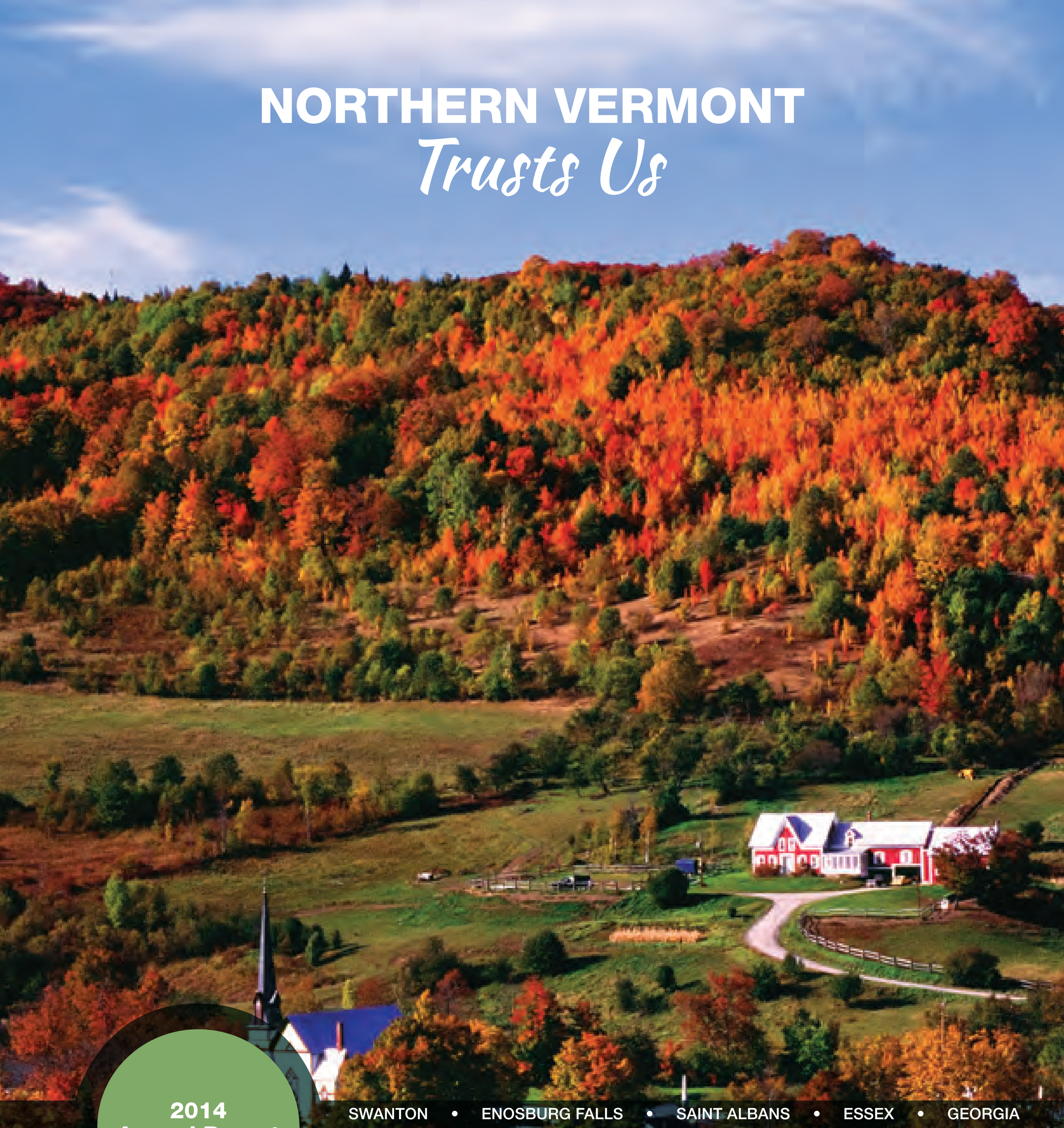
NORTHERN VERMONT
Trusts Us



2014
Annual Report

SWANTON • ENOSBURG FALLS • SAINT ALBANS • ESSEX • GEORGIA

PEOPLES TRUST
Company

The bank with a *heart.*

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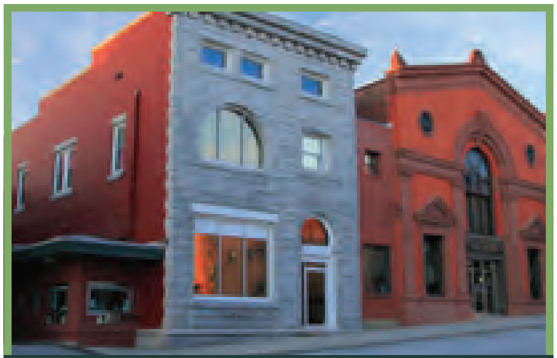

SAINT ALBANS - MAIN OFFICE

SAINT ALBANS

ESSEX

ENOSBURG

GEORGIA

SWANTON

PEOPLES TRUST Company
The bank with a *heart.*

March 15, 2015

Dear Peoples Trust Company Shareholder:

Enclosed you will find a copy of the 2014 Peoples Trust Company Audited Financial Report. I am pleased to provide you with this information and to acknowledge that the bank saw significant financial improvement in virtually all areas from the same time period in 2013. From a local economic standpoint, we continue to see improvement in many industries in Northwest Vermont. Our community members and customer base remain cautiously optimistic and while many business sectors show signs of progress, there is still uncertainty in our marketplace as the economy continues to recover.

Peoples Trust Company's financial improvement came as a direct result of improvement in the quality of the loan portfolio and the significant reduction in funding of the loan loss reserve. In 2014, the bank allocated $416,000 to the provision for loan losses. While we have seen dramatic reduction in delinquency and non-performing loans over the past two years, we continue to give focus to this area. The bank remains committed to providing opportunities to the businesses and consumers of Northwestern Vermont and is equally committed to insuring that loan growth is high quality and profitable.

Total Assets of the company increased by over 3% to close out the year at $255,820,417. Despite the Asset growth, the loan portfolio saw a decrease from 2013. New loan growth was offset by the collection and reduction of substandard credits as the bank continues with its strategy to improve the quality of the loan portfolio.

At the end of 2014 we began a process to improve the efficiency of the bank and allow for an expedited response to customer requests and an overall improved customer experience. I expect the customer base will see the full benefit of these changes in 2015. Additionally, we are focusing on products and services that provide value to all customer demographics, with particular attention focused on Retail/Consumer products in the year ahead.

Finally, while all banks refer to enhancing the shareholder value, Peoples Trust Company has given particular attention in this area with greater communication efforts and other forthcoming benefits. Earnings per share at year end 2014 was $1.54 while the book value of Peoples Trust Company stock increased to $47.66/share. The bank's capital ratios continue to exceed the regulatory standard of a well-capitalized institution.

On behalf of all of us at Peoples Trust Company, I want to thank you for your support and I look forward to seeing many of you at the upcoming annual shareholders meeting in April.

Sincerely,

Thomas J. Gallagher

Thomas J. Gallagher
President/CEO
Peoples Trust Company

PEOPLES TRUST COMPANY OF ST. ALBANS

FINANCIAL REPORT

DECEMBER 31, 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Peoples Trust Company of St. Albans
St. Albans, Vermont

We have audited the accompanying financial statements of Peoples Trust Company of St. Albans which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Trust Company of St. Albans as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

A. M. Peisch & Company, LLP

Rutland, VT
February 18, 2015
VT Reg. No. 92-0000102

PEOPLES TRUST COMPANY OF ST. ALBANS
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 7,241,567	$ 12,777,536
Interest bearing deposits with banks	19,333,033	10,925,093
Federal funds sold	500,000	500,000
Securities available-for-sale	68,394,647	58,602,119
Securities held-to-maturity	994,526	1,030,644
FHLB Stock, At Cost	392,000	392,000
Loans held for sale	323,554	-
Loans receivable, net	144,648,089	148,255,061
Premises and equipment, net	7,349,215	7,391,171
Other Real Estate Owned, net	-	97,280
Accrued interest receivable	934,060	924,526
Bank owned life insurance	3,240,787	3,141,115
Other assets	2,468,939	3,475,674
Total assets	$ 255,820,417	$ 247,512,219
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand deposits	$ 66,769,140	$ 60,604,592
Savings, NOW, and money market deposits	100,958,223	96,883,641
Time deposits over $100,000	15,594,580	16,955,238
Other time deposits	37,233,425	38,739,717
Total deposits	220,555,368	213,183,188
Repurchase Agreements	3,280,486	4,131,003
Accrued interest payable and other liabilities	650,074	556,854
Total liabilities	224,485,928	217,871,045
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock - $0.50 par value; 2,000,000 shares authorized; 657,456 shares issued and outstanding in 2014 and 2013, respectively	328,728	328,728
Additional paid-in capital	8,381,685	8,381,685
Retained earnings	22,214,955	21,569,592
Accumulated other comprehensive income (loss)	409,121	(638,831)
Total shareholders' equity	31,334,489	29,641,174
Total liabilities and shareholders' equity	$ 255,820,417	$ 247,512,219

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Interest income:		
Interest and fees on loans	$ 8,100,073	$ 8,196,611
Interest and dividends on investment securities:		
U.S. Government and Agencies	473,071	359,719
Other investments	840,899	629,799
Interest on federal funds sold and other interest bearing deposits	30,402	32,749
Total interest income	9,444,445	9,218,878
Interest expense		
Interest on deposits	698,140	793,794
Interest on repurchase agreements	10,954	11,068
Total interest expense	709,094	804,862
Net interest income	8,735,351	8,414,016
Less provision for loan losses	416,000	2,302,000
Net interest income after provision for loans losses	8,319,351	6,112,016
Other income		
Service charges on deposit accounts	353,279	384,197
Other service charges and fees	232,294	325,879
Interchange fees	724,512	615,516
Gain on sale of loans	391,807	654,606
Gain on sale of OREO	6,466	28,542
Other income	307,328	276,716
Total other income	2,015,686	2,285,456
Other expenses		
Salaries and employee benefits	5,254,337	5,181,861
Occupancy and equipment expense	1,403,161	1,372,775
FDIC insurance premium	327,417	194,304
Other expense	2,346,223	2,466,652
Total other expenses	9,331,138	9,215,592
Income (loss) before income taxes	1,003,899	(818,120)
Income tax benefit	(9,639)	(574,785)
Net income (loss)	$ 1,013,538	$ (243,335)
Earnings (loss) per common share	$ 1.54	$ (0.37)

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Net Income (loss)	$ 1,013,538	$ (243,335)
Other comprehensive income (loss):		
Unrealized gains (loss) on securities:		
Unrealized holding gains (losses) arising during period	1,587,806	(2,121,512)
Tax effect	(539,854)	721,314
Other comprehensive income (loss), net of tax:	1,047,952	(1,400,198)
Comprehensive income (loss)	$ 2,061,490	$ (1,643,533)

See notes to financial statements

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2013	$ 328,728	$ 8,381,685	$ 22,141,655	$ 761,367	$ 31,613,435
Net Loss	-	-	(243,335)	-	(243,335)
Other comprehensive loss	-	-	-	(1,400,198)	(1,400,198)
Cash dividends paid	-	-	(328,728)	-	(328,728)
Balance, December 31, 2013	$ 328,728	$ 8,381,685	$ 21,569,592	$ (638,831)	$ 29,641,174
Net Income	-	-	1,013,538	-	1,013,538
Other comprehensive income	-	-	-	1,047,952	1,047,952
Cash dividends paid	-	-	(368,175)	-	(368,175)
Balance, December 31, 2014	$ 328,728	$ 8,381,685	$ 22,214,955	$ 409,121	$ 31,334,489

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,013,538	$ (243,335)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	380,679	340,043
Provision for loan loss	416,000	2,302,000
Net change in deferred taxes	(272,878)	833,330
Net change in accrued taxes payable	1,105,305	(1,408,114)
Gain on the sale of loans	(391,807)	(654,606)
Loss on disposals of premises and equipment	1,800	9,846
Gain on the sale of OREO, net	(6,466)	(28,542)
Amortization, net	732,001	728,452
(Increase) decrease in loans held for sale	(323,554)	1,169,678
Decrease in deferred loan fees	2,757	12,523
Increase in accrued interest receivable	(9,534)	(62,700)
Decrease in prepaid FDIC	-	266,960
Increase in bank owned life insurance	(99,672)	(105,362)
Increase in other assets	(154,788)	(436,053)
Increase (decrease) in accrued expenses and other liabilities	(117,538)	520,829
Net cash provided by operating activities	2,275,843	3,244,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(14,142,819)	(26,387,936)
Proceeds from sales, maturities, and paydowns of securities available-for-sale	5,206,096	12,679,020
Proceeds from maturities of securities held-to-maturity	36,118	34,058
(Increase) decrease in interest bearing balances at banks	(8,407,940)	12,533,698
Decrease in federal funds sold	-	734,000
Loan originations, net of repayments	3,000,575	(7,267,954)
Recoveries of loans charged off	351,163	79,501
Purchase of premises and equipment	(340,523)	(397,608)
Proceeds from sales of other real estate owned	332,030	506,636
Net cash used by investing activities	(13,965,300)	(7,486,585)

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in demand, savings, NOW and money market	10,239,130	11,595,616
Net Decrease in in time deposits	(2,866,950)	(2,853,572)
Net Increase (decrease) in repurchase agreements	(850,517)	823,136
Dividends paid	(368,175)	(328,728)
Net cash provided by financing activities	6,153,488	9,236,452
Net increase (decrease) in cash and cash equivalents	(5,535,969)	4,994,816
Cash and cash equivalents		
Beginning	12,777,536	7,782,720
Ending	$ 7,241,567	$ 12,777,536
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 710,672	$ 813,001
Income taxes (refunds)	$ (842,067)	$ -
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans	$ 228,284	$ 184,480
Total change in unrealized gain (loss) on securities available-for-sale	$ 1,587,806	$ (2,121,512)

PEOPLES TRUST COMPANY OF ST. ALBANS
NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

The accounting policies of Peoples Trust Company of St. Albans (the Bank) are in conformity with U. S. generally accepted accounting principles and general practices within the banking industry. The following is a description of the more significant policies.

Nature of operations

The Bank provides a variety of financial services to individuals, municipalities, commercial, and non-profit customers through its branches in northwestern Vermont, which is primarily a small business and agricultural area. The Bank's primary deposit products are checking and savings accounts and certificates of deposit. Its primary lending products are commercial, real estate, agricultural, and consumer loans.

Concentration of risk

The Bank's operations are affected by various risk factors, including interest-rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Bank. In addition, the Bank is a community bank and, as such, is mandated by the Community Reinvestment Act and other regulations to conduct most of its lending activities within the geographic area where it is located. Although the Bank has a diversified loan portfolio and economic conditions are stable, a substantial portion of its loan portfolio is secured by real estate and most of its lending activities are conducted in northern Vermont. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy and real estate market conditions. Note 3 discusses the types of investments the Bank invests in, and Note 5 discusses the type of lending the Bank engages in.

Use of estimates

In preparing financial statements in conformity with U. S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, accumulated depreciation based on estimated useful lives of assets, the valuation of foreclosed real estate, and deferred tax assets.

Note 1. **Significant Accounting Policies** (Continued)

Presentation of cash flows

For purposes of presentation in the statements of cash flows, cash and cash equivalents include cash on hand and amounts due from banks (including cash items in process of clearing).

Fair value measurements

The Bank utilizes the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, as guidance for accounting for assets and liabilities carried at fair value. This standard defines fair value as the price that would be received, without adjustment for transaction costs, to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The guidance in FASB ASC Topic 820 establishes a three-level fair value hierarchy, which prioritized the inputs in measuring fair value. 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 three levels of the fair value hierarchy are:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Level one assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities;
- Level 2 – Valuation is based on inputs other than quoted prices included within level one that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability;
- Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level three assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

Investment securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank, the Bank is required to invest in $100 par value stock of the Federal Home Loan Bank. The stock is nonmarketable and is carried at cost. When redeemed, the Bank will receive from the Federal Home Loan Bank an amount equal to the par value of the stock.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses and unearned fees. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Sales are made primarily without recourse. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loan interest income is accrued daily on the outstanding balances. Accrual of interest is discontinued when a loan is specifically determined to be impaired or when the loan is delinquent 90 days and management believes that, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the related loan's yield using methods that approximate the interest method. The Bank is generally amortizing these amounts over the contractual life.

Note 1. Significant Accounting Policies (Continued)

Allowance for loan losses

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, and trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Subsequent recoveries, if any, are credited to the allowance.

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. Impaired loans may also include loans which have been restructured. A troubled debt restructuring occurs when the Bank grants a concession to a borrower, for legal or economic reasons, that is experiencing financial difficulties. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis, primarily for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not generally identify individual consumer and residential loans for impairment disclosures, unless those loans are subject to restructuring agreements or are part of a larger impaired customer relationship.

Bank premises and equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the related assets. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred and the cost of major renewals and betterments are capitalized.

Note 1. Significant Accounting Policies (Continued)

Other real estate owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its costs or fair value less cost to sell.

Mortgage servicing

The Bank recognizes, as separate assets, rights to service mortgage loans for others however those servicing rights are acquired. When the Bank acquires mortgage servicing rights through either the purchase or origination of mortgage loans (originated mortgage servicing rights) and sells or securitizes those loans with servicing rights retained, it allocates the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. To determine the fair value of the servicing rights created, the Bank uses the market prices under comparable servicing sale contracts. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate.

Pension plan

The Bank maintains a contributory 401(k) pension plan covering all employees who meet certain age and service requirements. Contributions to the plan are voluntary by the eligible participants up to certain limits. Employee contributions are matched dollar for dollar for every dollar contributed up to six percent of the participant's salary. Contributions to the plan by the Bank for the years ended December 31, 2014 and 2013 amounted to $185,309 and $181,675, respectively.

Advertising costs

The Bank expenses advertising costs as incurred.

Income taxes

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Bank's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such assets. Historic rehabilitation and new markets tax credits are recognized as a reduction of income tax expense in the years they are earned.

Note 1. **Significant Accounting Policies** (Continued)

Generally accepted accounting standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management reviews the inventory of tax positions taken at each reporting period to assess the more-likely-than-not recognition threshold. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Off-balance-sheet financial instruments

In the ordinary course of business the Bank is party to off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Earnings per common share

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period, retroactively adjusted for stock splits. The weighted average shares outstanding were 657,456 for the years ended December 31, 2014 and 2013, respectively.

Transfer and servicing of financial assets

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

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income or in a separate statement. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities are reported net of the tax effect in the statement of comprehensive income.

Note 1. Significant Accounting Policies (Continued)

Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02 *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The standard requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The standard is effective for reporting periods beginning after December 15, 2013. The Company does not expect this standard to have a material effect on the financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The objective of the amendment is to provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. Early adoption is permitted and amendments are to be applied prospectively. The Bank does not expect this standard to have a material effect on the financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this ASU 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 property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this ASU are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The Bank does not expect this standard to have a material effect on the financial statements.

Note 1. Significant Accounting Policies (Continued)

Effective January 1, 2015, the Bank will be subject to a new capital adequacy framework called Basel III. Basel III includes several changes to the capital adequacy guidelines, including a new Common Equity Tier 1 capital requirement, increases in the minimum required Tier 1 risk-based capital ratios, and other changes to the calculation of regulatory capital and risk-weighted assets. Management has evaluated the projected Basel III capital ratios and does not believe the Bank's capital category will change under the new capital adequacy framework.

Note 2. Restrictions on Cash and Due From Banks

The Bank is required to maintain reserve and clearing balances in cash with Bankers Bank Northeast. The totals of the reserve balances were approximately $497,000 and $-0- at December 31, 2014 and 2013, respectively.

The nature of the Bank's business requires that it maintain amounts due from banks, which, at times, may exceed federally insured limits. No losses have been experienced on these accounts.

Note 3. Investment Securities

Securities available-for-sale (AFS) and held-to-maturity (HTM) consist of the following:

AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
U.S. Government				
and Federal Agencies	$ 43,102,215	$ 559,963	$ (155,956)	$ 43,506,222
State and municipal				
securities	24,658,860	437,759	(219,559)	24,877,060
Equity securities	13,692	-	(2,327)	11,365
	$ 67,774,767	$ 997,722	$ (377,842)	$ 68,394,647
December 31, 2013				
U.S. Government				
and Federal Agencies	$ 39,493,768	$ 359,911	$ (697,925)	$ 39,155,754
State and municipal				
securities	20,062,585	151,002	(781,497)	19,432,090
Equity securities	13,692	583	-	14,275
	$ 59,570,045	$ 511,496	$ (1,479,422)	$ 58,602,119

Note 3. Investment Securities (Continued)

HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
State and municipal securities	$ 994,526	-	-	$ 994,526
	$ 994,526	-	-	$ 994,526
December 31, 2013				
State and municipal securities	$ 1,030,644	-	-	$ 1,030,644
	$ 1,030,644	-	-	$ 1,030,644

Included in the caption "Securities AFS: U. S. Government and Federal Agencies" are mortgage-backed securities as follows:

	Amortized Cost	Fair Value
December 31, 2014	$ 18,422,031	$ 18,630,565
December 31, 2013	$ 14,782,049	$ 14,715,061

Proceeds from the sale of securities available-for-sale were $2,500,000 and $9,235,000 in 2014 and 2013, respectively.

Gross realized gains and gross realized losses on sales of investments available-for-sale were $-0- in 2014 and 2013, respectively.

The scheduled maturities of securities-available for sale and securities held-to-maturity at December 31, 2014 were as follows:

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 1,950,332	$ 1,972,889	$ 42,809	$ 42,809
Due from one to five years	15,674,740	15,856,774	177,037	177,037
Due from five to ten years	18,466,709	18,585,711	290,085	290,085
Due in greater than ten years	13,247,263	13,337,343	484,595	484,595
Equity securities	13,692	11,365	-	-
Mortgage-backed securities	18,422,031	18,630,565	-	-
	$ 67,774,767	$ 68,394,647	$ 994,526	$ 994,526

Note 3. **Investment Securities** (Continued)

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Assets, principally securities, with amortized cost of $15,228,290 and $15,489,248 and with fair values of $15,385,377 and $15,514,993 at December 31, 2014 and 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2014						
U.S. Government and Federal agencies	$ 3,352,874	$ (39,170)	$ 9,755,438	$ (116,786)	$ 13,108,312	$ (155,956)
State and municipal governments	1,743,862	(36,759)	9,697,297	(182,800)	11,441,159	(219,559)
Equity securities	11,365	(2,327)	-	-	11,365	(2,327)
Total	$ 5,108,101	$ (78,256)	$ 19,452,735	$ (299,586)	$ 24,560,836	$ (377,842)
December 31, 2013						
U.S. Government and Federal agencies	$ 22,639,065	$ (650,099)	$ 1,665,460	$ (47,826)	$ 24,304,525	$ (697,925)
State and municipal governments	7,619,291	(370,170)	6,412,313	(411,327)	14,031,604	(781,497)
Total	$ 30,258,356	$ (1,020,269)	$ 8,077,773	$ (459,153)	$ 38,336,129	$ (1,479,422)

At December 31, 2014, the seventeen debt securities, one equity security and twenty-seven municipal bonds with unrealized losses have depreciated less than 2% from the Bank's amortized cost basis. These securities are guaranteed by the U. S. or State and municipal governments or other Federal Agencies. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the Federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were $104,000,334 and $102,825,873 at December 31, 2014 and 2013, respectively. The carrying amounts of mortgage service rights which approximate their fair value were $439,451 and $525,372 at December 31, 2014 and 2013, respectively. Mortgage service rights of $100,686 and $193,839 were capitalized in 2014 and 2013, respectively. Amortization of mortgage services rights was $186,607 in 2014 and $148,662 in 2013.

Note 5. Loans

The composition of net loans at December 31 is as follows:

	2014	2013
Residential real estate	$ 64,136,611	$ 62,467,539
Commercial real estate	56,474,270	57,639,386
Commercial	4,847,657	6,141,485
Agricultural real estate	10,562,365	10,576,583
Agricultural	1,288,131	1,113,505
Consumer	1,996,913	2,620,111
Municipal	7,418,636	9,541,195
Gross loans	146,724,583	150,099,804
Net deferred loan costs	42,093	44,850
Allowance for loan losses	(2,118,587)	(1,889,593)
Net loans	$ 144,648,089	$ 148,255,061

A summary of current past due and nonaccrual loans as of December 31, 2014 and 2013 were as follows:

December 31, 2014	**Current**	**30-89 days**	**Over 90 days and accruing**	**Nonaccrual**	**Total**
Residential real estate	$ 60,364,197	$ 1,054,969	$ -	$ 2,717,445	$ 64,136,611
Commercial real estate	51,419,404	1,301,841	-	3,753,025	56,474,270
Commercial	4,682,690	3,766	-	161,201	4,847,657
Agricultural real estate	10,227,346	-	-	335,019	10,562,365
Agricultural	1,288,131	-	-	-	1,288,131
Consumer	1,904,600	81,371	-	10,942	1,996,913
Municipal	6,592,699	825,937	-	-	7,418,636
Total	**$ 136,479,067**	**$ 3,267,884**	**$ -**	**$ 6,977,632**	**$ 146,724,583**

Note 5. **Loans** (Continued)

December 31, 2013	Current	30-89 days	Over 90 days and accruing	Nonaccrual	Total
Residential real estate	$ 58,611,082	$ 1,788,469	$ -	$ 2,067,988	$ 62,467,539
Commercial real estate	52,391,332	617,569	-	4,630,485	57,639,386
Commercial	5,770,400	71,035	-	300,050	6,141,485
Agricultural real estate	10,144,770	93,656	-	338,157	10,576,583
Agricultural	1,105,488	8,017	-	-	1,113,505
Consumer	2,568,253	35,328	-	16,530	2,620,111
Municipal	9,541,195	-	-	-	9,541,195
Total	$ 140,132,520	$ 2,614,074	$ -	$ 7,353,210	$ 150,099,804

Aggregate interest on nonaccrual loans not recognized was $466,277 and $452,937 for the years ended December 31, 2014 and 2013, respectively.

Note 6. Allowance for Loan Losses and Credit Quality

Changes in the Allowance for loan losses for the years ended December 31, 2014 and 2013 were as follows:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural, Consumer and Muncipal	Unallocated	Total
Balance December 31, 2013	$ 624,426	$ 762,700	$ 113,427	$ 234,690	$ 154,350	$ -	$ 1,889,593
Provision for loan losses	(125,371)	578,121	73,524	(141,052)	(4,402)	35,180	416,000
Recoveries of amounts charged off	26,792	295,099	6,357	990	21,926	-	351,164
	525,847	1,635,920	193,308	94,628	171,874	35,180	2,656,757
Amounts charged off	(108,996)	(278,474)	(99,133)	-	(51,567)	-	(538,170)
Balance December 31, 2014	$ 416,851	$ 1,357,446	$ 94,175	$ 94,628	$ 120,307	$ 35,180	$ 2,118,587
Balance December 31, 2012	$ 963,752	$ 562,632	$ 114,461	$ 284,550	$ 169,960	$ 2,284	$ 2,097,639
Provision for loan losses	25,278	2,336,218	(5,938)	(50,066)	(1,208)	(2,284)	2,302,000
Recoveries of amounts charged off	35,462	500	4,904	206	38,429	-	79,501
	1,024,492	2,899,350	113,427	234,690	207,181	-	4,479,140
Amounts charged off	(400,066)	(2,136,650)	-	-	(52,831)	-	(2,589,547)
Balance December 31, 2013	$ 624,426	$ 762,700	$ 113,427	$ 234,690	$ 154,350	$ -	$ 1,889,593

Despite the above allocation, the Allowance for loan losses is general in nature and is available to absorb loss from any loan type.

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

At December 31, 2014 and 2013, the allocation of the Allowance for loan losses summarized on the basis of the Bank's impairment methodology was as follows:

December 31, 2014	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural, Consumer and Municipal	Unallocated	Total
Individually evaluated for impairment	$ 126,185	$ 90,114	$ -	$ 40,970	$ 589	$ -	$ 257,858
Collectively evaluated for impairment	290,666	1,267,332	94,175	53,658	119,718	35,180	1,860,729
Allocated	$ 416,851	$ 1,357,446	$ 94,175	$ 94,628	$ 120,307	$ 35,180	$ 2,118,587
December 31, 2013							
Individually evaluated for impairment	$ 346,060	$ 359,242	$ -	$ 173,302	$ -	$ -	$ 878,604
Collectively evaluated for impairment	278,366	403,458	113,427	61,388	154,350	-	1,010,989
Allocated	$ 624,426	$ 762,700	$ 113,427	$ 234,690	$ 154,350	$ -	$ 1,889,593

The recorded investment in loans summarized on the basis of the Bank's impairment methodology as of December 31, 2014 and 2013 were as follows:

December 31, 2014	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Individually evaluated for impairment	$ 2,229,609	$ 5,236,034	$ 105,271	$ 1,414,076	$ 4,596	$ -	$ 8,989,586
Collectively evaluated for impairment	61,907,002	51,238,236	4,742,386	9,148,289	1,283,535	9,415,549	137,734,997
Allocated	$ 64,136,611	$ 56,474,270	$ 4,847,657	$ 10,562,365	$ 1,288,131	$ 9,415,549	$ 146,724,583
December 31, 2013							
Individually evaluated for impairment	$ 2,258,957	$ 10,135,943	$ 1,505	$ 2,357,031	$ 3,869	$ 7,266	$ 14,764,571
Collectively evaluated for impairment	60,208,582	47,503,443	6,139,980	8,219,552	1,109,636	12,154,040	135,335,233
Allocated	$ 62,467,539	$ 57,639,386	$ 6,141,485	$ 10,576,583	$ 1,113,505	$ 12,161,306	$ 150,099,804

The following table summarizes the loan ratings applied to the Bank's loan types as of December 31, 2014 and 2013:

December 31, 2014	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Satisfactory	$ 59,587,471	$ 40,503,777	$ 4,395,370	$ 4,472,448	$ 998,282	$ 9,367,679	$ 119,325,027
Watch	1,149,923	5,918,971	335,869	3,770,654	285,253	47,630	11,508,300
OAEM	57,504	891,793	-	309,237	4,596	-	1,263,130
Substandard	3,341,713	9,159,729	116,418	2,010,026	-	240	14,628,126
Doubtful	-	-	-	-	-	-	-
Total	$ 64,136,611	$ 56,474,270	$ 4,847,657	$ 10,562,365	$ 1,288,131	$ 9,415,549	$ 146,724,583

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

December 31, 2013	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Satisfactory	58,007,585	43,449,572	4,655,173	3,700,145	838,642	12,148,792	$ 122,799,909
Watch	918,658	3,324,502	1,195,264	4,444,611	187,116	4,537	10,074,688
OAEM	99,500	799,970	-	-	-	-	899,470
Substandard	3,441,796	10,065,342	291,048	2,431,827	87,747	7,977	16,325,737
Doubtful	-	-	-	-	-	-	-
Total	$ 62,467,539	$ 57,639,386	$ 6,141,485	$ 10,576,583	$ 1,113,505	$ 12,161,306	$ 150,099,804

The following is an overview of the Bank's loan rating system:

1-3 Rating – Satisfactory

Risk-rating grades "1" through "3" comprise those loans ranging from lower than average credit risk which indicates borrowers with high liquidity, excellent financial condition, strong management, favorable industry trends or loans secured by highly liquid assets through marginal credit risk, which while credit worthy, exhibit some characteristics which require special attention by the account officer.

4 Rating – Watch

These loans are characterized by adequate collateral but recent declining financial, reporting or management trends such as marginal cash flow, marginal profitability, etc.

5 Rating – Other Assets Especially Mentioned (OAEM)

Special mention assets have potential weaknesses that deserve management's close attention and monitoring until resolved. OAEMs are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification currently but might warrant adverse classification if correction of the weakness does not take place in the short term.

6 Rating – Substandard

Loans rated 6 are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Assets have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

7 Rating - Doubtful

An asset classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable.

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

The following table provides information with respect to impaired loans as of and for the year ended December 31, 2014 and 2013, respectively:

	December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Received
With an allowance recorded:					
Residential real estate	$ 973,928	$ 995,519	$ 126,185		
Commercial real estate	633,451	633,451	90,114		
Commercial	-	-	-		
Agricultural real estate	1,080,598	1,080,598	40,970		
Agricultural	4,596	4,596	589		
Consumer	-	-	-		
	2,692,573	2,714,164	257,858		
With no allowance recorded:					
Residential real estate	1,255,681	1,544,985	-		
Commercial real estate	4,602,583	5,578,651	-		
Commercial	105,271	143,210	-		
Agricultural real estate	333,478	433,733	-		
Agricultural	-	-	-		
Consumer	-	-	-		
	6,297,013	7,700,579	-		
Total:					
Residential real estate	2,229,609	2,540,504	126,185	2,441,091	$ 86,687
Commercial real estate	5,236,034	6,212,102	90,114	7,237,292	299,150
Commercial	105,271	143,210	-	125,153	454
Agricultural real estate	1,414,076	1,514,331	40,970	1,983,779	142,656
Agricultural	4,596	4,596	589	48,687	4,010
Consumer	-	-	-	2,268	213
Total	$ 8,989,586	$ 10,414,743	$ 257,858	$ 11,838,270	$ 533,170

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Received
With an allowance recorded:					
Residential real estate	$ 1,222,759	$ 1,273,316	$ 346,060		
Commercial real estate	1,815,254	1,815,254	359,242		
Commercial	-	-	-		
Agricultural real estate	1,289,824	1,289,824	173,302		
Agricultural	-	-	-		
Consumer	-	-	-		
	4,327,837	4,378,394	878,604		
With no allowance recorded:					
Residential real estate	1,036,198	1,271,897	-		
Commercial real estate	8,320,689	10,130,993	-		
Commercial	1,505	1,505	-		
Agricultural real estate	1,067,207	1,172,540	-		
Agricultural	3,869	3,869	-		
Consumer	7,266	7,266	-		
	10,436,734	12,588,070	-		
Total:					
Residential real estate	2,258,957	2,545,213	346,060	3,473,779	$ 93,089
Commercial real estate	10,135,943	11,946,247	359,242	12,293,789	484,033
Commercial	1,505	1,505	-	79,950	7,564
Agricultural real estate	2,357,031	2,462,364	173,302	2,808,788	168,012
Agricultural	3,869	3,869	-	67,674	5,113
Consumer	7,266	7,266	-	11,722	847
Total	$14,764,571	$ 16,966,464	$ 878,604	$ 18,735,702	$ 758,658

The following table provides information with respect to troubled debt restructurings (TDR) as of and for the year ended December 31, 2014 and 2013, respectively:

	Commercial	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Total
Balance, December 31, 2013	$ 102,216	$ 2,195,456	$ 1,285,756	$ 808,257	$ 4,391,685
Additions	-	646,419	140,186	-	786,605
Charge-off's	-	(49,215)	(56,000)	-	(105,215)
Paydowns	(9,191)	(1,043,073)	(92,441)	(36,896)	(1,181,601)
Balance, December 31, 2014	$ 93,025	$ 1,749,587	$ 1,277,501	$ 771,361	$ 3,891,474

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

	Commercial	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Total
Balance, December 31, 2012	$ 102,216	$ 3,668,444	$ 1,372,880	$ 930,620	$ 6,074,160
Additions	-	405,149	124,497	-	529,646
Charge-off's	-	(1,647,785)	(128,748)	-	(1,776,533)
Paydowns	-	(230,352)	(82,873)	(122,363)	(435,588)
Balance, December 31, 2013	$ 102,216	$ 2,195,456	$ 1,285,756	$ 808,257	$ 4,391,685

During 2014, one residential real estate loan totaling $140,186 and three commercial real estate loans totaling $646,419 were restructured. The residential real estate loan had a rate reduction and extension of terms and had a $5,803 impairment reserve. A commercial loan valued at $160,209 had a rate reduction, terms extended and interest capitalized. This loan had an impairment reserve of $18,059. A commercial loan valued at $365,554 had a rate reduction and is considered adequately secured with no specific loss allocation. Another commercial loan valued at $120,656 was restructured to consolidate the balance of the remaining loans and collateral to end foreclosure. This loan was also considered adequately secured with no specific loss allocation.

During 2013, two loans were restructured. A residential real estate loan had a 1% rate reduction and one commercial real estate loan had an advance for expenses. The residential loan has a $63,000 impairment while the commercial real estate loan is considered adequately secured with no specific loss allocation. The commercial real estate loan was delinquent 47 days as of December 31, 2013.

At December 31, 2014 and 2013, the Bank was not committed to lend any additional funds to borrowers whose loans were nonperforming, impaired or restructured.

Note 7. Bank Premises and Equipment

The major classes of bank premises and equipment and the total accumulated depreciation at December 31 are as follows:

	2014	2013
Land and land improvements	$2,179,659	$2,179,659
Building and improvements	7,215,594	7,216,861
Furniture and equipment	3,864,615	3,701,544
	13,259,868	13,098,064
Less accumulated depreciation	5,910,653	5,706,893
	$7,349,215	$7,391,171

Depreciation included in occupancy and equipment expense amounted to $380,679 and $340,043 for the years ended December 31, 2014 and 2013, respectively.

Note 7. **Bank Premises and Equipment** (Continued)

The Bank leases several of it's ATMs under five year operating leases which expire in 2016. Lease payments of $34,885 were recorded for the years ended December 31, 2014 and 2013, respectively. Future minimum annual rentals are as follows:

Years Ended December 31,

2015	$ 35,108
2016	23,405
	$ 58,513

Note 8. Investments Carried At Equity

The Bank purchased various interests in a limited partnership that were established to acquire, own, and rent properties in Vermont. The investments are accounted for under the equity method of accounting with the investment being written down in relation to the tax benefit realized. Through these investments, the Bank has access to a combination of "new market" and "qualified rehabilitation" tax credits which may be used to offset Federal taxes. The carrying values of investments carried at equity were $-0-at December 31, 2014 and 2013, respectively. The provision for undistributed net losses of the partnership was $35,970 and $207,752 in 2014 and 2013, respectively. Aggregate tax credits received were $35,970 and $207,767 in 2014 and 2013, respectively.

Note 9. Deposits

The following is a maturity distribution of time certificates of deposit at December 31, 2014:

Maturing in 2015	$ 29,703,196
Maturing in 2016	7,844,817
Maturing in 2017	6,760,998
Maturing in 2018	5,731,676
Maturing in 2019 and thereafter	2,787,318
	$ 52,828,005

U.S. Treasury and Agency securities with a cost of $8,337,208 and $8,556,696 and a market value of $8,462,105 and $8,686,589 were pledged to collateralize certain municipal deposits at December 31, 2014 and 2013, respectively.

Note 10. Repurchase Agreements

Securities sold under agreements to repurchase amounted to $3,280,486 and $4,131,003 as of December 31, 2014 and 2013, respectively. These agreements are collateralized by U.S. government agency and treasury securities with a book value of $6,891,082 and $6,932,552 and a fair value of $6,923,272 and $6,828,404 at December 31, 2014 and 2013, respectively. The securities underlying these agreements are held in safekeeping by the Bank.

The average daily balance of these repurchase agreements approximated $4,398,505 and $4,444,572 during 2014 and 2013, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Bank was $5,991,642 and $6,385,168 in 2014 and 2013, respectively. The weighted average rates for repurchase agreements were 0.25% and 0.25% at December 31, 2014 and 2013, respectively.

Note 11. Borrowed Funds

The Bank has an unsecured $5,000,000 federal funds line of credit with Bank of America which was unused at December 31, 2014 and 2013.

Note 12. Income Taxes

Income taxes for the years ended December 31 were as follows:

	2014	2013
Currently payable (benefit)	$ 263,239	$ (1,408,115)
Deferred	(272,878)	833,330
	$ (9,639)	$ (574,785)

Total income tax expense differed from the amounts computed by applying the U. S. Federal income tax rate of 34% to income before income taxes as a result of the following at December 31:

	2014	2013
Computed expected tax expense	$ 341,325	$ (278,161)
Disallowed interest expense	6,116	6,751
Municipal income	(274,694)	(253,064)
Boli income	(33,888)	(35,823)
Tax credits	(23,740)	(137,126)
Alternative minimum tax	-	117,896
Other, net	(24,758)	4,742
	$ (9,639)	$ (574,785)

Note 12. Income Taxes (Continued)

The deferred income tax provision consisted of the following items at December 31:

	2014	2013
Nonaccrual loan interest	$ (127,524)	$ 108,761
Depreciation	(1,235)	(1,943)
Bad debts	(86,339)	1,060,876
BOLI Deferred Comp	(13,529)	-
Mortgage servicing	(29,199)	15,360
Limited partnerships	1,417	4,666
Tax credits	(35,970)	(315,713)
Other	19,501	(38,677)
	$ (272,878)	$ 833,330

Listed below are the significant components of the net deferred tax asset at December 31:

	2014	2013
Components of deferred tax assets:		
Bad debts	$ 374,010	$ 287,671
Off balance sheet accrual	5,883	5,883
Nonaccrual loan interest	489,081	361,557
BOLI Deferred Comp	13,529	-
Unrealized loss on securities available-for-sale	-	329,096
Tax credits	351,683	315,713
Total deferred tax asset	1,234,186	1,299,920
Valuation allowance	-	-
Total deferred tax asset, net of valuation allowance	1,234,186	1,299,920
Components of deferred tax liability:		
Depreciation	(2,410)	(3,645)
Limited partnerships	(4,472)	(3,055)
Mortgage servicing rights	(149,427)	(178,626)
Unrealized gain on securities available-for-sale	(210,758)	-
Other	(34,661)	(15,160)
Total deferred tax liability	(401,728)	(200,486)
Net deferred tax asset	$ 832,458	$ 1,099,434

Note 12. **Income Taxes** (Continued)

Net deferred tax asset is included in the caption "other assets" on the balance sheets at December 31, 2014 and 2013, respectively. The deferred tax asset valuation allowance did not change during 2014 and 2013. As of December 31, 2014 the Bank has general business tax credits available for carryover through December 31, 2034.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not as GAAP allows for the recognition and measurement of deductible temporary differences to the extent that it is more likely than not that the deferred tax asset will be realized. Based on the temporary taxable items, historical taxable income and estimates of future taxable income, the Bank believes that it is more likely than not that the deferred tax assets at December 31, 2014 will be realized.

Based on management's evaluation, management has concluded that there were no significant uncertain tax positions requiring recognition in the Bank's financial statements at December 31, 2014. Although the Bank is not currently the subject of tax examination by the Internal Revenue Service (IRS), the Bank's tax years ended December 31, 2011 through 2014 are open to examination by the IRS under the applicable statute of limitations.

The Bank may from time-to-time be assessed interest and/or penalties by federal or state tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Bank's financial results. In the event that the Bank receives an assessment for interest and/or penalties, it will be classified in the financial statements as "Other expense".

Note 13. Commitments and Contingencies

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, after consulting with the Bank's legal counsel, any liability resulting from such proceedings would not have a material adverse effect on the Bank's financial statements.

Note 14. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable rate loans, and commitments to sell loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable rate loans, the contract or notional amounts do not represent exposure to credit loss. The Bank controls the credit risk of their interest rate cap agreements through credit approvals, limits, and monitoring procedures. The Bank

Note 14. Financial Instruments with Off-Balance-Sheet Risk (Continued)

generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount	
	2014	2013
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit and available lines of credit	$ 18,384,000	$ 13,655,000
Stand by letters of credit and commercial letters of credit	$ 923,000	$ 1,359,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2014, the Bank had binding loan commitments at fixed rates totaling $4,660,371 that are included in commitments to extend credit.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank enters into a variety of interest rate contracts, including interest rate caps and floors written on adjustable rate loans in managing its interest rate exposure. Interest rate caps and floors on loans written by the Bank enable customers to transfer, modify or reduce their interest rate risk.

Note 15. Transactions with Related Parties

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Note 15. Transactions with Related Parties (Continued)

Aggregate loan transactions with related parties as of December 31 were as follows:

	2014	2013
Balance, beginning	$ 370,878	$ 1,087,826
New loans	432,886	-
Repayments	(136,359)	(940,579)
Other	-	223,631
Balance, ending	$ 667,405	$ 370,878

Activity in "Other" relates to the net activity of newly appointed officers and directors.

Deposit accounts with related parties approximated $3,366,156 and $4,956,123 at December 31, 2014 and 2013, respectively.

The Bank utilizes an appraisal company owned by a director for loan appraisal services. Appraisal fees are reimbursed to the Bank from the respective borrowers.

The Bank instituted a split dollar deferred compensation plan for certain officers during 2012. The vehicle is funded through Bank Owned Life Insurance (BOLI). The BOLI had a balance of $3,240,787 and $3,141,115 as of December 31, 2014 and 2013, respectively. The accrued deferred compensation had a balance of $39,790 and $23,389 as of December 31, 2014 and 2013, respectively.

Note 16. Disclosures about Fair Value of Financial Instruments

Fair Value Measurement

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments, and for assets measured on recurring basis and non-recurring basis:

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available (level one valuation). If quoted market prices are not available, fair values are calculated based on a formula which uses matrices which interpolate prices according to observable inputs for similar items such as sector, credit spread, rating, maturity, and option premium (level two valuation).

Federal Home Loan Bank stock: The carrying amount of this stock approximates its fair value.

Note 16. **Disclosures about Fair Value of Financial Instruments** (Continued)

Loans and loans held for sale: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values of other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Collateral values are estimated using Level 2 inputs based on appraisals of similar properties obtained from a third party valuation service. Fair values for impaired loans are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third party valuation service discounted by management based on historical losses for similar collateral and discounted cash flow analysis.

Other real estate owned: Other real estate owned is reported at the fair value of the underlying collateral. Collateral values are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third party valuation service discounted by management based on updated information.

Deposits: The fair values disclosed for demand deposits (for example, checking and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits (Level 2).

Repurchase agreements and borrowed funds: For repurchase agreements and borrowed funds (including Federal funds purchased) that reprice frequently, fair values are based on carrying amounts. The fair values for other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such debt to a schedule of aggregated contractual maturities on such debt (Level 2).

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

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair market value for off balance sheet financial instruments was immaterial at December 31, 2014 and 2013.

Note 16. Disclosures about Fair Value of Financial Instruments (Continued)

The estimated fair values of the Company's financial instruments at December 31 are as follows:

	2014	
	Carrying Amount	Estimated Value
Financial assets:		
Cash and cash equivalents	$ 7,241,567	$ 7,241,567
Interest bearing deposits with banks	19,333,033	19,333,033
Federal funds sold	500,000	500,000
Securities available-for-sale	68,394,647	68,394,647
Securities held-to-maturity	994,526	994,526
FHLB stock	392,000	392,000
Loans receivable and loans held-for-sale, net (Level 2)	136,239,915	138,278,130
Impaired loans (Level 3)	8,731,728	8,731,728
Accrued interest receivable	934,060	934,060
Financial liabilities:		
Deposits (Level 2)	220,555,368	221,159,367
Repurchase agreements (Level 2)	3,280,486	3,280,486
Accrued interest payable	23,046	23,046

	2013	
	Carrying Amount	Estimated Value
Financial assets:		
Cash and cash equivalents	$ 12,777,536	$ 12,777,536
Interest bearing deposits with banks	10,925,093	10,925,093
Federal funds sold	500,000	500,000
Securities available-for-sale	58,602,119	58,602,119
Securities held-to-maturity	1,030,644	1,030,644
FHLB Stock	392,000	392,000
Loans receivable and loans held-for-sale, net (Level 2)	134,369,094	135,204,205
Impaired loans (Level 3)	13,885,967	13,885,967
Accrued interest receivable	924,526	924,526
Financial liabilities:		
Deposits (Level 2)	213,183,188	214,072,024
Repurchase agreements (Level 2)	4,131,003	4,131,003
Accrued interest payable	24,624	24,624

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions.

Note 16. Disclosures about Fair Value of Financial Instruments (Continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2014 and 2013 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Loans held for sale	$ 323,554	$ -	$ 323,554	$ -
Investments - AFS				
U.S. Government and				
Federal Agencies	43,506,222	-	43,506,222	-
Equity securities	11,365	-	11,365	-
State and municipal				
securities	24,877,060	-	24,877,060	-
	$ 68,718,201	$ -	$ 68,718,201	$ -
December 31, 2013				
Loans held for sale	$ -	$ -	$ -	$ -
Investment - AFS				
U.S. Government and				
Federal Agencies	39,155,754	-	39,155,754	-
Equity securities	14,275	-	14,275	-
State and municipal				
securities	19,432,090	-	19,432,090	-
	$ 58,602,119	$ -	$ 58,602,119	$ -

Note 16. Disclosures about Fair Value of Financial Instruments (Continued)

Fair values of assets and liabilities measured on a non-recurring basis at December 31, 2014 and 2013 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Impaired loans	$ 8,731,728	$ -	$ -	$ 8,731,728
Other real estate owned	-	-	-	-
	$ 8,731,728	$ -	$ -	$ 8,731,728
December 31, 2013				
Impaired loans	$ 13,885,967	$ -	$ -	$ 13,885,967
Other real estate owned	97,280	-	-	97,280
	$ 13,983,247	$ -	$ -	$ 13,983,247

There was $2,692,573 of impaired loans with a related allowance as of December 31, 2014. The agricultural and agricultural real estate loans were evaluated using discounts of appraisals and asset valuations which ranged from 10% to 40% along with discounted cash flow analysis. The residential real estate loans were evaluated using discounts of appraisals ranging from 15% to 20% along with discounted cash flow analysis. The commercial real estate loans were evaluated using discounts of appraisals and asset valuations ranging from 0% to 45% along with discounted cash flow analysis.

There were no transfers between levels for both recurring and non-recurring assets for the years ended December 31, 2014 and 2013.

Note 17. Regulatory Matters

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

Note 17. Regulatory Matters (Continued)

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 (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

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.

The Bank's actual capital amounts (000's omitted) and ratios are also presented in the table.

	Actual		Minimums For Capital Adequacy Purposes		Minimums To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2014						
Total capital						
(to risk weighted assets)	$ 32,179	22.43%	$ 11,477	8.00%	$ 14,347	10.00%
Tier I capital						
(to risk weighted assets)	$ 30,381	21.18%	$ 5,739	4.00%	$ 8,608	6.00%
Tier I capital						
(to average assets)	$ 30,381	11.87%	$ 10,241	4.00%	$ 12,802	5.00%
As of December 31, 2013						
Total capital						
(to risk weighted assets)	$ 31,279	21.52%	$ 11,629	8.00%	$ 14,537	10.00%
Tier I capital						
(to risk weighted assets)	$ 29,461	20.27%	$ 5,815	4.00%	$ 8,722	6.00%
Tier I capital						
(to average assets)	$ 29,461	11.94%	$ 9,866	4.00%	$ 12,332	5.00%

Note 18. Reclassification

Certain 2013 amounts were reclassified to conform to the 2014 presentation.

Note 19. Subsequent Events

The Company has evaluated subsequent events through February 18, 2015, the date which the financial statements were available to be issued.

Board of Directors

Robert A. Cioffi, *Chairman of the Board of Directors of Peoples Trust Company of St. Albans since 1990*
Retired Owner, Cioffi Real Estate

John T. Gallagher, *Member of Board of Directors of Peoples Trust Company of St. Albans since 1991*
Owner and President, Gallagher Inc.

Donald G. Poirier, *Secretary and Member of Board of Directors of Peoples Trust Company of St. Albans since 1996*
Retired Executive Vice President, Peoples Trust Company of St. Albans

Mark E. Lareau, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2001*
Owner, Lareau Appraisal Service

Linda M. LeBlanc, *Member of Board of Directors of Peoples Trust Company of St. Albans since* 2005
Senior Executive Officer /Chief Operations Officer of Peoples Trust Company of St. Albans

Leon J. Berthiaume, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2008*
CEO, St. Albans Cooperative Creamery, Inc.

Frank J. Cioffi, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2009*
President, GBIC (Greater Burlington Industrial Corp.)

Thomas J. Gallagher, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2011*
President/CEO of Peoples Trust Company of St. Albans

Richard C. Read and Marc J. Reynolds, Directors, Emeritus

Executive Officers

Thomas J. Gallagher
President/CEO

Linda M. LeBlanc
Senior Executive Vice President/COO

Other Officers

Aaron A. Reynolds
Senior Vice President/CFO

Angela M. Poirier
Senior Vice President/CLS

Carol C. Spillane
Senior Vice President

Dale E. Fisher
Senior Vice President

Lloyd W. Larrow
Senior Vice President

Maureen J. Toof
Senior Vice President

Michael J. Elmore
Senior Vice President/CIO

Jennifer L. Dill
Vice President

Lyle D. Poirier
Vice President

Stacey M. Cauller
Vice President

Branch Locations

Main Office
25 Kingman Street, St Albans

Georgia
1127 Ethan Allen Highway, Georgia

Franklin Park West
1 Franklin Park West, St Albans

Enosburg Falls
140 Main Street, Enosburg Falls

Essex Town Center
1 Carmichael Street, Essex Junction

Swanton
123 First Street, Swanton

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