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FRB RICHMOND

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Tom N. Rasmussen
Name of the Holding Company Director and Official

President
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

03/19/2015
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2520913
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2014
Month / Day / Year

n/a
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
New Windsor Bancorp, Inc
Legal Title of Holding Company

213 Main St. PO Box 489
(Mailing Address of the Holding Company) Street / P.O. Box

New Windsor	MD	21776
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Thomas J. Paholsky	Treasurer
Name	Title

410-549-1414
Area Code / Phone Number / Extension

410-875-5553
Area Code / FAX Number

tpaholsky@newwindsorbank.com
E-mail Address

www.newwindsorbank.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

☐ Yes Please identify the report items to which this request applies:

- ☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
- ☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

FORM FRY-6

New Windsor Bancorp, Inc.
New Windsor, Maryland

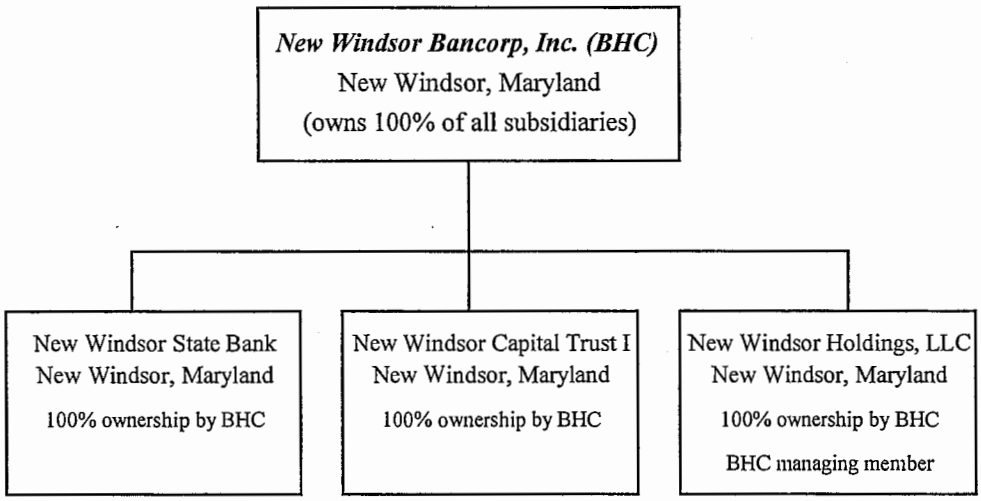
Fiscal Year Ending December 31, 2014

Report Item

1. a. The BHC is not required to file form 10K with the SEC.

1. b. The BHC prepares an annual report for its stockholders. This report will be mailed to the Federal Reserve Bank upon completion in April 2015.

2. a. Organizational Chart - **all incorporated in State of Maryland**



FORM FRY-6
New Windsor Bancorp, Inc.
New Windsor, Maryland

Fiscal Year Ending December 31, 2014

Report Item

3. Stockholders
Current stockholders with ownership, control or holdings of 5% or more with power to vote as of December 31, 2014.

(1)(a) Name & Address	(1)(b) Country of Citizenship	(1)(c) Number and Percentage of Each Class of Voting Securities	
CEDE & Company (streetname broker) New York, New York	USA	233,515	40.0%
Frall Developers, Inc. Mt. Airy, Maryland	USA	54,344	9.3%
H. McKinley Coffman New Windsor, Maryland	USA	37,321	6.4%
Carroll L. Yingling Westminster, Maryland	USA	32,123	5.5%

3.(2) None

FORM FRY-6
New Windsor Bancorp, Inc.
New Windsor, Maryland
Fiscal Year Ending December 31, 2014

Report Item

4. Directors and Officers

(1) Name & Address	(2) Principal Occupation	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other companies if 25% or more of voting securities
Stephen E. Bohn Westminster, MD 21158	Automobile Dealer	Director	Director - New Windsor State Bank	President - Widetrac Automotive, LLC	0.17%	N/A	
Mark E. Bollinger Westminster, MD 21158	Insurance	Director	Director - New Windsor State Bank	President - Barnes Bollinger Insurance Services, Inc.	0.34%	N/A	Barnes Bollinger Ins Svcs Inc 50%
Holly J. Harrison Frey Mt. Airy, MD 21771	Real Estate	Director	Director - New Windsor State Bank	Vice President - Frall Developers, Inc. Vice President - Milrey Inc. Vice President - Jesse Smitth LLP Vice President - Hope Valley Exec. Golf, Inc. Vice President - U.I. Builders, Inc. President - The Holly Land Partnership Vice President - Harvest Ridge Associates LLP President - Mary Jane LLP Vice President - PSRP Inc. President - Adam Land LLC	9.31%	N/A	N/A
Todd L. Herring Taneytown, MD 21787	Sole Proprietor	Director	Director - New Windsor State Bank	President - Central MD Rehabilitation Services	0.09%	N/A	
Willard L. Hawkins, Jr. New Windsor, MD 21776	Retired - Veterinarian / Veterinary Medical Officer	Director Vice President	Director - New Windsor State Bank	Owner - Windsor Farm Shareholder - Carroll Emergency Clinic	1.04%	N/A	Windsor Farm 100%

FORM FRY-6
New Windsor Bancorp, Inc.
New Windsor, Maryland
Fiscal Year Ending December 31, 2014

Report Item

4. Directors and Officers

(1) Name & Address	(2) Principal Occupation	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List names of other companies if 25% or more of voting securities
Georgia S. Hoff Finksburg, MD 21048	Real Estate Broker	Director	Director - New Windsor State Bank	Co-Owner - Samuel C. Hoff Agency	1.18%	N/A	Samuel C. Hoff Agency 50%
William G. Jones Westminster, MD 21157	Certified Public Accountant	Director	Director - New Windsor State Bank		0.20%	N/A	N/A
E. Suzan Miller, J.D. Westminster, MD 21157	Attorney at Law	Director	Director - New Windsor State Bank	Attorney-at-Law	0.10%	N/A	
G. Melvin Mills, Jr. Taneytown, MD 21787	Sole Proprietor	Director	Director - New Windsor State Bank	President/Owner - Mills Communications, Inc. Chairman - Wuesthoff Health System Director - Carroll Hospital Center Foundation Chairman - Baytree Community Development District	0.23%	N/A	Mills Comm. Inc. 100%
Tom N. Rasmussen Finksburg, MD 21048	Banker	Director President & CEO	Director, President & CEO - New Windsor State Bank	Director - Community Foundation of Carroll County Director - Historical Society of Carroll County	0.26%	N/A	N/A
D. Arthur Seibel, Jr. Finksburg, MD 21048	Retired - Managing Director / Chief Financial Officer	Director Chairman	Chairman - New Windsor State Bank		2.79%	N/A	N/A

Results: A list of branches for your depository institution: NEW WINDSOR STATE BANK (ID_RSSD: 57228).
This depository institution is held by NEW WINDSOR BANCORP, INC. (2520913) of NEW WINDSOR, MD.
The data are as of 12/31/2014. Data reflects information that was received and processed through 01/07/2015.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the FR Y-10 reporting requirements, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action of** Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	57228	NEW WINDSOR STATE BANK	213 MAIN STREET	NEW WINDSOR	MD	21776	CARROLL	UNITED STATES	4007	0	NEW WINDSOR STATE BANK	57228	
OK		Full Service	4111502	NORTH CARROLL BRANCH	2305 HANOVER PIKE	HAMPSTEAD	MD	21074	CARROLL	UNITED STATES	510734	6	NEW WINDSOR STATE BANK	57228	
OK		Full Service	3234703	MOUNT AIRY BRANCH	1001 TWIN ARCH ROAD	MOUNT AIRY	MD	21771	CARROLL	UNITED STATES	422923	3	NEW WINDSOR STATE BANK	57228	
OK		Full Service	3677177	TANEYTOWN BRANCH	222 E BALTIMORE ST	TANEYTOWN	MD	21787	CARROLL	UNITED STATES	445699	4	NEW WINDSOR STATE BANK	57228	
OK		Full Service	3295272	COLLEGE SQUARE BRANCH	444 WMC DRIVE	WESTMINSTER	MD	21158	CARROLL	UNITED STATES	359993	1	NEW WINDSOR STATE BANK	57228	
OK		Full Service	3690167	MARKET PLACE BRANCH	810 MARKET STREET	WESTMINSTER	MD	21157	CARROLL	UNITED STATES	450844	5	NEW WINDSOR STATE BANK	57228	

New Windsor Bancorp, Inc.

2014

ANNUAL REPORT

NEW WINDSOR BANCORP, INC.

SELECTED CONSOLIDATED FINANCIAL HIGHLIGHTS

Year-End Balances	**2014**	2013	2012	2011	2010
Assets	**$ 282,643,079**	$ 279,193,605	$ 269,216,799	$ 262,453,189	$ 249,560,568
Investment securities	**33,807,111**	50,372,738	41,825,044	23,358,227	13,737,907
Loans	**231,750,646**	214,662,719	198,987,069	195,499,191	202,467,573
Deposits	**240,064,467**	245,465,149	244,671,178	238,500,628	223,456,659
Short-term debt	**16,680,154**	9,631,853	537,186	637,289	820,497
Long-term debt	**10,500,000**	10,500,000	10,500,000	10,500,000	10,500,000
Stockholders' equity	**14,325,874**	12,834,818	12,799,281	12,042,966	14,114,411
Average Balances					
Assets	**$ 282,507,142**	$ 273,754,028	$ 267,765,224	$ 260,833,659	$ 240,155,517
Investment securities	**42,568,525**	45,150,010	35,870,127	19,937,345	13,070,612
Loans	**225,564,491**	201,474,774	196,608,532	198,729,010	196,306,849
Deposits	**241,399,619**	249,284,976	243,600,145	235,307,795	217,665,847
Short-term debt	**16,224,336**	653,500	691,097	675,962	678,155
Long-term debt	**10,500,000**	10,500,000	10,500,000	10,500,000	7,071,110
Stockholders' equity	**13,627,898**	12,732,446	12,398,869	13,829,534	14,241,633
Summary of Operations					
Interest income	**$ 11,171,698**	$ 10,510,458	$ 11,134,515	$ 11,946,208	$ 12,524,285
Interest expense	**2,156,531**	2,935,053	3,488,835	3,979,522	3,960,496
Net interest income	**9,015,167**	7,575,405	7,645,680	7,966,686	8,563,789
Provision for credit losses	**110,000**	145,000	731,000	3,465,000	1,246,000
Net interest income after provision for credit losses	**8,905,167**	7,430,405	6,914,680	4,501,686	7,317,789
Noninterest income	**2,059,564**	2,267,229	2,428,913	2,738,397	2,037,508
Noninterest expense	**8,974,081**	8,689,382	8,487,963	10,448,133	9,129,391
Income (loss) before income tax expense (benefit)	**1,990,650**	1,008,252	855,630	(3,208,050)	225,906
Income tax expense (benefit)	**795,349**	405,976	348,944	(1,239,981)	84,428
Net income (loss)	**$ 1,195,301**	$ 602,276	$ 506,686	$ (1,968,069)	$ 141,478
Key Financial Ratios and Other Data					
Return on average assets (ROA)	**0.42%**	0.22%	0.19%	-0.75%	0.06%
Return on average equity (ROE)	**8.77%**	4.73%	4.09%	-14.23%	0.99%
Average equity to average assets	**4.82%**	4.65%	4.63%	5.30%	5.93%
Net interest margin (tax equivalent)	**3.32%**	2.92%	3.05%	3.27%	3.87%
Efficiency ratio	**80.56%**	87.63%	84.74%	89.81%	84.86%
Tier I capital (to risk-weighted assets)	**8.46%**	8.37%	8.22%	7.78%	9.41%
Total capital (to risk-weighted assets)	**12.25%**	12.57%	12.71%	12.43%	13.51%
Per share amounts (1):					
Net income (loss) - basic and diluted	**$ 1.95**	$ 0.98	$ 0.83	$ (3.23)	$ 0.23
Cash dividends paid	**$ 0.00**	$ 0.00	$ 0.00	$ 0.11	$ 0.46
Tangible book value	**$ 23.45**	$ 21.50	$ 20.53	$ 19.70	$ 23.03
Shares outstanding at year end	**583,772**	583,046	581,873	581,050	579,583

(1) per share amounts have been restated to reflect the 5% stock dividend declared on Jan. 20, 2015 and payable on Feb. 13, 2015

Dear Fellow Shareholders:

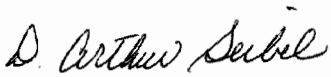
As you read our fourth quarter letter we are sure you were as pleased and excited as we were to announce such record performance, the reestablishment of our dividend tradition, and the special thank you of an additional stock dividend. 2014 ultimately closed the door on the most difficult chapter in the Bancorp's history since the Great Depression. With all difficult experiences, much was learned, improved and a number of changes were implemented. The Board especially thanks our shareholders for their patience during this time of capital preservation which ultimately helped us negotiate through these challenging times and accomplish the earnings that we were rewarded with in 2014. You can read in some detail in the following pages how all that was accomplished.

Now that the financial results of the Bancorp have been improved, our focus will turn to preparing for the future and seeking ways to improve the liquidity and market value of the Bancorp's stock. As written in previous letters and the report to you in last year's annual report, there are many illogical things happening in the markets which have worked against all community banks' stock valuations. We still strongly feel that when your company produces a year end return on equity of 8.77%, a return on assets of .42% and earnings per share of $1.95 that we will get noticed and ultimately rewarded. Whether you're a value or income investor, our improving performance, the return of a dividend, and a discounted market price to book value make it the time to own New Windsor Bancorp stock. The Bancorp expects to improve on these financial ratios going forward as the economy is expected to continue to grow. There are a number of strategic initiatives that the Bancorp is planning on pursuing in the near future. One of those initiatives is the growth of our Residential Mortgage operation. This has been a core part of the Bancorp's business since its original charter in 1864 helping the greater community grow. Personnel and processes have been engaged to grow our residential lending effort on a much larger scale beyond the borders of Carroll County. An announcement will be made in the near future concerning that endeavor. Things are changing fast in the banking industry and we must be nimble and forward thinking if we are to be successful. Growth and the efficient use of technology will play a very important part of our long-term plans and success. New capital will be needed in order to help the Bancorp grow further and capture more market share. More to come on that in the coming months.

We will tell you straight away that the future for this company is very bright. Our staff and management team is excited and morale is strong. We congratulate our Board for strategically "maintaining the course" through the difficult years. Finally, we sincerely thank our shareholders for their patience and understanding of the challenges and their support of this company through this past trying period. On behalf of our Board, Advisory Board, Executive Management Team and our wonderful employees we are all very proud to report the best financial performance year in our Bancorp's history and the reinstatement of dividends. 2015 holds great excitement for your company as we begin new growth initiatives!

Most Sincerely,

Tom N. Rasmussen
President and CEO



D. Arthur Seibel, Jr.
Chairman of the Board

P.S. Check out our new Investor Relations pages on our website under the About Us tab! Go to www.newwindsorbank.com.

NEW WINDSOR BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Corporate Profile

New Windsor Bancorp, Inc. (the "Bancorp") is a one-bank holding company headquartered in New Windsor, Maryland and is incorporated under the laws of Maryland and registered under the federal Bank Holding Company Act of 1956, as amended. The Bancorp holds all of the issued and outstanding shares of common stock of New Windsor State Bank (the "Bank"). The Bank is a Maryland company that engages in general commercial and retail banking operations and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank provides a full range of financial services to individuals, businesses and organizations through six branch banking offices located in New Windsor, Taneytown, Westminster, Mt. Airy and Hampstead along with six automated teller machines ("ATMs"). The Bank considers its core market to be the communities in Carroll County, Maryland. The only other subsidiaries of the Bancorp are New Windsor Capital Trust I (formed for the purpose of issuing trust preferred securities) and New Windsor Holdings, LLC (formed for the purpose of owning real estate occupied by the Bank). The Bancorp and all of its subsidiaries are collectively referred to as the "Company".

Overview

The following discussion compares the financial condition of the Company as of December 31, 2014 to the financial condition at December 31, 2013 and the results of operations for each of the three years ended December 31, 2014, 2013 and 2012. This discussion should be read in conjunction with the accompanying consolidated financial statements and related notes as well as statistical information included in this report.

The Company earned net income of $1,195,301 in 2014, an increase of $593,025 or 98.5% compared to 2013. Earnings per share increased to $1.95 in 2014 from $0.98 in 2013. The most noteworthy factors impacting the 2014 results were as follows:

- Improved net interest income of $1.4 million and net interest margin increased to 3.32% from 2.92%.
- The further reduction in the level of nonperforming assets and problem loans that resulted in a low loan loss provision
- The Company's ongoing efforts to control overhead costs

Net interest income increased 19.0% due to growth in loans, a shift in the deposit mix and maturing of high-cost time deposits. Loans increased in 2014 by 8.0% with a notable increase in commercial relationships within our market as well as adjacent markets. Deposits declined 2.2% for the year as efforts to improve the deposit mix combined with maturing time deposits resulted in a $12 million decrease in time deposits. The Company continued to fund the allowance for credit losses, providing $110,000 in 2014 versus $145,000 in 2013. With respect to noninterest income, while growth was seen in asset management income, declines were experienced in deposit service charges and mortgage banking activities. Noninterest expense increased by a modest 3.3% after the Company's diligent efforts to reduce costs in prior years established a new base of expenses from which to grow revenues.

Results of Operations

Net Interest Income

The primary source of the Company's earnings is net interest income. Net interest income is the difference between interest and fees earned on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Earning assets include loans, securities and federal funds sold. Interest-bearing liabilities include deposits and borrowed funds. To compare tax-exempt yields to taxable yields, amounts are adjusted to pretax equivalents based on a 34% federal corporate income tax rate and the 8.25% state corporate income tax rate.

Net interest income is affected by changes in interest rates, the volume of interest-bearing assets and liabilities and the composition of those assets and liabilities (mix). The "net interest spread" and "net interest margin" are two common statistics related to the evaluation of net interest income. The net interest rate spread represents the difference between the yields earned on interest-earning assets and the rates paid for interest-bearing liabilities. The net interest margin is defined as the ratio of net interest income to average earning assets. Due primarily to funding provided by noninterest-bearing deposits and stockholders' equity, the net interest margin exceeds the net interest rate spread. Both net interest spread and net interest margin are stated as a percentage with each .01% often referred to as one basis point.

The following table presents net interest income on a fully taxable-equivalent ("FTE") basis, net interest rate spread and net interest margin for the years ending December 31, 2014, 2013 and 2012.

	2014			2013			2012		
	Average balance	**Interest**	**Yield / Rate**	Average balance	Interest	Yield / Rate	Average balance	Interest	Yield / Rate
Assets									
Interest-bearing deposits in other banks	**$ 3,699,242**	**$ 5,381**	**0.15%**	$ 8,861,201	$ 18,833	0.21%	$ 13,929,990	$ 32,240	0.23%
Federal funds sold and other overnight investments	**-**	**-**	**-**	4,146,506	9,190	0.22%	4,291,887	9,484	0.22%
Investment securities	**42,568,525**	**601,798**	**1.41%**	45,150,010	594,840	1.32%	35,870,127	470,772	1.31%
Loans held for sale	**773,908**	**25,132**	**3.25%**	954,700	27,741	2.91%	825,175	21,967	2.66%
Loans	**225,564,491**	**10,572,377**	**4.69%**	201,474,774	9,898,052	4.91%	196,608,532	10,630,883	5.41%
Total interest-earning assets	**272,606,166**	**11,204,688**	**4.11%**	260,587,191	10,548,656	4.05%	251,525,711	11,165,346	4.44%
Allowance for credit losses	**(3,555,161)**			(3,655,173)			(4,039,180)		
Cash and due from banks	**2,373,533**			5,292,328			6,790,330		
Other non-interest earning assets	**11,082,604**			11,529,682			13,488,363		
TOTAL ASSETS	**$282,507,142**			$273,754,028			$267,765,224		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	**$ 17,012,434**	**6,360**	**0.04%**	$ 13,822,939	6,999	0.05%	$ 11,090,767	8,539	0.08%
Savings deposits	**89,354,356**	**89,310**	**0.10%**	83,117,983	101,062	0.12%	69,873,816	122,408	0.18%
Time deposits	**79,832,663**	**1,263,504**	**1.58%**	101,132,419	2,065,533	2.04%	115,918,087	2,596,656	2.24%
Short-term debt	**16,224,336**	**37,853**	**0.23%**	653,500	1,955	0.30%	691,097	1,728	0.25%
Long-term debt	**10,500,000**	**759,504**	**7.23%**	10,500,000	759,504	7.23%	10,500,000	759,504	7.23%
Total interest-bearing liabilities	**212,923,789**	**2,156,531**	**1.01%**	209,226,841	2,935,053	1.40%	208,073,767	3,488,835	1.68%
Noninterest-bearing demand deposits	**55,200,166**			51,211,635			46,717,475		
Other noninterest-bearing liabilities	**755,289**			583,106			575,113		
Stockholders' equity	**13,627,898**			12,732,446			12,398,869		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$282,507,142**			$273,754,028			$267,765,224		
Net interest rate spread			**3.10%**			2.65%			2.76%
Net interest income (FTE) / Net interest margin		**9,048,157**	**3.32%**		7,613,603	2.92%		7,676,511	3.05%
Taxable-equivalent adjustment		**(32,990)**			(38,198)			(30,831)	
Net interest income		**$9,015,167**			$7,575,405			$7,645,680	

Net interest income, on a taxable-equivalent basis, totaled $9,048,157 in 2014, an increase of $1,434,554 or 18.8% compared to 2013. The increase was a result of a 4.6% increase in the average balance of interest-earning assets while net interest margin increased by 40 basis points.

The increase in interest-earning assets of $12.0 million reflected a significant change in the mix of earning assets. Year-over-year, average loans increased $24.1 million or 12.0% with growth in commercial and residential real estate loans. Loans at year-end were up $17.1 million or 8.0% from the prior year end.

A portion of the growth in earning assets was funded with short-term borrowings which also offset a decrease in deposits. Average deposits decreased by $7.9 million or 3.2% with a decrease in time deposits offset in part by greater demand deposits.

Net interest margin increased to 3.32% from 2.92% resulting from a number of factors:

- After an extended period of flat / inverted yield curve, interest rates began to "normalize" in the latter part of 2007 and into the first part of 2008, bringing a slope to the yield curve that had not been seen since 2004. However, 2008 experienced unprecedented volatility in rates and during the fourth quarter, rates hit all-time lows that have continued through 2014. This environment has presented significant challenges in managing the balance sheet and the pricing of both loans and deposits.

- The yield on earning assets increased 6 basis points from 2013 to 2014 reversing a declining trend over the past six years. The increase in the yield on earning assets was primarily due to a positive change in the mix of earning assets as loan growth was in part funded by "excess" cash held in lower yielding interest-bearing deposits and cash flow from the investment portfolio. This offset the continued low level of interest rates, which impacted the rate on new loan originations and continued to result in the downward repricing of, and renegotiation of lower rates on existing loans.

- The rate paid on interest-bearing liabilities decreased 39 basis points from 2013 to 2014, a greater amount than experienced in the previous year. This decrease reflected growth in low rate deposits, the use of short-term borrowings and the downward repricing of maturing time deposits. It also reflects efforts to "shift" the deposit mix away from time deposits. The proportion of time deposits to total deposits was 31% at December 31, 2014 versus 36% at the prior year end.

- The contribution of net "free funds" declined 6 basis points from 2013 to 2014.

For the year ended December 31, 2013, net interest income was $7,613,603, a decrease of $62,908 or 0.8% from net interest income of $7,676,511 for the year ended December 31, 2012.

In 2013, average earning assets increased 3.6% to $260,587,191, up from $251,525,711 in 2012.

The net interest margin was 2.92% in 2013 compared to 3.05% in 2012. The yield on earning assets decreased 39 basis points from 2012 to 2013. The rate paid on interest-bearing liabilities decreased 27 basis points from 2012 to 2013. As noted above, the all-time lows in interest rates experienced during the latter part of 2008 and continued throughout 2013 largely contributed to these results. The low level of interest rates impacted the rate on new loan originations and continued to result in downward repricing of and renegotiation of lower rates on existing loans. This was offset in part by the deployment of low-yielding interest-bearing deposits to fund loan growth, the downward repricing of maturing time deposits and the shift in funding mix away from time deposits.

The preceding discussion on the changes in net interest margin is further supported by the following "volume / rate" table. As noted, changes in net interest income occur from year to year due to changes in both the levels of earning assets and interest-bearing liabilities, as well as the average rates received on earning assets and average rates paid on deposits and debt. Changes in the levels of earning assets and interest-bearing liabilities are referred to as volume-related variances, while changes in average rates received on earning assets and average rates paid on deposits and debt are referred to as rate-related variances.

The volume / rate analysis demonstrates changes in taxable-equivalent interest income and interest expense for significant assets and liabilities. The following table summarizes those changes in interest income and interest expense due to volume and rate variances:

	2014 Compared to 2013			2013 Compared to 2012		
	Due to Change in:		**Net increase/**	Due to Change in:		Net increase/
	Volume	**Rate**	**(decrease)**	Volume	Rate	(decrease)
Interest income:						
Interest-bearing deposits	**$ (10,971)**	**$ (2,481)**	**$ (13,452)**	$ (11,731)	$ (1,676)	$ (13,407)
Federal funds sold and other overnight investments	**(9,190)**	**0**	**(9,190)**	(321)	27	(294)
Investment securities	**(34,010)**	**40,968**	**6,958**	121,792	2,276	124,068
Loans held for sale	**(5,253)**	**2,644**	**(2,609)**	3,448	2,326	5,774
Loans	**1,183,480**	**(509,155)**	**674,325**	263,124	(995,955)	(732,831)
Total interest income	**1,124,055**	**(468,023)**	**656,032**	376,313	(993,003)	(616,690)
Interest expense:						
Interest-bearing demand deposits	**1,615**	**(2,254)**	**(639)**	2,104	(3,644)	(1,540)
Savings deposits	**7,583**	**(19,335)**	**(11,752)**	23,202	(44,548)	(21,346)
Time deposits	**(435,027)**	**(367,002)**	**(802,029)**	(331,211)	(199,912)	(531,123)
Short-term debt	**46,581**	**(10,683)**	**35,898**	(94)	321	227
Long-term debt	**-**	**-**	**-**	-	-	-
Total interest expense	**(379,248)**	**(399,274)**	**(778,522)**	(305,999)	(247,783)	(553,782)
Net interest income	**$1,503,303**	**$ (68,749)**	**$1,434,554**	$ 682,312	$ (745,220)	$ (62,908)

Provision for Credit Losses

The provision for credit losses was $110,000 in 2014 compared to $145,000 in 2013 and $731,000 in 2012. The decrease in the provision for credit losses generally reflects the level of net charge-offs experienced, the volume of non-performing loans along with the assessment of the related collateral values and the change in the loan portfolio outstandings. The provision for credit losses charged against earnings is based, in part, upon the past experience of credit losses and an estimation of inherent risks in the current loan portfolio as well as industry trends and economic conditions that impact the collectability of loans. The Company places an emphasis on asset quality and performs a thorough analysis and assessment of the risks in its loan portfolio and the allowance for credit losses. See further discussion in "Allowance for Credit Losses" and Footnote 4 of the Consolidated Financial Statements.

Noninterest Income

Details of noninterest income for the years ended December 31, 2014, 2013 and 2012 are as follows:

				% Change	
	2014	2013	2012	**2014 vs. 2013**	2013 vs. 2012
Service charges on deposit accounts	**$ 683,906**	$ 863,522	$ 910,968	**-20.8%**	-5.2%
(Loss) gain on sale of investment securities	**(37,406)**	908	189	**-**	-
Asset management income	**290,663**	263,371	190,140	**10.4%**	38.5%
Mortgage banking revenue	**360,686**	410,307	381,591	**-12.1%**	7.5%
VISA Check Card fee income	**440,630**	423,120	425,203	**4.1%**	-0.5%
Net gain on sale of ORE	**40,200**	17,699	176,047	**127.1%**	-89.9%
Other income	**280,885**	288,302	344,775	**-2.6%**	-16.4%
Total noninterest income	**$ 2,059,564**	$ 2,267,229	$ 2,428,913	**-9.2%**	-6.7%

The level of service charges on deposits decreased further in 2014. The decreasing trend is due to lower NSF/overdraft income and fees on uncollected funds reflecting customers' greater awareness of service charges and changes in behavior to avoid such fees.

During 2014, a strategy to sell investment securities to provide funding for loan growth was implemented. Proceeds from sales totaled $8.4 million and net losses resulted.

Windsor Investment Services is the Company's asset management division that offers mutual funds, annuities, bonds, stocks, insurance products and financial planning as a compliment to the Company's traditional financial services. This revenue source continued to grow in 2014 with income increasing 10.4% reflecting improving market conditions and greater assets under management. As of December 31, 2014, Windsor Investments had $72.1 million of assets under management, an increase of 22% from year-end 2013.

Mortgage banking experienced another good year in 2014, though a decline from 2013, reflecting continued low mortgage rates and a strategic emphasis on this line of business. The sale of loans held for sale totaled $13.4 million in 2014 versus $14.1 million in 2013 and $15.1 million in 2012. A greater proportion of originations were retained in portfolio during 2012 and 2013.

VISA Check Card fee income showed a modest increase in 2014 after leveling off in 2013 and continues to provide an important source of fee income for the Company. Continued efforts to promote the usage of the card are expected to impact this revenue going forward.

Net gain on sale of ORE properties were realized on the sale of three properties in 2014, one in 2013 and eleven in 2012. Also included in 2013 was the recognition of deferred gains on properties sold in previous years where the bank provided financing to the buyers. There was no balance of deferred gains remaining as of December 31, 2013.

Other income is primarily comprised of ATM fees, other loan income, safe deposit box rent, wire transfer fees, check commissions and rental income including rental of ORE properties. The decrease from 2012 to 2013 primarily resulted from a decline in fee income generated from SBA loan originations.

Noninterest Expense

Details of noninterest expense for the years ended December 31, 2014, 2013 and 2012 are as follows:

				% Change	
	2014	2013	2012	**2014 vs. 2013**	2013 vs. 2012
Salaries and employee benefits	**$ 4,571,574**	$ 4,466,359	$ 4,386,815	**2.4%**	1.8%
Net occupancy expense	**950,892**	861,492	831,769	**10.4%**	3.6%
Equipment expense	**668,218**	749,042	773,046	**-10.8%**	-3.1%
Marketing	**82,347**	79,334	68,715	**3.8%**	15.5%
Operating supplies	**59,397**	67,390	59,848	**-11.9%**	12.6%
Outside services and data processing fees	**1,282,896**	1,184,731	986,504	**8.3%**	20.1%
Telecommunications	**219,378**	186,178	193,467	**17.8%**	-3.8%
Directors' fees	**121,409**	99,150	90,800	**22.4%**	9.2%
Net loss on other real estate owned	**27,907**	47,124	73,562	**-40.8%**	-35.9%
Other loan expense	**159,212**	91,413	224,177	**74.2%**	-59.2%
FDIC insurance assessment	**356,534**	368,124	360,950	**-3.1%**	2.0%
Other expense	**474,317**	489,045	438,310	**-3.0%**	11.6%
Total noninterest expense	**$ 8,974,081**	$ 8,689,382	$ 8,487,963	**3.3%**	2.4%

Total noninterest expense increased $284,699 or 3.3% from 2013 to 2014. Total noninterest expense increased 2.4% from 2012 to 2013.

Salaries and employee benefits is the largest component of noninterest expense. The overall increase in 2014 was due to incentive plan payouts net of lower salaries. The increase in 2013 was attributable to normal merit increases and some additions to staff during the year that were later offset by retirements. The number of full-time equivalent employees as of December 31, 2014 was 71 as compared to 72 for each of the prior two years.

Net occupancy expense is primarily comprised of building depreciation, real estate property taxes, building repairs, maintenance and utilities. The increases in the past two years were due to greater repairs and maintenance expense which includes snow and ice removal costs.

Equipment expense includes furniture and equipment depreciation, computer hardware depreciation and software amortization as well as maintenance contracts, equipment rental costs and personal property taxes. These costs declined further in 2014 as purchased computer hardware and software has been replaced under lower cost leases.

Marketing expense pertains to costs associated with advertising and public relations. After decreases in previous years, The Bank increased its advertising and public relations efforts to more normal levels in 2014 and 2013.

Components of outside services include data processing services, ATM processing, legal and professional fees, audit and accounting fees, and correspondent bank fees. The overall increase in 2014 resulted from the cost of third party consultants contracted for special projects and increased compliance services. The outsourcing of certain processing functions also increased these costs in 2013 when the bank contracted with a third party for network support and management services.

Telecommunication expenses increased in 2014 due to the duplication of costs during the transition to a new, full service telecommunications provider. Costs were lower in 2013 versus 2012 due to a third-party review of lines and usage that resulted in savings particularly with respect to cell phone related costs.

The increase in Director's fees in 2014 reflected increases in director's meeting and committee fees for the first time in ten years. The increase from 2012 to 2013 reflected the addition of two directors for part of the year.

The net loss on other real estate owned properties resulted from declines in the market values of these foreclosed properties after the Company had taken possession.

Other loan expense increased in 2014 after declining in 2013. This line item reflects the costs incurred for collection and foreclosure activities as well as costs related to other real estate owned properties.

FDIC insurance assessment reflects an "asset based" calculation that commenced under Dodd-Frank in 2012.

Other expense is comprised principally of postage, bank security, travel, customer development, contributions, state banking commission assessment and losses related to deposit accounts. The decrease in 2014 and the increase in 2013 generally reflected a fluctuation in losses related to deposit accounts and customer debit card activity.

Income Tax Expense

The Company recorded income tax expense of $795,349 in 2014, $405,976 in 2013 and $348,944 in 2012. The effective tax rate for the years ended 2014, 2013 and 2012 were 40.0%, 40.3% and 40.8%, respectively.

Financial Condition

Total assets were $282,643,079 at December 31, 2014, reflecting growth of $3.4 million or 1.2% from year-end 2013. The net increase in assets was funded by growth in short-term debt and retained earnings. Loans increased $17.1 million or 8.0% from December 31, 2013 to December 31, 2014. This net increase resulted from growth in commercial real estate loans. Deposits decreased $5.4 million or 2.2% with the decrease in time deposits offset in part by greater demand deposits. The Company's continued efforts to shift the funding mix away from single-service, "rate shopping" time deposit customers resulted in a decrease in this category of deposits with a portion retained in other deposit products. The growth in loans and decrease in deposits was funded by a reduction in interest-bearing deposits in other banks along with cash flow from the investment securities portfolio and increased short-term borrowings.

Investment Securities

The investment securities portfolio provides earnings and liquidity, as well as an effective tool in managing interest rate risk. The Company's investment activities are governed internally by a board-approved policy. The policy is carried out by the Company's Asset/Liability Management Committee, which meets regularly to review the economic environment and establish investment and borrowing strategies. Investment strategies are determined in consideration of the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and the overall interest rate sensitivity and liquidity position of the Company. Excluding the U.S. government sponsored agencies, there was no concentration from any single issue that exceeded 10% of stockholders' equity.

Available-for-sale securities are carried at their estimated fair value. At year-end 2014, available-for-sale securities totaled $33,807,111, a net decrease of $16.6 million compared to year-end 2013. U.S. Treasury securities and obligations of U.S. government agencies decreased $13.2 million.

Proceeds from maturities, calls and principal payments totaled $8.9 million and $8.2 million in 2014 and 2013, respectively. Proceeds from sales totaled $8.4 million in 2014 and resulted in net losses of $37,000. There were no sales of investment securities in 2013. Purchases of $422,000 and $17.7 million were completed in 2014 and 2013, respectively. The activity in 2014 reflected a strategy to fund loan growth with cash flow and sale proceeds while continuing to meet pledging requirements. The activity in 2013 was primarily to reinvest proceeds as well as to employ excess liquidity.

The Company does not have any exposure to subprime mortgage-backed securities.

The following table sets forth the Company's investment securities portfolio as of December 31:

	2014 Estimated Fair Value	**% of Portfolio**	2013 Estimated Fair Value	% of Portfolio
U.S. Treasury securities and obligations of U.S. government agencies	**$22,625,954**	**67%**	$ 35,824,798	71%
Obligations of states and political subdivisions	**2,539,574**	**7%**	3,737,403	7%
Residential mortgage-backed securities	**7,403,813**	**22%**	10,019,939	20%
Total debt securities	**32,569,341**		49,582,140	
FHLB stock	**971,600**	**3%**	549,400	1%
Other equity securities	**266,170**	**1%**	241,198	1%
Total investment securities	**$33,807,111**	**100%**	$ 50,372,738	100%

Loan Portfolio

The Company has established policies and procedures designed to mitigate credit risk and to maintain the quality of the loan portfolio. These policies include underwriting standards for new credit as well as continuous monitoring and reporting policies for asset quality and the adequacy of the allowance for credit losses. These policies, coupled with ongoing training efforts, have provided effective checks and balances for the risks associated with the lending process. Lending authority is based on the type of loan, the loan amount requested and the experience of the lending officer.

As of December 31, 2014, the Company's gross loan portfolio totaled $231,750,646, representing 82% of its total assets. Gross loans increased by $17.1 million or 8.0% from December 31, 2013.

The commercial real estate segment increased by $27.9 million in 2014. This growth reflects the Company's success in building relationships in its market and expansion into adjacent markets. In addition, a portion of the increase resulted from the reclassification of certain commercial and industrial loans.

The Company does not have any direct or indirect exposure to subprime loans.

In order to offer customers a full range of fixed-rate residential mortgage products, the Bank partners with other companies that specialize in this area, selling a large portion of residential mortgages that are originated. This approach allows the Company to recognize noninterest income while mitigating interest rate risk. While the Company recognizes risks associated with some types of commercial loans, commercial borrowers' financial condition is closely monitored by management through the analysis of financial statements and income tax returns.

The following table sets forth the Company's loan portfolio by general categories at December 31:

	2014	**% of Portfolio**	2013	% of Portfolio
Construction and land development	**$ 10,378,415**	**4%**	$ 6,857,887	3%
Residential real estate - mortgage	**88,953,470**	**39%**	90,060,368	42%
Commercial real estate - mortgage	**120,360,006**	**52%**	92,428,428	43%
Commercial and industrial	**9,028,058**	**4%**	21,450,632	10%
Consumer	**3,030,697**	**1%**	3,865,404	2%
Total loans	**$ 231,750,646**	**100%**	$214,662,719	100%

Allowance for Credit Losses

The Company maintains the allowance for credit losses at a level that management believes is adequate to absorb potential losses inherent in the loan portfolio and is established through a provision for credit losses charged to earnings. Management regularly conducts an analysis of the adequacy of the allowance based on its knowledge of its loans, loss history and qualitative risk factors existing in its market. An outside firm is engaged to independently assess the methodology and perform various loan review functions.

The Company prepares the analysis of the allowance with the objective of quantifying portfolio risk into a dollar amount of inherent losses. For impaired loans, the related allowance is based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the determination is made by reference to the fair value of the collateral. The allowance associated with the remaining loan portfolio is based on the analysis of historical loan loss ratios, delinquency trends, and previous collection experience along with an assessment of the effects of external economic conditions.

Based on the above, management believes that the allowance for credit losses is adequate to absorb potential losses in the loan portfolio as of December 31, 2014. However, there can be no assurance that adjustments to the provision for credit losses will not be required in the future. Changes in the economic assumptions underlying management's estimates and judgments, adverse developments in the economy or market area, or changes in the circumstances of particular borrowers are criteria that could change and result in adjustments to the provision for credit losses. Management closely monitors problem loans, employs intensive collection efforts for loans previously charged-off and continually attempts to improve underwriting quality.

The allowance for credit losses was $3,486,895 or 1.50% of loans outstanding at December 31, 2014. This compares to an allowance for credit losses at December 31, 2013 of $3,464,811 or 1.61% of loans outstanding. The decrease in the reserve coverage generally reflects the continued reduction of problem loans, overall improved credit quality of the portfolio and the stabilization of collateral values.

The following chart summarizes the Company's allowance for credit losses over the past two years:

	2014	2013
Balance at beginning of year	**$ 3,464,811**	$ 3,618,367
Recoveries	**189,637**	32,347
Charge-offs	**(277,553)**	(330,903)
Provision for credit losses	**110,000**	145,000
Balance at end of year	**$ 3,486,895**	$ 3,464,811

Loans deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to the allowance.

Net charge-offs amounted to $87,916 in 2014 or .04% of average loans compared to $298,556 or .15% in 2013. Nearly all of the charge-offs in 2014 and 2013 were on loans for which specific reserves were established.

For further information on the Allowance for Credit Losses refer to Footnote 4 of the Consolidated Financial Statements.

Nonperforming Assets

Nonperforming assets, which consist of loans past due 90 days or more and still accruing, nonaccrual loans, other real estate owned and repossessed assets, totaled $2,722,391 at December 31, 2014, compared to $3,921,177 at year-end 2013. After experiencing increases in the level of nonperforming assets in previous years, reflective of the general economic conditions, the bank experienced declines in 2013 and 2014 as a result of concerted efforts by management to work out problem loan situations. This was achieved principally by the payoff of loans through refinancings or the sale of underlying collateral, the charge-off of uncollectible amounts, the sale of other real estate owned properties and loans returning to performing status after a prolonged period of current payments. In addition, the bank experienced a significant decline in the volume of loans moving into nonperforming status in 2013 and 2014.

The following table provides a summary of the Company's nonperforming assets at December 31:

	2014	2013	2012
Loans past due 90 days or more and still accruing	$ -	$ -	$ -
Nonaccrual loans	**2,601,166**	3,651,934	5,817,719
Other real estate owned	**121,225**	269,243	164,937
Repossessed assets	-	-	11,070
Total nonperforming assets	**$ 2,722,391**	$ 3,921,177	$ 5,993,726
Nonperforming loans to total loans	**1.12%**	1.70%	2.92%
Nonperforming assets to total assets	**0.96%**	1.40%	2.23%

The Company generally places loans, except for consumer loans, on non-accrual when it becomes 90 days past due. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer installment loans are not placed on nonaccrual, but are charged off when they are 90 days past due. Payments on nonaccrual loans are applied against the principal balance outstanding. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

For further information on Nonperforming Assets refer to Footnote 4 of the Consolidated Financial Statements.

Deposits

Customer deposits, because of their stability, are the largest source of funds used to support the Company's growth. "Core" deposits are deposits that tend to remain with the Company despite the change in the market's interest rate environment.

The Company offers a broad selection of deposit instruments to individuals and businesses including noninterest-bearing checking accounts, interest-bearing checking accounts, savings accounts, money market deposit accounts, certificates of deposit and individual retirement accounts. Deposit account terms vary with respect to the minimum balance required, the time period the funds must remain on deposit and service charge schedules.

Total deposits were $240,064,467 as of December 31, 2014, a decrease of $5.4 million or 2.2% when compared to 2013. Time deposits decreased year-over-year offset in part by growth in demand deposits. The decrease in time deposits resulted from the Company's efforts to shift the funding mix away from single-service, "rate-shopping" time deposit customers. At December 31, 2014, time deposits comprised 31% of total deposits, down from 36% at December 31, 2013 and over 50% in prior years.

The following table presents the composition of deposits as of December 31:

	2014	**% of portfolio**	2013	% of portfolio
Noninterest-bearing demand deposits	**$ 60,066,858**	**25%**	$ 52,381,910	21%
Interest-bearing deposits:				
Interest-bearing demand deposits	**16,805,372**	**7%**	17,471,245	7%
Passbook and statement savings	**38,384,999**	**16%**	36,817,011	15%
Money market savings	**49,781,689**	**21%**	50,184,811	21%
Time deposits:				
$100,000 or more	**32,298,964**	**13%**	33,800,076	14%
Less than $100,000	**42,726,585**	**18%**	54,810,096	22%
Total interest-bearing deposits	**179,997,609**	**75%**	193,083,239	79%
Total deposits	**$240,064,467**	**100%**	$ 245,465,149	100%

The following table sets forth the average deposit balances by major category as of December 31:

	2014		2013	
	Average Balance	**Average Rate**	Average Balance	Average Rate
Noninterest-bearing demand deposits	**$ 55,200,166**	**-**	$ 51,211,635	-
Interest-bearing demand deposits	**17,012,434**	**0.04%**	13,822,939	0.05%
Savings deposits	**89,354,356**	**0.10%**	83,117,983	0.12%
Time deposits	**79,832,663**	**1.58%**	101,132,419	2.04%
	$241,399,619		$ 249,284,976	

The following table provides information regarding the scheduled maturities of time deposits of $100,000 and more as of December 31, 2014:

Three months or less	**$ 2,562,154**
Over three through six months	**1,962,395**
Over six through twelve months	**9,942,720**
Over twelve months	**17,831,695**
Total	**$ 32,298,964**

Short-Term Debt

Short-term debt consists of securities sold under repurchase agreements, federal funds purchased, secured lines with correspondent banks and short-term borrowings from the Federal Home Loan Bank of Atlanta (FHLB). At December 31, 2014, the balance of short-term debt included repurchase agreements, a non-deposit investment account used as part of a sweep arrangement for customers. At various times the Company utilizes federal funds purchased, secured lines with correspondent banks and short-term FHLB borrowings due to fluctuations in loan demand and deposit balances. At December 31, 2014, the Company had outstanding a $16 million short-term advance with the FHLB.

Long-Term Debt

On June 23, 2005, New Windsor Capital Trust I (the "Trust I"), a Delaware business trust formed, funded and wholly owned by the Company, issued $5,000,000 of 6.39% fixed rate capital securities to institutional investors in a private pooled transaction. The proceeds were transferred to the Company as junior subordinated debt ("2035 junior subordinated debentures") under the same terms and conditions. The Company then contributed the full amount to the Bank in the form of Tier I capital. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Trust I's obligations with respect to the capital securities.

Under applicable regulatory guidelines, a portion of the capital securities qualify as Tier I capital, and the remaining portion will qualify as Tier II capital on a consolidated basis. Under applicable regulatory guidelines, $4,786,000 of the outstanding capital securities qualify as Tier I capital and $214,000 of the capital securities qualify as Tier II capital at December 31, 2014.

The 2035 junior subordinated debentures are the sole assets of the Trust I and carry a fixed rate of 6.39%. Both the capital securities of the Trust I and the junior subordinated debentures are scheduled to mature on June 23, 2035, unless called by the Company at 100% of the principal amount.

Commencing June 1, 2010, the Company offered $5,500,000 of 8.00% fixed rate junior subordinated debentures ("2020 junior subordinated debentures") in a private placement offering. The Company completed the issuance on December 29, 2010 and contributed the majority of the proceeds to the Bank in the form of Tier I capital.

Under applicable regulatory guidelines, the 2020 junior subordinated debentures qualify as Tier II capital on a consolidated basis but a portion (20%) will be excluded each year starting in 2015, the fifth year prior to the maturity date.

The 2020 junior subordinated debentures are scheduled to mature on June 1, 2020, unless called by the Company at 100% of the principal amount not earlier than June 1, 2015.

Off-Balance Sheet Arrangements

Through the normal course of business, the Company enters into certain contractual obligations and other commitments. Commitments to extend credit and letters of credit are legally binding conditional agreements generally having fixed expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management's credit assessment of the customer. The commitments may expire without being drawn upon. With the exception of the Company's obligations in connection with its irrevocable letters of credit and loan commitments, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, income or expense, results of operations, liquidity, capital expenditures or capital resources, that is material to investors. For further discussion, refer to Footnote 11 of the Consolidated Financial Statements.

Capital Resources

The authorized stock of the Bancorp consists of 10,000,000 shares of common stock with $.01 par value. There were 612,961 and 612,198 shares outstanding as of December 31, 2014 and December 31, 2013, respectively. Shares outstanding have been restated to reflect the 5% stock dividend, in the form of a stock split, declared on January 20, 2015 to shareholders of record on January 30, 2015 and payable on February 13, 2015.

Stockholders' equity ended 2014 at $14,325,874, a net increase of $1,491,056 from December 31, 2013. Net income in 2014 was $1,195,301 and was retained in full. The Company paid no cash dividends in 2014 in an effort to build its capital base. Accumulated other comprehensive loss, consisting of unrealized net depreciation in the investment securities portfolio, net of tax, decreased by $282,416.

Tangible book value per share was $23.45, $21.50 and $20.53 at December 31, 2014, 2013 and 2012, respectively. Per share data has been restated to reflect the 5% stock dividend declared in 2015 as noted above.

Capital is classified as Tier 1 capital (stockholders' equity less certain intangible assets plus a portion of the trust preferred securities) and Total Capital (Tier 1 plus the allowed portion of the allowance for credit losses, the portion of trust preferred securities not included in Tier 1 capital and qualified subordinated debentures).

Various banking regulatory agencies have implemented capital adequacy guidelines, which are based on an individual institution's risk profile. By regulatory definition, a depository institution is "well-capitalized" if it has a total risk-based capital to risk-weighted assets ratio of 10% or more, a Tier 1 risk-based capital to risk-weighted assets ratio of 6% or more and a capital leverage to average assets ratio of 5% or more. Institutions that maintain "well-capitalized" status face less regulatory oversight and qualify for the lowest deposit insurance premiums.

As the table below presents, the Bank has maintained capital levels in excess of the regulatory minimum for the last two years.

	December 31,		Minimum Requirements for Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
	2014	2013		
Total capital to risk-weighted assets	**12.37%**	12.69%	8.00%	10.00%
Tier 1 capital to risk-weighted assets	**11.12%**	11.43%	4.00%	6.00%
Tier 1 capital leverage ratio	**8.93%**	8.34%	4.00%	5.00%

Further information about the capital ratios of the Company and the Bank as of December 31, 2014 may be found in Footnote 13 to the Consolidated Financial Statements.

Dividends

The Company's ability to pay dividends is primarily dependent on earnings from operations, the adequacy of capital and the availability of liquid assets for distribution. The Company's ability to generate liquid assets for distribution is primarily dependent on the ability of the Company's subsidiaries (the Bank and New Windsor Holdings, LLC) to pay dividends to the Company. In an effort to preserve capital, the Company's quarterly cash dividend was discontinued in the second quarter of 2011.

New Windsor Bancorp, Inc.'s common stock is not listed on any national securities exchange. The Company's stock is quoted on the OTC Bulletin Board under the symbol "NWID". As of December 31, 2014, the Company had approximately 413 shareholders of record.

The table below sets forth the quarterly ranges of high and low sales prices for the Company's common stock as reported by the OTC Bulletin Board and the dividends paid per share of common stock for each of the last eight quarters. The sales price ranges may reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions. They would also not reflect private transactions not reported by the OTC Bulletin Board. Per share information has been restated to reflect the 5% stock dividend declared on January 20, 2015.

	2014				2013			
	Sales Prices			**Cash Dividends**	Sales Prices			Cash Dividends
	High	**Low**	**Last**	**Paid**	High	Low	Last	Paid
Quarter ended:								
March 31	**$ 14.29**	**$ 14.29**	**$ 14.29**	**$ -**	$ 14.29	$ 14.29	$ 14.29	$ -
June 30	**14.29**	**13.33**	**14.29**	**-**	17.62	10.00	13.33	-
September 30	**14.29**	**14.29**	**14.29**	**-**	13.38	12.38	13.33	-
December 31	**14.29**	**10.48**	**14.29**	**-**	13.95	12.38	12.38	-
Year				**$ -**				$ -

Regulatory Oversight

The Bank is a Maryland company subject to the banking laws of Maryland and to regulation by the Commissioner of Financial Regulation of Maryland, who is required by statute to make at least one examination in each calendar year (or at 18-month intervals if the Commissioner determines that an examination is unnecessary in a particular calendar year). As a member of the Federal Deposit Insurance Corporation ("FDIC"), the Bank is also subject to certain provisions of federal law and regulations regarding deposit insurance and activities of insured state-chartered banks, including those that require examination by the FDIC. In addition to the foregoing, there are a myriad of other federal and state laws and regulations that affect, impact or govern the business of banking, including customer lending and deposit taking.

Federal banking regulators, such as the Federal Reserve Bank ("FRB") and the FDIC, may prohibit the institutions over which they have supervisory authority from engaging in activities or investments that the agencies believe are unsafe and unsound banking practices. Federal banking regulators have extensive enforcement authority over the institutions they regulate to prohibit or correct activities that violate law, regulation or a regulatory agreement or which are deemed to be unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the removal of or restrictions on directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, and principal stockholders or any related interest of such persons, which generally require that such credit extensions be made on substantially the same terms as are available to third parties dealing with the Bank and not involve more than the normal risk of repayment. Other laws tie the maximum amount that may be loaned to any one customer and its related interests to capital levels (referred to as the legal lending limit).

As part of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), each federal banking regulator adopted non-capital safety and soundness standards for institutions under its authority. These standards include internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits. An institution that fails to meet those standards may be required by the agency to develop a plan acceptable to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. The Company, on behalf of the Bank, believes that the Bank meets substantially all standards that have been adopted. FDICIA also imposes capital standards on insured depository institutions.

The Community Reinvestment Act ("CRA") requires the FDIC, in connection with its examination of financial institutions within its jurisdiction, to evaluate the record of those financial institutions in meeting the credit needs of their communities, including low and moderate income neighborhoods, consistent with principles of safe and sound banking practices. These factors are also considered by all regulatory agencies in evaluating mergers, acquisitions and applications to open a branch or facility. As of the date of its most recent examination report, the Bank had a CRA rating of "Satisfactory".

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the "Patriot Act"), financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect and prevent the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum standards specified by the act, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The costs or other effects of the compliance burdens of the Patriot Act or future anti-terrorist, homeland security or anti-money laundering legislation or regulations cannot be predicted with certainty.

The FDIC maintains a risk-based assessment system for determining deposit insurance premiums. Four risk categories, each subject to different premium rates, are established based upon an institution's status as well capitalized, adequately capitalized or undercapitalized and the institution's supervisory rating. The levels of rates are subject to periodic adjustment by the FDIC. Depository institutions will also pay premiums for the increased coverage provided by the FDIC.

The FDIC also imposed a special FDIC insurance assessment of 5 basis points of each insured depository institution's assets minus Tier I capital as of June 30, 2009, but no more than 10 basis points times the institution's assessment base for the second quarter of 2009, which was collected on September 30, 2009. Additional special assessments may be imposed by the FDIC in the future.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010 ("Dodd-Frank"), permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor and extended unlimited deposit insurance on noninterest-bearing transaction accounts through December 31, 2012. Dodd-Frank also broadened the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution rather than deposits. Dodd-Frank required the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective July 1, 2010, Dodd-Frank eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Dodd-Frank also created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB") which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, The Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan, other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

It is difficult to predict what further specific impact Dodd-Frank and related written rules and regulations implementing the act has had and will have on community banks. However, it is expected that at a minimum, they will increase the operating and compliance costs, and possibly the interest expense, of the Company.

On July 9, 2013, the federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies.

The rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property.

The rule also includes changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be required to be deducted from capital, subject to a two-year transition period. Finally, Tier 1 capital will include accumulated other comprehensive income (which includes all unrealized gains and losses on available for sale debt and equity securities), subject to a two-year transition period.

The new capital requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk-weights (from 0% to up to 600%) for equity exposures.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule becomes effective on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019.

It is management's belief that, as of December 31, 2014, the Company and the Bank would have met all capital adequacy requirements under Basel III on a fully phased-in basis if such requirements were currently effective.

STEGMAN
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND
MANAGEMENT CONSULTANTS SINCE 1913

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
New Windsor Bancorp, Inc.
New Windsor, Maryland

We have audited the accompanying consolidated financial statements of New Windsor Bancorp, Inc. (the "Company") which comprise the consolidated statements of condition as of December 31, 2014 and 2013, and for the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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

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

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Member AGN

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Windsor Bancorp, Inc. as of December 31, 2014 and 2013, and the results of their operations and its cash flows for each of the three years ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland
March 17, 2015

NEW WINDSOR BANCORP, INC.

Consolidated Statements of Condition

	December 31,	
	2014	2013
ASSETS		
Cash and due from banks	**$ 2,386,775**	$ 2,522,340
Interest-bearing deposits in other banks	**4,810,394**	2,276,632
Federal funds sold and other overnight investments	**-**	-
Investment securities available-for-sale, at fair value	**33,807,111**	50,372,738
Loans held for sale	**1,907,080**	1,256,000
Loans	**231,750,646**	214,662,719
Less: Allowance for credit losses	**(3,486,895)**	(3,464,811)
Loans, net	**228,263,751**	211,197,908
Premises and equipment, net	**8,087,391**	8,159,241
Other real estate owned	**121,225**	269,243
Deferred income taxes	**1,459,587**	1,543,504
Accrued interest receivable and other assets	**1,799,765**	1,595,999
Total assets	**$ 282,643,079**	$ 279,193,605
LIABILITIES		
Noninterest-bearing deposits	**$ 60,066,858**	$ 52,381,910
Interest-bearing deposits	**179,997,609**	193,083,239
Total deposits	**240,064,467**	245,465,149
Short-term debt	**16,680,154**	9,631,853
Long-term debt	**10,500,000**	10,500,000
Accrued interest payable and other liabilities	**1,072,584**	761,785
Total liabilities	**268,317,205**	266,358,787
STOCKHOLDERS' EQUITY		
Common stock - $.01 par value; 10,000,000 shares authorized; 583,772 and 583,046 shares issued and outstanding as of 2014 and 2013, respectively	**5,840**	5,832
Surplus	**9,176,891**	9,163,560
Retained earnings	**5,190,359**	3,995,058
Accumulated other comprehensive loss	**(47,216)**	(329,632)
Total stockholders' equity	**14,325,874**	12,834,818
Total liabilities and stockholders' equity	**$ 282,643,079**	$ 279,193,605

See accompanying notes to consolidated financial statements.

NEW WINDSOR BANCORP, INC.

Consolidated Statements of Operations

	For the Years Ended December 31,		
	2014	2013	2012
INTEREST INCOME			
Interest and fees on loans	**$ 10,597,509**	$ 9,925,793	$ 10,652,850
Interest on deposits in other banks	**5,381**	18,833	32,240
Interest on federal funds sold and other overnight investments	**-**	9,190	9,484
Interest on investment securities:			
Taxable	**530,704**	512,740	403,087
Tax-exempt	**38,104**	43,902	36,854
Total interest income	**11,171,698**	10,510,458	11,134,515
INTEREST EXPENSE			
Interest on deposits	**1,359,174**	2,173,594	2,727,603
Interest on short-term debt	**37,853**	1,955	1,728
Interest on long-term debt	**759,504**	759,504	759,504
Total interest expense	**2,156,531**	2,935,053	3,488,835
Net interest income	**9,015,167**	7,575,405	7,645,680
Provision for credit losses	**110,000**	145,000	731,000
Net interest income after provision for credit losses	**8,905,167**	7,430,405	6,914,680
NONINTEREST INCOME			
Service charges on deposit accounts	**683,906**	863,522	910,968
(Loss) gain on sale of AFS investment securities	**(37,406)**	908	189
Asset management income	**290,663**	263,371	190,140
Mortgage banking revenue	**360,686**	410,307	381,591
VISA Check Card fee income	**440,630**	423,120	425,203
Net gain on sale of ORE	**40,200**	17,699	176,047
Other income	**280,885**	288,302	344,775
Total noninterest income	**2,059,564**	2,267,229	2,428,913
NONINTEREST EXPENSE			
Salaries and employee benefits	**4,571,574**	4,466,359	4,386,815
Net occupancy expense	**950,892**	861,492	831,769
Equipment expense	**668,218**	749,042	773,046
Marketing	**82,347**	79,334	68,715
Operating supplies	**59,397**	67,390	59,848
Outside services and data processing fees	**1,282,896**	1,184,731	986,504
Telecommunications	**219,378**	186,178	193,467
Directors' fees	**121,409**	99,150	90,800
Net loss on other real estate owned	**27,907**	47,124	73,562
Other loan expense	**159,212**	91,413	224,177
FDIC insurance assessment	**356,534**	368,124	360,950
Other expense	**474,317**	489,045	438,310
Total noninterest expense	**8,974,081**	8,689,382	8,487,963
Income before income tax expense	**1,990,650**	1,008,252	855,630
Income tax expense	**795,349**	405,976	348,944
NET INCOME	**$ 1,195,301**	$ 602,276	$ 506,686
Per Share Data:			
Net income - basic and diluted	**$ 1.95**	$ 0.98	$ 0.83
Cash dividends paid	**$ -**	$ -	$ -
Average shares outstanding	**612,950**	611,754	610,655

See accompanying notes to consolidated financial statements.

NEW WINDSOR BANCORP, INC.

Consolidated Statements of Comprehensive Income

	For the Years Ended December 31,		
	2014	2013	2012
Net Income	**$ 1,195,301**	$ 602,276	$ 506,686
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during period	**428,973**	390,641	(121,983)
Reclassification adjustment for net (losses) gains included in net income	**(37,406)**	908	189
Other comprehensive income (loss), before tax:	**466,379**	389,733	(122,172)
Income tax effect	**183,963**	153,730	(48,191)
Other comprehensive income (loss), net of tax	**282,416**	236,003	(73,981)
TOTAL COMPREHENSIVE INCOME	**$ 1,477,717**	$ 838,279	$ 432,705

See accompanying notes to consolidated financial statements

NEW WINDSOR BANCORP, INC.

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2014, 2013 and 2012

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 1, 2012	$ 5,812	$9,128,223	$2,886,096	$ 22,835	$12,042,966
Net income			506,686		506,686
Unrealized net gain on investment securities net of reclassification adjustment				236,003	236,003
Issuance of additional shares	9	13,617			13,626
Balances at December 31, 2012	5,821	9,141,840	3,392,782	258,838	12,799,281
Net income			602,276		602,276
Unrealized net loss on investment securities, net of reclassification adjustment				(588,470)	(588,470)
Issuance of additional shares	11	21,720			21,731
Balances at December 31, 2013	5,832	9,163,560	3,995,058	(329,632)	12,834,818
Net income			1,195,301		1,195,301
Unrealized net gain on investment securities, net of reclassification adjustment				282,416	282,416
Issuance of additional shares	8	13,331			13,339
Balances at December 31, 2014	**$ 5,840**	**$9,176,891**	**$5,190,359**	**$ (47,216)**	**$14,325,874**

See accompanying notes to consolidated financial statements.

NEW WINDSOR BANCORP, INC.
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net income	**$ 1,195,301**	$ 602,276	$ 506,686
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**423,320**	499,752	520,114
Provision for credit losses	**110,000**	145,000	731,000
Deferred income taxes	**(97,802)**	70,269	803,482
Originations of loans held for sale	**(13,773,350)**	(13,926,921)	(14,227,670)
Proceeds from sales of loans held for sale	**13,430,840**	14,131,438	15,131,434
Net gain on sale of loans held for sale	**(308,569)**	(349,017)	(312,344)
Net loss on disposal/sale of premises and equipment	**37**	555	1,992
Net (loss) gain on sale of AFS investment securities	**37,406**	(908)	(189)
Net loss (gain) on sale/writedown of other real estate owned	**(12,225)**	46,590	(102,485)
Net deferred gain on sale of other real estate owned	**-**	-	(17,165)
Net loss (gain) on sale/writedown of repossessed assets	**-**	4,629	(645)
Net changes in:			
Accrued interest receivable and other assets	**(203,767)**	383,228	151,035
Accrued interest payable and other liabilities	**310,799**	52,631	(63,152)
Net cash provided by operating activities	**1,111,990**	1,659,522	3,122,093
Cash Flows from Investing Activities:			
Proceeds from maturities, calls and principal payments of investment securities - AFS	**8,987,214**	8,215,432	9,123,763
Proceeds from sales of investment securities - AFS	**8,427,342**	-	-
Purchases of investment securities - AFS	**(422,200)**	(17,735,506)	(27,202,151)
Decrease (increase) in interest bearing deposits in other banks	**(2,533,762)**	5,298,964	13,695,820
Decrease (increase) in federal funds sold and other overnight investments	**-**	4,459,274	(504,140)
Increase in loans, net	**(17,465,874)**	(16,243,449)	(5,038,909)
Proceeds from sales of other real estate owned	**450,274**	118,347	1,913,612
Purchase of premises and equipment	**(351,507)**	(160,287)	(322,880)
Proceeds from sales of premises and equipment	**-**	-	1,500
Net cash used in investing activities	**(2,908,513)**	(16,047,225)	(8,333,385)
Cash Flows from Financing Activities:			
(Decrease) increase in deposits	**(5,400,682)**	793,971	6,170,550
Increase (decrease) in short-term debt, net	**7,048,301**	9,094,667	(100,103)
Issuance of additional shares of common stock	**13,339**	21,731	13,626
Cash dividends paid	**-**	-	-
Net cash provided by financing activities	**1,660,958**	9,910,369	6,084,073
Net (decrease) increase in Cash and Due from Banks	**(135,565)**	(4,477,334)	872,781
Cash and Due from Banks at Beginning of Year	**2,522,340**	6,999,674	6,126,893
Cash and Due from Banks at End of Year	**$ 2,386,775**	$ 2,522,340	$ 6,999,674
Supplemental Cash Information:			
Cash payments for interest	**$ 2,129,884**	$ 2,899,093	$ 3,457,479
Cash payments for income taxes	**930,710**	514,000	-
Loans transferred to other real estate owned	**290,031**	269,243	116,312

See accompanying notes to consolidated financial statements.

NEW WINDSOR BANCORP, INC.

Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of New Windsor Bancorp, Inc. (the "Bancorp") and its wholly owned subsidiaries, New Windsor State Bank (the "Bank"), New Windsor Holdings, LLC and New Windsor Capital Trust I referred collectively as the "Company". All significant intercompany balances and transactions between the parent corporation and its subsidiaries have been eliminated. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and to general practices within the banking industry. We have evaluated subsequent events for potential recognition or disclosure through the date of the audit report date.

Nature of Operations

The Company, through its bank subsidiary, conducts full service commercial banking operations in Carroll County, Maryland. The primary financial services provided include real estate, commercial and consumer lending as well as offering demand deposits and savings products. The Company, through a broker/dealer relationship, also offers full service brokerage products such as mutual funds, annuities, insurance as well as stocks and bonds.

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 revenue and expense during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, other than temporary impairment of investment securities and deferred tax assets.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks.

Investment Securities

Available-for-Sale:

Marketable equity securities and debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are acquired as part of the Company's asset/liability management strategy and may be sold in response to changes in interest rates, loan demand or deposit balances, changes in prepayment risk and other factors. Securities available-for-sale are carried at fair value, with unrealized gains or losses based on the difference between amortized cost and fair value reported as accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of deferred tax. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income. Related interest and dividends are included in interest income. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Federal Home Loan Bank:

The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Atlanta (the "FHLB") in varying amounts based on balances of outstanding home loans and on amounts borrowed from the FHLB. Because no ready market exists for this stock and it has no quoted fair value, the Bank's investment in this stock is carried at cost.

Loans Held for Sale

The Company engages in sales of residential mortgage loans and loans guaranteed by the Small Business Administration that are originated by the Bank. Loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Operations.

When the Company retains the servicing rights to collect and remit principal and interest payments, manage escrow account matters and handle borrower relationships on mortgage loans sold, resulting service fee income is included in noninterest income. The Company's current practice is to sell loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing at either December 31, 2014 or December 31, 2013.

Loans

Loans are stated at their principal balance outstanding, net of unearned income. Interest income on most loans is accrued at the contractual rate based on the principal outstanding. The Company generally places loans, except for consumer loans, on non-accrual when payments are 90 days past due. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer installment loans are not placed on nonaccrual, but are charged off when they are 90 days past due.

Loans are considered impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once payments become 90 days or more past due and they are placed on nonaccrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogeneous credits such as residential real estate, consumer installment loans, and commercial leases, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the Company's impairment on such loans is measured by reference to the fair value of the collateral. Payments on nonaccrual loans are first applied against the principal balance outstanding. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses represents an amount which, in management's opinion, is sufficient to absorb probable losses on existing loans. Management's determination of the adequacy of the allowance is based on a periodic evaluation of the portfolio with consideration given to the overall loss experience; current economic conditions; volume, growth and composition of the loan portfolio; financial condition of the borrowers; and other relevant factors that, in management's judgment, warrant recognition in providing an adequate allowance. Determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows and collateral values on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience and consideration of economic trends, all of which may be susceptible to significant change. The allowance is increased by provisions for credit losses charged against income and decreased by charge-offs (net of recoveries). Changes in the allowance are recorded periodically as conditions change or as more information becomes available. Such future changes could result in material adjustments to future results of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The allowance for credit losses consists of a specific component and a nonspecific component. The components of the allowance for credit losses represent an estimation done pursuant to either Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 450 "Contingencies" or ASC Topic 310 "Receivables". The specific component of the allowance for credit losses reflects expected losses resulting from analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on a regular analysis of all loans where the internal credit rating is at or below a predetermined classification. The historical credit loss element is determined statistically using a loss migration analysis that examines loss experience. The factors used to adjust the historical loss experience address various risk characteristics of the Company's loan portfolio including (1) trends in delinquencies and other nonperforming loans, (2) results of independent loan reviews, (3) changes in the categories of loans comprising the loan portfolio, (4) concentrations of loans to specific industry segments, (5) changes in economic conditions on both a local and national level, (6) changes in the Company's credit administration and loan portfolio management processes, and (7) quality of the Company's credit risk identification processes.

The nonspecific portion of the allowance is determined based on management's assessment of general economic conditions, as well as specific economic factors in the individual markets in which the Company operates. This determination inherently involves a higher risk of uncertainty and considers current risk factors that may not have yet manifested themselves in the Company's historical loss factors used to determine the allocated component of the allowance and it recognizes knowledge of the portfolio may be incomplete.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are expensed as incurred.

The following are the general guidelines for useful lives:

Buildings and building improvements	39-50 years
Leasehold improvements	lesser of useful life or lease term
Furniture, fixtures and equipment	5-7 years
Computer hardware and software	3-5 years

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at the lower of the recorded investment or fair value less estimated costs of disposal at the date of foreclosure. Costs relating to the development and improvement of property are capitalized, whereas costs relating to the holding of the property are expensed. Valuations are periodically performed by management and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value less estimated costs to sell.

Repossessed Assets

Assets acquired through repossession are initially recorded at the lower of the recorded investment or fair value less estimated costs of disposal at the date of repossession. Costs related to the repair of the asset are capitalized whereas costs relating to the holding of the asset are expensed. Valuations are periodically performed by management and an allowance for losses is established by a charge to operations if the carrying value of the asset exceeds its estimated fair value less estimated costs to sell.

Transfers of Financial Assets

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Income Taxes

The Company files a consolidated federal income tax return with its bank subsidiary. Income tax expense is based on the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. Deferred income taxes are reflected at currently enacted income tax rates applicable to the period in which deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred income taxes are adjusted through the provision for income taxes. Any deferred tax asset is reduced by the amount of any tax benefit that more likely than not will not be realized.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by taxing authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Income Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year including any potential dilutive common stock equivalents outstanding, such as options and warrants.

All previously reported items have been restated to reflect the 5% stock dividend, in the form of a stock split, declared on January 20, 2015 to shareholders of record on January 30, 2015 and payable on February 13, 2015.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for interim and annual periods beginning after December 15, 2014. Adoption of ASU 2014-04 is not expected to have a significant impact on the Company's financial statements.

In May 2014, the FASB and the international Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would : (1) Remove inconsistencies and weaknesses in revenue requirements; (2) Provide a more robust framework for addressing revenue issues; (3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets: (4) Provide more useful information to users of financial statements through improved disclosure requirements; and (5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, The FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA and VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure; (2) At the time of foreclosure, the creditor has the intent to convey the real property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU No. 2014-14 is effective for the interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-14 is not expected to have a material impact on the Company's financial statements.

2. FAIR VALUE MEASUREMENTS

FASB ASC Topic 825 "Financial Instruments" provides guidance on the fair value option for financial assets and liabilities. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

ASC Topic 820, *Fair Value Measurements* clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC Topic 820, fair value measurements are not adjusted for transaction costs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described below.

Level 1	Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

2. FAIR VALUE MEASUREMENTS (cont.)

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by ASC Topic 820, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified as Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.
Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently,

OREO is carried at the lower of carrying value or fair value. The estimated fair value for other real estate owned included in Level 3 is determined by independent market based appraisals and other available market information, less cost to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of the collateral deteriorates subsequent to initial recognition, the Company records the OREO as a non-recurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

2. FAIR VALUE MEASUREMENTS (cont.)

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of December 31, 2014 and 2013.

	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014:				
Investment securities, available-for-sale:				
U.S. Treasury securities and obligations of U.S. government agencies	**$22,625,954**	**$ -**	**$22,625,954**	**$ -**
Obligations of states and political subdivisions	**2,539,574**	**-**	**2,539,574**	**-**
Residential mortgage-backed securities	**7,403,813**	**-**	**7,403,813**	**-**
FHLB stock	**971,600**	**-**	**971,600**	**-**
Other equity securities	**266,170**	**266,170**	**-**	**-**
Total investment securities available-for-sale	**$33,807,111**	**$ 266,170**	**$33,540,941**	**$ -**
Loans held for sale	**$ 1,907,080**	**$ -**	**$ 1,907,080**	**$ -**
December 31, 2013:				
Investment securities, available-for-sale				
U.S. Treasury securities and obligations of U.S. government agencies	$35,824,798	$ -	$35,824,798	$ -
Obligations of states and political subdivisions	3,737,403	-	3,737,403	-
Residential mortgage-backed securities	10,019,939	-	10,019,939	-
FHLB stock	549,400	-	549,400	-
Other equity securities	241,198	241,198	-	-
Total investment securities available-for-sale	$50,372,738	$ 241,198	$50,131,540	$ -
Loans held for sale	$ 1,256,000	$ -	$ 1,256,000	$ -

2. FAIR VALUE MEASUREMENTS (cont.)

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2014 and 2013.

	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014:				
Other real estate owned	**$ 121,225**	**$ -**	**$ -**	**$ 121,225**
Repossessed assets	**-**	**-**	**-**	**-**
Impaired loans, net:				
Construction and land development	**-**	**-**	**-**	**-**
Residential real estate - mortgage	**5,158,171**	**-**	**-**	**5,158,171**
Commercial real estate - mortgage	**3,635,856**	**-**	**-**	**3,635,856**
Commercial and industrial	**713,336**	**-**	**-**	**713,336**
Consumer	**4,639**	**-**	**-**	**4,639**
Total impaired loans, net	**$ 9,512,002**	**$ -**	**$ -**	**$ 9,512,002**
December 31, 2013:				
Other real estate owned	$ 269,243	$ -	$ -	$ 269,243
Repossessed assets	-	-	-	-
Impaired loans, net:				
Construction and land development	-	-	-	-
Residential real estate - mortgage	4,761,716	-	-	4,761,716
Commercial real estate - mortgage	6,998,845	-	-	6,998,845
Commercial and industrial	920,930	-	-	920,930
Consumer	20,561	-	-	20,561
Total impaired loans, net	$12,702,052	$ -	$ -	$12,702,052

2. FAIR VALUE MEASUREMENTS (cont.)

The following table provides a reconciliation of all assets measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013.

	Other Real Estate Owned	Repossessed Assets	Impaired Loans
Balance at January 1, 2013	$ 164,937	$ 11,070	$13,510,772
Total net gains (losses) for the year included in:			
Net gain on sale of other real estate owned	17,699	-	-
Net loss on sale of repossessed assets	-	(4,629)	
Valuation adjustment	(47,124)	-	-
Net sales	(135,512)	(6,441)	-
Net transfers in (out)	269,243	-	(808,720)
Balance at December 31, 2013	269,243	-	12,702,052
Total net gains (losses) for the year included in:			
Net gain on sale of other real estate owned	40,200	-	-
Valuation adjustment	(27,975)	-	-
Net sales	(450,274)	-	-
Net transfers in (out)	290,031	-	(3,190,050)
Balance at December 31, 2014	**$ 121,225**	**$ -**	**$ 9,512,002**

3. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities available-for-sale at December 31 are as follows:

2014	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. Treasury securities and obligations of U.S. government agencies	**$22,843,540**	**$ 38,298**	**$ 255,884**	**$22,625,954**
Obligations of states and political subdivisions	**2,519,740**	**20,959**	**1,126**	**2,539,574**
Residential mortgage-backed securities	**7,349,276**	**63,231**	**8,694**	**7,403,813**
Total debt securities	**32,712,555**	**122,488**	**265,703**	**32,569,341**
FHLB stock	**971,600**	**-**	**-**	**971,600**
Other equity securities	**207,442**	**58,728**	**-**	**266,170**
Total investment securities available-for-sale	**$33,891,597**	**$ 181,216**	**$ 265,703**	**$33,807,111**

2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$36,425,973	$ 79,318	$ 680,493	$35,824,798
Obligations of states and political subdivisions	3,798,495	20,400	81,492	3,737,403
Residential mortgage-backed securities	9,940,050	90,583	10,694	10,019,939
Total debt securities	50,164,518	190,301	772,679	49,582,140
FHLB stock	549,400	-	-	549,400
Other equity securities	207,442	33,756	-	241,198
Total investment securities available-for-sale	$50,921,360	$ 224,057	$ 772,679	$50,372,738

The amortized cost and fair value of debt securities at December 31, 2014 by contractual maturity are shown in the following chart. 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	**Estimated Fair Value**
Due in one year or less	**$ 4,004,747**	**$ 4,014,835**
Due after one year through five years	**17,852,292**	**17,732,370**
Due after five years through ten years	**3,371,703**	**3,283,524**
Due after ten years	**134,537**	**134,799**
Residential mortgage-backed securities	**7,349,276**	**7,403,813**
Total debt securities	**$32,712,555**	**$32,569,341**

3. INVESTMENT SECURITIES (cont.)

Gross unrealized losses and fair value by length of time that the individual available-for-sale debt securities have been in a continuous unrealized loss position at December 31 are as follows:

2014		**Continuous Unrealized Losses Existing for:**		**Total**
	Estimated Fair Value	**Less Than 12 Months**	**More Than 12 Months**	**Unrealized Losses**
U.S. Treasury securities and obligations of U.S. government agencies	**$12,922,384**	**$ 16,302**	**$ 239,582**	**$ 255,884**
Obligations of states and political subdivisions	**264,150**	**1,126**	**-**	**1,126**
Residential mortgage-backed securities	**895,183**	**8,694**	**-**	**8,694**
	$14,081,717	**$ 26,122**	**$ 239,582**	**$ 265,704**

2013		Continuous Unrealized Losses Existing for:		Total
	Estimated Fair Value	Less Than 12 Months	More Than 12 Months	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government agencies	$20,757,036	$ 658,973	$ 21,520	$ 680,493
Obligations of states and political subdivisions	1,773,949	70,273	11,219	81,492
Residential mortgage-backed securities	1,973,469	10,638	56	10,694
	$24,504,454	$ 739,884	$ 32,795	$ 772,679

There were twenty-nine securities with unrealized losses as of December 31, 2014 and fifty-three securities as of December 31, 2013. The unrealized losses on debt securities are the result of market changes in interest rates since the original purchase. This factor coupled with the fact the Company has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available-for-sale portfolio are temporary. The Company does not believe it is more likely than not that it will be required to sell these securities before the anticipated recovery in value.

Sales of investment securities in 2014 resulted in proceeds of $8,427,000 with gross gains of $35,000 and gross losses of $73,000. There were no sales of investment securities in 2013 or 2012.

At December 31, 2014 and 2013, investments available-for-sale with a carrying value of $22,533,000 and $15,570,000, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. government and U.S. government agency securities, exceeded ten percent of stockholders' equity at December 31, 2014 and 2013.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Company's loan portfolio is broken down into segments to an appropriate level of disaggregation to allow management to monitor the performance by the borrower and to monitor the yield on the portfolio consistent with the provisions of ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses*. At December 31, loans were as follows:

	2014	2013
Construction and land development	**$ 10,378,415**	$ 6,857,887
Residential real estate - mortgage	**88,953,470**	90,060,368
Commercial real estate - mortgage	**120,360,006**	92,428,428
Commercial and industrial	**9,028,058**	21,450,632
Consumer	**3,030,697**	3,865,404
Total loans	**$ 231,750,646**	$ 214,662,719

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont.)

The risks associated with lending activities differ among the various loan types and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions. All of these factors may adversely impact the borrower's ability to repay its loans and impact the associated collateral.

Construction and land development loans consist of 1-4 family residential and commercial construction and land development loans. The risk of loss on these loans is largely dependent on the Company's ability to assess the property's value at the completion of the project which should exceed the property's construction costs. During the construction phase, a number of factors could potentially negatively impact the collateral value, including cost overruns, delays in completing the project, competition and real estate market conditions which may change based on the supply of similar properties in the area. In the event the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, the Company must rely upon other repayment sources, including the guarantors of the project or other collateral securing the loan. The Company attempts to mitigate credit risk through strict underwriting standards including evaluation of the credit worthiness of the borrower and their success in other projects, aggressive release fees, adequate loan-to-value ratios and continual monitoring of the project during its construction phase to determine the impact that overruns and delays may have on the project.

Residential real estate – mortgage includes mortgage loans with the underlying 1-4 family or multifamily residential property (primarily owner-occupied) securing the credit. The Company's risk exposure is minimized in these types of loans through the evaluation of the credit worthiness of the borrower, including credit scores and debt-to-income ratios and underwriting standards which limits the loan-to-value ratio to generally no more than 80% unless the borrower obtains private mortgage insurance. The Company sells the majority of its fixed rate residential mortgage originations in the secondary market and does not retain the servicing.

Residential real estate – mortgage also includes home equity loans and lines of credit. These present a slightly higher risk to the Company than 1-4 family first lien mortgages as they can be first or second liens on the underlying property. However, these loans are generally limited with respect to loan-to-value ratios and the credit worthiness of the borrower is considered including credit scores and debt-to-income ratios.

Commercial real estate – mortgage includes various types of loans which have differing levels of credit risk associated with them. Owner-occupied commercial real estate loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy. In order to minimize this credit risk, the Company has conservative underwriting standards which include the credit worthiness of the borrower, a limitation on loan amounts to the value of the property securing the loan, and strong debt service coverage ratios. Non-owner occupied commercial real estate loans present a different credit risk to the Company than owner-occupied commercial real estate, as the repayment of the loan is dependent upon the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirement and operating expenses. Lower occupancy or lease rates may result in reduction in cash flows, which hinder the ability of the borrower to meet debt service requirements, and may result in lower collateral values. The Company generally follows the same underwriting standards for these loans as with owner-occupied commercial real estate, but recognizes the greater risk inherent in these credit relationships in its loan pricing and loan-to-value requirements.

Commercial and industrial loans include advances to local and regional businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be in the form of either lines of credit or term loans. Although commercial and industrial loans may be unsecured to the highest rated borrowers, the majority of these loans are secured by the borrower's accounts receivable, inventory and machinery and equipment. In a majority of these loans, the collateral also includes the business owner's personal guarantee as well as personal real estate and assets. Commercial and industrial loans present credit exposure to the Company as they are susceptible to risk of loss during a downturn in the economy, as the borrower may have greater difficulty in meeting their debt service requirements and the value of collateral may decline. The Company attempts to mitigate this risk through strict underwriting standards, including evaluation of the credit worthiness of the borrower. Additionally, monitoring of the loans through annual renewals and meetings with the borrowers are common. However, these procedures cannot eliminate the risk of losses associated with these loans.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont.)

Consumer loans consist primarily of automobile loans made on both a direct and indirect basis. The credit risk of these loans is mitigated through conservative underwriting standards, including evaluation of the credit worthiness of the borrower's credit scores and debt-to-income ratios, and the collateral value of the assets securing the loan. Though some loans are done on an unsecured basis, the majority are secured. However, the value of the collateral on these loans may depreciate quickly or may fluctuate and thus present a greater risk to the Company than 1-4 family residential loans.

In order to monitor ongoing risk associated with its loan portfolio and specific credits within the segments, management uses an eight point internal grading system. Management generally follows regulatory definitions in assigning criticized ratings to loans, including substandard, doubtful or loss. The first four rating categories, representing the lowest risk to the Company, are combined and given a "Pass" rating. The "Special Mention" category includes loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Bank's position at some future date. These assets pose elevated risk, but their weakness does not yet justify a more severe, or criticized rating. "Substandard" loans are classified as they have a well-defined weakness, or weaknesses that jeopardize liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. "Substandard" loans include loans that management has determined not to be impaired, as well as loans considered to be impaired. A "doubtful" loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification of loss is deferred. "Loss" assets are considered uncollectible, as the underlying borrowers are often in bankruptcy, have suspended debt repayments, or ceased business operations. Once a loan is classified as "Loss", there is little prospect of collecting the loan's principal or interest and it is generally written off.

The Company has a loan review policy and program which is designed to reduce and control risk in the lending function. This includes the monitoring of the lending activities of all bank personnel with respect to underwriting and processing new loans and the timely follow-up and corrective action for loans showing signs of deterioration in quality. The loan review program provides the Company with an internal, independent review of the loan portfolio on an ongoing basis. Third-party loan reviews are completed annually and involve a representative sample of the Bank's entire loan portfolio. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as extended delinquencies, bankruptcy, repossession or death of the borrower occurs, which heightens awareness as to a possible credit event.

The following summarizes the Bank's ratings based on its internal risk rating system as of December 31:

2014

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction and land development	**$ 10,378,415**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 10,378,415**
Residential real estate - mortgage	**85,978,942**	**252,175**	**2,722,353**	**-**	**-**	**88,953,470**
Commercial real estate - mortgage	**116,678,485**	**436,551**	**3,244,970**	**-**	**-**	**120,360,006**
Commercial and industrial	**8,639,337**	**-**	**388,721**	**-**	**-**	**9,028,058**
Consumer	**3,027,747**	**-**	**2,950**	**-**	**-**	**3,030,697**
Total	**$224,702,926**	**$ 688,726**	**$ 6,358,994**	**$ -**	**$ -**	**$231,750,646**

2013

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction and land development	$ 6,857,887	$ -	$ -	$ -	$ -	$ 6,857,887
Residential real estate - mortgage	87,446,865	-	2,613,503	-	-	90,060,368
Commercial real estate - mortgage	86,065,942	-	6,362,486	-	-	92,428,428
Commercial and industrial	19,794,486	-	1,656,146	-	-	21,450,632
Consumer	3,858,298	-	7,106	-	-	3,865,404
Total	$204,023,478	$ -	$ 10,639,241	$ -	$ -	$214,662,719

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont.)

Classified loans may also be evaluated for impairment. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Nonaccrual loans and troubled debt restructures are, by definition, deemed to be impaired. Impairment is measured on a loan-by-loan basis by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. For loans that are deemed to be impaired for extended periods of time, periodic updates on fair values are obtained, which may include updated appraisals. The updated fair values will be incorporated into the impairment analysis as of the next reporting period. In the event an updated appraisal that requires a higher impairment reserve is received after a reporting period, but prior to the issuance of the financial statements, an evaluation is made as to the significance of the difference and whether the amounts need to be reflected in the financial statements not yet issued.

Loan charge-offs, which may include, from time-to-time, a partial charge-off, are taken on an impaired loan that is collateral dependent if the loan's carrying balance exceeds its collateral's appraised value, the loan has been identified as uncollectible, and it is deemed to be a confirmed loss. Typically, impaired loans with a charge-off or partial charge-off will continue to be considered impaired, unless the note is split into two, and management expects the performing note to continue to perform and is adequately secured. The second, or non-performing note, would be charged-off. Further, an impaired loan with a partial charge-off may continue to have an impairment reserve on it after the partial charge-off, if factors warrant.

As of December 31, 2014 and 2013, nearly all of the Company's impaired loans' extent of impairment was measured based on the estimated fair value of the collateral securing the credit. Impairment on troubled debt restructurings that are following the revised terms of the loan are determined based on discounted cash flows. For real estate loans, collateral generally consists of commercial real estate, but in the case of commercial and industrial loans, it would also consist of accounts receivable, inventory, equipment or other business assets. Commercial and industrial loans may also have real estate collateral.

At the time a real estate-secured loan is deemed impaired, management determines whether an updated valuation of the real estate is necessary to assist in determining the extent of an impairment reserve, if any. The decision, whether an updated appraisal is required, takes into consideration the age of the most recent appraisal, the loan-to-value ratio based on the original certified appraisal, the Company's recent experience and knowledge of market conditions, recent list prices or broker opinions, the condition of the property, and environmental factors. If market conditions have changed significantly from the date of the most recent appraisal, an updated appraisal will be obtained. The "as is value" provided in the appraisal is often used as the fair value of the collateral in determining impairment, unless circumstances, such as subsequent improvements, approvals, or other circumstances dictate that another value provided by the appraiser is more appropriate.

Generally, impaired loans secured by real estate were measured at fair value using certified real estate appraisals that had been completed within the last year. Appraised values are further discounted for estimated costs to sell the property and other selling considerations to arrive at the properties' fair value.

Collateral on certain impaired loans is not limited to real estate, and may include accounts receivable, inventory, equipment or other business assets. Estimated fair values are determined based on borrowers' financial statements, inventory ledgers, accounts receivable agings or appraisals from individuals with knowledge in the business. Stated balances are generally discounted for the age of the financial information or the quality of the assets. In determining fair value, liquidation discounts are applied to this collateral based on existing loan evaluation policies.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont.)

The Company distinguishes Substandard loans on both an impaired and non-impaired basis, as it places less emphasis on a loan's classification, and increased reliance on whether the loan was performing in accordance with the contractual terms. "Substandard" classification does not automatically meet the definition of "impaired". A substandard credit is one that is inadequately protected by current sound worth, paying capacity of the obligor or the collateral pledged, if any. Extensions of credit so classified have well-defined weaknesses which may jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard credits, does not have to exist in individual extensions of credit classified substandard. The Company evaluates certain accruing commercial real estate, acquisition and development and commercial and industrial loans rated "substandard" collectively as opposed to evaluating these loans individually as impaired. Although these loans have well defined weaknesses and meet the definition of "substandard", they are generally performing and management has concluded that it is likely it will be able to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement.

The following table presents information relating to impaired loans as of December 31:

2014	**Construction and land development**	**Residential real estate - mortgage**	**Commercial real estate - mortgage**	**Commercial and industrial**	**Consumer**	**Total**
Recorded investment at year end:						
With specific reserve	**$ -**	**$ 3,421,081**	**$ 1,418,669**	**$ 328,901**	**$ 1,278**	**$ 5,169,929**
With no specific reserve	**-**	**2,220,281**	**2,487,030**	**590,264**	**3,866**	**5,301,441**
Total	**$ -**	**$ 5,641,362**	**$ 3,905,699**	**$ 919,165**	**$ 5,144**	**$ 10,471,370**
Allowance for credit losses relating to all impaired loans	**$ -**	**$ 483,191**	**$ 269,843**	**$ 205,829**	**$ 505**	**$ 959,368**
Average recorded investment	**$ -**	**$ 5,789,361**	**$ 7,268,721**	**$ 1,260,056**	**$ 11,217**	**$ 14,329,355**
Interest income recognized for time that loans were impaired	**$ -**	**$ 167,793**	**$ 323,173**	**$ 44,607**	**$ 825**	**$ 536,398**

2013	Construction and land development	Residential real estate - mortgage	Commercial real estate - mortgage	Commercial and industrial	Consumer	Total
Recorded investment at year end:						
With specific reserve	$ -	$ 4,053,412	$ 3,741,597	$ 713,346	$ 11,594	$ 8,519,949
With no specific reserve	-	1,312,356	3,682,574	577,462	9,688	5,582,080
Total	$ -	$ 5,365,768	$ 7,424,171	$ 1,290,808	$ 21,282	$ 14,102,029
Allowance for credit losses relating to all impaired loans	$ -	$ 604,052	$ 425,326	$ 369,878	$ 721	$ 1,399,977
Average recorded investment	$ -	$ 6,306,455	$ 7,820,130	$ 1,443,597	$ 27,204	$ 15,597,386
Interest income recognized for time that loans were impaired	$ -	$ 130,898	$ 346,352	$ 41,766	$ 2,203	$ 521,219

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont.)

The following presents impaired loans that are troubled debt restructurings as of December 31:

	2014		2013	
	Number of Loans	**Recorded Investment at Year-End**	Number of Loans	Recorded Investment at Year-End
Accruing				
Construction and land development	-	$ -	-	$ -
Residential real estate - mortgage	22	2,869,114	18	2,223,493
Commercial real estate - mortgage	11	3,433,427	12	5,871,794
Commercial and industrial	4	592,400	1	529,009
Consumer	2	5,144	4	17,081
Total	39	$ 6,900,085	35	$ 8,641,377
Nonaccruing				
Construction and land development	-	$ -	-	$ -
Residential real estate - mortgage	10	1,220,487	10	1,319,543
Commercial real estate - mortgage	-	-	1	836,726
Commercial and industrial	1	241,041	7	619,223
Consumer	-	-	-	-
Total	11	$ 1,461,528	18	$ 2,775,492

Management further monitors the performance and credit quality of the loan portfolio by analyzing the length of time a portfolio is past due, by aggregating loans based on its delinquencies. The following table presents the loan portfolio summarized by aging categories of performing loans and nonaccrual loans as of December 31:

2014

		Days Past Due					
	Current	**30-59**	**60-89**	**90+ (still accruing)**	**Total Past Due**	**Non-Accrual**	**Total Loans**
Construction and land development	$ 10,202,537	$ 175,878	$ -	$ -	$ 175,878	$ -	$ 10,378,415
Residential real estate - mortgage	85,601,921	184,071	807,353	-	991,424	2,360,125	88,953,470
Commercial real estate - mortgage	120,360,006	-	-	-	-	-	120,360,006
Commercial and industrial	8,705,485	-	81,532	-	81,532	241,041	9,028,058
Consumer	3,004,920	24,499	1,278	-	25,777	-	3,030,697
Total	$ 227,874,869	$ 384,448	$ 890,163	$ -	$ 1,274,611	$ 2,601,166	$ 231,750,646

2013

		Days Past Due					
	Current	30-59	60-89	90+ (still accruing)	Total Past Due	Non-Accrual	Total Loans
Construction and land development	$ 6,857,887	$ -	$ -	$ -	$ -	$ -	$ 6,857,887
Residential real estate - mortgage	86,567,960	548,891	751,684	-	1,300,575	2,191,833	90,060,368
Commercial real estate - mortgage	91,262,861	328,841	-	-	328,841	836,726	92,428,428
Commercial and industrial	20,431,103	400,307	-	-	400,307	619,222	21,450,632
Consumer	3,829,952	31,299	-	-	31,299	4,153	3,865,404
Total	$ 208,949,763	$ 1,309,338	$ 751,684	$ -	$ 2,061,022	$ 3,651,934	$ 214,662,719

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont.)

An analysis of the allowance for credit losses for each of the past three years is presented in the following table:

	2014	2013	2012
Allowance balance, beginning	**$ 3,464,811**	$ 3,618,367	$ 4,322,086
Recoveries:			
Construction and land development	**149,512**	-	-
Residential real estate - mortgage	**8,610**	4,727	60
Commercial real estate - mortgage	**500**	-	-
Commercial and industrial	**15,347**	12,263	31,622
Consumer	**15,668**	15,357	23,854
Total gross recoveries	**189,637**	32,347	55,536
Charge-offs:			
Construction and land development	**-**	-	(351,425)
Residential real estate - mortgage	**(85,282)**	(218,566)	(460,196)
Commercial real estate - mortgage	**(101,740)**	-	(165,388)
Commercial and industrial	**(76,163)**	(106,309)	(490,063)
Consumer	**(14,368)**	(6,028)	(23,183)
Total gross charge-offs	**(277,553)**	(330,903)	(1,490,255)
Net charge-offs	**(87,916)**	(298,556)	(1,434,719)
Provision for credit losses	**110,000**	145,000	731,000
Allowance balance, ending	**$ 3,486,895**	$ 3,464,811	$ 3,618,367

5. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31 is presented in the accompanying table:

	2014	2013
Land and land improvements	**$ 2,658,196**	$ 2,658,196
Buildings and improvements	**7,153,481**	7,094,118
Furniture, fixtures and equipment	**4,702,838**	4,429,327
	14,514,515	14,181,641
Less: Accumulated depreciation and amortization	**6,427,124**	6,022,400
Premises and equipment, net	**$ 8,087,391**	$ 8,159,241

The Company conducts a portion of its banking operations from two leased facilities. In addition, both leases include provisions for additional payments to cover taxes, insurance and maintenance. Rent expense was $239,351, $233,794 and $231,534 for 2014, 2013 and 2012, respectively.

Future minimum rental commitments under noncancellable leases are as follows:

2015	$ 209,547
2016	213,366
2017	217,338
2018	221,469
2019	160,972
Thereafter	1,399,205
Total	$ 2,421,897

6. DEPOSITS

Deposits are summarized as follows at December 31:

	2014	2013
Noninterest-bearing demand deposits	**$ 60,066,858**	$ 52,381,910
Interest-bearing deposits:		
Demand	**16,805,372**	17,471,245
Passbook and statement savings	**38,384,999**	36,817,011
Money market savings	**49,781,689**	50,184,811
Time deposits:		
$100,000 or more	**32,298,964**	33,800,076
Less than $100,000	**42,726,585**	54,810,096
Total interest bearing deposits	**179,997,609**	193,083,239
Total deposits	**$240,064,467**	$ 245,465,149

Time deposit maturities for the Company at December 31 are as follows:

	2014		2013	
	Amount	**% of Total**	Amount	% of Total
6 months and less	**$ 14,649,581**	**20%**	$ 12,567,166	14%
7 months to 12 months	**23,504,209**	**31%**	23,816,315	27%
13 months to 24 months	**14,807,502**	**20%**	27,945,370	31%
25 months to 36 months	**10,065,661**	**13%**	14,748,195	17%
37 months to 48 months	**4,032,864**	**5%**	5,459,072	6%
Over 48 months	**7,965,732**	**11%**	4,074,054	5%
Total time deposits	**$ 75,025,549**	**100%**	$ 88,610,172	100%

7. SHORT-TERM DEBT

Information relating to short-term debt is as follows for the years ended December 31:

	2014		2013	
	Amount	**Rate**	Amount	Rate
At Year-End:				
Retail repurchase agreements	**$ 680,154**	**0.10%**	$ 631,853	0.25%
Other short-term debt	**16,000,000**	**0.23%**	9,000,000	0.29%
	$16,680,154		$ 9,631,853	
Average for the Year:				
Retail repurchase agreements	**$ 573,555**	**0.18%**	$ 509,596	0.25%
Other short-term debt	**15,650,780**	**0.24%**	143,904	0.42%
Maximum Month-End Balance:				
Retail repurchase agreements	**$ 680,154**	**0.10%**	$ 631,853	0.25%
Other short-term debt	**21,000,000**	**0.22%**	9,000,000	0.29%

7. SHORT-TERM DEBT (cont.)

Repurchase agreements are bank-owned securities sold to a customer with the agreement that the same securities will be repurchased at a predetermined price. This agreement becomes an outstanding obligation and is considered a form of debt or borrowing. The product is offered only to commercial customers who meet certain criteria and are a relatively low-cost funding source for the Company. The Company pledged U.S. government agency securities, based upon their market values of $1,006,000 as collateral for the principal and accrued interest of its repurchase agreements as of December 31, 2014.

Other short-term debt includes federal funds purchased, which is overnight, unsecured debt from other banks with interest rates that change daily. At various times the Company borrows federal funds due to fluctuations in loan demand and deposit balances. The Company had federal funds lines with correspondent banks totaling $2,000,000 with no balance outstanding at year-end 2014 or 2013.

The Company is also a member of the Federal Home Loan Bank of Atlanta (the "FHLB") and has credit availability under which it may borrow up to $33,919,000 at interest rates based upon current market conditions. This facility is secured by one- to four-family residential mortgage loans held in the Company's portfolio. There was $16,000,000 and $5,000,000 outstanding at December 31, 2014 and 2013, respectively.

The Company also had secured lines of credit available with correspondent banks of $9,500,000 with no balance outstanding at December 31, 2014 and $4,000,000 outstanding at December 31, 2013.

8. LONG-TERM DEBT

At December 31, the Company had long-term debt outstanding as follows:

	2014	2013
6.39% fixed rate junior subordinated debentures, issued June 2005, maturing June 2035	**$ 5,000,000**	$ 5,000,000
8.00% fixed rate junior subordinated debentures, issued 2010, maturing June 2020	**5,500,000**	5,500,000
	$ 10,500,000	$ 10,500,000

On June 23, 2005, New Windsor Capital Trust I (the "Trust I"), a Delaware business trust formed, funded and wholly owned by the Company, issued $5,000,000 of 6.39% fixed rate capital securities to institutional investors in a private pooled transaction. The proceeds were transferred to the Company as junior subordinated debt ("2035 junior subordinated debentures") under the same terms and conditions. The Company then contributed the full amount to the Bank in the form of Tier 1 capital. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Trust I's obligations with respect to the capital securities.

Under applicable regulatory guidelines, a portion of the capital securities qualify as Tier I capital, and the remaining portion will qualify as Tier II capital. Under applicable regulatory guidelines, $4,786,000 of the outstanding capital securities qualify as Tier I capital and $214,000 of the capital securities qualify as Tier II capital at December 31, 2014.

The 2035 junior subordinated debentures are the sole assets of the Trust I and carry a fixed rate of 6.39%. Both the capital securities of the Trust I and the junior subordinated debentures are scheduled to mature on June 23, 2035, unless called by the Company at 100% of the principal amount.

Commencing June 1, 2010, the Company offered $5,500,000 of 8.00% fixed rate junior subordinated debentures ("2020 junior subordinated debentures") in a private placement offering. The Company completed the issuance on December 29, 2010 and contributed the majority of the proceeds to the Bank in the form of Tier I capital.

Under applicable regulatory guidelines, the 2020 junior subordinated debentures qualify as Tier II capital but a portion (20%) will be excluded each year starting in 2015, the fifth year prior to the maturity date.

The 2020 junior subordinated debentures are scheduled to mature on June 1, 2020, unless called by the Company at 100% of the principal amount not earlier than June 1, 2015.

9. INCOME TAXES

At December 31, income taxes were comprised of the following:

	2014	2013	2012
Current:			
Federal	**$ 676,236**	$ 243,315	$ (441,970)
State	**208,423**	93,393	(57,619)
Total current expense (benefit)	**884,659**	336,708	(499,589)
Deferred:			
Federal	**(72,008)**	53,294	690,840
State	**(17,302)**	15,974	157,693
Total deferred	**(89,310)**	69,268	848,533
Total income tax expense	**$ 795,349**	$ 405,976	$ 348,944

Temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities result in deferred taxes. Deferred tax assets and liabilities, shown as the sum of the appropriate tax effect for each significant type of temporary difference, are presented below as of December 31:

	2014	2013
Deferred tax assets:		
Allowance for credit losses	**$1,010,633**	$ 981,766
Unrealized loss on other real estate owned	**11,035**	-
Unrealized loss on investment securities - available-for-sale	**45,014**	218,242
Deferred compensation	**117,737**	96,639
Depreciation	**96,914**	73,643
Other	**179,712**	174,672
Gross deferred tax assets	**1,461,045**	1,544,962
Deferred tax liabilities:		
Other	**1,458**	1,458
Gross deferred tax liabilities	**1,458**	1,458
Net deferred tax assets	**$1,459,587**	$ 1,543,504

Reconciliation between income tax expense (benefit) and taxes computed at the maximum statutory federal rate is as follows:

	2014	2013	2012
Federal statutory income tax rate	**34.0 %**	34.0 %	34.0 %
Increase (decrease) resulting from:			
Tax-exempt interest income	**(0.6)**	(1.3)	(1.3)
State income taxes, net of federal income tax benefit	**6.4**	7.2	7.7
Other	**0.2**	0.4	0.4
Effective tax rate	**40.0 %**	40.3 %	40.8 %

10. RELATED PARTY TRANSACTIONS

During the ordinary course of business, the Company makes loans 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.

The following schedule summarizes changes in amounts of loans outstanding, both direct and indirect, to these persons:

	2014	2013
Balance at January 1	**$ 5,857,242**	$ 2,096,115
Additions	**1,006,147**	1,395,000
Repayments	**(750,146)**	(499,364)
Change in relationship with Company, net	**(311,383)**	2,865,491
Balance at December 31	**$ 5,801,860**	$ 5,857,242

11. COMMITMENTS AND CONTINGENCIES

The Company is 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 consist of commitments to extend credit and standby letters of credit. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2014 and 2013, in addition to the undisbursed portion of loans receivable, the Company had outstanding loan commitments of $31,550,000 and $30,788,000, respectively. These commitments are normally met from deposit growth, loan payments, excess liquidity, or borrowed money.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These guarantees are issued primarily to support construction borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds cash or a secured interest in real estate as collateral to support those commitments for which collateral is deemed necessary. Standby letters of credit outstanding at December 31, 2014 and 2013 were $1,962,000 and $2,055,000, respectively.

12. EMPLOYEE BENEFIT PLANS

(a) Profit Sharing Plan

The Company has a 401(k) profit sharing plan, which covers substantially all employees with more than 90 days of service and at least 1,000 hours of service during the plan year. Employer contributions to the plan are at the discretion of the Board of Directors. During a portion of 2012, the Company discontinued its contributions to the plan and then reduced its matching percentage when reinstituted later in the year. Plan expense amounted to $57,291, $25,486 and $11,879 for 2014, 2013 and 2012, respectively.

(b) Stock Incentive Plan (as amended and renamed from Stock Option Plan)

The Company had a stock incentive plan, which provided for the granting of options to acquire common stock to employees and directors. The plan provided for the ability to grant options to purchase up to 45,000 shares over the ten years following the plan's adoption by the Board in 2002. The exercise price of all options granted under the plan were to be at least the fair market value of the common stock as of the day of grant. The fair market value of the common stock was determined by the Board, based upon such factors as it believed to be relevant. As of the expiration of the plan in 2012, no stock options were granted.

(c) Deferred Compensation Plan

On January 18, 2005, the Company established a deferred compensation plan. Under this plan, directors and certain key employees are allowed to defer their fees to purchase company stock. Up to 26,250 shares of stock may be issued under this plan and all shares are held in trust. Each director and employee may elect to defer up to 100% of the director fees and qualified bonus, respectively. Upon separation from service with the Company, a participant may elect to receive either shares of stock, cash or a combination thereof. As of December 31, 2014, 12,219 shares of common stock have been purchased under this plan, of which 10,029 were purchased from the Company.

(d) 2002 Employee Stock Purchase Plan

On March 12, 2002, the Company established an employee stock purchase plan which provided for the issuance of short-term options to all eligible employees, which had to be exercised, if at all, before the end of February of the calendar year following the year in which the option was granted. The number of shares that an employee was able to purchase was based upon a percentage of the employee's salary for the prior year, as determined by the Board of Directors. 15,000 shares of common stock were reserved for the plan for a period of ten years from inception. No options were granted to employees during 2012. During 2011, 5,802 options to purchase common stock were granted to employees. These options had an exercise price reflecting a 15% discount to the market price at date of grant. However, compensation expense related to the discount was not recognized because substantially all employees that met limited employment qualifications could participate in the plan on an equitable basis. The plan incorporated no option features since the purchase price was based solely on the market price of the shares at the date of purchase, and employees were permitted to cancel participation before the purchase date and obtain a refund of amounts previously paid and the discount from the market price did not exceed the per-share amount of share issuance costs that would have been incurred to raise a significant amount of capital by a public offering.

During 2012, no options were exercised. There were no options outstanding as of December 31, 2012. Under ASC Topic 718 "Stock Compensation", the fair value of options granted to employees must be recorded in the financial statements. The Company has determined that the fair value of the options granted under this plan was not material to the 2012 or 2011 consolidated financial statements.

The plan expired in 2012.

12. EMPLOYEE BENEFIT PLANS (cont.)

(e) 2012 Employee Stock Purchase Plan

On April 17, 2012, the Company's shareholders approved a proposal to adopt the 2012 Employee Stock Purchase Plan. The purpose of the plan is to provide employees of the Company with an additional employee benefit by providing them an opportunity to acquire a proprietary interest in the Company through the purchase of shares of the Company's common stock. The plan is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The plan will purchase shares of the Company's common stock for participants either directly from the Company (either from its authorized and unissued shares of common stock or its issued but not outstanding shares of common stock), in the open market, or in privately negotiated transactions. The maximum number of shares of common stock that the plan may purchase directly from the Company will be 26,250. The plan can continue in effect for a term of ten years.

An employee electing to participate in the plan may do so by authorizing deductions to be taken from his or her paycheck during an offering period up to a maximum of ten percent (10%) of his or her compensation. The plan is broken down into four periods called "offering periods" starting on January 1st, April 1st, July 1st and October 1st. The amount accumulated for each employee through payroll deduction during an offering period will be used to purchase shares of the Company's common stock at the end of the offering period. In determining the price of the shares sold, the Compensation Committee determines the fair market value of the Company's shares using a method allowed by the Internal Revenue Code. The Committee may, but is not required to, offer the shares at a discount not to exceed fifteen percent (15%). No employee may purchase more than $25,000 worth of the Company's common stock under the plan during any one calendar year. The Company's board of directors may at any time amend or terminate the plan, except that no amendment may be made without the approval of the shareholders, if such amendment would (1) increase the maximum number of common stock that may be issued under the plan, or (2) amend the requirements as to the class of employees eligible to purchase stock under the plan.

During 2014 and 2013, the plan purchased 296 and 440 shares, respectively, of the Company's stock. No shares were purchased from the Company. The Company held, as a liability of the Company, funds on behalf of employees participating in the plan of $2,024 at December 31, 2014 and $22 at December 31, 2013.

13. REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2014 that the Bank meets all capital adequacy requirements to which they are subject. As of December 31, 2014, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

13. REGULATORY MATTERS (cont.)

Regulatory capital amounts and ratios for the Company and the Bank are as follows:

	Actual		Minimum Requirements for Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital (to risk-weighted assets):						
Consolidated	**$27,570,000**	**12.25%**				
New Windsor State Bank	**27,888,000**	**12.37%**	**$18,036,000**	**8.00%**	**$22,545,000**	**10.00%**
Tier 1 capital (to risk-weighted assets):						
Consolidated	**19,035,000**	**8.46%**				
New Windsor State Bank	**25,063,000**	**11.12%**	**9,015,000**	**4.00%**	**13,523,000**	**6.00%**
Tier 1 capital (to average assets):						
Consolidated	**19,035,000**	**6.79%**				
New Windsor State Bank	**25,063,000**	**8.93%**	**11,226,000**	**4.00%**	**14,033,000**	**5.00%**
December 31, 2013						
Total capital (to risk-weighted assets):						
Consolidated	$26,101,000	12.57%				
New Windsor State Bank	26,390,000	12.69%	$16,637,000	8.00%	$20,796,000	10.00%
Tier 1 capital (to risk-weighted assets):						
Consolidated	17,379,000	8.37%				
New Windsor State Bank	23,779,000	11.43%	8,322,000	4.00%	12,482,000	6.00%
Tier 1 capital (to average assets):						
Consolidated	17,379,000	6.30%				
New Windsor State Bank	23,779,000	8.61%	11,047,000	4.00%	13,809,000	5.00%

Bank and holding company regulations, as well as Maryland law, impose certain restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Bancorp. At December 31, 2014, the Bank could have paid dividends of approximately $24,287,000 to its parent company from undivided profits and, with the prior consent and approval of the Commissioner of Financial Regulation, from surplus in excess of $450,000, after providing for expenses, losses, interest and taxes accrued or due.

On July 12, 2013, the Bancorp entered into a loan agreement with the Bank to refinance the remaining balances on existing loans with the bank. The loan is for $2,300,000 with a maturity date of July 1, 2038 and monthly payments of principal and interest. The interest rate is fixed for the first ten years at 5.00% and then a floating rate of interest equal to prime rate. The note is secured by the mortgage on 222 East Baltimore Street, Taneytown, Maryland, which is the Company's Taneytown branch location.