QUEENSTOWN BANCORP OF MARYLAND, INC.

2015 AUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Queenstown Bancorp of Maryland, Inc.
and subsidiary
Queenstown, Maryland

We have audited the accompanying consolidated financial statements of Queenstown Bancorp of Maryland, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Queenstown Bancorp of Maryland, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their 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.

Stegman & Company

Baltimore, Maryland
February 22, 2016

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QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2015	**2014**
ASSETS		
Cash and due from banks	$ 4,073	7,826
Interest bearing deposits with banks	29,906	24,366
Total cash and cash equivalents	33,979	32,192
Securities available-for-sale (at fair value)	9,513	10,638
Federal Home Loan Bank Stock (at cost)	408	411
Loans	393,672	383,135
Less allowance for loan losses	(5,908)	(6,035)
Loans, net	387,764	377,100
Premises and equipment, net	5,694	5,964
Bank owned life insurance	5,646	5,495
Other real estate	1,414	2,808
Deferred income taxes	996	952
Accrued interest receivable	1,257	1,322
Prepaid expenses	154	270
Other assets	301	940
TOTAL ASSETS	$ 447,126	438,092
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 90,177	84,807
Interest bearing deposits	303,348	303,406
Total deposits	393,525	388,213
Accrued expenses and other liabilities	1,754	1,788
Total liabilities	395,279	390,001
Common stock - $10 par value; 10,000,000 shares authorized; shares issued and outstanding 1,259,330	12,593	12,593
Surplus	139	139
Retained earnings	39,079	35,229
Accumulated other comprehensive income	36	130
Total stockholders' equity	51,847	48,091
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 447,126	438,092

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share information)

	Years Ended		
	2015	**2014**	**2013**
INTEREST INCOME:			
Interest and fees on loans	$ 19,771	19,348	19,068
Interest and dividends on investment securities:			
Taxable	292	336	369
Tax exempt	-	-	52
Other interest income	99	119	135
Total interest income	20,162	19,803	19,624
INTEREST EXPENSE:			
Interest on deposits	2,235	2,789	3,430
NET INTEREST INCOME:	17,927	17,014	16,194
Provisions for loan losses	1,241	2,750	3,900
Net interest income after provisions for loan losses	16,686	14,264	12,294
NONINTEREST INCOME:			
Service charges on deposit accounts	614	634	672
Other income	578	577	627
Securities gains	22	476	-
Total noninterest income	1,214	1,687	1,299
NONINTEREST EXPENSES:			
Salaries and employee benefits	5,658	5,458	5,536
FDIC insurance premiums	571	589	451
Other real estate losses and expenses	526	724	1,585
Data processing expenses	598	627	630
Occupancy expense of bank premises	647	633	653
Equipment expenses	313	324	343
Provision for losses on letters of credit exposures	-	250	-
Other expenses	1,402	1,413	1,257
Total noninterest expenses	9,715	10,018	10,455
Income before income taxes	8,185	5,933	3,138
Income tax expense	3,076	2,231	1,102
Net income	$ 5,109	3,702	2,036
Basic and diluted net income per share	$ 4.06	2.94	1.62
Basic and diluted weighted average shares outstanding	1,259,330	1,259,330	1,259,438

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands, except per share information)

	Years Ended		
	2015	**2014**	**2013**
Net income	$ 5,109	3,702	2,036
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	(126)	107	(363)
Reclassification adjustment for gains included in net income	(30)	(194)	-
Other comprehensive (loss) income, before tax	(156)	(87)	(363)
Income tax effect	62	34	143
Other comprehensive (loss) income, net of tax	(94)	(53)	(220)
Total comprehensive income	$ 5,015	3,649	1,816

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands, except per share information)

	Common Stock				Accumulated Other	
	Shares	Par Value	Surplus	Retained Earnings	Comprehensive Income (Loss)	Total
Balances at January 1, 2013	1,262,370	12,624	212	30,751	403	43,990
Net Income	-	-	-	2,036	-	2,036
Other comprehensive income, net of tax	-	-	-	-	(220)	(220)
Purchases of common stock	(3,040)	(31)	(73)	-	-	(104)
Cash dividends ($0.40 per share)	-	-	-	(504)	-	(504)
Balances at December 31, 2013	1,259,330	12,593	139	32,283	183	45,198
Net Income	-	-	-	3,702	-	3,702
Other comprehensive (loss), net of tax	-	-	-	-	(53)	(53)
Cash dividends ($0.60 per share)	-	-	-	(756)	-	(756)
Balances at December 31, 2014	1,259,330	12,593	139	35,229	130	48,091
Net Income	-	-	-	5,109	-	5,109
Other comprehensive (loss), net of tax	-	-	-	-	(94)	(94)
Cash dividends ($1.00 per share)	-	-	-	(1,259)	-	(1,259)
Balances at December 31, 2015	1,259,330	12,593	139	39,079	36	51,847

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended		
	2015	2014	2013
OPERATING ACTIVITIES:			
Net Income	$ 5,109	3,702	2,036
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	50	41	16
Depreciation and amortization	362	362	399
Gains on sales of securities	(22)	(476)	-
Losses on other real estate	136	300	997
Provision for loan losses and letters of credit losses	1,241	3,000	3,900
Deferred tax expense	17	367	398
Net changes in:			
Accrued interest receivable	64	70	156
Accrued expenses and other liabilities	(34)	216	97
Prepaid expenses	116	88	325
Other operating activities	731	(514)	1,262
Net cash provided by operating activities	7,770	7,146	9,586
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(1,154)	(3,696)	(1,675)
Proceeds from sales of securities available-for-sale	824	532	-
Proceeds from calls and maturities of securities held-to-maturity	-	-	500
Proceeds from calls and maturities of securities available-for-sale	50	1,701	1,786
Prinicipal payments received on securities available-for-sale	1,224	1,008	1,806
Net increase in loans	(13,096)	(12,953)	(10,452)
Purchases of FHLB stock	-	-	(13)
Proceeds from redemption of FHLB stock	3	141	133
Purchases of premises and equipment	(92)	(1,355)	(258)
Purchases and improvements of other real estate owned	-	(5)	(200)
Proceeds from sales of other real estate	2,204	2,456	4,736
Net cash used by investing activities	(10,037)	(12,171)	(3,637)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	5,313	(6,918)	(8,345)
Purchases of common stock	-	-	(104)
Dividends paid	(1,259)	(756)	(504)
Net cash provided (used) by financing activities	4,054	(7,674)	(8,953)
Net increase (decrease) in cash and due from banks	1,787	(12,689)	(3,004)
Cash and cash equivalents at beginning of year	32,192	44,881	47,885
Cash and cash equivalents at end of year	$ 33,979	32,192	44,881
Supplemental disclosures:			
Interest payments	$ 2,294	2,852	3,547
Income tax payments	3,029	1,892	707
Noncash investing and financing activities:			
Loan charge-offs	1,614	2,800	3,184
Transfers to other real estate owned	945	3,556	3,073

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Dollars in thousands, except per share information)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company, which includes Queenstown Bancorp of Maryland, Inc. and its wholly owned subsidiary, Queenstown Bank of Maryland (the Bank), conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2015.

Basis of Presentations

The consolidated financial statements include the accounts of Queenstown Bancorp of Maryland, Inc. and its subsidiary, Queenstown Bank of Maryland, with all significant intercompany transactions eliminated.

Nature of Operations

The Company provides a full range of banking services to individuals and businesses through its main office and five branches in Queen Anne's County and one branch each in Talbot County and Caroline County Maryland. Its primary deposit products are certificates of deposit and demand, savings, NOW and money market accounts. Its primary lending products are commercial and consumer loans and real estate mortgages. The Company's loan portfolio has a concentration of residential and commercial real estate loans in Queen Anne's County and the surrounding area.

Use of Estimates

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

Securities

At the purchase date, the Company classifies securities as held to maturity or available for sale. Interest and dividend income on securities are recognized in interest income on the accrual basis. Premiums and discounts on securities are amortized as an adjustment to yield using the interest method.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Federal Home Loan Bank stock is carried at cost and is restricted as to marketability.

Securities classified as available-for-sale are used as part of the Company’s asset/liability management strategy. Sales may occur in response to changes in interest rate conditions, balance sheet composition or other economic factors. All debt securities classified as available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the stockholders’ equity section of the Consolidated Balance Sheets.

Gains or losses realized from the sale of securities are determined by specific identification and are included in noninterest income.

The Company evaluates each investment security in an unrealized loss position for other than temporary impairment. If management determines that all contractual obligations from an investment may not be received, then an other than temporary impairment would be recognized. The unrealized loss for other than temporary impairment on debt and equity securities are reported in current period earnings.

Loans

Loans are stated at their principal balance outstanding net of deferred loan fees and costs. Overdrafts are included in loans outstanding. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. The Company places loans, except for installment, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, installment loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. For all other loans, loan balances are charged off when it becomes evident that such balances are not fully collectible. For loans secured by real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged off. Accrual of interest resumes when the loan is brought current and the borrower demonstrates the ability to service the debt on a current basis.

Loans are considered impaired, based upon current information and circumstances, if it is probable that the Company will not collect all principal and interest payments according to contractual terms. Restructured loans, meeting the definition of troubled debt restructurings, are considered impaired loans. Impaired loans do not include large groups of smaller balance homogeneous loans that are evaluated collectively for impairment such as consumer installment loans. The allowance for loan losses related to impaired loans is included in the allowance for loan losses applicable to other than impaired loans. The impairment of a loan is measured by the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the repayment is expected to be provided by the collateral.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized over the contractual life of the loan as an adjustment to the loan's yield.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management’s judgment, is adequate to absorb credit losses inherent in the loan portfolio. Management’s evaluation includes the following factors: current economic conditions and their impact on borrowers and industries; the historical loss experience by loan type; the results of regulatory examinations; and, in specific cases, estimates of collateral values. As a result, these judgments are inherently subjective and involve material estimates that may be susceptible to significant change. The allowance is increased by the loan loss provision charged to operating expenses and reduced by charge-offs, net of recoveries. The provision for loan losses is based on the ongoing review of the loan portfolios, past loss experience and current economic conditions which could impact the borrowers’ repayment performance.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. The Company's policy is to provide for depreciation of physical properties over their estimated useful lives or the lease term (whichever is shorter) as a charge to operations at straight-line rates. Expenditures for maintenance, repairs and minor renewals are charged to operations; expenditures for betterments are charged to the property accounts. Upon retirement or other disposition of properties, the carrying value and the related accumulated depreciation or amortization are removed from the accounts.

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Credit Risk

The Company issues finacial or standby letters of credit that represent conditional commitments to fund transactions by the

Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with Company's credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and carried at the lower of fair value minus estimated costs of disposal or cost. Fair value is based on independent appraisals and other relevant factors. At the time of acquisition any excess of loan balance over fair value is charged to the allowance for loan losses. At December 31, 2015 residential properties included in other real estate totals $962 thousand.

Income Taxes

Deferred income taxes are calculated by applying enacted statutory tax rates to temporary differences consisting of all significant items which are reported for tax purposes in different years than for accounting purposes. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on considerations of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Per Share Data

Basic net income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year presented. Net income per share is computed by dividing net income by the weighted average number of shares of common stock plus the assumed conversions of common stock equivalents outstanding using the treasury method.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the independent auditors' report, the date these consolidated financial statements were available to be issued.

Statement of Cash Flows

For purposes of reporting cash flows, cash equivalents are composed of cash and due from banks and interest bearing deposits with banks.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated statement of financial condition. Such items, along with net income, are componenets of comprehensive income.

2. SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of securities are as follows.

	December 31, 2015				
Available-for-sale		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$	823	4	-	827
Residential mortgage-backed		7,370	130	108	7,392
Obligations of states and political subdivisions		1,260	34	-	1,294
Totals	$	9,453	168	108	9,513

	December 31, 2014				
Available-for-sale		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S government agencies	$	989	8	-	997
Residential mortgage-backed securities		7,319	178	71	7,426
Obligations of states and political subdivisions		2,115	100	-	2,215
Totals	$	10,423	286	71	10,638

The table below shows our securities' gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014.

		Less than 12 months		12 months or more		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2015							
Residential mortgage backed	$	3,167	31	1,227	77	4,394	108
As of December 31, 2014							
Residential mortgage backed	$	1,612	2	1,279	69	2,891	71

The residential mortgage backed portfolio at December 31, 2015 is composed of GNMA, FNMA, or FHLMC mortgage backed securities.
We retain temporarily impaired securities because we have the ability to hold them until they recover in value or mature.

The amortized cost and fair values of debt securities at December 31, 2015 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		Available-for-sale	
		Amortized Cost	Fair Value
As of December 31, 2015			
Due in one year or less	$	795	802
Due after one through five years		-	-
Due after five years through ten years		823	827
Due after ten years		465	492
		2,083	2,121
Residential mortgage-backed securities		7,370	7,392
Totals	$	9,453	9,513

Proceeds from sales of available for sale securities were $824 thousand in 2015 and $532 thousand in 2014. Gains on sales of available for sale securities were $22 thousand in 2015, with a tax effect of $9 thousand, resulting in a net after tax gain of $13 thousand for 2015. Gains on sales of available for sale securities were $476 thousand in 2014, with a tax effect of $188 thousand, resulting in a net after tax gain of $288 thousand for 2014.

At December 31, 2015 and 2014, securities with a carrying value of $5,918 thousand and $6,421 thousand respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law.

3. LOANS

At December 31, 2015 and 2014, loans are as follows:

		2015	2014
Real estate:			
Construction and land development	$	33,301	30,589
Secured by farmland		37,794	37,232
Commercial		94,062	101,713
Residential		195,026	185,050
Commercial and agricultural		25,696	19,401
Consumer		7,793	9,150
Total	$	393,672	383,135

A summary of current, past due, and nonaccrual loans as of December 31, 2015 and 2014 was as follows:

		Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2015						
Real estate:						
Construction and land development loans	$	29,956	484	-	2,861	33,301
Secured by farmland		37,794	-	-	-	37,794
Commercial		91,652	1,990	-	420	94,062
Residential		190,503	1,607	173	2,743	195,026
Commercial and agricultural		25,624	72	-	-	25,696
Consumer		7,710	75	-	8	7,793
Total	$	383,239	4,228	173	6,032	393,672
As of December 31, 2014						
Real estate:						
Construction and land development loans	$	26,273	84	28	4,204	30,589
Secured by farmland		36,854	378	-	-	37,232
Commercial		100,131	1,329	-	253	101,713
Residential		176,891	3,623	734	3,802	185,050
Commercial and agricultural		19,315	86	-	-	19,401
Consumer		9,017	133	-	-	9,150
Total	$	368,481	5,633	762	8,259	383,135

Loans on which the accrual of interest has been discontinued totaled $6,032 thousand and $8,259 at December 31, 2015 and 2014 respectively. Interest that would have been accrued on these loans totaled $310 thousand and $427 thousand for the years ended December 31, 2015 and 2014 respectively. At December 31, 2015 residential mortgages in the process of foreclosure total $563 thousand.

4. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for credit losses for the year ended December 31, 2015 and 2014 were as follows:

		Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture	Consumer	Total
As of December 31, 2015							
Beginning Balance	$	1,748	1,958	1,814	407	108	6,035
Provision for loan losses		500	250	250	216	25	1,241
Net charge-offs:							
Charge-offs		(602)	(415)	(250)	(272)	(75)	(1,614)
Recoveries		18	155	-	17	56	246
Net charge-offs		(584)	(260)	(250)	(255)	(19)	(1,368)
Ending balance	$	1,664	1,948	1,814	368	114	5,908
As of December 31, 2014							
Beginning Balance	$	1,745	1,848	1,613	374	67	5,647
Provision for loan losses		785	1,090	775	50	50	2,750
Net charge-offs:							
Charge-offs		(784)	(1,088)	(774)	(47)	(107)	(2,800)
Recoveries		2	108	200	30	98	438
Net charge-offs		(782)	(980)	(574)	(17)	(9)	(2,362)
Ending balance	$	1,748	1,958	1,814	407	108	6,035

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

The process for calculating the adequacy of the allowance for loan losses encompasses loss estimates attributable to specific troubled credits identified during the credit review process and estimates of losses inherent in other loans not reviewed specifically. The process of determining the level of the allowance for loan losses involves classifying the loans according to characteristics of loss risk for nonperforming and criticized loans and by type of loan for all other loans. For nonaccrual loans, loans over 89 days past due accruing and any other criticized loans according to the Company's loan rating system, the loans are first reviewed for specific loss measurement. Measurement of the specific loss component is based on expected future cash flows, collateral values and other relevant factors impacting the borrower's ability to pay. The Company utilizes a loan rating system which is applied to all loans but is particularly designed for monitoring loss characteristics of the real estate and commercial loan portfolios. Loan ratings are continually monitored by the loan officer and the credit review department in accordance with the loan rating guidelines established in the loan policy. Factors considered in assigning loan ratings include borrower specific cash flows and financial condition analyses, collateral values, payment status and other relevant data impacting repayment ability. Loss allocations assigned to the various loan type pools are continually monitored and adjusted for adequacy based on trends in portfolio charge-offs and recoveries, trends in portfolio delinquencies and impaired loans, changes in the risk profile of the pools, and changes in trends within the local economy.

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions to a borrower experiencing financial difficulty are considered trouble debt restructured loans. All restructurings that constitute concessions to a troubled borrower are considered impaired loans that may either be in accruing status or non-accruing status. Non-accruing restructured loans may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from the restructured category in the year subsequent to the restructuring if their revised loans terms are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk. At December 31, 2015 restructured loans totaled $5,318 thousand, of which $4,250 thousand were accruing and $1,068 thousand were non-accruing. Restructured loans at December 31, 2014 totaled $6,606 thousand, of which $5,214 thousand were accruing and $1,392 thousand were non-accruing.

The following table provides information with respect to impaired loans as of and for the years ended December 31, 2015 and 2014.

		2015	2014
Impaired loans with a valuation allowance	$	3,957	4,466
Impaired loans without a valuation allowance		8,234	10,270
Total impaired loans	$	12,191	14,736
Allowance for loan losses applicable to impaired loans	$	859	580
Allowance for loan losses applicable to other loans		5,049	5,455
Total allowance for loan losses	$	5,908	6,035
Average recorded investment in impaired loans	$	13,368	14,340

The following table provides information on impaired loans by loan category as of December 31, 2015 and 2014

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
As of December 31, 2015					
With a related allowance recorded:					
Real estate – construction	$	114	114	60	57
Real estate – residential		2,159	2,187	246	2,433
Real estate – commercial		1,613	1,613	517	1,686
Commercial & Agricultural		71	71	36	36
Total	$	3,957	3,985	859	4,212
As of December 31, 2015					
Without a related allowance recorded:					
Real estate – construction	$	3,270	7,826	-	3,751
Real estate – residential		4,328	5,067	-	5,056
Real estate – commercial		628	683	-	441
Commercial & Agricultural		8	8	-	4
Total	$	8,234	13,584	-	9,252
As of December 31, 2014					
With a related allowance recorded:					
Real estate – residential		2,707	2,731	408	3,681
Real estate – commercial		1,759	1,759	172	2,035
Total	$	4,466	4,490	580	5,716
As of December 31, 2014					
Without a related allowance recorded:					
Real estate – construction	$	4,231	8,579	-	3,553
Real estate – residential		5,785	6,927	-	4,858
Real estate – commercial		254	254	-	213
Total	$	10,270	15,760	-	8,624

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2015 and 2014. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

		Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture
As of December 31, 2015					
Pass	$	29,497	185,078	125,774	25,416
Criticized accrual		943	7,205	5,662	272
Criticized nonaccrual		2,861	2,743	420	8
Total	$	33,301	195,026	131,856	25,696
As of December 31, 2014					
Pass	$	25,575	173,226	135,483	19,288
Criticized accrual		810	8,022	3,209	113
Criticized nonaccrual		4,204	3,802	253	-
Total	$	30,589	185,050	138,945	19,401

At December 31, 2015 and 2014 the allocation of the allowance for loan losses summarized on the basis of impairment methodology was as follows:

	Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and Agricultural	Consumer	Total
As of December 31, 2015						
Individually evaluated for impairment	$ 60	246	517	36	-	859
Collectively evaluated for impairment	1,604	1,702	1,297	332	114	5,049
Total	$ 1,664	1,948	1,814	368	114	5,908
As of December 31, 2014						
Individually evaluated for impairment	$ -	408	172	-	-	580
Collectively evaluated for impairment	1,748	1,550	1,642	407	108	5,455
Total	$ 1,748	1,958	1,814	407	108	6,035

The recorded investment in loans summarized based on impairment methodology as of December 31, 2015 and 2014 was as follows:

	Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and Agricultural	Consumer	Total
As of December 31, 2015						
Individually evaluated for impairment	$ 3,384	6,488	2,240	79	-	12,191
Collectively evaluated for impairment	29,917	188,538	129,616	25,617	7,793	381,481
Total	$ 33,301	195,026	131,856	25,969	7,793	393,672
As of December 31, 2014						
Individually evaluated for impairment	$ 5,014	12,684	4,432	113	-	22,243
Collectively evaluated for impairment	25,575	172,366	134,513	19,288	9,150	360,892
Total	$ 30,589	185,050	138,945	19,401	9,150	383,135

Information on troubled debt restructurings for the year ended December 31, 2015 and 2014 is as follows:

	Number of contracts		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment
As of December 31, 2015					
Real estate – residential accrual	15	$	3,527	$	3,195
Real estate – commercial accrual	4		1,083		1,055
Real estate – construction nonaccrual	1		152		76
Real estate – residential nonaccrual	2		849		762
Real estate – commercial nonaccrual	1		288		230
Total	23	$	5,899	$	5,318
As of December 31, 2014					
Real estate – construction accrual	13	$	3,878	$	3,456
Real estate – residential accrual	7		1,804		1,759
Real estate – commercial accrual	2		271		211
Real estate – residential nonaccrual	5		1,455		1,180
Total	27	$	7,408	$	6,606

The troubled debt restructured loans above have been re-amortized. At December 31, 2015 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring. Troubled debt restructurings past due 30 to 89 days accruing interest totaled $ 290 thousand at December 31, 2015. There were no troubled debt restructurings past due 30 to 89 day accruing interest at December 31, 2014. There were no troubled debt restructurings 90 days or more past due accruing interest at December 31, 2015. Troubled debt restructurings 90 days or more past due accruing interest totaled $ 397 thousand at December 31, 2014.

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

		December 31	
		2015	2014
Land	$	1,908	1,908
Leasehold improvements		167	167
Buildings and land improvements		6,166	6,169
Furniture and equipment		1,690	1,596
		9,931	9,840
Accumulated depreciation and amortization		4,237	3,876
Premises and equipment – net	$	5,694	5,964

Depreciation and amortization expense for the years ended December 31, 2015, 2014, and 2013, was $362 thousand, $362 thousand, and $399 thousand, respectively.

The Bank has lease obligations for branch locations. Future minimum lease payments subsequent to 2015 are as follows; 2016 - 2017 $42 thousand, and 2018 $28 thousand.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2015 and 2014, by type of account is as follows:

		2015	2014
Savings and money market accounts	$	86,177	77,280
Interest bearing demand accounts		29,246	27,287
Time deposits of $100,000 or more		109,787	114,499
Other time deposits		78,138	84,340
Total interest bearing deposits	$	303,348	303,406

At December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

2016	$	84,520
2017		46,539
2018		25,379
2019		14,173
2020		16,635

Interest on deposits for the years ended December 31, 2015, 2014 and 2013 consisted of the following:

		2015	2014	2013
Savings and money market	$	142	131	133
Interest bearing demand accounts		28	22	22
Time deposits of $100,000 or more		1,388	1,753	2,018
Other time deposits		677	883	1,257
Total interest on deposits	$	2,235	2,789	3,430

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and federal funds purchased from correspondent banks. There were no short-term borrowings outstanding during 2015 and 2014.

At December 31, 2015, credit available under the FHLB credit facility approximates $58 million with letters of credit issued for the benefit of public funds depositors of $31 million outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $408 thousand as a condition for the credit facility. The Bank has also pledged its portfolio of 1-4 family first and second mortgage loans plus home equity loans as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $191 million at December 31, 2015.

8. STOCKHOLDERS' EQUITY

The Board of Directors has approved plans authorizing the Company to purchase shares of its common stock. Purchased shares will be used for corporate purposes including issuance under the Company’s stock based compensation plans. The number of shares remaining available for purchase under the plans was 183,360 shares at December 31, 2015.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were $1,259 thousand for 2015.

The Company and the Bank are subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Regulatory non-objection is required to pay dividends. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier 1 Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2015, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Amount	Actual Ratio	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
As of December 31, 2015				
Total capital (to risk weighted assets):				
Company (consolidated)	56,181	16.15%	8%	
Bank	56,141	16.14%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	51,811	14.89%	6%	
Bank	51,771	14.89%	6%	8%
Common equity tier I				
Company (consolidated)	51,811	14.89%	4.5%	
Bank	51,771	14.89%	4.5%	6.5%
Tier I capital (to average assets):				
Company (consolidated)	51,811	11.48%	4%	
Bank	51,771	11.47%	4%	5%
As of December 31, 2014				
Total capital (to risk weighted assets):				
Company (consolidated)	52,232	15.38%	8%	
Bank	52,191	15.37%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	47,962	14.12%	4%	
Bank	47,922	14.11%	4%	6%
Tier I capital (to average assets):				
Company (consolidated)	47,962	10.78%	4%	
Bank	47,922	10.77%	4%	5%

9. INCOME TAXES

Applicable income taxes on net income for 2015, 2014 and 2013 consist of the following:

	2015	2014	2013
Current income tax expense:			
Federal	$ 2,432	1,487	564
State	627	377	140
	3,059	1,864	704
Deferred income tax expense:			
Federal	8	287	318
State	9	80	80
	17	367	398
Total income tax expense	$ 3,076	2,231	1,102

Components of deferred income tax expense for 2015, 2014 and 2013 consist of the following:

		2015	2014	2013
Provisions for loan and other credit losses	$	131	(117)	(163)
Nonaccrual loan interest		-	-	473
Loan fees and costs		28	30	30
Deferred compensation		(69)	(62)	(56)
Depreciation and amortization		(29)	(15)	6
Deferred interest income		(6)	(46)	-
Other real estate losses		(38)	8	108
Securities impairment		-	569	-
Total deferred income tax expense	$	17	367	398

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2015, 2014, and 2013 follows:

		2015		2014		2013	
		Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	$	2,783	34.0%	2,017	34.0%	1,067	34.0%
Increase (decrease) resulting from							
Tax-exempt interest income		(82)	(1.0)	(48)	(0.8)	(57)	(1.8)
Bank owned life insurance income		(47)	(.5)	(46)	(0.8)	(57)	(1.8)
State income tax, net of federal income tax benefit		420	5.1	302	5.1	145	4.6
Other		2	-	6	0.1	4	0.1
Total income taxes	$	3,076	37.6%	2,231	37.6%	1,102	35.1%

Significant components of the Company's deferred tax assets and liabilities at December 31, 2015 and 2014 are as follows**:**

		2015	2014
Deferred tax assets:			
Allowances for credit losses	$	594	725
Deferred compensation		379	310
Deferred interest income		52	46
Stock options		38	38
Other real estate losses		230	191
Others		4	6
Total deferred tax assets	$	1,297	1,316
Deferred tax liabilities:			
Accumulated depreciation and amortization	$	120	149
Loan fees and costs		158	130
Unrealized gains on securities available-for-sale		23	85
Total deferred tax liabilities		301	364
Net deferred tax assets	$	996	952

Management has determined that no valuation allowance is required as it is more likely than not that the net deferred tax assets will be fully realizable in future years.

10. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFIT AGREEMENTS

The Company has a Section 401(k) profit sharing plan which covers substantially all employees who meet certain service requirements. Employer contributions to the plan include a discretionary contribution and matching contributions of a percentage of employee elective salary deferral contributions. Employer contributions included in operating expenses for 2015, 2014 and 2013 were $131 thousand, $131 thousand, and $136 thousand, respectively.

The Company has provided additional retirement benefits as well as pre-retirement death benefits to selective executives through deferred compensation agreements. The deferred compensation plan agreements provide for monthly benefit payments for ten years after retirement. There were no benefit payments in 2015 and 2014. The Company is accruing the present value of these benefits over the remaining number of years to the employees' retirement dates. Benefit accruals included in operating expenses for 2015, 2014 and 2013 were $175 thousand, $156 thousand, and $143 thousand, respectively. The accrued liability for deferred compensation agreements is $960 thousand at December 31, 2015 and $785 thousand at December 31, 2014.

11. STOCK-BASED COMPENSATION

The Company has a qualified incentive stock option plan for officers and employees and a nonqualified stock option plan for directors. The total number of shares of Common Stock that may be optioned is 136,000 for the incentive plan and 68,000 for the nonqualified plan. Information with respect to the options granted is as follows:

	2015			2014			2013		
	Options Outstanding		Weighted Average Exercise price	Options Outstanding		Weighted Average Exercise price	Options Outstanding		Weighted Average Exercise price
Balance, January 1	85,560	$	46.64	85,560	$	46.64	87,360	$	46.33
Options granted	-			-			-		
Options exercised	-			-			-		
Options forfeited	-			-			-		
Options expired	-	$		-	$	-	(1,800)	$	32.00
Balance, December 31	85,560	$	46.64	85,560	$	46.64	85,560	$	46.64
Options exercisable, December 31	85,560	$	46.64	83,640	$	46.93	80,200	$	47.18

Stock options outstanding at December 31, 2015 were as follows:

	Issued and Outstanding Options				Exercisable (Vested) Options			
Exercise Price Range	Number Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)		Weighted Average Exercise Price
December 31, 2015								
$0.00 through $44.99	26,760	1.04	$	37.88	26,760	1.04	$	37.88
$45.00 through $50.99	40,600	1.25		49.20	40,600	1.25		49.20
$51.00 through $54.00	18,200	2.66		53.79	18,200	2.66		53.78
Totals:	85,560	1.48	$	46.64	85,560	1.48	$	46.64

The maximum term of stock options granted under the plans is 10 years.

The fair value of stock option awards granted on or after January 1, 2006 was determined by using a lattice option-pricing model utilizing a range of assumptions related to dividend yield, volatility, risk-free interest rate, and employee exercise behavior. Dividend yield is based on historical experience and expected future dividend actions. Expected volatility is based on a blend of historical stock price volatility and volatility of similarly publicly traded bank stocks. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant. The Company estimated forfeitures based on historical data. There were no options granted in 2015 and 2014.

As of December 31, 2012, all compensation cost related to non-vested stock options was recognized as compensation costs.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes extensions of credit to its directors and their associates and several of its policy making officers on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other customers. Extensions of credit outstanding, both direct and indirect, to directors and policy making officers of the Company totaled $13,719 thousand and $15,102 thousand at December 31, 2015 and 2014, respectively.

13. RESTRICTED CASH BALANCES

The Federal Reserve requires banks to maintain certain minimum cash balances consisting of vault cash and deposits in the Federal Reserve Bank or in other commercial banks. The amount of such reserves are based on percentages of certain deposit types and at December 31, 2015 totaled $2,550 thousand. The company has balances due from correspondent banks in excess of FDIC insured deposit limits. These correspondent banks meet the regulatory definitions of well capitalized financial institutions.

14. FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit losses in the event of nonperformance by the other party to these financial instruments are represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Included in other liabilities are allowances for losses on unfunded letters of credit of $263 thousand and $276 thousand at December, 2015 and December 2014 respectively. There were no provisions for losses on unfunded letters of credit in 2015 and 2013. The provision for losses on unfunded letters of credit were $250 thousand for 2014.

The Company generally requires collateral or other security to support financial instruments with credit risk. The amount of collateral or other security is determined based on management's credit evaluation of the counterparty.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2015 is as follows:

Commitments to extend credit	$33,937 thousand
Standby letters of credit	$3,006 thousand

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a substantial portion of the Company’s financial instuments, the fair value of such instruments has been derived based on management’s assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

- Cash and due from banks and federal funds sold: The carrying amounts reported are considered to approximate their fair values.

- Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

- Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.

- Deposits: The fair value disclosed for deposits with no defined maturity are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts.) The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.

- Borrowings: The fair value is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments as December 31, 2015 and 2014 are as follows**:**

	2015		2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 4,073	4,073	$ 7,826	7,826
Interest bearing deposits with banks	29,906	29,906	24,366	24,366
Investment securities:				
Available-for-sale	9,513	9,513	10,638	10,638
Federal Home Loan Bank Stock	408	408	411	411
Loans, net of allowance	387,764	381,682	377,100	369,303
Accrued interest receivable	1,257	1,257	1,322	1,322
Financial liabilities:				
Deposits	393,525	392,137	388,213	388,264
Accrued interest payable	243	243	302	302

15. Fair Value Measurements

Effective January 1, 2008, the Company adopted the Financial Accounting Standard Board's ("FASB") guidance on, *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB's guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an 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. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of assets or liabilities)

The following table presents fair value measurements on a recurring basis as of December 31, 2015 and 2014:

	2015			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
U.S. government agencies securities	$ -	827	-	827
Residential mortgage backed securities	-	7,392	-	7,392
Obligations of states and political subdivisions	-	1,293	-	1,293
Total	$ -	9,512	-	9,512

	2014			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
U.S. government agencies securities	$ -	997	-	997
Residential mortgage backed securities	-	7,426	-	7,426
Obligations of states and political subdivisions	-	2,215	-	2,215
Total	$ -	10,638		10,638

Securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. The following table presents fair value measurements on a non-recurring basis as of December 31, 2015 and 2014:

	2015			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Impaired loans	$ -	-	11,332	11,332
Other real estate	-	-	1,414	1,414
Total	$ -	-	12,746	12,746

	2014			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Impaired loans	$ -	-	14,156	14,156
Other real estate	-	-	2,808	2,808
Total	$ -	-	16,964	16,964

Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are derived as follows:
Level 3 inputs are independent appraisals and other available market evaluations used by management in estimating fair value.

In accordance with the provisions of ASC 360, foreclosed real estate were adjusted to their fair values, resulting in an impairment charge, which was included in earnings for the year. Foreclosed real estate assets have been valued using a market approach. The fair values were determined using independent appraisals and other available market evaluations, which the Bank considers to be level 3 inputs