Stonebridge Bank and Subsidiaries

Consolidated Financial Statements

December 31, 2017 and 2016

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

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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 Bank and Subsidiaries
West Chester, Pennsylvania

We have audited the accompanying consolidated financial statements of Stonebridge Bank and its subsidiaries (the Bank), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Bank and its subsidiaries as of December 31, 2017 and 2016, 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 Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Notes 1 and 18 to the consolidated financial statements, the Bank entered into a Consent Order dated May 19, 2011 with its primary banking regulators that, among other things, restricts certain operations and requires the Bank to increase its leverage and total risk-based capital ratios to at least 9.0% and 12.5%, respectively. Furthermore, the Bank has suffered recurring losses from operations. These matters raise substantial doubt about the ability of the Bank to continue as a going concern. Management's plans in regard to these matters are described in Note 18. 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.

BDO USA, LLP

Harrisburg, Pennsylvania
February 28, 2018

Consolidated Financial Statements

Stonebridge Bank and Subsidiaries

Consolidated Balance Sheets
(in thousands, except for share amounts)

December 31,	**2017**	2016
Assets		
Cash and due from banks	$ **252**	$ 296
Interest-bearing deposits with banks	**10,341**	10,637
Cash and cash equivalents	**10,593**	10,933
Securities available-for-sale, at fair value	**-**	8,576
Loans receivable, net of allowance for loan losses of $346 at December 31, 2017 and $734 at December 31, 2016	**45,078**	57,853
Investments in restricted bank stock	**65**	491
Premises and equipment, net	**69**	135
Bank owned life insurance	**6,332**	6,146
Foreclosed real estate	**-**	144
Deferred tax asset	**98**	-
Accrued interest receivable and other assets	**501**	529
Total Assets	$ **62,736**	$ 84,807
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	$ **5,934**	$ 3,037
Interest bearing	**52,358**	65,757
Total deposits	**58,292**	68,794
Long-term borrowings	**-**	10,000
Accrued interest payable and other liabilities	**395**	368
Total Liabilities	**58,687**	79,162
Shareholders' Equity		
Preferred stock, par value $100.00 per share; authorized 1,000,000 shares; none issued and outstanding: 2017 and 2016	**-**	-
Common stock, par value $1.00 per share; authorized 4,000,000 shares; issued and outstanding: 2017 and 2016 60,000 shares	**60**	60
Surplus	**36,261**	36,261
Accumulated deficit	**(32,272)**	(30,759)
Accumulated other comprehensive income	**-**	83
Total Shareholders' Equity	**4,049**	5,645
Total Liabilities and Shareholders' Equity	$ **62,736**	$ 84,807

See accompanying notes to consolidated financial statements.

Stonebridge Bank and Subsidiaries

Consolidated Statements of Operations
(in thousands)

Years Ended December 31,	2017	2016
Interest Income		
Loans receivable, including fees	$ 2,523	$ 3,000
Securities, taxable	124	360
Other	78	51
Total Interest Income	2,725	3,411
Interest Expense		
Deposits	394	596
Borrowings	255	314
Total Interest Expense	649	910
Net interest income	2,076	2,501
Provision for Loan Losses	582	624
Net Interest Income After Provision for Loan Losses	1,494	1,877
Other Income		
Customer service fees	27	28
Bank owned life insurance	186	186
Other	39	82
Net gains on sales of securities	33	6
Total Other Income	285	302
Other Expenses		
Salaries and employee benefits	1,521	1,612
Occupancy	160	160
Equipment and data processing	625	646
Professional fees	398	373
FDIC insurance	147	204
Software maintenance	77	60
Net (gains) losses on foreclosed real estate	(28)	158
Taxes other than income	60	56
Insurance	221	413
FHLB prepayment penalty	21	-
Other	188	257
Total Other Expenses	3,390	3,939
Loss before income tax benefit	(1,611)	(1,760)
Income Tax Benefit	(98)	-
Net Loss	$ (1,513)	$ (1,760)

See accompanying notes to consolidated financial statements.

Stonebridge Bank and Subsidiaries

Consolidated Statements of Comprehensive Loss
(in thousands)

Years Ended December 31,	2017	2016
Net Loss	$ (1,513)	$ (1,760)
Other Comprehensive Income (Loss)		
Unrealized (losses) gains arising on available-for-sale securities	(50)	685
Reclassification adjustment for gains included in other income on the consolidated statements of operations	(33)	(6)
Total Other Comprehensive (Loss) Income	(83)	679
Total Comprehensive Loss	$ (1,596)	$ (1,081)

See accompanying notes to consolidated financial statements.

Stonebridge Bank and Subsidiaries

Consolidated Statements of Shareholders' Equity
(in thousands, except shares data)

	Common Stock				Accumulated Other Comprehen-sive Income (Loss)	
	Shares[(1)]	Par Value	Surplus	Accumulated Deficit		Total
Balance, December 31, 2015	60,000	$ 60	$ 36,261	$ (28,999)	$ (596)	$ 6,726
Net loss	-	-	-	(1,760)	-	(1,760)
Other comprehensive income	-	-	-	-	679	679
Balance, December 31, 2016	60,000	60	36,261	(30,759)	83	5,645
Net loss	-	-	-	(1,513)	-	(1,513)
Other comprehensive loss	-	-	-	-	(83)	(83)
Balance, December 31, 2017	**60,000**	**$ 60**	**$ 36,261**	**$ (32,272)**	**$ -**	**$ 4,049**

(1) December 31, 2015 balances have been restated from previously reported results to adjust for 10 to 1 reverse stock split.

See accompanying notes to consolidated financial statements.

Stonebridge Bank and Subsidiaries

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	2017	2016
Cash Flows from Operating Activities		
Net loss	$ (1,513)	$ (1,760)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	582	624
Deferred income tax benefit	(98)	-
Depreciation and amortization	70	91
Net realized gains on sale of investment securities	(33)	(6)
Amortization of premiums and discounts on investment securities, net	57	112
Amortization of premiums on purchased loans	2	6
Impairment charges on foreclosed real estate	-	159
Gain on sale of foreclosed real estate	(28)	(1)
Bank-owned life insurance income	(186)	(186)
Changes in assets and liabilities:		
Decrease in accrued interest receivable and other assets	28	453
Increase (Decrease) in accrued interest payable and other liabilities	27	(68)
Net Cash Used in Operating Activities	(1,092)	(576)
Cash Flows from Investing Activities		
Proceeds from sales of investment securities available-for-sale	6,729	6
Proceeds from maturities of investment securities available-for-sale	1,740	17,919
Redemption of restricted investment in bank stocks	426	19
Net decrease in loans and leases	12,191	16,766
Purchases of premises and equipment	(4)	(20)
Proceeds from the sale of foreclosed real estate	172	250
Net Cash Provided by Investing Activities	21,254	34,940
Cash Flows from Financing Activities		
Net decrease in deposits	(10,502)	(29,841)
Repayments of long term borrowings	(10,000)	-
Net Cash Used in Financing Activities	(20,502)	(29,841)
(Decrease) increase in cash and cash equivalents	(340)	4,523
Cash and Cash Equivalents, Beginning of Year	10,933	6,410
Cash and Cash Equivalents, End of Year	$ 10,593	$ 10,933
Supplementary Disclosures of Cash Flow Information		
Cash payments for interest	$ 679	$ 912

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Stonebridge Bank and subsidiaries (the Bank) was incorporated in February 1999 under the laws of the Commonwealth of Pennsylvania. 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 (the PADOBS) and the Federal Deposit Insurance Corporation (the FDIC). 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 Bank, and the following subsidiary that is wholly-owned by Stonebridge Bank for the purpose of procuring and maintaining other real estate owned acquired at foreclosure: Pritchard Farms Forest Hill, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. The Bank consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control.

The accounts of Stonebridge Financial Corp. (the Company), the bank holding company for Stonebridge Bank, are not included in the consolidated financial statements.

On March 17, 2016, the Bank filed Articles of Amendment to its Articles of Incorporation to effect a reverse stock split of its outstanding common stock which became effective immediately. As a result of the reverse split, every ten shares of the Bank's issued and outstanding common stock were consolidated into one share issued and outstanding share of common stock.

The Bank has early adopted ASU 2016-01. For entities other than public business entities, the update eliminates the requirement under Topic 825, *"Financial Instruments,"* to disclose the fair values of financial assets and financial liabilities measured in the financial statements at amortized cost. Further, this update excludes receivables and payables due in one year or less, deposit liabilities with no defined or contractual maturities and nonmarketable equity securities accounted for under the practicability election from this disclosure requirement.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern - In August 2014, the FASB issued guidance that requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern. The guidance requires new disclosures to the extent management concludes there is substantial doubt about an entity's ability to continue as a going concern. The guidance was effective for the Bank's annual financial statements dated December 31, 2016. The adoption of this guidance did not impact our financial position or consolidated results of operations.

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, and the valuation of deferred tax assets.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2017, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through February 28, 2018, 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 and the Pennsylvania Department of Banking and Securities 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.

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 Bank has taken significant actions 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 Bank.

For more information on regulatory matters, including the Bank's current status, see Note 18.

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 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 Bank 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. The Bank does not have any securities classified as available-for-sale as of December 31, 2017.

Securities classified as held-to-maturity are those debt securities the Bank 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. The Bank does not have any securities classified as held-to-maturity as of December 31, 2017 and 2016.

The Bank 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 Bank 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 13). The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. 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 Bank's loan assets are loans to business owners of many types. The Bank provides commercial loans for real estate development and other business purposes.

The Bank'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 Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status 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 less disposal costs 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 Bank 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 Bank 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 Bank's allowance for loan losses and may require the Bank 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 $41,000 and $467,000 as of December 31, 2017 and 2016, respectively, and Atlantic Community Bankers Bank (ACBB) of $24,000 as of December 31, 2017 and 2016.

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 $-0- and $144,000 at December 31, 2017 and 2016, respectively. Loans secured by 1-4 family residential real estate properties in the process of foreclosure is approximately $49,000 and $170,000 as of December 31, 2017 and 2016, 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 Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Investment in Life Insurance

The Bank 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 Bank on a chosen group of employees. The Bank 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 Bank would be taxed on the excess of the proceeds received over the premiums paid. However, the Bank intends to hold these policies until the nontaxable proceeds are realized and, accordingly, the Bank has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Advertising Costs

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

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank 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 Bank 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, 2017 and 2016 due to the Bank not having any reservable liabilities with the Federal Reserve Bank.

3. Securities

The Bank does not have any securities classified as available-for-sale as of December 31, 2017. The amortized cost and approximate fair value of securities available-for-sale as of December 31, 2016 are summarized as follows (in thousands):

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
GSE mortgage-backed	$ 8,493	$ 91	$ (8)	$ 8,576
Total Available-for-Sale Securities	$ 8,493	$ 91	$ (8)	$ 8,576

At December 31, 2017 and 2016, the fair value of securities pledged to secure borrowings and repurchase agreements was $-0- and $8.6 million, respectively.

Gross gains of $40,000 and $6,000 were realized on sales of securities available-for-sale during 2017 and 2016, respectively. Gross losses of $7,000 and $-0- were realized on sales and redemption of securities available-for-sale during 2017 and 2016, respectively.

There were not any securities in a loss position as of December 31, 2017. The following table 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, 2016 (in thousands):

December 31, 2016	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
GSE mortgage-backed	$ 1,325	$ 8	$ -	$ -	$ 1,325	$ 8
Total Temporarily Impaired Securities	$ 1,325	$ 8	$ -	$ -	$ 1,325	$ 8

The Bank had one security with an unrealized loss less than 12 months as of December 31, 2016, and no 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).

4. Loans Receivable and Allowance for Loan Losses

The composition of net loans receivable at December 31, 2017 and 2016 is as follows (in thousands):

		2017		2016
Commercial and industrial	$	**1,400**	$	4,497
Construction and land development		**648**		5,566
Real estate - commercial		**22,021**		21,303
Real estate - residential		**19,269**		21,904
Real estate - home equity		**2,007**		5,226
Consumer		**102**		141
Total Loans		**45,447**		58,637
Allowance for loan losses		**(346)**		(734)
Unearned net loan origination fees		**(24)**		(53)
Unamortized premium on purchased loans		**1**		3
Net Loans	$	**45,078**	$	57,853

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 Bank's internal risk rating system as of December 31, 2017 and 2016 (in thousands):

December 31, 2017		Pass		Special Mention		Substandard		Doubtful		Total
Commercial and industrial	$	**1,400**	$	**-**	$	**-**	$	**-**	$	**1,400**
Construction and land development		**-**		**648**		**-**		**-**		**648**
Real estate - commercial		**16,082**		**2,321**		**3,618**		**-**		**22,021**
Real estate - residential		**17,721**		**709**		**839**		**-**		**19,269**
Real estate - home equity		**1,758**		**-**		**249**		**-**		**2,007**
Consumer		**102**		**-**		**-**		**-**		**102**
	$	**37,063**	$	**3,678**	$	**4,706**	$	**-**	$	**45,447**

December 31, 2016		Pass		Special Mention		Substandard		Doubtful		Total
Commercial and industrial	$	4,497	$	-	$	-	$	-	$	4,497
Construction and land development		1,124		973		3,469		-		5,566
Real estate - commercial		15,745		3,634		1,924		-		21,303
Real estate - residential		21,006		461		437		-		21,904
Real estate - home equity		4,962		-		264		-		5,226
Consumer		141		-		-		-		141
	$	47,475	$	5,068	$	6,094	$	-	$	58,637

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, 2017 and 2016 (in thousands):

December 31, 2017	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	$ -	$ -	$ -	$ -	$ 1,400	$ 1,400	$ -
Construction and land development	-	-	-	-	648	648	-
Real estate - commercial	1,043	321	372	1,736	20,285	22,021	-
Real estate - residential	554	-	278	832	18,437	19,269	49
Real estate - home equity	44	-	-	44	1,963	2,007	-
Consumer	-	-	-	-	102	102	-
	$ 1,641	$ 321	$ 650	$ 2,612	$ 42,835	$ 45,447	$ 49

December 31, 2016	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	$ -	$ -	$ -	$ -	$ 4,497	$ 4,497	$ -
Construction and land development	-	-	-	-	5,566	5,566	-
Real estate - commercial	-	-	422	422	20,881	21,303	-
Real estate - residential	226	45	207	478	21,426	21,904	49
Real estate - home equity	-	-	-	-	5,226	5,226	-
Consumer	-	-	-	-	141	141	-
	$ 226	$ 45	$ 629	$ 900	$ 57,737	$ 58,637	$ 49

The following table summarizes the activity in the allowance for loan losses by loan class for the years ended December 31, 2017 and 2016 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2017 and 2016 (in thousands):

December 31, 2017	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 75	$ -	$ 59	$ -	$ 134	$ 15	$ 119
Construction and land development	336	995	180	500	21	-	21
Real estate - commercial	94	50	-	-	44	-	44
Real estate - residential	159	135	29	-	53	2	51
Real estate - home equity	65	91	31	14	19	-	19
Consumer - other	5	2	4	-	7	-	7
Unallocated	-	-	-	68	68	-	68
	$ 734	$ 1,273	$ 303	$ 582	$ 346	$ 17	$ 329

	Loans Receivable		
December 31, 2017	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	**$ 1,400**	**$ 44**	**$ 1,356**
Construction and land development	**648**	**648**	**-**
Real estate - commercial	**22,021**	**6,234**	**15,787**
Real estate - residential	**19,269**	**1,337**	**17,932**
Real estate - home equity	**2,007**	**305**	**1,702**
Consumer - other	**102**	**-**	**102**
	$ 45,447	**$ 8,568**	**$ 36,879**

December 31, 2016	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 163	$ 1,221	$ 208	$ 925	$ 75	$ 10	$ 65
Construction and land development	466	325	9	186	336	333	3
Real estate - commercial	324	-	427	(657)	94	1	93
Real estate - residential	228	200	12	119	159	-	159
Real estate - home equity	67	289	98	189	65	-	65
Consumer - other	11	-	9	(15)	5	-	5
Unallocated	123	-	-	(123)	-	-	-
	$ 1,382	$ 2,035	$ 763	$ 624	$ 734	$ 344	$ 390

	Loans Receivable		
December 31, 2016	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 4,497	$ 50	$ 4,447
Construction and land development	5,566	5,276	290
Real estate - commercial	21,303	5,859	15,444
Real estate - residential	21,904	1,511	20,393
Real estate - home equity	5,226	331	4,895
Consumer - other	141	-	141
	$ 58,637	$ 13,027	$ 45,610

In addition to the above, the Bank has a reserve for off-balance sheet credit arrangements of $10,000 as of December 31, 2017 and 2016, which is included in other liabilities.

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2017 and 2016 and for the years then ended (in thousands):

Year Ended December 31, 2017	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	648	648	-	723	186
Real estate - commercial	6,234	6,234	-	6,377	343
Real estate - residential	1,335	1,335	-	1,413	66
Real estate - home equity	305	305	-	314	10
With an allowance recorded:					
Commercial and industrial	$ 44	$ 29	$ 15	$ 45	$ 2
Construction and land development	-	-	-	-	-
Real estate - commercial	-	-	-	-	-
Real estate - residential	2	-	2	3	1
Real estate - home equity	-	-	-	-	-
Total:					
Commercial and industrial	$ 44	$ 29	$ 15	$ 45	$ 2
Construction and land development	648	648	-	723	186
Real estate - commercial	6,234	6,234	-	6,377	343
Real estate - residential	1,337	1,335	2	1,416	67
Real estate - home equity	305	305	-	314	10
	$ 8,568	$ 8,551	$ 17	$ 8,875	$ 608

Year Ended December 31, 2016	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	1,818	1,889	-	2,013	306
Real estate - commercial	5,712	5,773	-	5,816	326
Real estate - residential	1,511	1,546	-	1,611	71
Real estate - home equity	331	376	-	346	13
With an allowance recorded:					
Commercial and industrial	$ 50	$ 50	$ 10	$ 1,237	$ 62
Construction and land development	3,458	3,785	333	3,601	267
Real estate - commercial	147	158	1	150	6
Real estate - residential	-	-	-	-	-
Real estate - home equity	-	-	-	-	-
Total:					
Commercial and industrial	$ 50	$ 50	$ 10	$ 1,237	$ 62
Construction and land development	5,276	5,674	333	5,614	573
Real estate - commercial	5,859	5,931	1	5,966	332
Real estate - residential	1,511	1,546	-	1,611	71
Real estate - home equity	331	376	-	346	13
	$ 13,027	$ 13,577	$ 344	$ 14,774	$ 1,051

The following table presents non-accrual loans by classes of the loan portfolio as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Commercial and industrial	**$ -**	$ -
Construction and land development	**-**	3,469
Real estate – commercial	**874**	1,008
Real estate – residential	**229**	300
Real estate - home equity	**44**	50
	$ 1,147	$ 4,827

The recorded investment in non-accrual loans was $1.1 million at December 31, 2017. The recorded investment in past due loans greater than 90 days and still accruing interest was $49,000 at December 31, 2017. The recorded investment in loans whose terms were modified under a troubled debt restructuring and were current under their modified terms at December 31, 2017 was $7.4 million excluding non-accrual loans. These troubled debt restructurings include $46,000 of commercial and industrial loans, $648,000 of construction and land development loans, $5.4 million of real estate-commercial loans, $1.1 million of real estate-residential loans and $261,000 of real estate - home equity loans as of December 31, 2017.

The recorded investment in non-accrual loans was $4.8 million at December 31, 2016. The recorded investment in past due loans greater than 90 days and still accruing interest was $49,000 at December 31, 2016. The recorded investment in loans whose terms were modified under a troubled debt restructuring and were current under their modified terms at December 31, 2016 was $8.7 million excluding non-accrual loans. These troubled debt restructurings included $0.1 million of commercial and industrial loans, $1.8 million of construction and land development loans, $5.2 million of real estate-commercial loans, $1.3 million of real estate-residential loans and $0.3 million of real estate - home equity loans as of December 31, 2016.

Approximately $22.7 million or 50% of the Bank's loan portfolio was in real estate-commercial loans and construction and land development loans at December 31, 2017. While the Bank 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 Bank mitigates this risk through conservative underwriting policies and procedures. In addition, 38% of real estate-commercial loans were owner occupied properties as of December 31, 2017. These types of loans are generally considered to involve less risk than non-owner-occupied mortgages.

At December 31, 2017 and 2016, the carrying amount of loans pledged to secure borrowings was $11.6 million and $6.3 million, respectively.

The Bank 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 Bank 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 Bank's allowance for loan losses.

The Bank 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 2017 and 2016 (dollars in thousands).

December 31, 2017	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	491	1	37
Real estate - residential	-	-	-	-	-	-
Real estate - home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	-	$ -	1	$ 491	1	$ 37

December 31, 2016	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	406
Real estate - residential	-	-	-	-	1	184
Real estate - home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	-	$ -	-	$ -	2	$ 590

The following table summarizes troubled debt restructurings that have subsequently defaulted during 2017 (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	2	321
Real estate - residential	-	-
Real estate - home equity	-	-

The following table summarizes troubled debt restructurings that have subsequently defaulted during 2016 (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	2	411
Real estate - residential	-	-
Real estate - home equity	-	-

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, those would result in deterioration of asset quality and result in a charge to the allowance for loan losses. In 2017, the Bank did not fully charged off any TDR's. In 2016, the Bank fully charged off a $1.2 million TDR.

During 2017 and 2016, 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, 2017 and 2016 are as follows (in thousands):

	2017	2016
Land	$ -	$ -
Building and improvements	120	116
Furniture, fixtures and equipment	130	130
Computer equipment	107	107
	357	353
Less accumulated depreciation	288	218
	$ 69	$ 135

Depreciation expense for the years ended December 31, 2017 and 2016 was $70,000 and $77,000, respectively. During 2016, the Bank retired $681,000 of fully depreciated assets.

6. Deposits

The components of deposits at December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Demand, non-interest bearing	$ 5,934	$ 3,037
Demand, interest bearing	6,050	5,978
Money market savings	22,211	23,553
Time, $250,000 and over	1,588	3,349
Time, other	22,509	32,877
Total Deposits	$ 58,292	$ 68,794

At December 31, 2017, the scheduled maturities of time deposits are as follows (in thousands):

2018	$ 18,161
2019	3,191
2020	1,879
2021	574
2022	292
Thereafter	-
	$ 24,097

There were no brokered deposits as of December 31, 2017 and 2016.

7. Borrowings

The Bank had no borrowings at December 31, 2017. The following table summarizes the components of borrowings at December 31, 2016 (dollars in thousands):

	2016	
	Balance	Weighted Average Rate
Long-term borrowings	$ 10,000	3.09 %
Total Borrowings	$ 10,000	3.09 %

Borrowings from the FHLB of Pittsburgh are secured by FHLB stock, qualifying residential mortgages, and investments. The Bank is required to maintain stock in the FHLB of Pittsburgh of $41,000 and $467,000 as of December 31, 2017 and 2016, respectively. The Bank has a maximum borrowing capacity with the FHLB of approximately $5.8 million of which zero was outstanding at December 31, 2017.

The 2016 advances totaling $10.0 million were 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 Bank has the ability to prepay the advances at no penalty. The Bank repaid the $10.0 million in advances in October 2017 with a $21,000 penalty.

8. Lease Commitments and Total Rent Expense

The Bank leases its administration and operating facility with a branch location under a lease agreement expiring in September 2021. As additional rent, the Bank is responsible for its proportionate share of operating expenses, including real estate taxes, insurance, utilities and maintenance.

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

2018	$ 130
2019	131
2020	134
2021	102
	$ 497

Total rent expense was $126,000 for the years ended December 31, 2017 and 2016.

9. Employee Benefit Plan

The Bank has a 401(k) Plan for its eligible employees. The Bank's contribution to the Plan is based on a 50% matching of employee's voluntary contributions up to 6% of each employee's salary. Additionally, the Bank may contribute a discretionary profit sharing contribution. Employer contributions charged to expense for the years ended December 31, 2017 and 2016 were $16,000 and $26,000, respectively.

10. Other Comprehensive (Loss) Income

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, 2017 and 2016 are as follows (in thousands):

	2017	2016
Unrealized holding (losses) gains on securities available-for-sale	$ (50)	$ 685
Reclassification adjustment for gains included in other income on the consolidated statements of operations	(33)	(6)
Total Other Comprehensive (Loss) Income	(83)	679
Tax effect	-	-
Net of Tax Amount	$ (83)	$ 679

The components of accumulated other comprehensive loss included in shareholders' equity are as follows at December 31, 2017 and 2016 (in thousands):

	2017	2016
Net unrealized gains on securities available-for-sale	$ -	$ 83
Tax effect	-	-
	$ -	$ 83

11. Income Taxes

There were no federal or state income taxes due to continuing losses for the year ended December 31, 2016. The components of income tax benefit for the year ended December 31, 2017 are as follows (in thousands):

Income taxes:		
Current	$	-
Deferred		(98)
	$	(98)

A reconciliation of the statutory income tax at a rate of 34% to the income benefit for the year ended December 31, 2017 included in the consolidated statements of operation is as follows (dollars in thousands):

		Amount	% of Pretax Income
Federal income tax at statutory rate	$	(646)	(34.0)%
Adjustments resulting from:			
State tax (net of federal tax benefit)		(191)	(10.1)
Investment in life insurance		(63)	(3.3)
Federal rate change		5,852	307.8
Valuation allowance		(5,022)	(264.2)
Nondeductible items and others		(28)	(1.5)
Income Tax Benefit	$	(98)	(5.3)%

The components of the net deferred tax asset at December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Deferred tax assets:		
Nonaccrual interest income	$ 93	$ 342
Allowance for off-balance sheet losses	2	3
Investment impairment	152	247
Allowance on foreclosed real estate	-	197
Alternative minimum tax credits	98	99
Federal net operating losses	9,495	14,601
Unrealized losses on securities available-for-sale	-	-
State net operating losses	1471	-
Gross Deferred Tax Asset	11,311	15,489
Valuation allowance	(10,922)	(14,005)
Deferred Tax Asset Net of Valuation Allowance	389	1,484
Deferred tax liabilities:		
Allowance for loan losses	(286)	(1,435)
Depreciation	(5)	(21)
Unrealized gain on securities available-for-sale	-	(28)
	(291)	(1,484)
Net Deferred Tax Asset	$ 98	$ -

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 Bank'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 Bank will be unable to realize the benefits of these deductible differences, except for the alternative minimum tax credits. 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, 2017, the Bank has federal net operating loss carry forwards of approximately $43.0 million that expire through the year 2035.

The Bank recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2017 and 2016. The Bank'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 Bank did not recognize any interest and penalties for the years ended

December 31, 2017 and 2016. The tax years subject to examination by the taxing authorities are the years ended December 31, 2014, 2015 and 2016.

12. Transactions with Executive Officers, Directors and Principal Shareholders

The Bank 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). At December 31, 2017 and 2016, related party loans totaled $1.7 million and $1.9 million, respectively. During 2017, loan advances, transfers in, and transfers out totaled $-0-, and repayments totaled $278,000. At December 31, 2017 and 2016, related party deposits totaled $1.4 million and $1.6 million, respectively.

13. Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. 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 Bank'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 Bank 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, 2017 and 2016, the Bank has a reserve related to credit losses for off-balance sheet instruments totaling $10,000, which is included in other liabilities.

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk (in thousands):

	2017	2016
Unfunded commitments under lines of credit:		
Home equity loans	$ 1,087	$ 1,307
Commercial real estate, construction and land development	-	273
Commercial and industrial	432	484
Other	90	92
Commercial and standby letters of credit	-	-

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

Outstanding letters of credit are written as conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. As of December 31, 2017 and December 31, 2016 the Bank had no standby letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments was $-0- at December 31, 2017 and December 31, 2016.

14. Concentration of Credit Risk

The Bank 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 Bank 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 Bank 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 Bank 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 Bank.

15. Regulatory Capital Requirements

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

Information presented for December 31, 2017 and 2016, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Prior to January 1, 2015, the Bank was subject to capital requirements under Basel I. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings and other factors. The changes include: (i) a new regulatory capital measure, Common

Equity Tier 1 ("CET1"), which is limited to capital elements of the highest quality; (ii) a new definition and increase of Tier 1 capital which is now comprised of CET1 and Additional Tier 1; (iii) changes in calculation of some risk-weighted assets and off-balance sheet exposure; and (iv) a capital conservation buffer that will limit capital distributions, stock redemptions, and certain discretionary bonus payments if the institution does not maintain capital in excess of the minimum capital requirements. These new capital rules took effect for our Bank on January 1, 2015. Under the final capital rules that became effective on January 1, 2015, there was a requirement for a CET1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement is being phased in over three years beginning in 2016.

Federal bank regulators require the Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity Tier 1 capital to risk-weighted assets of 4.5%, Tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 12.5%. At December 31, 2017 and 2016, the Bank did not meet all the capital adequacy requirements to which they were subject.

The Bank's actual capital amounts and ratios are presented in the table (dollars in thousands):

December 31, 2017	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank:						
Common equity Tier 1 capital (to risk-weighted assets)	$ 4,049	8.8%	$ ≥2,080	≥4.5%	$ N/A	N/A
Total capital (to risk-weighted assets)	4,405	9.5%	≥3,698	≥8.0%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	4,049	8.8%	≥2,773	≥6.0%	N/A	N/A
Tier 1 capital (to average assets)	4,049	6.3%	≥2,557	≥4.0%	N/A	N/A

December 31, 2016	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank:						
Common equity Tier 1 capital (to risk-weighted assets)	$ 5,562	9.2%	$ ≥2,707	≥4.5%	$ N/A	N/A
Total capital (to risk-weighted assets)	6,306	10.5%	≥4,813	≥8.0%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	5,562	9.2%	≥3,610	≥6.0%	N/A	N/A
Tier 1 capital (to average assets)	5,562	6.1%	≥3,627	≥4.0%	N/A	N/A

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. 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 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.

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

16. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank'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 Bank 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 Bank 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 Bank'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 Bank 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.

There were no assets measured at fair value on a recurring basis at December 31, 2017. 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, 2016 are as follows (in thousands):

December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
GSE mortgage-backed securities	$ 8,576	$ -	$ 8,576	$ -
Securities Available-for-Sale	$ 8,576	$ -	$ 8,576	$ -

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, 2017 and 2016 are as follows (in thousands):

December 31, 2017	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 501	$ -	$ -	$ 501

December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,312	$ -	$ -	$ 3,312
Foreclosed real estate	144	-	-	144

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

December 31, 2017	Qualitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 501	Appraisal of collateral [1]	Liquidation expenses	0% to 7% (6.1%)

December 31, 2016	Qualitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 3,312	Appraisal of collateral [1]	Liquidation expenses	-1.5% to -2.3% (1.55%)
Other real estate owned	144	Appraisal of collateral or sales prices [1]	Liquidation expenses	-7.0%

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

17. Contingencies

The Bank 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 Bank'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.

18. Going Concern

While there have been signs of improvement in the overall economy and credit risk profile the Bank 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 Bank 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 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, 2017, the Bank had cash and cash equivalents of $10.6 million. The Bank also has potential access to a variety of other short-term and long-term funding sources, which include secondary funding sources such as the FHLB, and the Federal Reserve discount window, available to meet liquidity needs. 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 its risk profile, improve its financial performance, and continue to 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. As of December 31, 2017 and 2016, the Bank did not meet the capital adequacy requirements to which they were subject. 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.

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 Bank's failure to comply with such requirements and restrictions may subject the 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 and the enforcement of such actions through injunctions or restraining orders.

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 2017.

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, 2017, the Bank accomplished several significant milestones that will contribute to the efforts of the recovery plan, including:

- Reduced total loan portfolio to $45.4 at December 31, 2017 from $58.6 million at December 31, 2016.

- Maintained an allowance as a percentage of total loans of 0.76% at December 31, 2017.

- Furthered steps to reduce operating costs through various expense reductions.

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 the regulators.

Stonebridge Financial Corp., the bank holding company for Stonebridge Bank, announced on November 10, 2015, that pending regulatory approval, it will sell its wholly-owned subsidiary, Stonebridge Bank. The bank holding company filed a voluntary petition in the United States Bankruptcy Court for the Eastern District of Pennsylvania. The sale of the Bank under section 363 of the Bankruptcy Code to the highest and best bidder was approved by the court on November 9, 2015. A group of investors signed a purchase agreement and pending regulatory approval intended to close on the proposed transaction during the second quarter of 2017. The group of investors did not receive regulatory approval and on June 30, 2017 the purchase agreement expired. Stonebridge Financial Corp. continues to pursue the sale of the Bank under section 363 of the Bankruptcy Code.