December 31, 2015 compared to 0.30% on December 31, 2014.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents Management's assessment for probable incurred credit losses in the loan portfolio that have been identified. All lending activity contains credit risk. At December 31, 2015 the allowance for loan losses totaled 0.93% of loans outstanding and in 2014 the allowance for loan losses totaled 1.10% of loans outstanding. During 2014 the Company received a large recovery of a previously charged off commercial loan. As a result there was a net recovery of $434,000 in 2014 compared to a net charge off of $548,000 for 2015. The provision for loan losses was $475,000 in 2015 compared to a negative $250,000 in 2014. The 2014 negative provision was primarily a result of the aforementioned loan recovery.

Management analyzes the adequacy of the allowance for loan losses monthly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values, changes in the composition of the loan portfolio, and trends in past due and nonperforming loans. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term and is established through a provision for loan losses based on Management's evaluation of the risk probable incurred risk in the Company's loan portfolio and the general economy. Such evaluation, which includes a review of all loans for which full collectibility may not be reasonably assured, considers the estimated fair value of the underlying collateral, economic conditions, historic loan loss experience and other factors that management believes warrants recognition in providing for an adequate loan loss allowance. Management believes that the allowance for loan losses was adequate at December 31, 2015 and 2014.

DEPOSITS

Total deposits were $364,140,000 at December 31, 2015, an increase of $1,046,000 or 0.3%, compared to $363,094,000 at December 31, 2014. Noninterest-bearing checking accounts increased $6,687,000 to $67,321,000; savings deposits increased by $629,000 to $178,430,000; and certificates of deposit decreased $6,270,000 to $124,030,000. Noninterest-bearing checking accounts represented 18.5% of deposits at December 31, 2015 compared to 16.7% at December 31, 2014. Total certificates of deposit represented 34.1% of deposits at December 31, 2015 compared to 35.9% at December 31, 2014.

OTHER BORROWINGS

Total borrowings increased $19,900,000 to $37,700,000 at December 31, 2015. The increase in borrowings is the result of loan demand increasing faster than deposit growth. The Company monitors borrowings as part of its liquidity management, cash flow and asset liability management. Future borrowing commitments will depend on these factors and other changes in the balance sheet.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SHAREHOLDERS' EQUITY

Total shareholders' equity at December 31, 2015 totaled $46,935,000 compared to $44,531,000 at December 31, 2014, an increase of 5.4%. The Company issued 450,000 shares of common stock which resulted in $10,786,000 in common equity. In addition the Company repaid the $10,000,000 in preferred stock. The changes in shareholders' equity were affected by the net income of $3,331,000, a decrease in other comprehensive income of $111,000 offset by cash dividends declared of $1,508,000.

The Company has evaluated the impact of the BASEL III capital requirements that took effect in 2015 and the Company remained well capitalized under these new requirements.

RESULTS OF OPERATIONS

The Company recorded net income in 2015 of $3,331,000, an increase of 4.6% or $148,000, from net income of $3,183,000 in 2014. Net income available to common shareholders increased 5.0% to $3,237,000. Earnings per common share for 2015 were $2.86 compared to $3.10 for 2014. This decline on a per common share basis was a result in the increase number of shares outstanding. For 2015, the return on average equity (ROAE) was 8.24% compared to 9.16% for 2014 and the return on average assets (ROAA) was 0.77% for 2015 and 0.73% for 2014.

NET INTEREST INCOME

Net interest income, the primary source of the Company's earnings, represents the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities.

Interest income increased $290,000 from $15,564,000 in 2014 to $15,854,000 in 2015. Interest income on securities decreased $427,000 and totaled $1,609,000 for 2015 compared to $2,036,000 for 2014. The average balance of the securities portfolio decreased $12.9 million, from $95.3 million in 2014 to $82.4 million in 2015, there was also a 17 basis point decrease in the average tax equivalent yield on the securities portfolio to 2.40%. Interest income on loans totaled $14,147,000 in 2015 compared to $13,449,000 in 2014, an increase of $698,000. Average loans increased from $289.6 million in 2014 to $314.2 million in 2015 and the average tax equivalent yield on loans decreased 25 basis points to 4.55%.

Interest income from other earning assets increased $19,000 from $79,000 in 2014 to $98,000 in 2015. The yield on these funds increased from 0.04% in 2014 to 0.63% in 2015.

While the decrease in asset yields was primarily due to a decline in market interest rates and the repricing of assets, this was partially offset by the increase in higher yielding loans. During 2015, management continued to focus on floating rate and shorter duration loans and securities to better position the bank to take advantage of increasing rates expected in the future. This resulted in slightly lower yields than would have been achieved if we focused on longer duration loans and securities.

Interest expense for 2015 was $2,072,000, a decrease of $203,000 or 8.9% from $2,275,000 for 2014. Average interest-bearing liabilities decreased $6.4 million and the average rate paid on interest-bearing liabilities decreased by 5 basis points. Interest expense on deposits decreased $220,000 from $1,866,000 in 2014 to $1,646,000 in 2015. The decrease in interest expense on deposits was primarily due to a decrease in the average cost of interest-bearing deposits from 0.60% in 2014 to 0.55% in 2015, a decrease of 5 basis points. Average interest-bearing deposits decreased $11.4 million to $301.3 million.

Interest expense on borrowed funds was $426,000 for 2015, an increase or $17,000 of 4.2% from 2014. Average borrowings increased from $13.5 million in 2014 to $18.5 million in 2015 but the average cost of interest on borrowed funds decreased from 3.04% in 2014 to 2.29% in 2015, a decrease of 75 basis points.

Net interest income for 2015 totaled $13,782,000 versus $13,289,000 for 2014, an increase of $493,000 or 3.7%. Net interest margin increased 6 basis points from 3.41% in 2014 to 3.47% in 2015. This was the result of the increase in the loan to deposit ratio.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NONINTEREST INCOME

Total noninterest income increased in 2015 by $459,000 to $5,042,000 from $4,583,000 in 2014. This is primarily the result of increased BOLI income of $227,000 from a life insurance benefit.

NONINTEREST EXPENSES

Total noninterest expense for 2015 increased 0.4% or $58,000 to $14,023,000 from $13,965,000 in 2014. The overall change is a result of an increases in salaries and employee benefits of $143,000 and an increase in data processing fees of $238,000. The increase in data processing fees is a because this is the first full year in shich the bank outsources this service. These increaes are offset by decrease other expenses of $201,000. Management continues to explore opportunities to reduce noninterest expense.

MARKET RISK

Important considerations in asset liability management are liquidity, the balance between interest rate sensitive assets and liabilities, and the adequacy of capital. While liquidity management involves meeting the funding requirements of the Company, the management of interest rate sensitivity focuses on the structure of assets and liabilities with respect to maturity and repricing characteristics. Balancing interest rate sensitive assets and liabilities provides a means of tempering fluctuating interest rates and maintaining net interest margin through periods of changing interest rates. The Company monitors interest rate sensitivity to determine the overall interest rate position over various time frames.

The Company considers interest rate exposure to be its primary risk. A simulation analysis is used to monitor the Company's exposure to changes in interest rates, and the effect of the changes to net interest income. The change in interest rates is measured in 1.00% increments up to 5.00%. Net interest income volatility measures the short-term (one and two year) effect of changes in interest rates. The Company's has guidelines that limits the amount of risk at an upward or downward change in interest rates.

The model makes assumptions about cash flows and the reinvestment of these cash flows in different rate environments. Actual results could differ significantly from these estimates which would produce significant differences in the calculated projected change in income. In addition, there are strategies available to management that minimize the decline in income caused by a rapid rise in interest rates.

The following table shows the effect on net interest income volatility in the event of an immediate and sustained increase or decrease in market interest rates:

Net Interest Income Volatility Year 1	**Results 2015**	Results 2014	Guideline
+ 3.00%	**-15.76%**	-16.21%	+/- 10.00%
+ 2.00%	**-8.21%**	-10.37%	+/- 7.50%
+ 1.00%	**-4.66%**	-4.94%	+/- 5.00%
- 1.00%	**-2.65%**	-3.01%	+/- 5.00%

Net interest income volatility as a result of a 1.00% decrease in interest rates in year one complies with the internal limits established by the Company, but would result in a 2.65% decline in net interest income. If interest rates were to increase 1.00%, net interest income would decline by 4.66%. This is within the Bank's guidelines of 5.00%. A change in interest rate of 2.00% or 3.00% exceeds the Bank's risk guidelines of 7.50% and 10.00%, respectively. Management continues to structure the balance sheet to reduce the risk associated with rising interest rates. This is an ongoing process. Interest rate sensitivity management provides some degree of protection against net interest income volatility. It is not possible or necessarily desirable to attempt to eliminate the risk completely by matching interest sensitive assets and liabilities.

STATISTICAL INFORMATION

(Dollar and share amounts in thousands except per share data)

QUARTERLY SHARE DATA

The common stock of CBT Financial Corp. is traded on the OTC Pink under the symbol "CBTC." The Company's common stock has historically traded on a limited basis in the over the counter market. The following table sets forth, for the period indicated, the high and low sale price and dividends paid.

2015 Quarter ended	**High**	**Low**	**Dividends Declared**
March 31	**$29.75**	**$27.25**	**$.30**
June 30	**30.25**	**27.26**	**.30**
September 30	**29.75**	**26.00**	**.30**
December 31	**29.75**	**26.00**	**.33**

2014 Quarter ended	High	Low	Dividends Declared
March 31	$31.00	$28.60	$.30
June 30	30.48	28.60	.30
September 30	33.80	27.50	.30
December 31	31.45	27.00	.33

While the Company expects to continue its policy of regular dividends, no assurance of future dividends can be given. Future dividend payments will depend upon the maintenance of a strong financial condition, future earnings, capital and regulatory requirements.

SELECTED FINANCIAL DATA

Summary of earnings	**2015**	2014	2013	2012	2011
Interest and dividend income	**$15,854**	$15,564	$16,010	$16,749	$17,044
Interest expense	**2,072**	2,275	2,816	3,281	3,632
Net interest income	**13,782**	13,289	13,194	13,468	13,412
Provision for loan losses	**475**	(250)	350	875	900
Net interest income after provision for loan losses	**13,307**	13,539	12,844	12,593	12,512
Noninterest income	**5,042**	4,583	4,790	4,951	4,335
Noninterest expense	**14,023**	13,965	14,511	13,491	13,182
Income before income taxes	**4,326**	4,157	3,123	4,053	3,665
Income tax expense	**995**	974	598	916	777
Net income	**3,331**	$3,183	2,525	3,137	2,888
Preferred stock dividends	**94**	100	166	100	36
Net income available to common shareholders	**$3,237**	$3,083	$2,359	$3,037	$2,852
Ratios					
Return on average assets	**0.77%**	0.73%	0.60%	0.77%	0.75%
Return on average shareholders' equity	**8.24%**	9.16%	7.15%	9.32%	9.53%
Per common share data					
Net income	**$2.86**	$3.10	$2.37	$3.05	$2.87
Dividends declared	**1.23**	1.23	1.23	1.23	1.22
Book value	**32.47**	34.71	32.51	33.18	31.57
At year-end					
Securities	**$73,189**	$95,743	$98,228	$94,563	$115,120
Loans	**345,925**	298,474	282,065	268,065	251,860
Total assets	**455,559**	431,710	426,178	418,124	405,461
Deposits	**364,140**	363,094	365,225	355,476	344,905
Shareholders' equity	**46,935**	44,531	42,331	43,010	41,388
Trust and financial services assets*	**219,987**	220,704	211,140	185,210	148.875

***Not included in the consolidated assets of CBT Financial Corp.**

CBT FINANCIAL CORP. AND CLEARFIELD BANK & TRUST COMPANY DIRECTORS

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Kevin D. McMillen
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Chairman & Chief Executive Officer

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Chief Executive Officer

William A. Shiner
Secretary

Richard W. Ogden
Treasurer

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Vice President & Retail Financial Program Manager

Richard W. Ogden
Vice President & Treasurer

Derek W. Border
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EXECUTIVE OFFICERS

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President

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Chief Financial Officer & Treasurer

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Senior Vice President & Secretary,
Human Resources Manager & Chief Risk Officer

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Trust and Investment Division Manager

Glenn E. Fisher
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Vicki J. Myers
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Human Resources Assistant Manager

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Special Assets/Collection Manager

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Christine A. Spencer
Assistant Vice President & Operations Manager

Jennifer L. Vingless
Assistant Vice President & Marketing Officer

Shelly K. Folmar
Assistant Secretary & Human Resources Specialist

COMMUNITY OFFICES

CLEARFIELD COUNTY

MAIN OFFICE

Kathy L. Jacobson
Assistant Vice President &
Community Office Manager

BRIDGE STREET OFFICE

Michele A. Fannin
Assistant Vice President &
Community Office Manager

CURWENSVILLE OFFICE

Debra K. Bowser
Assistant Vice President &
Community Office Manager

DUBOIS OFFICE

Pamela S. Walsh
Community Office Manager

GOLDENROD OFFICE

Kathy L. Jacobson
Assistant Vice President &
Community Office Manager

PHILIPSBURG OFFICE

James N. Richtscheit
Community Office Manager

BLAIR COUNTY

WILLIAMSBURG OFFICE

Christin M. Conigy
Community Office Manager

MORRISONS COVE OFFICE

Cindy L. Brumbaugh
Community Office Manager

CENTRE COUNTY

PINE GROVE MILLS OFFICE

James M. Kane
Community Office Manager

HUNTINGDON COUNTY

HUNTINGDON DOWNTOWN OFFICE

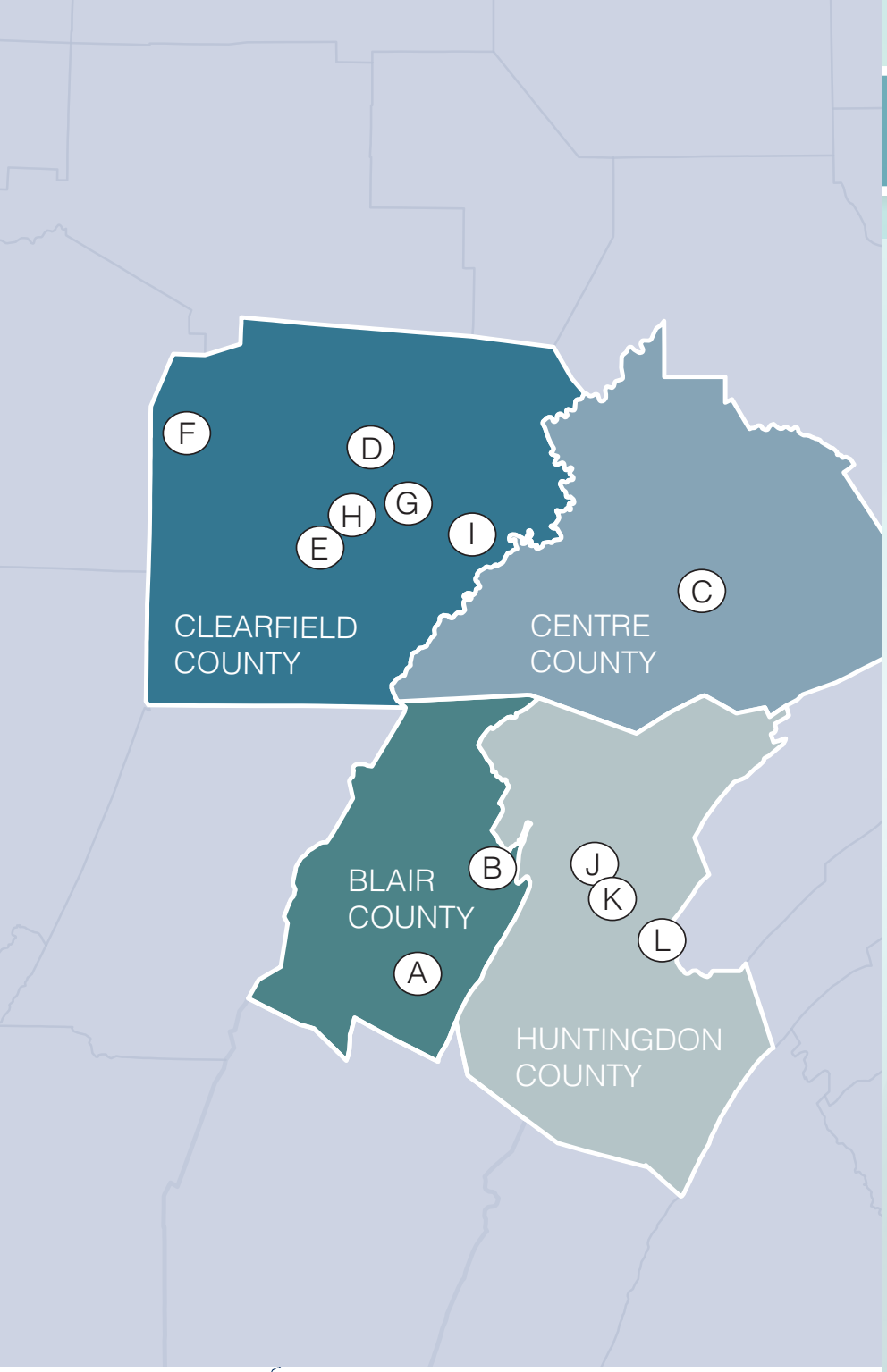
Jackie A. Confer
Assistant Vice President &
Community Office Manager

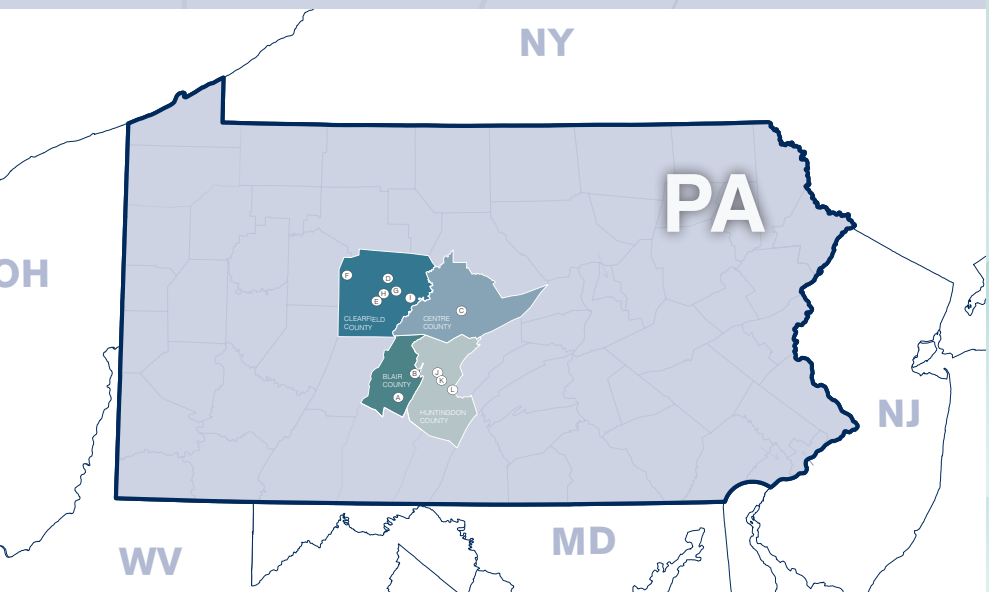
HUNTINGDON PLAZA OFFICE

Jackie A. Confer
Assistant Vice President &
Community Office Manager

MOUNT UNION OFFICE

Daphne M. Myers
Community Office Manager





LOCATIONS

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(A) MORRISONS COVE
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(B) WILLIAMSBURG
101 High Street • Williamsburg, PA 16693
T: 814-832-2128 • F: 814-832-2120

CENTRE COUNTY

(C) PINE GROVE MILLS
511 Pine Grove Road • State College, PA 16801
T: 814-238-0578 • F: 814-238-1959

CLEARFIELD COUNTY

(D) BRIDGE STREET
204 Bridge Street • Clearfield, PA 16830
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(E) CURWENSVILLE
407 Walnut Street • Curwensville, PA 16833
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(F) DUBOIS
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(G) GOLDENROD
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