



## Financial Statements

Year Ended December 31, 2014 and for the  
Period Ended December 31, 2013

# Bank of Bird-in-Hand

## Contents

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Independent Auditor's Report	2 - 3
Financial Statements	
Balance Sheets	5
Statements of Operations	6
Statements of Shareholders' Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 30



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## Independent Auditor's Report

Board of Directors  
Bank of Bird-in-Hand  
Bird-In-Hand, Pennsylvania

We have audited the accompanying financial statements of Bank of Bird-in-Hand, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, shareholders' equity and cash flows for the year ended December 31, 2014 and for the period May 31, 2013 (date of inception) to December 31, 2013, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Bird-in-Hand as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the year ended December 31, 2014 and for the period May 31, 2013 (date of inception) to December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

Harrisburg, Pennsylvania  
April 1, 2015

## Financial Statements

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## Bank of Bird-in-Hand

### Balance Sheets (in thousands, except share and per share data)

<i>December 31,</i>	2014	2013
<b>Assets</b>		
Cash and due from banks	\$ 1,030	\$ 1,250
Federal funds sold	-	23,972
Cash and cash equivalents	1,030	25,222
Securities available-for-sale, at fair value	12,000	4,000
Loans receivable, net of allowance for loan losses (2014: \$762; 2013 \$75)	58,866	5,577
Bank premises and equipment, net	332	298
Accrued interest receivable	100	5
Restricted investment in bank stock	80	70
Other assets	184	184
<b>Total Assets</b>	<b>\$ 72,592</b>	<b>\$ 35,356</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand	\$ 5,711	\$ 2,325
Interest-bearing demand	34,579	13,574
Time deposits	10,491	3,343
Total deposits	50,781	19,242
Federal funds purchased	6,825	-
Accrued interest payable	10	5
Other liabilities	227	120
<b>Total Liabilities</b>	<b>57,843</b>	<b>19,367</b>
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; authorized 20,000,000 shares; 1,716,100 and 1,704,100 shares issued and outstanding at December 31, 2014 and 2013, respectively	1,716	1,704
Additional paid-in capital	15,362	15,255
Accumulated deficit	(2,329)	(970)
<b>Total Shareholders' Equity</b>	<b>14,749</b>	<b>15,989</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 72,592</b>	<b>\$ 35,356</b>

*See accompanying notes to financial statements.*

**Bank of Bird-in-Hand**  
**Statements of Operations**  
(in thousands)

<i>Year Ended December 31, 2014 and for the Period May 31, 2013 (date of inception) through December 31, 2013</i>	2014	2013
<b>Interest Income</b>		
Loans, including fees	\$ 1,048	\$ 5
Federal funds sold and other	37	4
<b>Total Interest Income</b>	<b>1,085</b>	<b>9</b>
<b>Interest Expense</b>		
Deposits	360	8
<b>Total Interest Expense</b>	<b>360</b>	<b>8</b>
Net interest income	725	1
<b>Provision for Loan Losses</b>	<b>687</b>	<b>75</b>
Net interest income (loss) after provision for loan losses	38	(74)
<b>Other Income</b>		
Service fees	20	-
ATM and debit card fees	17	-
Other	1	-
<b>Total Other Income</b>	<b>38</b>	<b>-</b>
<b>Non-Interest Expenses</b>		
Salaries and employee benefits	432	389
Occupancy	167	27
Data processing	203	28
Professional services	250	365
Advertising	22	16
PA shares tax	126	-
Other operating expenses	235	71
<b>Total Non-Interest Expenses</b>	<b>1,435</b>	<b>896</b>
Net loss before income tax benefit	(1,359)	(970)
<b>Income Taxes</b>	<b>-</b>	<b>-</b>
<b>Net Loss</b>	<b>\$ (1,359)</b>	<b>\$ (970)</b>

*See accompanying notes to financial statements.*

## Bank of Bird-in-Hand

### Statements of Shareholders' Equity (in thousands)

		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balance, May 31, 2013</b> (date of inception)	\$	-	\$	-	\$	-
Net proceeds from the issuance of common stock, net of offering costs of \$82 (1,704,100 shares)		1,704		15,255	-	16,959
Net loss		-		-	(970)	(970)
<b>Balance, December 31, 2013</b>		1,704		15,255	(970)	15,989
Net proceeds from the issuance of common stock, net of offering costs of \$1 (12,000 shares)		12		107	-	119
Net loss		-		-	(1,359)	(1,359)
<b>Balance, December 31, 2014</b>	\$	1,716	\$	15,362	\$ (2,329)	\$ 14,749

*See accompanying notes to financial statements.*



**Bank of Bird-in-Hand**  
**Statements of Cash Flows**  
(in thousands)

<i>Year Ended December 31, 2014 and for the Period May 31, 2013 (date of inception) through December 31, 2013</i>	2014	2013
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (1,359)	\$ (970)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	687	75
Depreciation of premises and equipment	38	3
Increase in accrued interest receivable and other assets	(95)	(189)
Increase in accrued interest payable and other liabilities	112	125
<b>Net Cash Used in Operating Activities</b>	<b>(617)</b>	<b>(956)</b>
<b>Cash Flows from Investing Activities</b>		
Net increase in loans	(48,153)	(5,652)
Purchase of loans	(5,823)	-
Purchases of securities available-for-sale	(12,000)	(4,000)
Maturities of securities available-for-sale	4,000	-
Purchase of restricted bank stock	(10)	(70)
Purchases of premises and equipment	(72)	(301)
<b>Net Cash Used in Investing Activities</b>	<b>(62,058)</b>	<b>(10,023)</b>
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	31,539	19,242
Proceeds from federal funds purchased	6,825	-
Proceeds from issuance of common stock, net of offering costs	119	16,959
<b>Net Cash Provided by Financing Activities</b>	<b>38,483</b>	<b>36,201</b>
Net (decrease) increase in cash and cash equivalents	(24,192)	25,222
<b>Cash and Cash Equivalents, Beginning</b>	<b>25,222</b>	<b>-</b>
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 1,030</b>	<b>\$ 25,222</b>
<b>Supplementary Cash Flow Information</b>		
Cash paid during the period for:		
Interest	\$ 355	\$ 3
Income taxes	\$ -	\$ -

*See accompanying notes to financial statements.*

# Bank of Bird-in-Hand

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### *Organization and Nature of Operations*

Bank of Bird-In-Hand (the "Bank") was incorporated on May 31, 2013 (date of inception) under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank obtained its certificate of authorization to do business on November 29, 2013, commenced operations on December 2, 2013 and is a full service bank providing personal and business lending and deposit services. As a state-chartered bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The Bank maintains its principal office in Bird-In-Hand, Pennsylvania and provides financial services primarily to Lancaster County and the surrounding Pennsylvania counties.

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations and cash flow are summarized below.

#### *Estimates*

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

#### *Concentrations of Credit Risk*

The Bank grants commercial loans, commercial mortgages, residential mortgages and consumer loans to businesses and individuals located in Lancaster County, Pennsylvania. The concentration of credit by type of loan is set forth in Note 3. Its debtors' ability to honor their contracts is influenced by the region's economy.

#### *Presentation of Cash Flows*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased or sold for one day periods. As of December 31, 2014 and 2013, the Bank had federal funds sold in the amount of \$-0- and \$23,972,000, respectively.

#### *Comprehensive Income*

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

# Bank of Bird-in-Hand

## Notes to Financial Statements

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### *Securities*

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

Securities classified as available-for-sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income, net of the deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities. The Bank had no held-to-maturity securities at December 31, 2014.

Other-than-temporary impairment accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. The Bank recognized no other-than-temporary impairment charges during 2014 or from the period May 31, 2013 (date of inception) through December 31, 2013.

### *Loans Receivable*

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

The loans receivable portfolio is segmented into commercial and consumer loans.

Commercial loans consist of the following classes: commercial and industrial, commercial real estate and commercial construction. Consumer loans consist of the following classes: residential mortgages, home equity loans and other consumer loans.

# Bank of Bird-in-Hand

## Notes to Financial Statements

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

### *Allowance for Loan Losses*

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on utilization of peer group statistics, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.

# Bank of Bird-in-Hand

## Notes to Financial Statements

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5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.
6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A majority of the Bank's loan assets are loans to business owners of many types. The Bank makes commercial loans for purchases and refinances, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment. Included in commercial loans are agricultural loans. Agricultural loans are secured by properties such as farmland, agricultural related properties, or equipment. These loans are highly dependent on the business operations for repayment.

Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans require a loan to value ratio of not greater than 80%. Loan amortizations vary from one year to 25 years and terms typically do not exceed ten years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

Commercial construction loans include loans to finance the construction or rehabilitation of commercial properties, multi-family properties, or 1 to 4 family residential structures.

# Bank of Bird-in-Hand

## Notes to Financial Statements

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Consumer home equity loans, home equity lines of credit, residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. Consumer home equity loans require a loan to value ratio of not greater than 85% with limited exceptions. Home equity lines of credit have variable rates and 10 year terms. Closed end home equity loans have maturities up to 15 years and carry fixed interest rates. Residential mortgages have adjustable rates and terms up to ten years with amortizations varying from 20 to 30 years.

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

All commercial and consumer loans are located in the Lancaster county and surrounding areas.

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 loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

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

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

# Bank of Bird-in-Hand

## Notes to Financial Statements

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The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, will be evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. All loans were rated pass at December 31, 2014.

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

### *Transfers of Financial Assets*

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The Bank did not transfer any financial assets from inception through December 31, 2013 or during 2014.

### *Restricted Investment in Bank Stock*

Restricted stock at December 31, 2014 and 2013 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of \$10,000 and \$-0-, respectively, and Atlantic Community Bankers Bank ("ACBB") in the amount of \$70,000. All restricted stock is carried at cost. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2014.

# Bank of Bird-in-Hand

## Notes to Financial Statements

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### *Bank Premises and Equipment*

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

### *Advertising Costs*

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

### *Income Taxes*

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

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

The Bank accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold consider the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Bank had no uncertain tax positions at December 31, 2014.

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized during 2014 and the period from May 31, 2013 (date of inception) through December 31, 2013.

Federal and state tax returns through December 31, 2013 are open for examination as of December 31, 2014.



# Bank of Bird-in-Hand

## Notes to Financial Statements

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### *Off-Balance Sheet Financial Instruments*

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

### *Stock Warrants*

The Bank issued stock purchase warrants in connection with its initial stock offering giving certain organizers and directors the right to purchase a total of 211,500 shares of common stock at the initial offering price of \$10 per share. For organizers, the warrants serve as a reward and compensation for bearing the financial risk of the Bank's organization by advancing "seed money" for its organizational and pre-opening expenses. For the initial directors, the warrants serve as an incentive for them to build the Bank's business.

The organizers warrants are exercisable for a period of ten years from the date of grant of November 29, 2013 and are transferrable in accordance with the warrant agreement. The initial directors' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, are non-transferrable, except upon the holder's death, and are subject to a three year vesting schedule. Under a three-year vesting schedule, the holder of an initial director warrant may exercise his warrant for one third of the shares under the warrant after the first anniversary of the grant date, two-thirds of the shares after the second anniversary and, finally, all of the shares after the third anniversary. The initial directors' warrants will terminate within 30 days of the termination of the warrant holder's service as a director of the Bank. Both the organizers warrants and the initial directors warrants are subject to a forfeiture clause which the FDIC or the Pennsylvania Department of Banking and Securities may invoke if the Bank's capital falls below minimum requirements and which would require the warrant holders to exercise the warrants immediately, or forfeit all rights under the warrants. These shares may be issued from previously authorized but unissued shares of stock.

### *Fair Value of Financial Instruments*

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

### *Subsequent Events*

The Bank has evaluated events and transactions occurring subsequent to the balance sheet of December 31, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 1, 2015, the date these financial statements were available to be issued.

# Bank of Bird-in-Hand

## Notes to Financial Statements

### 2. Securities

The amortized cost, gross unrealized gains and losses, and fair value of securities available-for-sale at December 31, 2014 and 2013 is summarized as follows (in thousands):

<i>December 31, 2014</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. treasury securities	\$ 12,000	\$ -	\$ -	\$ 12,000
	<b>\$ 12,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,000</b>

<i>December 31, 2013</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. treasury securities	\$ 4,000	\$ -	\$ -	\$ 4,000
	<b>\$ 4,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,000</b>

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

<i>December 31, 2014</i>	Available-for-Sale	
	Amortized Cost	Fair Value
Due within one year	\$ 12,000	\$ 12,000
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due over 10 years	-	-
	<b>\$ 12,000</b>	<b>\$ 12,000</b>

There were no realized gains or losses in the years ended December 31, 2014 and in the period from May 31, 2013 (date of inception) through December 31, 2013. There were no securities with unrealized losses that were in a continuous loss position at December 31, 2014 and 2013.

Securities with a carrying value of \$12,000,000 at December 31, 2014 were pledged to Atlantic Community Bankers Bank to secure federal funds purchased.

**Bank of Bird-in-Hand**  
**Notes to Financial Statements**

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**3. Loans Receivable**

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

	2014	2013
Commercial and industrial	\$ 51,081	\$ 4,690
Commercial real estate	2,161	930
Residential mortgage	5,116	-
Home equity	832	-
Consumer, other	5	-
<b>Total loans</b>	<b>59,195</b>	<b>5,620</b>
Unearned net loan origination fees and costs	433	32
Allowance for loan losses	(762)	(75)
<b>Net Loans</b>	<b>\$ 58,866</b>	<b>\$ 5,577</b>

The Bank has no impaired, non-accrual or past due loans as of December 31, 2014 and 2013.

**4. Allowance for Loan Losses**

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2014 and for the period May 31, 2013 (date of inception) to December 31, 2013, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2014 and 2013 (in thousands):

	Allowance for Loan Losses				
	Beginning Balance	Charge- offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	\$ 63	\$ -	\$ -	\$ 591	\$ 654
Commercial real estate	12	-	-	16	28
Residential mortgage	-	-	-	69	69
Home equity	-	-	-	11	11
Consumer, other	-	-	-	-	-
	<b>\$ 75</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 687</b>	<b>\$ 762</b>

# Bank of Bird-in-Hand

## Notes to Financial Statements

<i>December 31, 2013</i>	Allowance for Loan Losses				
	Beginning Balance	Charge- offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	\$ -	\$ -	\$ -	\$ 63	\$ 63
Commercial real estate	-	-	-	12	12
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ 75	\$ 75

<i>December 31, 2014</i>	Allowance for Loan Losses			Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	\$ 654	\$ -	\$ 654	\$ 51,081	\$ -	\$ 51,081
Commercial real estate	28	-	28	2,161	-	2,161
Residential mortgage	69	-	69	5,116	-	5,116
Home equity	11	-	11	832	-	832
Consumer, other	-	-	-	5	-	5
	\$ 762	\$ -	\$ 762	\$ 59,195	\$ -	\$ 59,195

<i>December 31, 2013</i>	Allowance for Loan Losses			Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	\$ 63	\$ -	\$ 63	\$ 4,690	\$ -	\$ 4,690
Commercial real estate	12	-	12	930	-	930
Residential mortgage	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer, other	-	-	-	-	-	-
	\$ 75	\$ -	\$ 75	\$ 5,620	\$ -	\$ 5,620

# Bank of Bird-in-Hand

## Notes to Financial Statements

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

<i>December 31, 2014</i>	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Home Equity	Consumer, Other	Total
Pass	\$ 51,081	\$ 2,161	\$ 5,116	\$ 832	\$ 5	\$ 59,195
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
	<b>\$ 51,081</b>	<b>\$ 2,161</b>	<b>\$ 5,116</b>	<b>\$ 832</b>	<b>\$ 5</b>	<b>\$ 59,195</b>

<i>December 31, 2013</i>	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Home Equity	Consumer, Other	Total
Pass	\$ 4,690	\$ 930	\$ -	\$ -	\$ -	\$ 5,620
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
	<b>\$ 4,690</b>	<b>\$ 930</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,620</b>

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

<i>December 31, 2014</i>	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 51,081	\$ 51,081	\$ -
Commercial real estate	-	-	-	-	2,161	2,161	-
Residential mortgage	-	-	-	-	5,116	5,116	-
Home equity	-	-	-	-	832	832	-
Consumer, other	-	-	-	-	5	5	-
	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 59,195</b>	<b>\$ 59,195</b>	<b>\$ -</b>

# Bank of Bird-in-Hand

## Notes to Financial Statements

<i>December 31, 2013</i>	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 4,690	\$ 4,690	\$ -
Commercial real estate	-	-	-	-	930	930	-
Residential mortgage	-	-	-	-	-	-	-
Home equity	-	-	-	-	-	-	-
Consumer, other	-	-	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ 5,620	\$ 5,620	\$ -

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

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The Bank had no TDRs at December 31, 2014 and 2013 and had no TDRs that subsequently defaulted during the year ended December 31, 2014 and during the period ended December 31, 2013.

**Bank of Bird-in-Hand**  
**Notes to Financial Statements**

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**5. Bank Premises and Equipment**

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

	Estimated Useful Lives	2014	2013
Leasehold improvements	15	\$ 199	\$ 182
Furniture, fixtures and equipment	3-10	174	119
		<b>373</b>	<b>301</b>
Accumulated depreciation		<b>(41)</b>	<b>(3)</b>
		<b>\$ 332</b>	<b>\$ 298</b>

Depreciation expense charged to operations amounted to \$38,000 and \$3,000 for the year ended December 31, 2014 and for the period ended December 31, 2013, respectively.

**6. Deposits**

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

	2014	2013
Demand, non-interest bearing	\$ 5,711	\$ 2,325
Demand, interest-bearing	13,282	563
Savings	1,237	54
Money market accounts	20,060	12,957
Time, \$100,000 and over	6,012	1,690
Time, other	4,479	1,653
		<b>\$ 50,781</b>
		<b>\$ 19,242</b>

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

*Year Ending December 31,*

2015	\$ 10,155
2016	-
2017	17
2018	119
2019	200
<b>\$ 10,491</b>	

**Bank of Bird-in-Hand**  
**Notes to Financial Statements**

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**7. Borrowings**

*Short-Term Debt*

Short-term debt was as follows (in thousands):

	2014		2013	
	Amount	Rate	Amount	Rate
Federal funds purchased	\$ 6,825	0.50 %	\$ -	- %

The Bank has a \$7,500,000 federal funds overnight line of credit with a correspondent bank (\$2,000,000 on an unsecured basis and \$5,500,000 secured by investments). Borrowings on the line of credit at December 31, 2014 and 2013 were \$6,825,000 and \$-0-, respectively. The Bank has borrowing capacity with the FHLB of Pittsburgh of approximately \$6,500,000, of which \$-0- was outstanding at December 31, 2014. Advances from the Federal Home Loan Bank line are secured by qualifying assets of the Bank.

**8. Income Taxes**

The Bank has incurred net losses since inception which has caused there to be no provision for income taxes, deferred taxes and income taxes payable for the year ended December 31, 2014 and for the period May 31, 2013 (date of inception) to December 31, 2013.

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

	2014	2013
Deferred tax assets:		
Organizational costs	\$ 224	\$ 345
Net operating loss carryforwards	646	53
Allowance for loan loss	99	-
Loan origination fees	8	-
Accrual to cash	6	32
Other	2	-
	985	430
Valuation allowance	(790)	(329)
<b>Total Deferred Tax Assets, Net of Valuation Allowance</b>	<b>195</b>	<b>101</b>
Deferred tax liabilities:		
Allowance for loan losses	-	64
Depreciation	28	20
Loan origination costs	156	10
Prepaid expenses	11	7
<b>Net Deferred Taxes</b>	<b>\$ -</b>	<b>\$ -</b>



# Bank of Bird-in-Hand

## Notes to Financial Statements

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In assessing the realizability of deferred tax assets at December 31, 2014, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and prudent, feasible and permissible as well as available tax planning strategies in making this assessment. Based on its review of all available evidence, Management determined it was more likely than not that the deferred tax assets will not be realized and accordingly has placed a full valuation allowance on the deferred tax asset. The deferred tax asset valuation may, in accordance with the requirements of generally accepted accounting principles, be reversed in future periods, depending upon Bank's financial position and results of operations in the future, among other factors, and, in such event, may be available to increase future earnings.

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately \$1,899,000 which expire in 2033 and 2034.

### 9. Lease Commitments

In 2013, the Bank entered into an operating lease agreement for its main banking office. This lease commenced November 2013 and has a ten-year term with an additional five-year option period. Rent expense for the year ended December 31, 2014 and for the period from May 31, 2013 (date of inception) through December 31, 2013 was \$78,000 and \$14,000, respectively. The Bank leases this office from a member of the Board of Directors. Prior to December 2013, the Bank also leased space during its organization on a month-to-month basis. The Bank also leased this office space from a member of the Board of Directors. The rent expense was \$3,000 during the period of organization.

Total related party rent expense was \$78,000 and \$17,000 for the year ended December 31, 2014 and for the period from May 31, 2013 (date of inception) through December 31, 2013, respectively.

Future minimum lease payments by year and in the aggregate, under this lease agreement, are as follows (in thousands):

*Year Ending December 31,*

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2015	\$	78
2016		78
2017		78
2018		78
2019		78
Thereafter		306

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	\$	696
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**Bank of Bird-in-Hand**  
**Notes to Financial Statements**

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## 10. Employment Agreements

The Bank has employment agreements with its chief lending officer and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreement.

## 11. Transactions with Executive Officers, Directors and Principal Shareholders

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

Loans receivable from related parties totaled \$703,000 and \$-0- at December 31, 2014 and 2013, respectively. During 2014, new loans and advances to such related parties totaled \$3,690,000 and repayments and other reductions aggregated \$2,987,000. Deposits of related parties totaled \$4,142,000 and \$204,000 at December 31, 2014 and 2013, respectively.

## 12. Financial Instruments with Off-Balance Sheet Risk

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

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

A summary of the Bank's financial instrument commitments at December 31, 2014 and 2013 is as follows (in thousands):

	Contract Amount	
	2014	2013
Unfunded commitments under lines of credit	\$ 11,422	\$ 713
Letters of credit	589	622

# Bank of Bird-in-Hand

## Notes to Financial Statements

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

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. As of December 31, 2014 and 2013, standby and commercial letters of credit with customers were \$589,000 and \$622,000, respectively. The current amount of the liability as of December 31, 2014 for guarantees under standby and commercial letters of credit issued is not material.

### 13. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Per a regulatory order, Bank of Bird-in-Hand is required to maintain a Tier 1 capital-to-assets leverage ratio of not less than eight percent (8.00%) throughout the first seven years of operation. Under these guidelines, the Bank is considered well capitalized as of December 31, 2014 and 2013. The Bank is under additional regulatory requirements in order to maintain federal deposit insurance. Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

# Bank of Bird-in-Hand

## Notes to Financial Statements

The Bank's actual capital amounts and ratios at December 31, 2014 and 2013 are presented in the following tables (in thousands):

<i>December 31, 2014</i>	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 15,463	27.09%	\$ ≥4,566	≥8.00%	\$ ≥5,708	≥10.00%
Tier 1 capital (to risk-weighted assets)	14,749	25.84%	≥2,283	≥4.00%	≥3,425	≥ 6.00%
Tier 1 capital (to average assets)	14,749	22.22%	≥2,655	≥4.00%	≥3,318	≥ 5.00%

<i>December 31, 2013</i>	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 16,064	139.25%	\$ ≥923	≥8.00%	\$ ≥1,154	≥10.00%
Tier 1 capital (to risk-weighted assets)	15,989	138.60%	≥461	≥4.00%	≥ 692	≥ 6.00%
Tier 1 capital (to average assets)	15,989	184.35%	≥347	≥4.00%	≥ 434	≥ 5.00%

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

### 14. Shareholders' Equity

The Pennsylvania Department of Banking in issuing its charter to the Bank required an allocation of its initial capital to an expense fund in the amount of \$840,000 to defray anticipated initial losses. Accordingly, \$840,000 of the Bank's surplus is reserved for this purpose until the Bank becomes profitable.

#### *Stock Warrants*

The Bank issued stock purchase warrants in connection with its initial public offering giving certain organizers and directors the right to purchase a total of 211,500 shares of common stock at the initial offering price of \$10 per share. For organizers, the warrants serve as a reward and compensation for bearing the financial risk of the Bank's organization by advancing "seed money" for its organizational and pre-opening expenses. For the initial directors, the warrants serve as an incentive for them to build the Bank's business.

# Bank of Bird-in-Hand

## Notes to Financial Statements

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The organizers warrants (113,500 warrants) are exercisable for a period of ten years from the date of grant of November 29, 2013 and are transferrable in accordance with the warrant agreement. The initial directors' warrants (98,000 warrants) are exercisable for a period of ten years from the date of grant of November 29, 2013, are non-transferrable, except upon the holder's death, and are subject to a three year vesting schedule. Under a three-year vesting schedule, the holder of an initial director warrant may exercise his warrant for one third of the shares under the warrant after the first anniversary of the grant date, two-thirds of the shares after the second anniversary and, finally, all of the shares after the third anniversary. The initial directors' warrants will terminate within 30 days of the termination of the warrant holder's service as a director of the Bank. Both the organizers warrants and the initial directors warrants are subject to a forfeiture clause which the FDIC or the Pennsylvania Department of Banking and Securities may invoke if the Bank's capital falls below minimum requirements and which would require the warrant holders to exercise the warrants immediately, or forfeit all rights under the warrants. These shares may be issued from previously authorized but unissued shares of stock.

The fair value of these shares using the Black Scholes model was zero based on the fair value for the stock on the date of grant. Accordingly, no compensation expense will be recognized on these warrants.

	Number of Warrants	Weighted- Average Exercise Price
Outstanding, December 31, 2013	211,500	\$ 10.00
Granted	-	-
Expired/terminated	-	-
Exercised	-	-
Outstanding, December 31, 2014	211,500	\$ 10.00
Exercisable December 31, 2014	146,166	\$ 10.00

The warrants have a weighted-average remaining contractual life of 8.92 years and there are 146,166 warrants exercisable as of December 31, 2014.

The intrinsic value of the stock warrants outstanding and exercisable at December 31, 2014 was \$-0-.

### 15. Fair Value Measurements and Fair Values of Financial Instruments

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

# Bank of Bird-in-Hand

## Notes to Financial Statements

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

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

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

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

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

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

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

<i>December 31, 2014</i>	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. treasury securities	\$ 12,000	\$ 12,000	\$ -	\$ -

**Bank of Bird-in-Hand**  
**Notes to Financial Statements**

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<i>December 31, 2013</i>	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. treasury securities	\$ 4,000	\$ 4,000	\$ -	\$ -

**16. Subsequent Events**

On February 23, 2015, the Bank signed an employment agreement with its chief executive officer. The agreement includes a minimum annual salary commitment and change of control provision. The change in control provision in this agreement provides that upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreement.