County Bank Corp

2013 Annual Report

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Stock Transfer Agent

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Boenning & Scattergood
Nick Bicking & Tom Dooley
9922 Brewster Lane
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Independent Auditors

Crowe Horwath, LLP
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Stock Symbol

CBNC

Annual Meeting

The County Bank Corp Annual Meeting will be Friday, April 18, 2014, at 3 p.m. The meeting will be held at the Lapeer Country Club, 3786 Hunt Rd., Lapeer, Michigan.

President's Letter

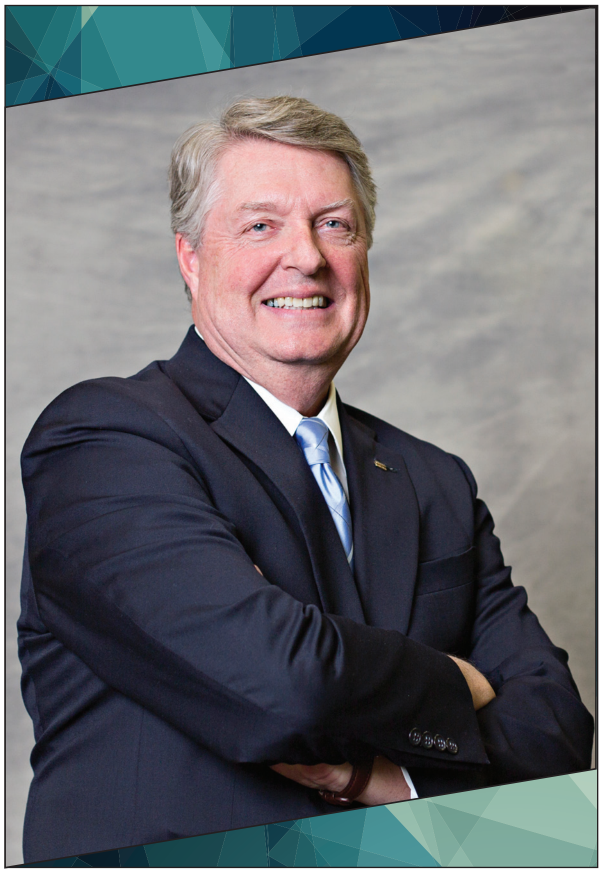
To Our Stockholders, Customers and Friends:

2013 proved to be a very good year at County Bank Corp. We closed the year with record assets and deposits and a top seven net profit in our 111 year history. We were in a financial position to pay three consecutive quarterly dividends and a special year-end dividend. Despite a four year trend of a reducing loan portfolio, we were able to augment our interest income with substantial increases to our investment portfolio and closed the year with record highs in that category. The sustained low interest environment led to an overall decrease in interest expense of $425,000 in 2013. That decrease, coupled with the increase in investment securities interest, had the effect of offsetting the reduction in loan interest income and helped us maintain our net interest margin.

In 2013, the weight of the global financial crisis began to slowly lift and the positive effects were felt by many of our customers. Our business customers reported higher levels of profitability. Our problem loan accounts decreased in both number and amount. Our loan delinquency rate was decreased which is one of the leading indicators of asset quality and is encouraging as we look to the future. Our net charge-off ratio was at its lowest point in the last five years. As a result, we were able to significantly reduce the provision to the allowance for loan and lease losses (ALLL) which in turn had a positive impact on earnings.

2013 Financial Highlights include:

- Total assets of $312,000,000, an increase of $10,000,000 or 3%;
- Total deposits of $282,000,000, an increase of $12,000,000 or 4%;
- Net income of $3,462,000, an increase of $1,595,000 or 85%;
- Cash dividends of $703,000 ($0.65 per share), an increase of $433,000 ($0.40 per share) or 160%;
- Net income per share of $3.20, an increase of $1.47;
- Return on average of assets of 1.14%, an increase of 0.51%; and
- Return on average equity of 11.95%, an increase of 5.70%.



Detailed financial information can be found in the financial section of the annual report.

Clearly, the Corporation enjoyed substantial financial success. In addition to the highlights above, net charged-off loans were at their lowest level in the past seven years and well below our banking peer group. Our non-performing loans are at a five year low and our efficiency ratio, which measures expenses as a percent of revenue, is under 65%; a full 5% better than peer banks. Debit card interchange income is up; noninterest expense is stable.

Noninterest income relating to the gain on the sale of other real estate owned increased substantially in 2013. The increase of $686,000 positively impacted earnings and is a nonrecurring event. Additionally, we successfully negotiated a large settlement on a previously charged down loan. The recovery enabled a reduction in the provision to the ALLL, which also positively impacted profitability. We expect the reduction in the ALLL contribution will carry through 2014.

In 2013, we expanded our residential mortgage origination operation by adding new lenders and products. Moving into the new year, we expect an increase in our home purchase mortgage business. As a member of the Federal Home Loan Bank of Indianapolis, we joined their Home Purchase Program which pays dividends to the Bank for sold loans that perform as expected. We began offering a small business line of credit which should provide a convenient, accessible source of funds to assist our small business customers.

From an electronic banking perspective, we increased our commercial remote deposit business and our direct deposit accounts. Both the number and usage of business and personal debit cards also increased. We introduced a mobile banking app that allows our customers to access their account data using a smart phone. We implemented new software that helps detect charge card fraud to better protect our customers.

We purchased the former Travel Adventures building in 2013 and plan to relocate the Trust, Wealth Management and Mortgage Origination lines of business to this facility in the near future. We feel the I-69/M-24 intersection will be the center of commercial and economic development in the Lapeer area for many years to come. We are excited at our prospects with this acquisition and will take full advantage of the opportunities it will present.

We continued the tradition of celebrating our heritage with the 12th annual ice cream social on the Lapeer Court House lawn. We hosted four community shred days where our community disposed of confidential information by shredding over 54,000 lbs. We touched the lives of countless individuals in all of our communities with donations and sponsorships exceeding $70,000. We established an educational scholarship that will provide advanced educational opportunities for qualifying Lapeer County residents for up to four years of continuing education.

Ms. Dee Bedell was added to the Lapeer County Bank & Trust Co. staff in August, 2013 as the BSA and Security Officer. Dee brings over 20 years of banking experience to LCBT, where she specializes in compliance, the Bank Secrecy Act and security.

As we look to 2014, our focus on maximizing revenue opportunities will continue with increased emphasis on providing and expanding wealth management services, traditional trust and mortgage origination. We will be introducing a tablet app for mobile banking within the year. Consumer remote deposit is in the final stages of implementation and will also be available to our customers this year, allowing them to deposit checks via smart phone. In 2014 we will continue our dedication to provide the most competitive, convenient financial services and products that are beneficial to all our banking customers.

We closed the year with **record assets and deposits** and a **top seven net profit** in our 111 year history.

The excellent financial results achieved in 2013 would not have been possible without the tremendous effort put forth by all of our officers and employees. Their skill and dedication is proven every day and it is a pleasure to work with them. Similarly, without the guidance and counsel of a highly competent and involved Board of Directors, the Bank could not achieve its financial goals.

The annual meeting is Friday, April 18, 2014 at the Lapeer Country Club. The meeting will begin promptly at 3 p.m. I hope to see you all there.

Very truly yours,

Bruce J. Cady
President & CEO

Board of Directors

County Bank Corp Board of Directors
(from left) Eric Burrough, Michael H. Blazo, Ernest W. Lefever, Bruce Cady, Curt Carter, Timothy Oesch, David J. Churchill, David H. Bush and Patrick Cronin.

Bruce J. Cady
President & CEO —
Lapeer County Bank & Trust Co.

Curt Carter
Chairman — County Bank Corp

Michael H. Blazo
Retired

Eric (Rick) Burrough
Owner — JAMS Media
& Michigan Web Press

David H. Bush, O.D.
Doctor of Optometry

David J. Churchill
Attorney at Law — Taylor, Butterfield, Howell, Churchill & Jarvis, P.C.

Patrick A. Cronin
Agent — State Farm Insurance

Ernest W. Lefever, DPM
Foot Specialists of Lapeer

Timothy Oesch, CPA
President — Oesch & Sieting, P.C.

Financial Summary

At Year End (000s omitted)	2013	2012	2011	2010
Assets	$ 311,944	$ 301,808	$ 300,941	$ 289,317
Deposits	282,474	270,053	270,062	261,088
Loans	161,959	168,412	181,652	191,728
Securities	121,424	102,176	94,992	72,122
Stockholders' equity	28,320	30,892	30,038	27,253

For the year (000s omitted)				
Net income (loss)	$ 3,462	$ 1,867	2,118	743
Cash dividend paid	703	270	108	54
Return on average assets (%)	1.14	.63	.71	.27
Return on average stockholders' equity (%)	11.95	6.25	7.50	2.80

Per Share				
Book value	$ 26.20	$ 28.58	27.79	25.21
Net income	3.20	1.73	1.96	.69
Cash dividends paid	.65	.25	.10	.05

Financial Statements

COUNTY BANK CORP
Lapeer, Michigan

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

Auditor's Report

INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors
County Bank Corp
Lapeer, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of County Bank Corp, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), stockholders' 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of County Bank Corp as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Grand Rapids, Michigan
February 17, 2014

Financial Statements

COUNTY BANK CORP

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

(Dollars In Thousands Except Per Share Data)

	2013	2012
ASSETS		
Cash and due from banks	$ 11,054	$ 13,319
Federal funds sold	100	100
Cash and cash equivalents	11,154	13,419
Interest-bearing deposits in banks	1,931	4,724
Available for sale investment securities	116,654	96,827
Held-to-maturity investment securities (fair value of $4,928 and $5,625 in 2013 and 2012)	4,770	5,349
Restricted investment securities	1,431	1,431
Net loans	157,962	164,665
Premises and equipment, net	6,372	5,551
Bank owned life insurance	4,172	4,055
Accrued interest receivable and other assets	7,498	5,787
Total assets	$ 311,944	$ 301,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 234,856	$ 222,604
Non-interest bearing	47,618	47,449
Total deposits	282,474	270,053
Accrued interest payable and other liabilities	1,150	863
Total liabilities	283,624	270,916
Stockholders' equity		
Common stock, $5 par value, 3,000,000 shares authorized, 1,080,946 shares issued and outstanding	5,404	5,404
Surplus	8,634	8,634
Retained earnings	19,213	16,454
Accumulated other comprehensive income/(loss)	(4,931)	400
Total stockholders' equity	28,320	30,892
Total liabilities and stockholders' equity	$ 311,944	$ 301,808

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP

CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2013 and 2012
(In Thousands Except Per Share Data)

	2013	2012
Interest income		
Loans (including fees)	$ 8,692	$ 9,624
Investments		
Taxable	2,345	2,090
Non-taxable	603	504
Interest on deposits with other banks	23	40
Total interest income	11,663	12,258
Interest expense on deposits	782	1,207
Net interest income	10,881	11,051
Provision for loan losses	360	3,454
Net interest income, after provision for loan losses	10,521	7,597
Noninterest income		
Services charges on deposit accounts	1,398	1,511
Net gain on sale or calls of investment securities	114	1,238
Net gains on sale of loans	248	298
Net gain on sale of other real estate owned	725	39
Trust income	691	699
Debit card income	445	401
Other	1,017	923
Total noninterest income	4,638	5,109
Noninterest expenses		
Salaries and employee benefits	5,608	5,401
Occupancy and equipment	985	912
FDIC Insurance	290	397
Other	3,352	3,435
Total noninterest expenses	10,235	10,145
Income before federal income taxes	4,924	2,561
Federal income taxes	1,462	694
Net income	$ 3,462	$ 1,867
Net income per basic share of common stock	$ 3.20	$ 1.73

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2013 and 2012

(In Thousands)

	2013	2012
Net income	$ 3,462	$ 1,867
Available-for-sale securities		
Unrealized holding gains (losses) arising during the year	(7,962)	112
Reclassification adjustment for net realized gains included in net income	(114)	(1,238)
Other comprehensive loss before income tax benefit	(8,076)	(1,126)
Income tax benefit related to other comprehensive loss	2,745	383
Other comprehensive loss	(5,331)	(743)
Comprehensive income (loss)	$ (1,869)	$ 1,124

See accompanying notes to consolidated financial statements.

Financial Statements

COUNTY BANK CORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2013 and 2012
(Dollars In Thousands Except Per Share Data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, January 1, 2012	1,080,946	$ 5,404	$ 8,634	$ 14,857	$ 1,143	$ 30,038
Net income	-	-	-	1,867	-	1,867
Other comprehensive income/(loss)	-	-	-	-	(743)	(743)
Cash dividends paid ($.25 per share)	-	-	-	(270)	-	(270)
Balance, December 31, 2012	1,080,946	5,404	8,634	16,454	400	30,892
Net income	-	-	-	3,462	-	3,462
Other comprehensive income/(loss)	-	-	-	-	(5,331)	(5,331)
Cash dividends paid ($.65 per share)	-	-	-	(703)	-	(703)
Balance, December 31, 2013	1,080,946	$ 5,404	$ 8,634	$ 19,213	$ (4,931)	$ 28,320

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012
(In Thousands)

	2013	2012
Cash flows from operating activities		
Net income	$ 3,462	$ 1,867
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	360	3,454
Provision for foreclosed asset losses	150	405
Depreciation	466	368
Net amortization of investments	1,027	719
Net gain on sales or calls of investment securities	(114)	(1,238)
Net gain on sale of loans	(248)	(298)
Net gain on sales of foreclosed assets	(725)	(39)
Earnings from bank owned life insurance	(117)	(55)
Origination of loans held for sale	(10,947)	(12,113)
Proceeds from loan sales	11,195	12,459
Net changes in operating assets and liabilities which provided (used) cash:		
Accrued interest receivable and other assets	800	(147)
Accrued interest payable and other liabilities	287	22
Net cash provided by operating activities	5,596	5,404
Cash flows from investing activities		
Net change in interest-bearing deposits in banks	2,793	1,087
Activity in available-for-sale securities:		
Purchases	(47,216)	(107,972)
Maturities, prepayments, sales and calls	18,399	99,119
Activity in held-to-maturity securities:		
Purchases	(775)	(123)
Maturities, prepayments, sales and calls	1,354	1,185
Purchase of bank owned life insurance	-	(4,000)
Loan principal originations and collections, net	4,919	8,130
Proceeds from sales of foreclosed assets	2,234	1,718
Premises and equipment expenditures	(1,287)	(905)
Net cash used in investing activities	(19,579)	(1,761)
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	12,421	(9)
Cash dividends paid	(703)	(270)
Net cash provided by (used in) financing activities	11,718	(279)
Net increase (decrease) in cash and cash equivalents	(2,265)	3,364
Cash and cash equivalents, beginning of year	13,419	10,055
Cash and cash equivalents, end of year	$ 11,154	$ 13,419
Supplemental cash flow information		
Transfer of loans to other real estate owned	$ 1,424	$ 1,348
Financing of sale of other real estate owned	-	926
Cash paid for interest	792	1,260
Cash paid for income taxes	1,143	700

See accompanying notes to consolidated financial statements.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of County Bank Corp, (the "Corporation"), and its wholly owned subsidiary, Lapeer County Bank & Trust Co. (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Business: The Corporation is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its seven branches located in the county of Lapeer in the state of Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive and other manufacturing industries which comprise a significant portion of the local economic environment.

Concentration Risks: The Bank's primary deposit products are interest and noninterest-bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial and consumer loans. The Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

Regulatory Governance: The Bank is a state chartered bank and a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund and the Federal Reserve System. The Bank is supervised and regulated by the Department of Insurance and Financial Services ("DIFS"), the Federal Reserve Board ("FRB"), and undergoes periodic examinations by these regulatory authorities. The Corporation is also subject to regulations of the Federal Reserve Board governing bank holding companies.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosures through February 17, 2014, which is the date the financial statements were available to be issued.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of income and expense during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of the allowance for loan losses, the fair values of financial instruments, the valuation of foreclosed real estate, and the valuation of deferred tax assets.

Cash and Cash Equivalents: For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions which generally exceed the FDIC insured limits or are not insured. Management does not believe the Corporation is exposed to any significant interest, credit or other financial risk as a result of these deposits.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in banks mature within one year and are carried at cost.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities: Debt securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains or losses on the sale of investment securities are recorded in noninterest income on the trade date and are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least an annual basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Restricted Investments: The Bank is a member of the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank System of Indianapolis ("FHLBI") and is required to invest in capital stock of the FRB and the FHLBI. The amount of the required investment in the FRB is determined by the FRB and is carried at cost based on the Bank's capital and surplus. The amount of required investment in the FHLBI is based upon the available balance of the Bank outstanding residential real estate loans or advances from the FHLBI and is carried at cost plus the value assigned to stock dividends.

Loans Held For Sale: Loans originated and held for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income.

Loans: Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming loans of the loan portfolio are comprised of those loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments (120 days or more past due on residential real estate loans) and loans modified under troubled debt restructurings (nonperforming originated loans).

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance consists of two primary components, general reserves and specific reserves related to impaired loans. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent two years. The Bank places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, commercial real estate, real estate construction, residential real estate, and consumer and other with risk characteristics described as follows:

Commercial and Industrial: Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Real Estate Construction: Real estate construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer and Other: The consumer and other loan portfolio is usually comprised of a large number of small loans, including automobile, personal loans, credit cards, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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, commercial real estate and real estate construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loans obtained market price, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and other and residential real estate loans for impairment disclosures unless such loans are the subject of a restructuring agreement.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank evaluates the credit quality of loans in the consumer and other and residential real estate loan portfolios, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans, loans past due as to principal or interest 90 days or more and loans modified under troubled debt restructurings of the originated portfolio past due in accordance with the loans' original contractual terms, are considered in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring constitutes a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The Bank assigns a risk rating to all loans except pools of homogeneous loans and on a quarterly basis performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention (or Watch): Loans classified as special mention (watch) have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention (watch) loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and are charged off immediately.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The majority of the Bank's consumer and other and residential real estate loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of these loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and other and residential real estate loan portfolios is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators review the appropriateness of the allowance. The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examination.

Transfers of Financial Assets: Transfers of financial assets, including mortgage loans held-for-sale, as described above, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally 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. Other than servicing, as disclosed in Note 5, the Bank has no substantive continuing involvement related to these loans. The Bank sold residential mortgage loans to unrelated third parties with proceeds of $11,195 and $12,459 during 2013 and 2012, respectively, which resulted in a net gain of $248 and $298 in 2013 and 2012, respectively.

Servicing: Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets are measured for potential impairment at each reporting date and changes in fair value resulting in impairment is recorded in other non-interest expense on the consolidated statements of income in the periods in which the impairment occurred. Capitalized servicing rights are reported in accrued interest receivable and other assets on the consolidated balance sheets.

Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recognized as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fee income earned on such loans is included in other noninterest income and was not material during 2013 and 2012, respectively.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, on the date of transfer, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. Foreclosed assets of $1,330 and $1,664 are included in accrued interest receivable and other assets on the accompanying consolidated balance sheets at December 31, 2013 and 2012, respectively. Foreclosed assets, as of those dates are presented net of a valuation allowance of $459 and $477, respectively. Expenses related to foreclosed assets amounted to $304 and $730 in 2013 and 2012, respectively, and are included in other noninterest expenses on the accompanying consolidated statements of income.

Premises and Equipment: Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Off-Balance Sheet Credit Related Financial Instruments: In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, the commitments are generally recorded only when they are funded.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as discussed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

(continued)

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Advertising Costs: The cost of advertising and promotions are expensed as incurred. The Corporation incurred $59 and $68 in advertising costs in 2013 and 2012, respectively.

Net Income Per Basic Share: Net income per basic share of common stock represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year, which was 1,081 in 2013 and 2012.

Reclassifications: Certain amounts as reported in the 2012 consolidated financial statements have been reclassified to conform with the 2013 presentation.

NOTE 2 - FAIR VALUE MEASUREMENTS

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

(continued)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value on a recurring or non-recurring basis:

Investment securities classified as available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 fair value measurement is based upon quoted prices for like securities, if available. Level 2 securities include U.S. Treasury securities, mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities in active markets. The Bank does not currently hold any investment securities designated as Level 3.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Upon transfer from the loan portfolio, foreclosed assets are recorded at fair value less costs to sell. They are subsequently carried at the lower of the initial value or current fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the foreclosed asset as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation classifies the foreclosed asset as nonrecurring Level 3.

Appraisals for both collateral-dependent impaired loans and foreclosed assets are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Management reviews the assumptions and approaches utilized in the appraisal. Management periodically evaluates the appraised values and will discount a property's appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property.

Mortgage Servicing Rights

Mortgage servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights subjected to nonrecurring fair value adjustments as Level 3. At December 31, 2013 and 2012, there was no impairment recorded for mortgage servicing rights and, therefore, no mortgage servicing rights assets were recorded at fair value on a nonrecurring basis.

(continued)

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
2013				
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 41,471	$ -	$ 41,471
States and municipal	-	23,327	-	23,327
Corporate	-	21	-	21
Mortgage-backed securities: residential	-	35,694	-	35,694
Mortgage-backed securities: commercial	-	16,141	-	16,141
Total assets at fair value	$ -	$ 116,654	$ -	$ 116,654
2012				
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 24,323	$ -	$ 24,323
States and municipal	-	25,968	-	25,968
Corporate	-	2	-	2
Mortgage-backed securities: residential	-	38,316	-	38,316
Mortgage-backed securities: commercial	-	8,218	-	8,218
Total assets at fair value	$ -	$ 96,827	$ -	$ 96,827

Assets Measured at Fair Value on a Non-Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a nonrecurring basis as of December 31:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
2013				
Impaired loans				
Commercial real estate	$ -	$ -	$ 2,440	$ 2,440
Foreclosed assets				
Commercial and industrial	-	-	1,251	1,251
2012				
Impaired loans				
Commercial real estate	$ -	$ -	$ 3,599	$ 3,599
Foreclosed assets				
Commercial and industrial	-	-	1,065	1,065
Residential real estate	-	-	135	135

(continued)

Financial Statements

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Impaired loans as of December 31, 2013 and 2012 measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,440, after a specific allowance allocation of $835 and $3,599 after a specific allowance allocation of $0, respectively, resulting in an additional provision for loan losses of $486 and $4,145 for the years then ended, respectively.

Foreclosed assets as of December 31, 2013 and 2012, respectively, carried at fair value were $1,251 and $1,200 resulting in charges of $150 and $405 for the years then ended.

As discussed previously, the fair values of impaired loans and foreclosed assets carried at fair value are determined by third party appraisals. Management makes adjustments to these appraised values based on the age of the appraisal and the type of the property. The following table presents quantitative information about level 3 fair value measurements for the larger classes of financial instruments measured at fair value on a non-recurring basis at December 31, 2013 and 2012, respectively:

2013	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans				
Commercial real estate	$ 2,440	Sales comparison approach	Management discount for property type and recent market volatility	20% - 22% (22%)
		Income approach	Capitalization rate	8% - 10% (9%)
Foreclosed assets -				
Commercial and industrial	$ 1,251	Sales comparison approach	Management discount for property type and recent market volatility	8% - 100% (27%)
2012				
Impaired loans				
Commercial real estate	$ 3,599	Sales comparison approach	Management discount for property type and recent market volatility	17% - 22% (20%)
		Income approach	Capitalization rate	10% - 12% (10%)
Foreclosed assets -				
Commercial and industrial	$ 1,065	Sales comparison approach	Management discount for property type and recent market volatility	0% - 100% (39%)

(continued)

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis were as follows at year-end:

	2013 Carrying Amount	2013 Estimated Fair Value	2012 Carrying Amount	2012 Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 11,154	$ 11,154	$ 13,419	$ 13,419
Interest-bearing deposits in banks	1,931	1,931	4,724	4,724
Held-to-maturity investment securities	4,770	4,928	5,349	5,625
Restricted investment securities	1,431	N/A	1,431	N/A
Net loans	157,962	159,531	164,665	165,667
Accrued interest receivable	1,884	1,884	1,688	1,688
Liabilities:				
Interest-bearing deposits	$ 234,856	$ 234,932	$ 222,604	$ 222,929
Noninterest-bearing deposits	47,618	47,618	47,449	47,449
Accrued interest payable	63	63	73	73

The following methods and assumptions were used to estimate fair value for financial instruments:

Cash and Cash Equivalents
The carrying amounts of cash and short-term instruments, including Federal funds sold, approximate fair values.

Interest-Bearing Deposits in Banks
The carrying amounts of interest-bearing deposits with unaffiliated banks approximate their fair values.

Held-to-Maturity Investment Securities
Held-to-maturity securities are recorded at fair value on a nonrecurring basis, only when an other-than-temporary impairment is recorded. The fair value methodologies for held-to-maturity investment securities are similar to those disclosed for investment securities available-for-sale.

Restricted Investment Securities
It is not practicable to determine the fair value of Federal Reserve Bank Stock and Federal Home Loan Bank Stock due to restrictions placed on their transferability.

Net Loans
For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed interest rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting amounts are adjusted to estimate the effect of declines, if any, in the credit quality of borrowers since the loans were originated. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued Interest Receivable
The carrying amounts reported in the consolidated balance sheets for interest receivable approximate their fair value.

(continued)

(In Thousands)

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NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Interest and Noninterest-Bearing Deposits
The fair values of demand deposit accounts, such as interest and noninterest-bearing checking, savings and money market accounts, are equal to the amounts payable on demand. Fair values for interest-bearing deposits (time deposits) with defined maturities are based on the discounted value of contractual cash flows, using interest rates currently being offered for deposits of similar maturities. The fair values for variable-interest rate certificates of deposit approximate their carrying value.

Accrued Interest Payable
The carrying amounts reported in the consolidated balance sheets for interest payable approximate their fair values.

Commitments to Extend Credit, Standby Letters of Credit, and Undisbursed Loans
The Bank's unused loan commitments, standby letters of credit and undisbursed loans have no carrying amount and have been estimated to have no realizable fair value. Historically, a majority of the unused loan commitments have not been drawn upon and, generally, the Bank does not receive fees in connection with these commitments.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and fair value of held-to-maturity and available for sale investment securities, including gross unrealized gains and losses, were as follows as of December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2013				
Held-to-maturity				
Mortgage-backed securities: residential	$ 154	$ 5	$ -	$ 159
States and municipal	4,616	153	-	4,769
Total held-to-maturity	4,770	158	-	4,928
Available-for-sale				
Government- sponsored enterprises	46,475	-	5,004	41,471
States and municipal	24,071	210	954	23,327
Corporate	8	13	-	21
Mortgage-backed securities: commercial	16,613	54	526	16,141
Mortgage-backed securities: residential	36,958	105	1,369	35,694
Total available-for-sale	124,125	382	7,853	116,654
Total	$ 128,895	$ 540	$ 7,853	$ 121,582

(continued)

(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2012				
Held-to-maturity				
Mortgage-backed securities: residential	$ 203	$ 8	$ -	$ 211
States and municipal	5,146	269	1	5,414
Total held-to-maturity	5,349	277	1	5,625
Available-for-sale				
Government- sponsored enterprises	24,406	135	218	24,323
States and municipal	25,179	947	158	25,968
Corporate	8	-	6	2
Mortgage-backed securities: residential	38,187	293	164	38,316
Mortgage-backed securities: commercial	8,442	-	224	8,218
Total available-for-sale	96,222	1,375	770	96,827
Total	$ 101,571	$ 1,652	$ 771	$ 102,452

Investment securities with carrying values of approximately $23,614 and $25,671 at December 31, 2013 and 2012, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

(continued)

(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of held-to-maturity securities and available-for-sale securities grouped by contractual maturity at December 31, were as follows:

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Over Ten Years	Securities With Variable Monthly Payments	Total
2013						
Held-to-maturity						
Mortgage-backed securities: residential	$ -	$ 154	$ -	$ -	$ -	$ 154
States and municipal	1,245	2,613	443	315	-	4,616
Total held-to-maturity	1,245	2,767	443	315	-	4,770
Available-for-sale						
Government- sponsored enterprises	71	-	6,998	39,406	-	46,475
States and municipal	870	2,199	18,120	2,882	-	24,071
Corporate	-	-	-	8	-	8
Mortgage-backed securities: residential	-	-	-	-	36,958	36,958
Mortgage-backed securities: commercial	-	-	-	-	16,613	16,613
Total available-for-sale	941	2,199	25,118	42,296	53,571	124,125
Total amortized cost	$ 2,186	$ 4,966	$ 25,561	$ 42,611	$ 53,571	$ 128,895
Fair value	$ 2,137	$ 5,193	$ 24,258	$ 38,159	$ 51,835	$ 121,582

(continued)

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COUNTY BANK CORP
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NOTE 3 - INVESTMENT SECURITIES (Continued)

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Over Ten Years	Securities With Variable Monthly Payments	Total
2012						
Held-to-maturity						
Mortgage-backed securities: residential	$ -	$ -	$ -	$ -	$ 203	$ 203
States and municipal	1,944	2,471	731	-	-	5,146
Total held-to-maturity	1,944	2,471	731	-	203	5,349
Available-for-sale						
Government- sponsored enterprises	13,959	-	997	9,450	-	24,406
States and municipal	755	4,225	18,240	1,959	-	25,179
Corporate	-	-	-	8	-	8
Mortgage-backed securities: residential	-	-	-	-	38,187	38,187
Mortgage-backed securities: commercial	-	-	-	-	8,442	8,442
Total available-for-sale	14,714	4,225	19,237	11,417	46,629	96,222
Total amortized cost	$ 16,658	$ 6,696	$ 19,968	$ 11,417	$ 46,832	$ 101,571
Fair value	$ 16,802	$ 7,037	$ 20,648	$ 11,220	$ 46,745	$ 102,452

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, mortgage-backed securities are not reported by a specific maturity group.

During 2013 and 2012, proceeds from sales of available-for-sale securities amounted to approximately $9,549 and $58,250, respectively. Gross realized gains and losses amounted to $116 and $2 and $1,243 and $5 during 2013 and 2012, respectively.

(continued)

(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

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

	Less than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Losses
2013						
Held-to-maturity						
States and municipal	$ -	$ -	$ -	$ -	$ -	$
Available-for-sale						
Government- sponsored enterprises	$ 24,942	$ 3,033	$ 16,458	$ 1,971	$ 41,400	$ 5,004
Corporate	-	-	-	-	-	-
Mortgage-backed securities: residential	14,467	695	17,842	674	32,309	1,369
Mortgage-backed securities: commercial	7,047	53	7,503	473	14,550	526
States and municipal	12,866	540	4,477	414	17,343	954
Total securities available-for-sale	$ 59,322	$ 4,321	$ 46,280	$ 3,532	$ 105,602	$ 7,853
2012						
Held-to-maturity						
States and municipal	$ -	$ -	$ 99	$ 1	$ 99	$ 1
Available-for-sale						
Government- sponsored enterprises	$ 9,764	$ 218	$ -	$ -	$ 9,764	$ 218
Corporate	-	-	2	6	2	6
Mortgage-backed securities: residential	18,842	164	-	-	18,842	164
Mortgage-backed securities: commercial	8,214	224	-	-	8,214	224
States and municipal	5,790	158	-	-	5,790	158
Total securities available-for-sale	$ 42,610	$ 764	$ 2	$ 6	$ 42,612	$ 770

(continued)

Financial Statements

(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

As of December 31, 2013, the Corporation's investment security portfolio consisted of 237 securities, 115 of which were in an unrealized loss position.

At December 31, 2013, the Corporation held 37 mortgage-backed securities in an unrealized loss position of which 28 were issued by Fannie Mae and Freddie Mac, U.S. government-sponsored agencies, which the government has affirmed its commitment to support. The remaining 9 mortgage-backed securities were issued by the Small Business Administration and are collateralized by commercial loans as opposed to residential mortgage loans which collateralize the Fannie Mae and Freddie Mac mortgage-backed securities. Additionally, the Corporation held 33 government-sponsored enterprise securities and 45 state and municipal securities in an unrealized loss position. Because the decline in the market value is attributable to changes in interest rates and illiquidity, and not credit quality, because the Corporation does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other than temporary impaired at December 31, 2013.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans were as follows at December 31:

	2013	2012
Commercial and industrial	$ 17,806	$ 17,726
Commercial real estate	86,570	86,221
Real estate construction	4,664	4,714
Residential real estate	36,633	41,524
Consumer and other	16,286	18,227
Total loans	161,959	168,412
Allowance for loan losses	3,997	3,747
Loans, net	$ 157,962	$ 164,665

(continued)

COUNTY BANK CORP
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NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present activity in the allowance for loan losses and the recorded investment in loans, by portfolio segment and based on impairment method, at December 31:

	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Unallocated	Total
2013							
Allowance for loan losses:							
Balance at beginning of year	$ 257	$ 2,349	$ 71	$ 286	$ 444	$ 340	$ 3,747
Provision for loan losses	(28)	757	(75)	(59)	56	(291)	360
Loans charged-off	-	(1,126)	-	(40)	(294)	-	(1,460)
Recoveries	-	1,180	17	22	131	-	1,350
Balance at end of year	$ 229	$ 3,160	$ 13	$ 209	$ 337	$ 49	$ 3,997
Ending balance: Individually evaluated for impairment	$ 163	$ 1,009	$ 13	$ 43	$ 60	$ -	$ 1,288
Ending balance: Collectively evaluated for impairment	66	2,151	-	166	277	49	2,709
Total allowance for loan losses	$ 229	$ 3,160	$ 13	$ 209	$ 337	$ 49	$ 3,997
Loans:							
Ending balance:							
Individually evaluated for impairment	$ 876	$ 6,730	$ 934	$ 607	$ 155		$ 9,302
Ending balance:							
Collectively evaluated for impairment	16,930	79,840	3,730	36,026	16,131		152,657
Total loans	17,806	86,570	4,664	36,633	16,286		161,959
Accrued interest receivable	58	278	14	114	57		521
Total recorded investment	$ 17,864	$ 86,848	$ 4,678	$ 36,747	$ 16,343		$ 162,480

(continued)

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Unallocated	Total
2012							
Allowance for loan losses:							
Balance at beginning of year	$ 193	$ 1,913	$ 809	$ 378	$ 652	$ 988	$ 4,933
Provision for loan losses	89	4,807	(835)	61	(20)	(648)	3,454
Loans charged-off	(26)	(4,444)	-	(153)	(269)	-	(4,892)
Recoveries	1	73	97	-	81	-	252
Balance at end of year	$ 257	$ 2,349	$ 71	$ 286	$ 444	$ 340	$ 3,747
Ending balance: Individually evaluated for impairment	$ 139	$ 147	$ 8	$ 12	$ 60	$ -	$ 366
Ending balance: Collectively evaluated for impairment	118	2,202	63	274	384	340	3,381
Total allowance for loan losses	$ 257	$ 2,349	$ 71	$ 286	$ 444	$ 340	$ 3,747
Loans:							
Ending balance: Individually evaluated for impairment	$ 916	$ 16,380	$ 2,649	$ 534	$ 236		$ 20,715
Ending balance: Collectively evaluated for impairment	16,810	69,841	2,065	40,990	17,991		147,697
Total loans	17,726	86,221	4,714	41,524	18,227		168,412
Accrued interest receivable	92	514	27	130	17		780
Total recorded investment	$ 17,818	$ 86,735	$ 4,741	$ 41,654	$ 18,244		$ 169,192

(continued)

(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows the loans allocated by management's internal risk ratings as of December 31 year-end:

	Commercial Credit Risk Profile Risk Rating			
	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Total
2013				
Risk Rating				
Pass	$ 16,201	$ 70,581	$ 2,526	$ 89,308
Special mention or watch	946	8,996	1,140	11,082
Substandard	659	6,993	998	8,650
Total	$ 17,806	$ 86,570	$ 4,664	$ 109,040
2012				
Risk Rating				
Pass	$ 15,550	$ 65,093	$ 2,065	$ 82,708
Special mention or watch	1,260	10,756	-	12,016
Substandard	916	10,372	2,649	13,937
Total	$ 17,726	$ 86,221	$ 4,714	$ 108,661

The following table shows the homogeneous loans allocated by payment activity as of December 31 year-end:

	Consumer Credit Risk Profile by Payment Activity		
	Residential Real Estate	Consumer and Other	Total
2013			
Payment activity			
Performing	$ 36,527	$ 16,275	$ 52,802
Non-performing	106	11	117
Total	$ 36,633	$ 16,286	$ 52,919
2012			
Payment activity			
Performing	$ 41,249	$ 18,052	$ 59,301
Non-performing	275	175	450
Total	$ 41,524	$ 18,227	$ 59,751

(continued)

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows an aging analysis of the loan portfolio by time past due as of December 31 year-end:

	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
2013					
Commercial and industrial	$ 17,761	$ 45	$ -	$ -	$ 17,806
Commercial real estate	82,843	-	-	3,727	86,570
Real estate construction	4,664	-	-	-	4,664
Residential real estate	36,466	61	-	106	36,633
Consumer and other	15,969	306	-	11	16,286
Total	$ 157,703	$ 412	$ -	$ 3,844	$ 161,959
2012					
Commercial and industrial	$ 17,155	$ 245	$ 78	$ 248	$ 17,726
Commercial real estate	81,009	1,613	-	3,599	86,221
Real estate construction	41,223	26	74	201	41,524
Residential real estate	17,937	115	64	111	18,227
Consumer and other	4,714	-	-	-	4,714
Total	$ 162,038	$ 1,999	$ 216	$ 4,159	$ 168,412

(continued)

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans as of December 31 year-end:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2013					
Loans with no related allowance recorded					
Commercial and industrial	$ 97	$ 97	$ -	$ 98	$ 7
Commercial real estate	4,409	4,987	-	4,975	198
Real estate construction	643	643	-	88	16
Residential real estate	88	88	-	647	3
Consumer and other	155	155	-	156	6
Loans with an allowance recorded					
Commercial and industrial	$ 779	$ 779	$ 163	$ 785	$ 16
Commercial real estate	2,321	2,321	1,009	2,440	136
Real estate construction	291	291	13	295	15
Residential real estate	519	519	43	521	9
Consumer and other	-	-	60	-	-
Total impaired loans					
Commercial and industrial	$ 876	$ 876	$ 163	$ 883	$ 23
Commercial real estate	6,730	7,308	1,009	7,415	334
Real estate construction	934	934	13	383	31
Residential real estate	607	607	43	1,168	12
Consumer and other	155	155	60	156	6
Total	$ 9,302	$ 9,880	$ 1,288	$ 10,005	$ 406

(continued)

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2012					
Loans with no related allowance recorded					
Commercial and industrial	$ 248	$ 248	$ -	$ 373	$ 7
Commercial real estate	13,509	16,796	-	6,788	391
Real estate construction	2,091	2,091	-	1,204	45
Residential real estate	-	-	-	56	-
Consumer and other	236	259	-	215	10
Loans with an allowance recorded					
Commercial and industrial	$ 668	$ 668	$ 139	$ 785	$ 17
Commercial real estate	2,871	2,871	147	6,657	104
Real estate construction	558	558	8	345	19
Residential real estate	534	534	12	563	34
Consumer and other	-	-	60	-	-
Total impaired loans					
Commercial and industrial	$ 916	$ 916	$ 139	$ 1,158	$ 24
Commercial real estate	16,380	19,667	147	13,445	495
Real estate construction	2,649	2,649	8	1,549	64
Residential real estate	534	534	12	619	34
Consumer and other	236	259	60	215	10
Total	$ 20,715	$ 24,025	$ 366	$ 16,986	$ 627

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

(continued)

(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

A summary of loans that were modified in troubled debt restructurings during 2013 and 2012 is as follows:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2013			
Commercial and industrial	1	$ 121	$ 121
Commercial real estate	9	2,160	2,160
Real estate construction	-	-	-
Residential real estate	1	156	156
Consumer and other	1	53	53
Total	12	$ 2,490	$ 2,490
2012			
Commercial and industrial	2	$ 213	$ 213
Commercial real estate	12	3,369	3,369
Real estate construction	1	183	183
Residential real estate	2	60	60
Consumer and other	5	1,104	1,104
Total	22	$ 4,929	$ 4,929

(continued)

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table details the number of loans and the recorded investment in loans considered to be troubled debt restructurings by type of modification made during 2013 and 2012:

	Total Modifications						
	Principal Deferrals		Interest Rate Reductions		Principal Forgiveness		
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Total Modifications
2013							
Commercial and industrial	-	$ -	1	$ 121	-	$ -	$ 121
Commercial real estate	1	64	8	2,096	-	-	2,160
Real estate construction	-	-	-	-	-	-	-
Residential real estate	-	-	1	156	-	-	156
Consumer and other	1	53	-	-	-	-	53
Total	2	$ 117	10	$ 2,373	-	$ -	$ 2,490
2012							
Commercial and industrial	1	$ 110	1	$ 103	-	$ -	$ 213
Commercial real estate	2	159	10	3,210	-	-	3,369
Real estate construction	-	-	1	183	-	-	183
Residential real estate	-	-	2	60	-	-	60
Consumer and other	2	520	3	584	-	-	1,104
Total	5	$ 789	17	$ 4,140	-	$ -	$ 4,929

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 5 years. Modifications involving an extension of the maturity date were for periods ranging from 12 month(s) to 5 years. The troubled debt restructurings described above increased the allowance for loan losses by $30 and $306 and resulted in an immaterial amount of charge offs during the years ending December 31, 2013 and 2012.

(continued)

(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

During 2013, there were no troubled debt restructurings for which there was a payment default, whereby the borrower was past due with respect to principal and/or interest for 90 days or more, during the 12-months ended December 31, 2013, that had been modified during the 12-month period prior to the default. During 2012, there were two loans in the commercial real estate portfolio segment with a recorded investment as of December 31, 2012 of $560 that subsequently defaulted

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted as described above did not have a material impact on the allowance for loan losses and charge-offs during the years ending December 31, 2013 and 2012.

NOTE 5 - SERVICING

The Bank services loans for others which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Loans serviced as of December 31, 2013 and 2012, approximated $48,094 and $47,390, respectively; such loans are not included on the accompanying consolidated balance sheets.

The carrying values of originated mortgage servicing rights were $362 and $339, respectively, at December 31, 2013 and 2012 and are included in accrued interest receivable and other assets on the accompanying consolidated balance sheets.

NOTE 6 - PREMISES AND EQUIPMENT

Net premises and equipment consists of the following amounts at December 31:

	2013	2012
Land and improvements	$ 1,957	$ 1,451
Buildings and improvements	6,396	5,796
Furniture and equipment	4,918	4,696
Construction in process	17	88
Total	13,288	12,031
Less accumulated depreciation	6,916	6,480
Premises and equipment, net	$ 6,372	$ 5,551

Depreciation expense was $466 and $369 for 2013 and 2012, respectively.

(continued)

(In Thousands)

Financial Statements

NOTE 7 - DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	2013	2012
Money market and NOW accounts	$ 138,337	$ 126,718
Savings	39,700	35,480
Time, $100 and over	19,450	21,279
CDARS*	6,679	6,393
Other time	30,690	32,734
Total interest-bearing	234,856	222,604
Noninterest-bearing demand	47,618	47,449
Total deposits	$ 282,474	$ 270,053

(*) The Certificate of Deposit Account Registry Service.

Interest expense on time deposits issued in denominations of $100 or more was $182 in 2013 and $361 in 2012.

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2013, are summarized as follows:

Year	Amount
2014	$ 43,371
2015	4,527
2016	2,728
2017	3,560
2018	2,633
Total	$ 56,819

(continued)

(In Thousands)

NOTE 8 - FEDERAL INCOME TAXES

The federal income tax provision (benefit) consists of the following components for the years ended December 31:

	2013	2012
Currently payable	$ 1,285	$ 101
Deferred tax benefit	177	593
Income taxes	$ 1,462	$ 694

A reconciliation between federal income tax expense reported and the amount computed by applying the statutory federal income tax rate of 34% to income before federal income taxes is as follows for the years ended December 31:

	2013	2012
Income tax benefit at statutory rate	$ 1,675	$ 871
Effect of tax-exempt interest income	(208)	(187)
Other – net	(5)	10
Income taxes	$ 1,462	$ 694

The net deferred income tax assets presented on the accompanying consolidated balance sheets in accrued interest receivable and other assets are comprised of the following amounts as of December 31:

	2013	2012
Deferred tax assets		
Allowance for loan losses	$ 76	$ -
Other real estate	78	123
AMT credit carryover	-	435
Non-accrual interest	23	7
Deferred compensation	152	113
Net unrealized losses on securities available-for-sale	2,540	-
Accrued liabilities	118	-
Other	33	34
Total deferred tax assets	3,020	712
Deferred tax liabilities		
Mortgage servicing rights	123	115
Depreciation	267	283
Net unrealized gains on securities available-for-sale	-	206
Accretion	10	8
Prepaid expenses	11	13
Allowance for loan losses	-	46
Other	2	3
Total deferred tax liabilities	413	674
Net deferred tax asset	$ 2,607	$ 38

(continued)

(In Thousands)

NOTE 8 - FEDERAL INCOME TAXES (Continued)

The Corporation has evaluated the provisions of ASC Topic 740, *Accounting for Uncertainty in Income Taxes.* The evaluation was performed for the years 2010 through 2013, the years which remain subject to examination by major tax jurisdictions as of December 31, 2013. The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's consolidated financial statements. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2013 or 2012, and it is not aware of any claims for such amounts by federal or state income tax authorities. The Corporation and its subsidiary are subject to U.S. federal income tax. The Corporation is no longer subject to examination by taxing authorities for years before 2010.

NOTE 9 - RELATED PARTY TRANSACTIONS

Loans
In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated approximately $8,170 and $6,722 as of December 31, 2013 and 2012, respectively.

Deposits
Deposits of Corporate directors, executive officers, and their affiliates were approximately $1,140 and $1,821 at December 31, 2013 and 2012, respectively.

NOTE 10 - OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to credit related 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, standby letters of credit and commercial letters of 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 is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including requirements for collateral, as it does for on-balance-sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2013 and 2012, the following financial instruments were outstanding whose contract amounts represent potential credit risk:

	Contract Amount	
	2013	2012
Unfunded commitments under lines of credit	$ 25,188	$ 25,398
Commitments to grant loans	2,715	1,335
Commercial and standby letters of credit	73	115

(continued)

Financial Statements

NOTE 10 - OFF-BALANCE SHEET ACTIVITIES (Continued)

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2013 or 2012.

NOTE 11 - REGULATORY REQUIREMENTS

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Bank and the Corporation'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 their assets, liabilities, capital and certain off-balance-sheet items as defined in the regulations and 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 measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2013 and 2012, that the Bank met all capital adequacy requirements to which they are subject.

(continued)

(In Thousands)

NOTE 11 - REGULATORY REQUIREMENTS (Continued)

As of December 31, 2013, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2013 and 2012 are also presented in the table.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2013						
Total capital to risk weighted assets:						
Bank	$ 35,062	19.8%	$ 14,185	8.0%	$ 17,731	10.0%
Tier 1 capital to risk weighted assets:						
Bank	32,824	18.5	7,092	4.0	10,639	6.0
Tier 1 capital to average assets:						
Bank	32,824	10.7	12,312	4.0	15,390	5.0
2012						
Total capital to risk weighted assets:						
Bank	$ 32,297	18.3%	$ 14,114	8.0%	$ 17,643	10.0%
Tier 1 capital to risk weighted assets:						
Bank	30,073	17.0	7,057	4.0	10,586	6.0
Tier 1 capital to average assets:						
Bank	30,073	10.0	12,002	4.0	15,002	5.0

Restrictions on Cash and Amounts Due from Banks

The Bank is required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. The required reserve balances were $2,597 and $1,999 at December 31, 2013 and 2012, respectively.

Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

(continued)

NOTE 12 - CONTINGENCIES

Litigation
The Corporation is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

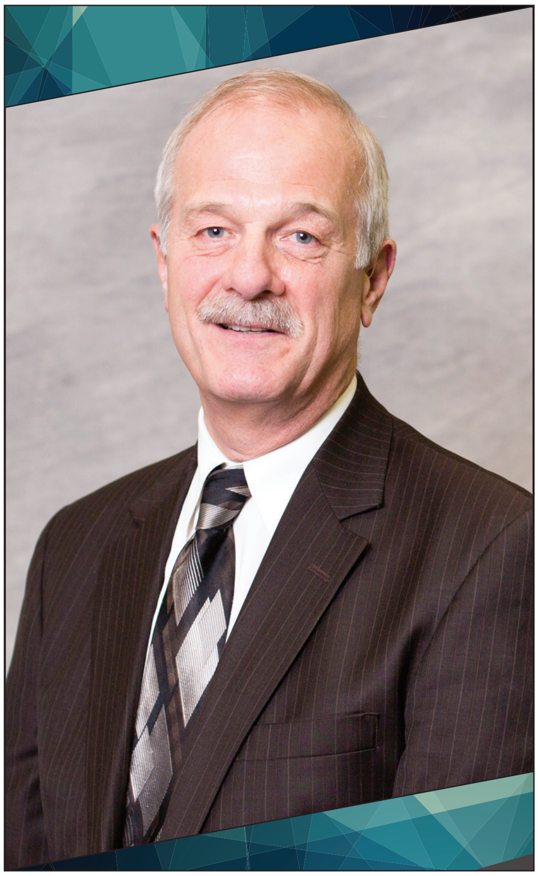
Environmental Issues
As a result of acquiring real estate from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2013 and 2012, respectively.

NOTE 13 - EMPLOYEE BENEFIT PLANS

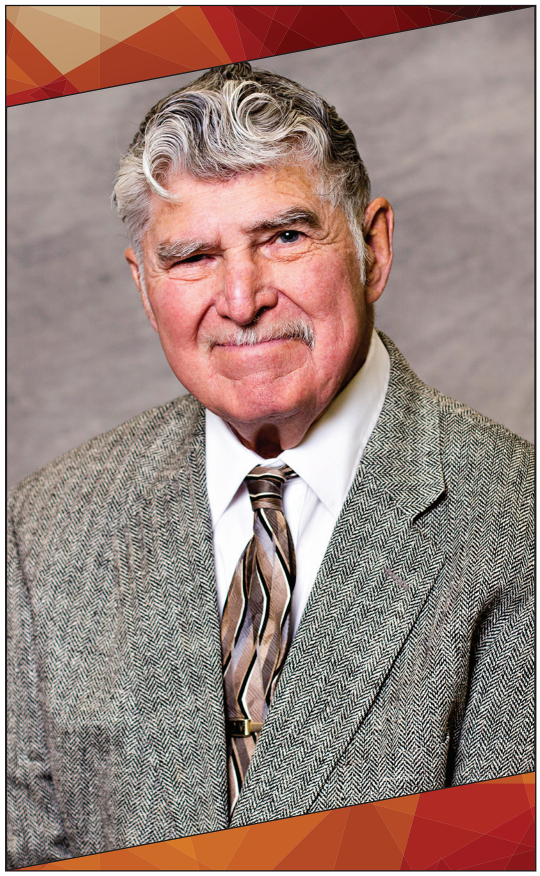
401(k) Plan
The Bank sponsors a defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all employees of the Bank are covered under the plan. The Bank contributes up to 20% of employees pre-tax contributions, up to 5% of compensation. The cost of the plan amounted to $16 and $14 in 2013 and 2012, respectively.

Profit-sharing Plan
The Bank maintains a defined contribution profit-sharing plan in which all qualified employees participate. Contributions to the plan are made at the discretion of the Board of Directors. Contributions to the plan were $346 and $186 in 2013 and 2012, respectively.

Anniversaries



Greg Potter, 30 years



Donald Van Cura, 20 years

Ginger Harvey (back row, from left), Louise Vermillion, Bill O'Connor, Karen Russell, Beth Mercier (front row, from left) and Lisa Mohr, 15 years

Anniversaries & New Officer

Pat Travis, Connie Soberalski, Stephanie Schaefer, Ashley Winter, 10 years

Deborah Cline, 5 years

Dee Bedell, Security & BSA Officer

Bank Officers

Executive

Bruce J. Cady	President & CEO
Joseph H. Black	Chief Financial Officer
Shelly M. Childers	Senior Vice President & Director of Information Technology
Bernadette Talaski	Senior Vice President & Branch Administrator

Commercial Lending

Alan J. Curtis	Vice President & Senior Lender
Peter Batistoni	Commercial Loan Manager
William E. O'Connor	Commercial Loan Officer
Ashley A. Winter	Commercial Loan Officer

Retail Lending

Beth A. Henderson	Retail Lending Director & Loan Compliance Officer
Colleen Sutton	Retail Lending Officer

Trust

Gary Drainville	Vice President & Senior Trust Officer
David Warrington	Assistant Trust Officer

Main Office

Danielle Chateauvert	Business Development Director
Cindy K. Strich	Compliance Officer
Greg Potter	Credit Officer
Robert Lennox	Financial Officer
Loren Schafer	Human Resources Director
Louise Vermillion	Loss Prevention Officer
Marsha A. Kalakay	Sales Officer
Dee Bedell	Security & BSA Officer
William R. Hartley	Special Assets Officer

Branch

Elizabeth McVety	Attica Branch Officer
Kimberly S. Hill	Deerfield Branch Officer
Jennifer Ward	Elba Branch Officer
Walter Bargen	Imlay City & Metamora Branch Officer
Debra M. Coe	Southgate Branch Officer

County Bank Corp
Lapeer County Bank & Trust Co.
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