Stonebridge Financial Corp. and Subsidiaries

Consolidated Financial Statements

December 31, 2014, 2013 and 2012

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
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Stonebridge Financial Corp. and Subsidiaries

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Tel: 717-233-8800
Fax: 717-233-8801
www.bdo.com

945 E. Park Drive, Suite 103
Harrisburg, PA 17111

Independent Auditor's Report

To the Board of Directors
Stonebridge Financial Corp. and Subsidiaries
West Chester, Pennsylvania

We have audited the accompanying consolidated financial statements of Stonebridge Financial Corp. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity (deficit), 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stonebridge Financial Corp. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 21 to the consolidated financial statements, the Company entered into a Consent Order dated May 19, 2011 with its primary banking regulators that, among other things, restricts certain operations and requires the Company to increase its leverage and total risk-based capital ratios to at least 9.0% and 12.5%, respectively. Furthermore, the Company has suffered recurring losses from operations. These matters raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regard to these matters are described in Note 21. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

The 2012 consolidated financial statements of Stonebridge Financial Corp. and its subsidiaries were audited by other auditors, whose report dated March 14, 2013 expressed an unmodified opinion with an emphasis of a matter regarding uncertainty as to the Company continuing as a going concern on those statements.

BDO USA, LLP

Harrisburg, Pennsylvania
February 27, 2015

Consolidated Financial Statements

Stonebridge Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except for share amounts)

December 31,	2014	2013
Assets		
Cash and due from banks	$ 7,076	$ 5,483
Interest-bearing deposits with banks	175	126
Cash and cash equivalents	7,251	5,609
Securities available-for-sale, at fair value	35,572	37,513
Loans receivable, net of allowance for loan losses of $1,827 at December 31, 2014 and $1,536 at December 31, 2013	90,991	113,340
Investments in restricted bank stock	522	839
Premises and equipment, net	1,868	1,951
Bank owned life insurance	5,780	5,603
Foreclosed real estate	1,648	5,525
Accrued interest receivable and other assets	1,620	1,657
Total Assets	$ 145,252	$ 172,037
Liabilities and Shareholders' Deficit		
Liabilities		
Deposits:		
Demand, non-interest bearing	$ 5,027	$ 5,416
Interest bearing	121,114	148,035
Total deposits	126,141	153,451
Long-term borrowings	10,000	10,000
Subordinated debt	10,310	10,310
Accrued interest payable and other liabilities	1,728	1,631
Total Liabilities	148,179	175,392
Shareholders' Deficit		
Preferred stock - Series C Cumulative Perpetual; $1.00 par value; authorized 1,000,000 shares with a liquidation preference of $1,000 per share; issued and outstanding: 2014 and 2013 10,973 shares	10,973	10,966
Warrant preferred stock - Series D Cumulative Perpetual; $1.00 par value; authorized 1,000,000 shares with a liquidation preference of $1,000 per share; issued and outstanding: 2014 and 2013 549 shares	549	550
Common stock, par value $1.00 per share; authorized 10,000,000 shares; issued: 2014 and 2013 3,202,064 shares; outstanding: 2014 and 2013 3,198,567 shares	3,202	3,202
Surplus	16,286	16,286
Accumulated deficit	(33,274)	(31,538)
Accumulated other comprehensive loss	(654)	(2,812)
Treasury stock, 3,497 shares at cost	(9)	(9)
Total Shareholders' Deficit	(2,927)	(3,355)
Total Liabilities and Shareholders' Deficit	$ 145,252	$ 172,037

See accompanying notes to consolidated financial statements.

Stonebridge Financial Corp. and Subsidiaries

Consolidated Statements of Operations
(in thousands)

Years Ended December 31,	2014	2013	2012
Interest Income			
Loans receivable, including fees	$ 4,892	$ 6,699	$ 10,303
Securities, taxable	915	870	916
Securities, tax-exempt	-	19	94
Other	11	22	60
Total Interest Income	5,818	7,610	11,373
Interest Expense			
Deposits	1,064	1,428	2,694
Borrowings	313	312	404
Subordinated debt	233	233	249
Total Interest Expense	1,610	1,973	3,347
Net interest income	4,208	5,637	8,026
Provision for Loan Losses	1,051	1,350	1,200
Net Interest Income After Provision for Loan Losses	3,157	4,287	6,826
Other Income			
Customer service fees	52	57	64
Bank owned life insurance	177	182	183
Other	543	476	544
Net gains on sales of securities	85	45	695
Total Other Income	857	760	1,486
Other Expenses			
Salaries and employee benefits	2,571	2,602	3,074
Occupancy	319	510	526
Equipment and data processing	364	328	296
Advertising	2	2	17
Professional fees	533	523	1,335
FDIC insurance	356	437	854
Software maintenance	152	272	298
Net losses on foreclosed real estate	474	944	1,391
Taxes other than income	46	379	369
FHLB prepayment penalties	-	-	361
Other	927	1,467	1,827
Total Other Expenses	5,744	7,464	10,348
Loss before income tax expense	(1,730)	(2,417)	(2,036)
Income Tax Expense	-	-	-
Net Loss	$ (1,730)	$ (2,417)	$ (2,036)
Preferred Stock Dividends and Accretion (2013 and 2012 Restated)	$ 1,336	$ 842	$ 805
Net Loss Attributable to Common Shareholders (2013 and 2012 Restated)	$ (3,066)	$ (3,259)	$ (2,841)

See accompanying notes to consolidated financial statements.

Stonebridge Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

Years Ended December 31,	**2014**	2013	2012
Net Loss	**$ (1,730)**	$ (2,417)	$ (2,036)
Other Comprehensive Income (Loss)			
Unrealized gains (losses) arising on available-for-sale securities	**2,158**	(3,002)	(764)
Total Comprehensive Income (Loss)	**$ 428**	$ (5,419)	$ (2,800)

See accompanying notes to consolidated financial statements.

Stonebridge Financial Corp. and Subsidiaries

Consolidated Statements of Shareholders' Equity (Deficit)
(in thousands)

	Preferred Stock	Warrant Preferred	Common Stock Shares	Common Stock Par Value	Surplus	Accumulated Deficit	Accumulated Other Comprehen-sive Income (Loss)	Treasury Stock Shares	Treasury Stock Par Value	Total
Balance, January 1, 2012	$ 10,700	$ 579	3,202,064	$ 3,202	$ 16,303	$ (26,865)	$ 954	3,497	$ (9)	$ 4,864
Net loss	-	-	-	-	-	(2,036)	-	-	-	(2,036)
Other comprehensive loss	-	-	-	-	-	-	(764)	-	-	(764)
Reclass of costs to obtain preferred stock	17	-	-	-	(17)	-	-	-	-	-
Accretion of net discount on preferred and warrant preferred stock	124	(14)	-	-	-	(110)	-	-	-	-
Balance, December 31, 2012	10,841	565	3,202,064	3,202	16,286	(29,011)	190	3,497	(9)	2,064
Net loss	-	-	-	-	-	(2,417)	-	-	-	(2,417)
Other comprehensive loss	-	-	-	-	-	-	(3,002)	-	-	(3,002)
Accretion of net discount on preferred and warrant preferred stock	125	(15)	-	-	-	(110)	-	-	-	-
Balance, December 31, 2013	10,966	550	3,202,064	3,202	16,286	(31,538)	(2,812)	3,497	(9)	(3,355)
Net loss	-	-	-	-	-	(1,730)	-	-	-	(1,730)
Other comprehensive income	-	-	-	-	-	-	2,158	-	-	2,158
Accretion of net discount on preferred and warrant preferred stock	7	(1)	-	-	-	(6)	-	-	-	-
Balance, December 31, 2014	$ 10,973	$ 549	3,202,064	$ 3,202	$ 16,286	$ (33,274)	$ (654)	3,497	$ (9)	$ (2,927)

See accompanying notes to consolidated financial statements.

Stonebridge Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	2014	2013	2012
Cash Flows from Operating Activities			
Net loss	$ (1,730)	$ (2,417)	$ (2,036)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Provision for loan losses	1,051	1,350	1,200
Depreciation and amortization	155	157	203
Net realized gains on sale of investment securities	(85)	(45)	(695)
Amortization of premiums and discounts on investment securities, net	160	133	108
Amortization of premiums on purchased loans	13	21	24
Impairment charges on foreclosed real estate	639	1,130	1,470
Gain on sale of foreclosed real estate, net	(165)	(186)	(79)
Bank-owned life insurance income	(177)	(182)	(183)
Changes in assets and liabilities:			
Decrease in accrued interest receivable and other assets	37	411	2,479
Increase in accrued interest payable and other liabilities	97	309	31
Net Cash (Used in) Provided by Operating Activities	(5)	681	2,522
Cash Flows from Investing Activities			
Purchase of investment securities available-for-sale	(6,194)	(14,524)	(30,929)
Proceeds from sales of investment securities available-for-sale	3,366	2,489	14,803
Proceeds from maturities of investment securities available-for-sale	6,852	7,463	16,208
Proceeds from maturities and repayments of investment securities held-to-maturity	-	3,009	3,016
Proceeds from sales of investment securities held-to-maturity	-	-	17
Redemption of restricted investment in bank stocks	317	2,171	1,223
Net decrease in loans and leases	23,271	34,097	58,915
Purchases of premises and equipment	(72)	(143)	(108)
Proceeds from the sale of foreclosed real estate	1,417	4,570	3,796
Net Cash Provided by Investing Activities	28,957	39,132	66,941
Cash Flows from Financing Activities			
Net decrease in deposits	(27,310)	(52,996)	(47,814)
Net decrease in short-term borrowings	-	(76)	(24)
Repayments of long-term borrowings	-	-	(20,000)
Net Cash Used in Financing Activities	(27,310)	(53,072)	(67,838)
Increase (decrease) in cash and cash equivalents	1,642	(13,259)	1,625
Cash and Cash Equivalents, Beginning of Year	5,609	18,868	17,243
Cash and Cash Equivalents, End of Year	$ 7,251	$ 5,609	$ 18,868
Supplementary Disclosures of Cash Flow Information			
Cash payments for interest	$ 1,382	$ 2,004	$ 3,184
Loans transferred to foreclosed real estate	$ 180	$ 399	$ 3,398
Foreclosed real estate transferred to loans	$ 2,166	$ -	$ -

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Stonebridge Financial Corp. and subsidiaries (the Company) was incorporated in October 1998 under the laws of the Commonwealth of Pennsylvania. The Company was formed for the purpose of becoming a bank holding company and to hold 100% of the shares of Stonebridge Bank (the Bank). The Company is a financial holding company. The Bank commenced operations in February 1999 and is a full service commercial bank providing personal and business lending and deposit services. As a state chartered, non-Federal Reserve member bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. Stonebridge Financial Corp., as a financial holding company, is subject to regulation by the Federal Reserve Bank. The area served by the Bank is principally the Greater Delaware Valley in Pennsylvania. The Bank's internet banking services are accessible nationwide.

Basis of Presentation

The consolidated financial statements include the accounts of Stonebridge Financial Corp., its wholly-owned subsidiary, Stonebridge Bank, and the following subsidiaries that are wholly owned by Stonebridge Bank for the purpose of procuring and maintaining other real estate owned acquired at foreclosure: Matlack Properties Philadelphia, LLC, Matlack Properties Philadelphia, LP, Matlack Properties Pennsylvania, LLC, Matlack Properties Pennsylvania, LP, Matlack Properties New Jersey, LLC, Forest Hill Properties, LLC, Pritchard Farms Forest Hill, LLC, Springdale Matlack Farms, LLC and Springdale Matlack Farms, L.P. In September 2013, both of the Springdale Matlack Farms' subsidiaries were closed. All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control.

The Company's wholly owned subsidiary, Stonebridge Statutory Trust I, is not included in the accompanying consolidated financial statements in accordance with ASC 810, *Consolidation*.

Restatement

On the consolidated statements of operations, the Preferred Stock Dividends and Accretion and Net Loss Available for Common Shareholders for 2013 and 2012 have been restated to reflect compounded interest. This restatement had no impact on net loss or shareholders' equity (deficit).

Use of Estimates

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

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2014, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through February 27, 2015, the date these consolidated financial statements were available to be issued.

Regulatory Matters

On May 19, 2011, the Bank and the Federal Deposit Insurance Corporation (the FDIC) and the Pennsylvania Department of Banking and Securities (the PADOBS) entered into a joint Consent Order. Pursuant to the Consent Order, among other things, the Bank has agreed to undertake the following:

(1) increase the participation of the Bank's Board of Directors in overseeing and supervising the affairs and activities of the Bank, including holding meetings of the Board no less frequently than monthly;

(2) develop a Capital Plan that includes specific benchmarks to meet and maintain a Tier 1 capital to total assets ratio of at least 9% and a total risk-based capital ratio of at least 12.5%;

(3) eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" by the FDIC or PADOBS in the current or future Reports of Examination;

(4) formulate a Classified Asset Plan to reduce the Bank's risk position in each loan relationship or other real estate owned property in excess of $250,000 which is classified "Substandard" or "Doubtful" in the current or future Reports of Examination;

(5) prohibit the extension of additional credit to or for the benefit of any existing borrower with a loan that has been previously charged-off or classified as "loss" in current or future Reports of Examination, as well as prohibit the extension of additional credit to any existing borrower with an outstanding loan classified as "substandard", "doubtful", or "special mention" unless the Board of Directors or a committee thereof determines the loan to be in the best interests of the Bank;

(6) adopt a written action plan to reduce and manage concentrations of credit identified by the examiners, including procedures that provide for the ongoing measurement and monitoring of the concentrations of credit;

(7) provide for quarterly reviews of and adjustments to the allowance for loan losses in accordance with bank regulatory guidelines;

(8) adopt a written contingency funding/liquidity plan to strengthen the Bank's funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs;

(9) adopt a written profit plan and comprehensive budget containing formal goals and strategies to reduce discretionary spending and improve the Bank's overall earnings;

(10) adopt a Strategic Plan supported by an operating budget and consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by the Consent Order; and

(11) adopt and implement a program for monitoring compliance with the Consent Order, including establishing a committee comprised of at least three outside Bank board members responsible for such oversight.

The Consent Order also prohibits the payment of any dividends by the Bank to the Holding Company without the prior written consent of both the FDIC and the PADOBS.

Because the Consent Order establishes specific capital amounts to be maintained by the Bank, the Bank may not be considered better than "adequately capitalized" for capital adequacy purposes, even if the Bank exceeds the levels of capital set forth in the Consent Order.

As an adequately capitalized institution, the Bank may not accept, renew or roll over brokered deposits without prior approval of the FDIC. Broker deposits also include deposits with rates of interest that are more than 75 basis points above the applicable national rates as determined by the FDIC.

Any material failure to comply with the provisions of the Consent Order could result in additional enforcement actions by the FDIC as allowed by 12 U.S.C. § 1818. While the Company intends to take such actions as may be necessary to enable the Bank to fully comply with the requirements of the Consent Order, there can be no assurance that the Bank will be able to comply fully with the provisions of the Consent Order, or that efforts to comply with the Consent Order will not have adverse effects on the operations and financial condition of the Company and the Bank.

On September 1, 2011, the Company entered into a written agreement with the Federal Reserve Bank of Philadelphia (the Reserve Bank), which prohibits the declaration and payment of dividends, the receipt of dividends from the Bank, and any distribution of interest, principal, or other sums on subordinated debentures or trust preferred securities without the approval of the Reserve Bank. The agreement also prohibits the purchase or redemption of shares of the Company's stock without prior approval by the Reserve Bank.

For more information on these regulatory matters, including the Company's current status, see Note 21.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and short-term investments. Generally, federal funds are purchased and sold for one-day periods. Short-term investments include interest bearing-deposits with banks and investments with an original maturity of typically less than 90 days.

Securities

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

Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily until maturity. Securities available-for-sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities. During the second quarter of 2013, the Company reclassified all of its held-to-maturity securities to available-for-sale.

The Company follows the accounting guidance related to recognition and presentation of other-than-temporary impairment of investment securities (FASB ASC 320-10). This accounting guidance amended the recognition guidance for other-than-temporary impairments of debt securities and expanded the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The guidance replaced the "intent and ability" indication in previous guidance by specifying that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more-likely-than-not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more-likely-than-not the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans Receivable

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

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, construction and land development, and commercial real estate. Consumer loans consist of the following classes: residential real estate, home equity, and other consumer.

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

Allowance for Loan Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheets (Note 16). The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

(1) Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;

(2) National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans;

(3) Nature and volume of the portfolio and terms of loans;

(4) Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications;

(5) Existence and effect of any concentrations of credit and changes in the level of such concentrations;

(6) Effect of external factors, such as competition and legal and regulatory requirements;

(7) Experience, ability, and depth of management; and

(8) Levels of and trends in charge-off and recoveries.

Each factor is assigned a value to reflect changing conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation. A narrative accompanies the allowance for loan loss calculation.

A majority of the Company's loan assets are loans to business owners of many types. The Company provides commercial loans for real estate development and other business purposes.

The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages have amortizations up to 30 years and home equity loans have maturities up to 15 years.

Other consumer loans include installment loans and overdraft lines of credit. The majority of these loans are unsecured.

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

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party valuations. When a real estate secured loan becomes impaired, an updated valuation of the real estate is necessary. Valuations are discounted to arrive at the estimated sales proceeds of the liquidated collateral. The discounts typically include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Pass rated loans are placed into homogeneous groups and are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for generally six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represent required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank (FHLB) of $498,000 and $815,000 as of December 31, 2014 and 2013, respectively, and Atlantic Central Bankers Bank (ACBB) of $24,000, as of December 31, 2014 and 2013.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method at rates based on the following range of useful lives: building and improvements - 10-40 years, furniture, fixtures and equipment - 7 years, and computer equipment and data processing software - 2-3 years.

Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations are included in other expenses. Changes in the valuation allowance are included with net gains (losses) on foreclosed real estate. Foreclosed real estate was $1.6 million and $5.5 million at December 31, 2014 and 2013, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control of 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.

Investment in Life Insurance

The Company invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in the cash surrender value of the policies is included with other income on the consolidated statements of operations. If these policies are surrendered, the Company would be taxed on the excess of the proceeds received over the premiums paid. However, the Company intends to hold these policies until the nontaxable proceeds are realized and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

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

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Share Based Compensation

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

Stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as a vesting period. For awards with graded vesting, compensation cost is recognized on a straight line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the calculated value of stock options, while the fair value of the Company's common stock at the date of grant is used for restricted stock awards.

Off-Balance Sheet Financial Instruments

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

2. Restrictions on Cash and Due from Bank Balances

The Company is required to maintain average reserve balances with the Federal Reserve Bank and other correspondent banks. The amount of these average required reserve balances was $-0- as of December 31, 2014 and 2013 due to the Company not having any reservable liabilities with the Federal Reserve Bank.

3. Securities

The amortized cost and approximate fair value of securities available-for-sale as of December 31, 2014 and 2013 are summarized as follows (in thousands):

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government sponsored enterprises (GSE) securities	$ 20,088	$ -	$ (779)	$ 19,309
GSE mortgage-backed	16,138	133	(8)	16,263
Total Available-for-Sale Securities	$ 36,226	$ 133	$ (787)	$ 35,572

December 31, 2013		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available-for-sale:								
U.S. government sponsored enterprises (GSE) securities	$	23,585	$	1	$	(2,877)	$	20,709
GSE mortgage-backed		16,740		186		(122)		16,804
Total Available-for-Sale Securities	$	40,325	$	187	$	(2,999)	$	37,513

At December 31, 2014 and 2013, the carrying amount of securities pledged to secure borrowings and repurchase agreements was $16.3 and $19.3 million, respectively.

The amortized cost and fair value of securities available-for-sale as of December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties (in thousands).

December 31, 2014	Available-for-Sale			
		Amortized Cost		Fair Value
Due after 10 years	$	20,088	$	19,309
GSE mortgage-backed securities		16,138		16,263
	$	36,226	$	35,572

During the second quarter of 2013, the Company reclassified all of its held-to-maturity securities to available-for-sale. Gross gains of $85,000, $59,000 and $705,000 were realized on sales of securities available-for-sale during 2014, 2013 and 2012, respectively. Gross losses of $-0-, $14,000 and $-0- were realized on sales and redemption of securities available-for-sale during 2014, 2013 and 2012, respectively.

The following tables separate securities that have been in a continuous unrealized loss position for twelve months or more from those securities that have been in an unrealized loss position for less than twelve months as of December 31, 2014 and 2013 (in thousands):

December 31, 2014	Less than 12 Months				12 Months or Longer				Total			
		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
Available-for-sale:												
U.S. government sponsored enterprises (GSE) securities	$	-	$	-	$	19,309	$	779	$	19,309	$	779
GSE mortgage-backed		9,864		8		-		-		9,864		8
Total Temporarily Impaired Securities	$	9,864	$	8	$	19,309	$	779	$	29,173	$	787

December 31, 2013	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
U.S. government sponsored enterprises (GSE) securities	$ 15,997	$ 2,100	$ 3,711	$ 777	$ 19,708	$ 2,877
GSE mortgage-backed	3,103	122	-	-	3,103	122
Total Temporarily Impaired Securities	$ 19,100	$ 2,222	$ 3,711	$ 777	$ 22,811	$ 2,999

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than costs, and the near-term prospects of the issuer.

The Company assesses whether the credit loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more-likely-than-not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. U.S. GAAP allows the Company to bifurcate the OTTI impact on impaired securities where impairment value was deemed to be other-than-temporary between the component representing the credit loss and the component representing loss related to other factors. The portion of fair value decline attributable to credit loss must be recognized through a charge to earnings. The credit component is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The fair value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from open market and other sources as appropriate for the security. The difference between the fair value and the security's remaining amortized cost is recognized in other comprehensive income.

The following is a roll forward for the twelve months ended December 31, 2014, 2013 and 2012 of the amounts recognized in earnings related to credit losses on securities which the Company has recorded other-than-temporary impairment charges through earnings (in thousands):

	2014	2013	2012
Credit component of OTTI, January 1	$ -	$ 12	$ 23
Additions for credit related OTTI charges on previously unimpaired securities	-	-	-
Additional increases as a result of impairment charges recognized for which an OTTI was previously recognized	-	-	-
Reductions for securities sold	-	(12)	(11)
Credit Component of OTTI, December 31	$ -	$ -	$ 12

The Bank had fourteen securities with unrealized losses as of December 31, 2014, including eight securities with unrealized losses for greater than 12 months, in which there have been no impairment charges recorded because of the issuers' credit quality, management does not intend to sell and is not more-likely-than-not required to sell the security before recovery of its amortized cost basis (i.e., the impairment does not meet the definition of other-than-temporary).

GSE Securities - The Company evaluates the issuers of these securities to determine if an other-than-temporary impairment exists. There are no securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Management concluded that an other-than-temporary impairment does not exist and the decline in value was attributed to the various factors in the financial markets. In addition, the Company does not intend to sell these securities and it is more-likely-than-not that the Company will not be required to sell these securities.

Non-GSE Mortgage Backed Securities - The Company has no non-GSE mortgage backed securities as of December 31, 2014 and 2013.

During 2013, the Company sold $134,000 of non-agency mortgage backed securities in its available-for-sale portfolio that were classified below investment grade at a loss of $8,000, and had no securities that were considered other-than-temporarily impaired as of December 31, 2013.

During 2012, the Company sold $27,000 of non-agency mortgage backed securities in its held-to-maturity portfolio that were classified below investment grade at a loss of $10,000, and had no securities that were considered other-than-temporarily impaired as of December 31, 2012.

4. Loans Receivable and Allowance for Loan Losses

The composition of net loans receivable at December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013
Commercial and industrial	$ 8,585	$ 13,173
Construction and land development	8,054	10,274
Real estate - commercial	33,474	42,102
Real estate - residential	33,574	37,626
Real estate - home equity	8,853	11,292
Consumer	335	439
Total Loans	92,875	114,906
Allowance for loan losses	(1,827)	(1,536)
Unearned net loan origination fees	(88)	(77)
Unamortized premium on purchased loans	31	47
Net Loans	$ 90,991	$ 113,340

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2014 and 2013 (in thousands):

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 7,303	$ -	$ 1,282	$ -	$ 8,585
Construction and land development	1,562	1,156	5,336	-	8,054
Real estate - commercial	26,396	3,513	3,565	-	33,474
Real estate - residential	27,562	2,013	3,999	-	33,574
Real estate - home equity	8,527	-	326	-	8,853
Consumer	335	-	-	-	335
	$ 71,685	$ 6,682	$ 14,508	$ -	$ 92,875

December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 10,366	$ 1,461	$ 1,346	$ -	$ 13,173
Construction and land development	1,819	7,814	641	-	10,274
Real estate - commercial	34,998	6,052	1,052	-	42,102
Real estate - residential	33,891	1,451	2,284	-	37,626
Real estate - home equity	10,526	125	641	-	11,292
Consumer	439	-	-	-	439
	$ 92,039	$ 16,903	$ 5,964	$ -	$ 114,906

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2014 and 2013 (in thousands):

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Commercial and industrial	$ 64	$ -	$ -	$ 64	$ 8,521	$ 8,585	$ -
Construction and land development	-	-	554	554	7,500	8,054	-
Real estate - commercial	608	-	2,507	3,115	30,359	33,474	-
Real estate - residential	876	133	2,423	3,432	30,142	33,574	47
Real estate - home equity	66	-	326	392	8,461	8,853	-
Consumer	-	10	-	10	325	335	-
	$ 1,614	$ 143	$ 5,810	$ 7,567	$ 85,308	$ 92,875	$ 47

December 31, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Commercial and industrial	$ 2,406	$ -	$ -	$ 2,406	$ 10,767	$ 13,173	$ -
Construction and land development	4,442	-	350	4,792	5,482	10,274	-
Real estate - commercial	85	440	211	736	41,366	42,102	-
Real estate - residential	970	789	717	2,476	35,150	37,626	93
Real estate - home equity	78	117	235	430	10,862	11,292	-
Consumer	7	-	-	7	432	439	-
	$ 7,988	$ 1,346	$ 1,513	$ 10,847	$ 104,059	$ 114,906	$ 93

The following table summarizes the activity in the allowance for loan losses by loan class for the years ended December 31, 2014, 2013 and 2012 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2014, 2013 and 2012 (in thousands):

December 31, 2014	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 151	$ 285	$ 5	$ 335	$ 206	$ 82	$ 124
Construction and land development	94	82	97	705	814	754	60
Real estate - commercial	474	339	119	121	375	141	234
Real estate - residential	603	173	1	(99)	332	66	266
Real estate - home equity	162	97	8	2	75	1	74
Consumer - other	19	16	2	14	19	-	19
Unallocated	33	-	-	(27)	6	-	6
	$ 1,536	$ 992	$ 232	$ 1,051	$ 1,827	$ 1,044	$ 783

	Loans Receivable		
December 31, 2014	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 8,585	$ 1,286	$ 7,299
Construction and land development	8,054	7,588	466
Real estate - commercial	33,474	7,625	25,849
Real estate - residential	33,574	3,277	30,297
Real estate - home equity	8,853	544	8,309
Consumer - other	335	-	335
	$ 92,875	$ 20,320	$ 72,555

December 31, 2013	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 281	$ -	$ 4	$ (134)	$ 151	$ 95	$ 56
Construction and land development	75	1,500	102	1,417	94	-	94
Real estate - commercial	1,410	1,293	18	339	474	49	425
Real estate - residential	1,295	356	65	(401)	603	17	586
Real estate - home equity	237	204	28	101	162	49	113
Consumer - other	26	25	5	13	19	-	19
Unallocated	18	-	-	15	33	-	33
	$ 3,342	$ 3,378	$ 222	$ 1,350	$ 1,536	$ 210	$ 1,326

	Loans Receivable		
December 31, 2013	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 13,173	$ 1,345	$ 11,828
Construction and land development	10,274	9,648	626
Real estate - commercial	42,102	5,570	36,532
Real estate - residential	37,626	3,116	34,510
Real estate - home equity	11,292	739	10,553
Consumer - other	439	-	439
	$ 114,906	$ 20,418	$ 94,488

December 31, 2012	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 764	$ 460	$ 12	$ (35)	$ 281	$ 73	$ 208
Construction and land development	1,287	4,095	127	2,756	75	-	75
Real estate - commercial	2,973	528	222	(1,257)	1,410	568	842
Real estate - residential	2,449	1,026	263	(391)	1,295	179	1,116
Real estate - home equity	261	120	42	54	237	3	234
Consumer - other	17	53	4	58	26	-	26
Unallocated	3	-	-	15	18	-	18
	$ 7,754	$ 6,282	$ 670	$ 1,200	$ 3,342	$ 823	$ 2,519

	Loans Receivable		
December 31, 2012	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 17,799	$ 1,831	$ 15,968
Construction and land development	12,103	11,524	579
Real estate - commercial	58,937	15,440	43,497
Real estate - residential	49,717	7,953	41,764
Real estate - home equity	13,454	1,102	12,352
Consumer - other	571	-	571
	$ 152,581	$ 37,850	$ 114,731

In addition to the above, the Company has a reserve for off-balance sheet credit arrangements of $10,000 as of December 31, 2014 and 2013, which is included in other liabilities.

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2014, 2013 and 2012 and for the years then ended (in thousands):

Year Ended December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Construction and land development	2,641	2,641	-	3,449	339
Real estate - commercial	5,520	5,611	-	5,629	330
Real estate - residential	2,243	2,450	-	2,324	136
Real estate - home equity	515	550	-	523	16
With an allowance recorded:					
Commercial and industrial	$ 1,286	$ 1,286	$ 82	$ 1,317	$ 83
Construction and land development	4,947	4,947	754	4,991	395
Real estate - commercial	2,105	2,105	141	2,132	104
Real estate - residential	1,034	1,134	66	1,117	40
Real estate - home equity	29	29	1	34	2
Total:					
Commercial and industrial	$ 1,286	$ 1,286	$ 82	$ 1,317	$ 83
Construction and land development	7,588	7,588	754	8,440	734
Real estate - commercial	7,625	7,716	141	7,761	434
Real estate - residential	3,277	3,584	66	3,441	176
Real estate - home equity	544	579	1	557	18
	$ 20,320	$ 20,753	$ 1,044	$ 21,516	$ 1,445

Year Ended December 31, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Construction and land development	9,648	14,365	-	10,161	763
Real estate - commercial	4,968	7,848	-	5,136	364
Real estate - residential	2,970	5,246	-	3,345	144
Real estate - home equity	690	716	-	709	28
With an allowance recorded:					
Commercial and industrial	$ 1,345	$ 1,345	$ 95	$ 1,375	$ 84
Construction and land development	-	-	-	-	-
Real estate - commercial	602	602	49	608	34
Real estate - residential	146	146	17	148	5
Real estate - home equity	49	49	49	49	3
Total:					
Commercial and industrial	$ 1,345	$ 1,345	$ 95	$ 1,375	$ 84
Construction and land development	9,648	14,365	-	10,161	763
Real estate - commercial	5,570	8,450	49	5,744	398
Real estate - residential	3,116	5,392	17	3,493	149
Real estate - home equity	739	765	49	758	31
	$ 20,418	$ 30,317	$ 210	$ 21,531	$ 1,425

Year Ended December 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ 426	$ 426	$ -	$ 455	$ 18
Construction and land development	11,524	13,017	-	12,539	920
Real estate - commercial	11,384	12,080	-	11,578	799
Real estate - residential	5,208	6,250	-	5,862	221
Real estate - home equity	1,021	1,166	-	1,138	60
With an allowance recorded:					
Commercial and industrial	$ 1,405	$ 1,405	$ 73	$ 1,566	$ 167
Construction and land development	-	-	-	-	-
Real estate - commercial	4,056	4,742	568	4,506	145
Real estate - residential	2,745	3,934	179	2,943	87
Real estate - home equity	81	120	3	85	4
Total:					
Commercial and industrial	$ 1,831	$ 1,831	$ 73	$ 2,021	$ 185
Construction and land development	11,524	13,017	-	12,539	920
Real estate - commercial	15,440	16,822	568	16,084	944
Real estate - residential	7,953	10,184	179	8,805	308
Real estate - home equity	1,102	1,286	3	1,223	64
	$ 37,850	$ 43,140	$ 823	$ 40,672	$ 2,421

The following table presents non-accrual loans by classes of the loan portfolio as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Commercial and industrial	**$ -**	$ -
Construction and land development	**554**	642
Real estate – commercial	**2,507**	418
Real estate – residential	**2,376**	2,284
Real estate - home equity	**326**	642
	$ 5,763	$ 3,986

The recorded investment in non-accrual loans was $5.8 million at December 31, 2014. The recorded investment in past due loans greater than 90 days and still accruing interest was $47,000 at December 31, 2014. Excluded from the recorded investment in non-accrual loans were $14.5 million of loans whose terms were modified under a troubled debt restructuring and were current under their modified terms at December 31, 2014. These troubled debt restructurings included $1.3 million of commercial and industrial loans, $7.0 million of construction and land development loans, $5.2 million of real estate-commercial loans, $0.9 million of real estate-residential loans and $0.1 million of real estate - home equity loans as of December 31, 2014.

During 2011 the Bank, through a foreclosure action, took title to a property. The borrower contested our foreclosure action and ultimately we agreed to reverse our foreclosure action, adjust the loan terms, place the loan on non-accrual status, and recognize the loan as a trouble debt restructure. Given the change in the legal status and the fact that the Bank no longer has title to the property, during 2014, the Bank reclassified the foreclosed real estate back to loans receivable. As of December 31, 2014, the loan remains on non-accrual status.

Approximately $41.5 million or 45% of the Company’s loan portfolio was in real estate-commercial loans and construction and land development loans at December 31, 2014. While the Company does not have a concentration of credit risk with any single borrower or industry, repayments on loans in these portfolios can be negatively influenced by decreases in real estate values. The Company mitigates this risk through conservative underwriting policies and procedures. In addition, 50% of real estate-commercial loans were owner occupied properties as of December 31, 2014. These types of loans are generally considered to involve less risk than non-owner-occupied mortgages.

At December 31, 2014 and 2013, the carrying amount of loans pledged to secure borrowings was $13.7 and $16.0 million, respectively.

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. Below is a table showing newly designated TDRs during 2014 and 2012 (dollars in thousands). The Company had no newly designated TDRs in 2013.

December 31, 2014	Temporary Rate Modification		Extension of Maturity		Modification of Payment and Other Terms	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial and industrial	-	$ -	-	$ -	1	$ 4
Construction and land development	-	-	-	-	-	-
Real estate - commercial	-	-	-	-	1	2,141
Real estate - residential	-	-	1	50	2	537
Real estate - home equity	-	-	1	77	-	-
Consumer	-	-	-	-	-	-
	-	$ -	2	$ 127	4	$ 2,682

December 31, 2012	Temporary Rate Modification		Extension of Maturity		Modification of Payment and Other Terms	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial and industrial	-	$ -	-	$ -	-	$ -
Construction and land development	-	-	-	-	-	-
Real estate - commercial	1	227	-	-	2	2,592
Real estate - residential	-	-	-	-	-	-
Real estate - home equity	-	-	-	-	3	188
Consumer	-	-	-	-	-	-
	1	$ 227	-	$ -	5	$ 2,780

The following table summarizes troubled debt restructurings that have subsequently defaulted during 2014 (dollars in thousands):

	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted within the past 12 months:		
Commercial and industrial	-	$ -
Construction and land development	-	-
Real estate - commercial	-	-
Real estate - residential	1	23
Real estate - home equity	-	-

The following table summarizes troubled debt restructurings that have subsequently defaulted during 2013 (dollars in thousands):

	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted within the past 12 months:		
Commercial and industrial	-	$ -
Construction and land development	-	-
Real estate - commercial	-	-
Real estate - residential	-	-
Real estate - home equity	1	139

The following table summarizes troubled debt restructuring that subsequently defaulted during 2012 (dollars in thousands):

	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted within the past 12 months:		
Commercial and industrial	-	$ -
Construction and land development	9	5,146
Real estate - commercial	7	2,857
Real estate - residential	9	2,507
Real estate - home equity	3	139

Trouble debt restructuring is a strategy applied to troubled loans in order to remediate the difficulties in an effort to return them to a performing status or stop the erosion of value. In some cases, the borrower is unable or does not conform to the restructured terms and asset quality may decline. The above tables depict those cases where loans have been restructured and subsequently have defaulted on their new terms. In some cases, that has resulted in deterioration of asset quality and has resulted in a charge to the allowance for loan losses of approximately zero in 2014 and $119,000 in 2013.

During 2014, the Bank did not fund any additional monies on any TDR loans.

5. Premises and Equipment

The components of premises and equipment at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Land	**$ 158**	$ 158
Building and improvements	**2,196**	2,360
Furniture, fixtures and equipment	**765**	1,415
Computer equipment	**633**	1,584
	3,752	5,517
Less accumulated depreciation	**1,884**	3,566
	$ 1,868	$ 1,951

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $155,000, $139,000 and $203,000, respectively.

6. Deposits

The components of deposits at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Demand, non-interest bearing	$ 5,027	$ 5,416
Demand, interest bearing	8,735	8,371
Money market savings	41,220	48,729
Time, $ 100,000 and over	28,861	37,147
Time, other	42,298	53,788
Total Deposits	$ 126,141	$ 153,451

At December 31, 2014, the scheduled maturities of time deposits are as follows (in thousands):

2015	$ 55,101
2016	13,138
2017	2,329
2018	153
2019	438
Thereafter	-
	$ 71,159

There were no brokered deposits as of December 31, 2014 and 2013.

7. Borrowings

The following table summarizes the components of borrowings at December 31, 2014 and 2013 (dollars in thousands):

	2014		2013	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Long-term borrowings	$ 10,000	3.09 %	$ 10,000	3.09 %
Total Borrowings	$ 10,000	3.09 %	$ 10,000	3.09 %

Borrowings from the FHLB of Pittsburgh are secured by FHLB stock, qualifying residential mortgages, and investments. The Company is required to maintain stock in the FHLB of Pittsburgh of $498,000 and $815,000 as of December 31, 2014 and 2013, respectively. The Company has a maximum borrowing capacity with the FHLB of approximately $14.3 million of which $10.0 million was outstanding at December 31, 2014.

Long-term borrowings consisted of the following at December 31, 2014 and 2013 (in thousands):

	2014	2013
Ten year FHLB term convertible select note due December 2017, fixed at 3.09%	**$ 10,000**	$ 10,000

Advances totaling $10.0 million are convertible advances. Under the terms of these arrangements, the FHLB retains the option to convert the advances from fixed to variable rate as defined in the agreement. If the FHLB were to exercise their options, the Company has the ability to prepay the advances at no penalty. At the current time no advances have been converted, and remain at a fixed rate of interest.

Contractual maturities of long-term borrowings at December 31, 2014 were as follows (in thousands):

Year ending December 31:	
2017	$ 10,000

In February 2012, the Company prepaid $20.0 million in FHLB advances resulting in a prepayment penalty of $361,000.

8. Subordinated Debt

On March 17, 2005, Stonebridge Statutory Trust I (the Trust), a statutory business trust established under Delaware law that is a wholly-owned non-consolidated subsidiary of the Company, issued $10.0 million variable rate Preferred Securities with a stated value and liquidation preference of $1,000 per share. The Company purchased $310,000 of common securities of the Trust. Stonebridge Financial Corp. created the Trust for the purpose of raising regulatory capital through the sale of mandatorily redeemable preferred capital securities to third party investors and common equity interests to Stonebridge Financial Corp. The Trust is considered a Variable Interest Entity (VIE), but is not consolidated because Stonebridge Financial Corp. is not the primary beneficiary of the Trust. At December 31, 2014, the Corporation reported all of the $10.3 million of Trust Preferred Debentures issued in connection with the offering as long-term borrowings and it reported its $310,000 equity interest in the Trust as "Other Assets." The Preferred Securities have a fixed rate of interest of 6.32%, which resets quarterly after five years to equal the London Interbank Offer Rate Index (LIBOR) plus 1.80%. The Trust's obligations under the Preferred Securities issued are fully and unconditionally guaranteed by the Company. The proceeds from the sale of the Preferred Securities and the common securities were utilized by the Trust to invest in $10.3 million of Subordinated Debt issued to the Company. The Subordinated Debt has a fixed rate of interest of 6.32% and resets quarterly after five years to equal the London Interbank Offer Rate Index (LIBOR) plus 1.80%. The interest rate was 2.04% at December 31, 2014 and 2013. The Subordinated Debt is unsecured and ranks subordinate and junior in right of payment to all indebtedness, liabilities and obligations of the Company. The Subordinated Debt primarily represents the sole assets of the Trust. Interest on the Preferred Securities is cumulative and payable quarterly in arrears. The Company has the right to optionally redeem the Subordinated Debt prior to the maturity date of March 17, 2035, on or after March 17, 2010, at the redemption price, plus accrued interest and unpaid distributions, if any, at the redemption date. Under the occurrence of certain events, specifically a tax event, investment company event or capital treatment event as more fully defined in the Indenture dated March 17, 2005, the Company may redeem, in whole, but not in part, the Subordinated Debt at any time within 90 days following the occurrence of such event. For regulatory reporting purposes, the Federal Reserve Board has indicated that the Trust Preferred Securities qualify as Tier I Capital subject to specified limitations. Proceeds from any redemption of the Subordinated Debt would cause a mandatory redemption of the Preferred Securities and the common securities having an aggregate liquidation amount equal to the principal amount of the Subordinated Debt redeemed.

As a result of the impact of the financial crisis, in May 2010, the Company's Board of Directors determined to defer interest payments on the trust preferred securities. The Company believes this decision will better support the capital position of the Bank. As of December 31, 2014, the Company has deferred 19 quarterly payments totaling $1.1 million, which includes compounded interest, and this amount is included in accrued interest payable and other liabilities on the consolidated balance sheet. The Company has the right, without causing a default, to defer payments of interest for up to 20 consecutive quarterly periods. According to the terms of the trust, during the term of the deferral, additional restrictions on transactions with the Company's stock are triggered. Also on September 1, 2011, the Company entered into an agreement with the Reserve Bank (see Note 1) that, among other things, prohibits any distribution of interest, principal or other sums on the subordinated debt or trust preferred securities without prior approval by the Reserve Bank.

In March 2015, a single catch-up payment equal to the total amount of the deferred payments, which is projected to be approximately $1.2 million, is required. At the end of the five-year deferral period, if the deferred interest remains unpaid it will constitute a default on the note and the trustee or holders of the trust preferred securities would have the right to accelerate the debt and commence collection actions against Stonebridge Financial Corp. To date, in most cases involving trust preferred securities default, trust preferred securities holders have forced a sale of the underlying bank. Further, the trustee has the right to bring suit on behalf of the holders and the holders of the securities also have the right to bring suit. However, Stonebridge Financial Corp. trust preferred securities are part of a static passive pool with no manager, therefore the ability of the trust preferred securities holders to organize and bring suit may be problematic for the holders.

There has also been much discussion about the possibility of settling the trust preferred securities at a discount. As noted above, Stonebridge Financial Corp. is part of a static passive pool with no manager, therefore negotiating a settlement or discount is extremely difficult; trustees generally do not believe they have the ability to negotiate one-off settlements with a pool participant without approval of the holders.

The possibility exists that the trust preferred securities holders could force Stonebridge Financial Corp. into a sale of the Bank. Proceeds from the sale would be first distributed to the trust preferred securities holders. Any remaining proceeds would then be distributed to other creditors and then to the owners of our common stock.

9. Lease Commitments and Total Rent Expense

The Company leases its administration and operating facility with a branch location under a five-year lease agreement expiring in October 2018. The lessor was a related party of the Company. The related party retired from his board position in July 2013. The lease terms are comparable to similarly outfitted office space in the Company's market. As additional rent, the Company is responsible for its proportionate share of operating expenses, including real estate taxes, insurance, utilities and maintenance. The Company also leased a branch office under a six-year lease agreement that expired on January 15, 2014. The Company closed this branch operations office on October 31, 2013 and did not renew this lease.

Future minimum lease payments, under non-cancellable operating leases, by year are as follows (in thousands):

2015	$	124
2016		126
2017		128
2018		98
	$	476

Total rent expense was $131,000, $320,000 and $340,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company leases space to third parties in its Warminster, Bucks County, Pennsylvania building. Rental income is netted against occupancy expense for financial statement presentation, and totaled $22,000, $29,000 and $22,000 for the years ended December 31, 2014, 2013, and 2012, respectively.

10. Preferred Stock

On January 23, 2009, as part of the Troubled Asset Repurchase Program (TARP) Capital Purchase Program (CPP), the Company entered into a letter agreement, and the related Securities Purchase Agreement – Standard Terms (collectively, the Purchase Agreement), with the United States Department of Treasury (Treasury), pursuant to which the Company issued (i) 10,973 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series C, liquidation preference of $1,000 per share (Series C preferred stock), and (ii) a warrant to purchase an additional 549 shares of Fixed Rate Cumulative Perpetual Preferred stock, Series D, liquidation preference of $1,000 per share (Series D preferred stock), for an aggregate purchase price of $11.0 million.

The Series C preferred stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5% per annum until January 23, 2014. Beginning January 24, 2014, the dividend rate increased to 9% per annum. Subject to consultation with the appropriate Federal banking agency, the Company may redeem the Class C preferred stock at any time.

On January 23, 2009, the Treasury exercised all of the warrants on the Class D preferred stock at the exercise price of $1.00 per share. The Class D preferred stock also qualifies as Tier 1 capital and pays cumulative dividends at a rate of 9% per annum. The Class D preferred stock may not be redeemed until all of the Class C preferred stock has been redeemed.

The $11.0 million of proceeds was allocated to the series of preferred stock based on their relative fair values at issuance. The difference between the initial value allocated to the preferred stock issuances and their liquidation values was charged to retained earnings over the first five years of the Purchase Agreement.

The Company has deferred its dividend payments on its Series C and Series D Preferred Stock issued to the Treasury Department as is permissible under the terms of the TARP Capital Purchase Program. As of December 31, 2014, the Company has deferred 19 quarterly payments totaling $4.5 million, which includes compounded interest. See further information regarding regulatory matters and the going concern issue described in Notes 1 and 21.

Beginning in 2011, the U.S. Department of Treasury began a process to exit its investments in financial institutions under the TARP Capital Purchase Program, and during 2012 Treasury began conducting public auctions of the remaining TARP CPP shares it held in financial institutions. In March 2013, Treasury conducted a public auction to qualified bidders of shares of the Company's Series C and Series D preferred stock held by Treasury. A bidding group comprised of certain of the Company's directors and senior management successfully bid in the auction and acquired substantially all the TARP CPP shares held by Treasury. As of December 31, 2014, the terms of the TARP CPP preferred shares remain unchanged as a result of this transaction.

11. Employee Benefit Plan

The Company has a 401(k) Plan for its eligible employees. The Company's contribution to the Plan is based on a 25% matching of employee's voluntary contributions up to 6% of each employee's salary. Additionally, the Company may contribute a discretionary profit sharing contribution. Employer contributions charged to expense for the years ended December 31, 2014, 2013 and 2012 were $18,000, $17,000 and $17,000, respectively.

12. Other Comprehensive Income (Loss)

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

The components of other comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
Unrealized holding gains (losses) on securities available-for-sale	**$ 2,243**	$ (2,957)	$ (154)
Reclassification adjustment for gains included in other income on the consolidated statements of operations	**(85)**	(45)	(705)
Non-credit portion of other-than-temporary impairment losses on debt securities held-to-maturity	**-**	-	-
Reclassification adjustment for accretion of non-credit related impairment losses on held-to-maturity securities	**-**	-	7
Reclassification adjustment for accretion of net unrealized losses transferred from available-for-sale to held-to-maturity	**-**	-	88
Total Other Comprehensive Income (Loss)	**2,158**	(3,002)	(764)
Tax effect	**-**	-	-
Net of Tax Amount	**$ 2,158**	$ (3,002)	$ (764)

The components of accumulated other comprehensive loss included in shareholders' deficit are as follows at December 31, 2014 and 2013 (in thousands):

	2014	2013
Net unrealized losses on securities available-for-sale	**$ (654)**	$ (2,812)
Tax effect	**-**	-
	$ (654)	$ (2,812)

13. Stock Compensation Plan

The Company adopted the 1999 Stock Option Plan, as amended, (Plan) that provides for the grant of stock options to officers, key employees and directors of the Company and Bank. Under the Plan, the Board of Directors is able to grant "incentive stock options" and "non-qualified stock options," provided that only employees of the Company will be eligible to receive incentive stock options. A total of 600,000 shares of common stock have been reserved for issuance under the Plan. As of December 31, 2014, options for 350,710 shares of common stock were remaining to be granted under this plan.

New stock options granted to directors vest immediately at the date of grant and expire ten years from the date of grant. Stock options granted to employees generally vest pro-rata over two to three years following the date of grant and expire ten years from the date of grant.

No stock options were granted in 2014, 2013 or 2012.

The following summarizes changes in stock options outstanding under the Plan for the year ended December 31, 2014:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2013	39,616	$ 8.64
Granted	-	-
Exercised	-	-
Forfeited	(6,866)	8.00
Outstanding, December 31, 2014	32,750	$ 8.77
Exercisable, December 31, 2014	32,750	$ 8.77

The Company did not have any non-vested options for the year ended December 31, 2014.

No options were exercised in 2014, 2013 or 2012. The total intrinsic value of options outstanding and exercisable at December 31, 2014 was $-0-.

Total compensation expense on the vesting of options was $-0-, with tax benefits of $-0- for the years ended December 31, 2014, 2013, and 2012. As of December 31, 2014, there was no unrecognized compensation expense on non-vested stock options to be recognized over the next year.

The following table summarizes information about the Company's stock options outstanding and exercisable at December 31, 2014:

Options Outstanding			Options Exercisable		
Shares	Exercise Price	Weighted Average Remaining Contractual Life	Shares	Exercise Price	Weighted Average Remaining Contractual Life
1,500	$ 8.20	2.6 years	1,500	$ 8.20	2.6 years
31,250	8.80	0.3 years	31,250	8.80	0.3 years

In 2007, the Board approved a restricted stock plan with 100,000 shares authorized to issue restricted stock to members of its management team. During 2014, 2013 and 2012, no restricted stock awards were granted and no shares were forfeited. Restricted stock awards are subject to a three-year cliff-vesting schedule based upon service. As of December 31, 2014, 90,750 shares remained to be awarded in the plan.

Generally, if the recipient leaves the Company before the end of the restricted period, the shares will be forfeited. Compensation expense for the restricted stock is ratably recognized over the vesting period, based on the fair value of the stock on the date of the grant. For the years ended December 31, 2014, 2013, and 2012, the compensation expense on the restricted stock awards was $-0-, with tax benefits of $-0- recognized. As of December 31, 2014, there was no unrecognized compensation expense on non-vested restricted stock.

14. Income Taxes

There were no federal or state income taxes due to continuing losses for the years ended December 31, 2014, 2013 and 2012.

The components of the net deferred tax asset at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Deferred tax assets:		
Nonaccrual interest income	$ 64	$ 823
Investment impairment	247	247
Charitable contribution carryforward	3	2
Allowance on foreclosed real estate	481	454
Alternative minimum tax credits	99	99
Federal net operating losses	13,063	11,771
Unrealized losses on securities available-for-sale	222	956
State net operating losses	361	346
Gross Deferred Tax Asset	14,540	14,698
Valuation allowance	(13,835)	(13,893)
Deferred Tax Asset Net of Valuation Allowance	705	805
Deferred tax liabilities:		
Allowance for loan losses	(602)	(695)
Allowance for off-balance sheet gains	(54)	(54)
Depreciation	(49)	(56)
	(705)	(805)
Net Deferred Tax Asset	$ -	$ -

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities (including the impact of available carry back and carry forward periods), projected future taxable income and tax-planning strategies in making this assessment. Based upon the Company's cumulative three year loss position and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more-likely-than-not that the Company will be unable to realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could change in the near term if estimates of future taxable income during the carry forward period change and the deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability and the valuation allowance may be adjusted in future periods accordingly.

As of December 31, 2014, the Company has federal and state net operating loss carry forwards of approximately $38.4 million and $3.3 million that expire through the year 2033.

The Company recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2014, 2013 and 2012. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in the provision for income tax expense in the consolidated statements of operations. The Company did not recognize any interest and penalties for the years ended December 31, 2014, 2013 and 2012. The tax years subject to examination by the taxing authorities are the years ended December 31, 2014, 2013, and 2012.

15. Transactions with Executive Officers, Directors and Principal Shareholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. At December 31, 2014 and 2013, related party loans totaled $2.5 million and $2.8 million, respectively. During 2014, loan advances, transfers in, transfers out, and repayments totaled $17,000, $-0-, $-0- and $268,000, respectively. At December 31, 2014 and 2013, related party deposits totaled $2.5 million and $1.5 million, respectively.

During 2013 and 2012, the Company leased its administrative and operating facility from a related party. Rent payments totaling $150,000 and $260,000 were paid to this related party during 2013 and 2012, respectively. The related party retired from his board position in July 2013.

16. Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making and monitoring commitments and conditional obligations as it does for on-balance sheet instruments. As of December 31, 2014 and 2013, the Company has a reserve related to credit losses for off-balance sheet instruments totaling $10,000, which is included in other liabilities.

At December 31, 2014 and 2013, the following financial instruments were outstanding whose contract amounts represent credit risk (in thousands):

	2014	2013
Unfunded commitments under lines of credit:		
Home equity loans	$ **2,974**	$ 541
Commercial real estate, construction and land development	**703**	2,459
Commercial and industrial	**453**	4,368
Other	**127**	-
Commercial and standby letters of credit	**16**	48

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2014 and 2013 was $16,000 and $48,000, respectively. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2014 and 2013 for guarantees under standby letters of credit issued is not material.

17. Concentration of Credit Risk

The Company grants commercial, residential and consumer loans to customers primarily located in the Greater Delaware Valley of Pennsylvania. The concentration of credit by type of loan is set forth in Note 4. The debtors' ability to honor their contracts is influenced by the region's economy.

There are numerous risks associated with commercial loans that could impact the borrower's ability to repay on a timely basis. They include, but are not limited to: the owner's business expertise, changes in local economies, competition, government regulation, and the general financial stability of the borrowing entity.

The Company attempts to mitigate these risks by making an analysis of the borrower's business and industry history, its financial position, as well as that of the business owner. The Company will also require the borrower to provide financial information on the operations of the business periodically over the life of the loan. In addition, most commercial loans are secured by assets of the business or those of the business owner, which can be liquidated if the borrower defaults, along with the personal surety of the business owner.

From time to time, the Company will maintain balances with its correspondent banks that exceed the $250,000 federally insured deposit limits. Management routinely evaluates the credit worthiness of these correspondent banks, and does not feel they pose significant risk to the Company.

18. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company'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 assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined by the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined).

As of December 31, 2014, 2013, and 2012, the Bank met the requirements of adequately capitalized standards for Tier 1 risk-based and Tier 1 leverage ratios.

As discussed in Note 1 to the consolidated financial statements, the Company and Bank entered into a joint Consent Order with the FDIC and PADOBS. The Consent Order requires the Bank to develop a Capital Plan to meet and maintain a Tier I capital to total assets ratio of at least 9% and a total risk-based capital ratio of at least 12.5%, both of which exceed the minimum ratios to be considered "well capitalized".

Because the Consent Order establishes specific capital amounts to be maintained by the Bank, the Bank may not be considered better than "adequately capitalized" for capital adequacy purposes, even if the Bank exceeds the levels of capital set forth in the Consent Order.

The Company's and Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are presented in the table below (dollar amounts in thousands):

December 31, 2014	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Stonebridge Financial Corp.	$ 8,935	9.3%	N/A	N/A	N/A	N/A
Stonebridge Bank	10,014	10.4%	$ ≥7,672	≥8.0%	$ ≥9,590	≥10.0%
Tier 1 capital (to risk weighted assets)						
Stonebridge Financial Corp.	(2,272)	(2.4)%	N/A	N/A	N/A	N/A
Stonebridge Bank	8,807	9.2%	≥3,836	≥4.0%	≥5,754	≥ 6.0%
Tier 1 capital (to total assets)						
Stonebridge Financial Corp.	(2,272)	(1.5)%	N/A	N/A	N/A	N/A
Stonebridge Bank	8,807	5.9%	≥5,956	≥4.0%	≥ 7,445	≥ 5.0%

December 31, 2013	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Stonebridge Financial Corp.	$ 11,136	9.3%	N/A	N/A	N/A	N/A
Stonebridge Bank	11,803	9.8%	$ ≥9,587	≥8.0%	$ ≥11,984	≥10.0%
Tier 1 capital (to risk weighted assets)						
Stonebridge Financial Corp.	(543)	(0.5)%	N/A	N/A	N/A	N/A
Stonebridge Bank	10,304	8.6%	≥4,793	≥4.0%	≥ 7,190	≥ 6.0%
Tier 1 capital (to total assets)						
Stonebridge Financial Corp.	(543)	(0.3)%	N/A	N/A	N/A	N/A
Stonebridge Bank	10,304	5.8%	≥7,078	≥4.0%	≥ 8,848	≥ 5.0%

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The Pennsylvania Banking Code provides that cash dividends may be declared and paid out of accumulated net earnings. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Loans or advances by the Bank to the Company are limited to 10% of the Bank's capital stock and surplus, and must have collateral securing the loans or advances. Because the Bank is currently in an accumulated deficit position, dividends cannot be paid at this time.

The Company's ability to pay cash dividends or repurchase shares of its common stock is subject to restrictions imposed by the terms of the preferred stock issued by the Company on January 23, 2009, to the US Treasury under its TARP Capital Purchase Program. These terms require the prior consent of US Treasury for the issuance of any quarterly cash dividend or any repurchase of common stock. No cash dividends on common stock were paid in 2014, 2013 and 2012.

Beginning in 2011, the U.S. Department of Treasury began a process to exit its investments in financial institutions under the TARP Capital Purchase Program, and during 2012 Treasury began conducting public auctions of the remaining TARP CPP shares it held in financial institutions. In March 2013, Treasury conducted a public auction to qualified bidders of shares of the Company's Series C and Series D preferred stock held by Treasury. A bidding group comprised of certain of the Company's directors and senior management successfully bid in the auction and acquired substantially all the TARP CPP shares held by Treasury. As of December 31, 2014, the terms of the TARP CPP preferred shares remain unchanged as a result of this transaction.

As discussed in Note 1 to the consolidated financial statements, the joint Consent Order prohibits the payment of dividends by the Bank to the holding company without the prior written consent of both the FDIC and PADOBS.

19. Fair Value Measurements and Fair Values of Financial Instruments

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

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the fair value measurements accounting guidance (FASB ASC 820, *Fair Value Measurements*), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The Company uses a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

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

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

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

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

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

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 and 2013 are as follows (in thousands):

December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSE) securities	**$ 19,309**	**$ -**	**$ 19,309**	**$ -**
GSE mortgage-backed securities	**16,263**	**-**	**16,263**	**-**
Securities Available-for-Sale	**$ 35,572**	**$ -**	**$ 35,572**	**$ -**

December 31, 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSE) securities	$ 20,709	$ -	$ 20,709	$ -
GSE mortgage-backed securities	16,804	-	16,804	-
Securities Available-for-Sale	$ 37,513	$ -	$ 37,513	$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 and 2013 are as follows (in thousands):

December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 9,400	$ -	$ -	$ 9,400
Foreclosed real estate	1,597	-	-	1,597

December 31, 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,218	$ -	$ -	$ 3,218
Foreclosed real estate	1,661	-	-	1,661

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

December 31, 2014	Qualitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans and leases	$ 9,400	Appraisal of collateral (1)	Liquidation expenses	-4.5% to -20.3% (-11.8%)
Other real estate owned	1,597	Appraisal of collateral or sales prices (1)	Liquidation expenses	-7.0% to -7.5% (-7.0%)

December 31, 2013	Qualitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans and leases	$ 3,218	Appraisal of collateral [1]	Liquidation expenses	-0.5% to -7.0% (-6.5%)
Other real estate owned	1,661	Appraisal of collateral or sales prices [1]	Liquidation expenses	-6.0% to -11.0% (-7.1%)

[1] Fair value may also be based on broker price opinions or negotiated settlements with the borrower.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2014 and 2013.

Cash and Cash Equivalents (carried at cost)

The carrying amounts reported in the consolidated balance sheets for cash and due from banks and short-term instruments approximate their fair values due primarily to their short-term nature.

Securities

The fair value of securities available-for-sale (carried at fair value) are determined by obtaining matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying on the securities' relationship to other benchmark quoted prices.

Restricted Investments in Bank Stock (carried at cost)

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

Loans Receivable (carried at cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans, Included in Loans Receivable (generally carried at fair value)

Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Deposits (carried at cost)

The fair values disclosed for demand deposits (non-interest bearing checking accounts, interest bearing checking accounts and money market accounts) are equal to the amount payable on demand at the reporting date (i.e. their carrying amounts).

Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation of the contractual cash flows. The discount rate is estimated using market rates currently being offered for borrowings with comparable remaining maturities.

Long-Term Debt (carried at cost)

Fair values of FHLB advances and structured notes are estimated using discounted cash flow analysis, based on quoted market prices for new advances with similar credit risk characteristics, terms and remaining maturity. The prices obtained from this active market represent a fair value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt (carried at cost)

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Accrued Interest Receivable and Payable (carried at cost)

The carrying amount of accrued interest approximates fair value.

Off-Balance Sheet Instruments (disclosed at cost)

Fair values of off-balance sheet instruments are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standing. The estimated fair values of these instruments were immaterial at December 31, 2014 and 2013.

The following table summarizes the carrying amount and fair value estimates of financial instruments at December 31, 2014 and 2013 (in thousands):

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and short-term time deposits	$ 7,251	$ 7,251	$ 5,609	$ 5,609
Securities available-for-sale	35,572	35,572	37,513	37,513
Loans receivable - net	90,991	91,931	113,340	115,004
Restricted investment in bank stock	522	522	839	839
Accrued interest receivable	473	473	619	619
Liabilities:				
Demand and savings deposits	54,982	54,982	62,516	62,516
Time deposits	71,159	71,419	90,935	91,623
Long-term borrowings	10,000	9,980	10,000	9,667
Subordinated debt	10,310	1,204	10,310	1,174
Accrued interest payable	1,183	1,183	955	955
Off balance sheet asset (liability):				
Commitments to extend credit	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-

20. Contingencies

The Company is subject to legal proceedings and claims arising in the ordinary course of business. It is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Company's consolidated financial position or results of operations. However, management is unable to determine the ultimate outcome of outstanding legal matters at this time.

In the normal course of business there are outstanding contingent liabilities and other commitments such as unfunded credit lines, unused letters of credit, and items held for collections, which are not reflected in the accompanying consolidated financial statements. Management does not anticipate any material losses as a result of these transactions.

21. Going Concern

While there have been signs of improvement in the overall economy and credit risk profile the Company continues to operate in a difficult environment, and has been significantly impacted by the unprecedented credit and economic market turmoil, as well as the recessionary economy that began in the latter part of 2007. Deterioration in the commercial real estate markets and related declines in property values in those markets over the past four years has led to the recognition of significant credit costs, which negatively impacted operating results, capital position and overall financial health.

Going Concern

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Bank, as of the date of the Independent Auditors' Report, was not in compliance with certain requirements of the Consent Order. The requirements of the Consent Order are described more fully in Note 1. Failure to meet the existing requirements under the Consent Order exposes the Bank to additional restrictions and regulatory actions, including regulatory take-over. Although the Bank ultimately expects to be in full compliance with the Consent Order in the future there is still uncertainty as to the Bank's ability to meet existing or future regulatory requirements, which raises substantial doubt about the Bank's ability to continue as a going concern. The ability of the Company and the Bank to continue as a going concern is dependent upon many factors, including regulatory action, the actual completion of the requirements of the Consent Order and the ability of management to achieve the remaining objectives in its recovery plan, which is discussed below. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Liquidity

At December 31, 2014, the Company had cash and cash equivalents of $7.3 million. The Bank also has potential access to a variety of other short-term and long-term funding sources, which include proceeds from sales/maturities of investment securities, as well as secondary funding sources such as the FHLB, and the Federal Reserve discount window, available to meet liquidity needs. As further discussed in Notes 7, 8, 9, 10, and 19, the Company's liquidity position may be adversely affected by dividend limitations imposed on the Bank and access to these funding sources. In addition, as discussed in Notes 8 and 10, the Company has deferred interest payments on the trust preferred securities totaling $1.1 million, which includes compounded interest, and has deferred its dividend payments totaling $4.5 million on its Series C and Series D Preferred Stock, respectively. In March 2015, a single catch-up payment on the trust preferred securities equal to the total amount of the deferred interest payments, which is projected to be approximately $1.2 million, is required or it will constitute a default on the note. In the event of default, the trustees or holders of the trust preferred securities would have the right to accelerate the debt and commence collection actions against the Company. Refer to Note 8 for further details. The Bank's ability to maintain adequate levels of liquidity is dependent on the successful execution of the recovery plan, as discussed below, and more specifically, the ability to further reduce its non-performing assets, improve risk profile, improve financial performance, and comply with the provisions of the Consent Order.

Regulatory Action

Since May 2011, the Bank has been subject to the Consent Order that requires the Bank to improve capital, asset quality, liquidity and management oversight, among other matters as discussed in Note 1. Specifically, the Bank is required to increase and maintain leverage and total risk-based capital ratios to at least 9.0% and 12.5%, respectively. In addition to these capital ratio requirements, the Bank is also required to maintain an adequate allowance for loan losses at all times and systematically reduce commercial real estate loans, particularly land development and construction loans. The Bank must also obtain approval from the FDIC and PADOBS before paying cash dividends or making other payments from the Bank to Stonebridge Financial Corp.

Although the Bank expects to be in compliance with the capital ratio requirements in the Consent Order following the execution of its Capital Plan, as of the date of the Independent Auditors' Report, the Bank was not in compliance with all of the other requirements in the Consent Order. Management has no assurance whether or when the Bank will be in full compliance or whether or when the Consent Order will be lifted or terminated. Even if lifted or terminated, the Bank may still be subject to memoranda of understanding or other agreements with regulators that restrict activities or that continue to impose capital requirements. The requirements and restrictions of the Consent Order are judicially enforceable and the Company or Bank's failure to comply with such requirements and restrictions may subject the Company and Bank to additional regulatory restrictions including: the imposition of civil monetary penalties; the termination of insurance of deposits; the issuance of removal and prohibition orders against institution-affiliated parties; the appointment of a conservator or receiver for the Bank; the issuance of directives to increase capital or enter into a strategic transaction, whether by merger or otherwise, with a third party, if the Bank again falls below the capital ratio requirements; and the enforcement of such actions through injunctions or restraining orders.

On September 1, 2011, the Company entered into a written agreement with the Federal Reserve Bank of Philadelphia (the Reserve Bank), which prohibits the declaration and payment of dividends, the receipt of dividends from the Bank, and any distribution of interest, principal, or other sums on subordinated debentures or trust preferred securities without the approval of the Reserve Bank. The agreement also prohibits the purchase or redemption of shares of the Company's stock without prior approval by the Reserve Bank.

Recovery Plan

As previously discussed, the Bank has been aggressively pursuing all available alternatives to improve capital ratios, including raising capital and reducing assets, as part of a recovery plan that was implemented in June 2011. The recovery plan, which was developed internally, was designed to improve financial health, aggressively reduce credit risk exposure and focus on core businesses and traditional markets. The recovery plan was updated in 2014.

Key elements of the updated recovery plan include, but are not limited to:

- Continue to aggressively manage the Bank's existing loan portfolios to minimize further credit losses and to maximize recoveries;
- De-leveraging the Bank's balance sheet;
- Reducing the Bank's loan portfolio through pay downs; and
- Lowering operating costs to align with the restructured business model.

Through December 31, 2014, the Bank accomplished several significant milestones that will contribute to the efforts of the recovery plan, including:

- Reduced total loan portfolio to $92.9 million at December 31, 2014 from $114.9 million at December 31, 2013. More importantly, the Bank reduced its commercial real estate loan portfolio by $8.6 million over this same period from $42.1 million to $33.5 million or 20% at December 31, 2014.
- Maintained an allowance as a percentage of total loans of 1.97% at December 31, 2014.
- Furthered steps to reduce operating costs through various expense reductions.

In addition to the above, see Notes 8, 10 and 19 for further capital preservation initiatives undertaken by management related to the suspension of dividends on common shares and TARP Preferred Stock, as well as the deferral of interest and dividend payments on the Company's subordinated debentures and trust preferred securities.

The actions described above are designed to improve the overall financial position of the Bank. However, there is no assurance that the Bank will be able to successfully implement the remaining aspects of the recovery plan or that the remaining elements contemplated by the recovery plan will be acceptable to regulators.