HCB FINANCIAL CORP.

2014 Annual Report

Hastings City Bank

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To Our Shareholders From the desk of **Mark A. Kolanowski**

March 2, 2015

$1,544,263

Total Net Income

$304+ MILLION

Total Assets

$153+ MILLION

Total Loans

$27+ MILLION

Stockholders' Equity

It is with great pleasure that I present to you the HCB Financial Corp. 2014 Annual Report. Our performance gradually improved during the past year as the economy regained its strength and our strategic initiatives began to demonstrate their significance. As a result, our net income for 2014 was $1,544,263 or $1.45 per common share, a 43 percent improvement over earnings of $1,078,120 or $1.01 per share in 2013.

Other operational measures showed comparable gains. Total assets rose to $304,369,207 at year-end, 12 percent more than they were at the end of 2013 when they stood at $270,619,935. This was the first time in our history that total assets exceeded $300 million at the end of a year. Total deposits went up 10 percent to $258,081,798 during the year while they had been $235,430,376 one year earlier. Total loans grew five percent to $153,890,756 from $145,950,066 at the beginning of the year. Stockholders' equity was $27,120,581 on December 31, 2014, seven percent more than it was twelve months earlier when it was $25,296,018. This brought the book value of each of our shares to $25.44 at year-end.

Beyond economic conditions, there were three key factors giving rise to these excellent results. First, upticks in business activity and consumer confidence led to stronger loan demand and allowed us to increase the outstanding loan portfolio while significantly improving loan quality. Therefore, we did not need to make additional Provisions for Loan Losses. In fact, we were able to return $132,649 of the existing Provision for Loan Losses to operating income. Residential mortgage refinancing was the only area where demand declined noticeably from the level of activity we experienced in recent years.

Second, we also saw business growth at our newest branch office in Marshall such that it is now approaching the break-even point just two years after it was opened. Consumers and business owners in the Marshall area tell us they are pleased that our historic bank building in the heart of downtown Marshall is open for business again after being suddenly closed by a large interstate bank. The building, which we now own, has housed a bank for more than 75 years. It is apparent that many people in Marshall are bringing their banking business to us to demonstrate that they value our approach to community banking and our investment in this historic building.

Finally, certain long time customers have favored Hastings City Bank with unusually large deposits of funds that they will need for other purposes in due course. By selecting our bank to be the custodian of these funds, these customers expressed the same confidence in its safety and soundness that have won it Bauer Financial's coveted 5-Star Superior Bank Rating without interruption for five and one half years. Because we knew that these funds had been entrusted to us for a relatively limited time, it would have been imprudent to use them to fund new loans. However, we did use them, along with other funds, to purchase additional investment securities to be held available for sale.

Accordingly, we saw our interest earning assets grow by 13 percent to almost $277,000,000 at the end of December. In all, we had a dramatic year-to-year increase in interest income from investment securities of more than $500,000. Because there was not a corresponding increase in interest expense, this additional interest income made a major contribution to last year's increase in net income. When the short-term deposits are withdrawn as planned, we will undoubtedly see some shrinkage in assets at Hastings City Bank. However, we believe that growth in other areas of our business should offset some of the anticipated reduction in deposits.

In December, our improved operating results allowed the Board of Directors to declare a special year-end cash dividend of $.05 per share. To the extent that we can sustain improvements in our operations, the board will see to it that our stockholders benefit appropriately from better earnings. The board has also extended the Share Repurchase Program by authorizing the purchase of up to 30,000 HCB Financial shares on the open market during the coming year. As a practical matter, we have not purchased and retired any shares in many years, but the program is available if it is ever needed to ensure the liquidity of our stock.

Banking is, and always has been, a "people business." At year-end, Khaja (Jay) Ahmed was promoted to Vice President – Credit Manager. Jay received his bachelor's degree from the University of Madras and worked as an auditor in India until coming to America. He joined our organization as Credit Department Manager in 2013 and was promoted to Assistant Vice President a year ago. At the same time, Amanda M. Currier was promoted to Assistant Vice President – Controller and Compliance Officer. Holder of a BBA degree in Accounting, Amanda came to work at HCB in 2002 in our branch network until becoming an Accountant seven years later. She has been Senior Accountant since 2010 and now assumes the expanded responsibilities of her new position. Earlier in the year, Carol Svihl joined HCB as Trust Officer. She has BBA and MBA degrees and has many years of experience in securities brokerage and trust operations. She is now working with our Trust and Investment Group clients.

Overall, we are pleased with our performance in 2014 and foresee a number of positive trends ahead of us. If developments allow us to implement our management plan as we anticipate, we look forward to issuing a similarly favorable report to you at this time next year.

Our Annual Meeting will be held on Wednesday, April 15, 2015, at 1:00 p.m. in the main office of Hastings City Bank. Whether you will be able to attend or not, please complete and return the enclosed proxy prior to the meeting. That will allow us to tally the votes in advance and proceed with the meeting without undue delay.

Yours truly,

Mark A. Kolanowski

Mark A. Kolanowski
President and Chief Executive Officer

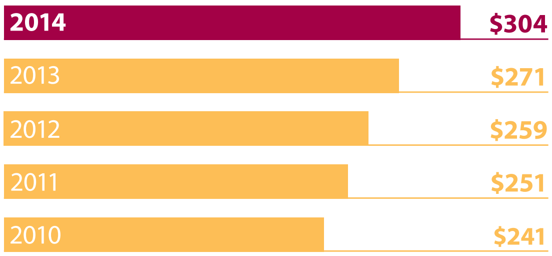
Financial Highlights

AT YEAR-END	2014	2013	% CHANGE
Assets	**$304,369**	$270,620	12%
Deposits	**258,082**	235,430	10%
Loans, net	**152,274**	144,170	6%
Investments	**124,226**	96,663	29%
Stockholders' equity	**27,121**	25,296	7%
FOR THE YEAR			
Net income	**$1,544**	$1,078	43%
Return on average assets	**0.54%**	0.41%	32%
Return on average equity	**5.86%**	4.23%	39%
Net charge-offs to avg loans	**0.02%**	0.08%	-75%
PER SHARE			
Dividends per share	**0.57**	0.52	10%
Net income per share	**1.45**	1.01	44%
Book value at year end	**25.44**	23.73	7%

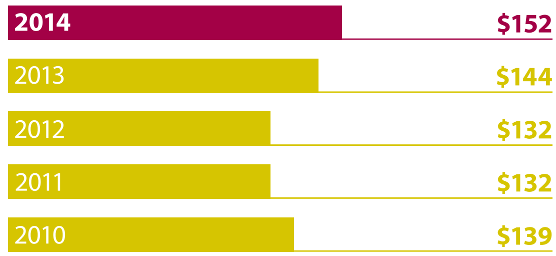
Dollar amounts in thousands, except per share data

Key Graphs

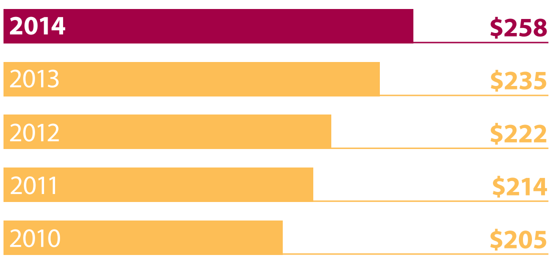
Total Assets (Millions)



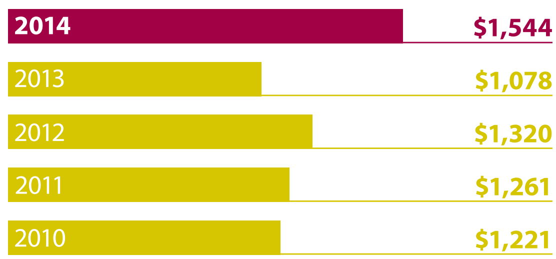
Net Loans (Millions)



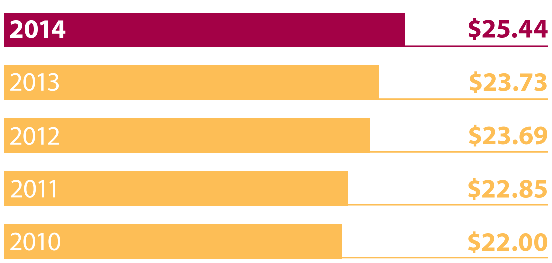
Total Deposits (Millions)



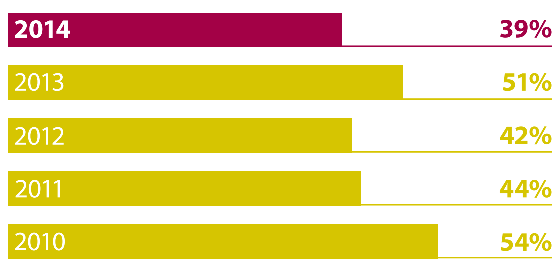
Total Earnings (Thousands)



Book Value (Per Share, In Dollars)



Dividend Payout Ratio



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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
HCB Financial Corp.
Hastings, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HCB Financial Corp., which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, 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 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 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 HCB Financial Corp. as of December 31, 2014 and 2013, 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, 2015

HCB Financial Corp.
Consolidated Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents:		
Cash and due from banks	**$ 9,468,495**	$ 12,000,661
	9,468,495	12,000,661
Interest-bearing deposits in other financial institutions	**36,563,000**	41,320,000
Securities available for sale	**85,650,414**	53,019,844
Securities held to maturity (fair value of $477,313 in 2014 and $1,112,351 in 2013)	**430,000**	945,000
Restricted investment in Federal Home Loan Bank stock	**1,582,200**	1,378,900
Loans, net of allowance of $1,616,507 in 2014 and $1,779,961 in 2013	**152,274,249**	144,170,105
Premises and equipment, net	**8,364,753**	8,167,764
Other real estate owned, net	**427,200**	377,910
Bank owned life insurance	**5,924,339**	5,751,461
Accrued interest receivable and other assets	**3,684,557**	3,488,290
Total assets	**$ 304,369,207**	$ 270,619,935
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	**$ 49,589,550**	$ 48,252,393
Interest-bearing	**208,492,248**	187,177,983
	258,081,798	235,430,376
Federal Home Loan Bank advances	**17,989,000**	8,652,000
Accrued interest payable and other liabilities	**1,177,828**	1,241,541
	277,248,626	245,323,917
Stockholders' equity:		
Common stock, no par value - 1,500,000 shares authorized; issued and outstanding of 1,066,000 in 2014 and 2013	**1,623,800**	1,623,800
Capital surplus	**2,601,641**	2,601,641
Retained earnings	**21,887,461**	20,950,819
Accumulated other comprehensive income	**1,007,679**	119,758
Total stockholders' equity	**27,120,581**	25,296,018
Total liabilities and stockholders' equity	**$ 304,369,207**	$ 270,619,935

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Income
Years ended December 31, 2014 and 2013

	2014	2013
Interest income		
Loans, including fees	$ 6,565,927	$ 6,485,263
Investment securities:		
Taxable	991,641	614,908
Tax-exempt	420,772	279,339
Federal funds sold and other	507,284	458,539
	8,485,624	7,838,049
Interest expense		
Deposits	263,113	308,501
Federal Home Loan Bank advances and other debt	316,837	348,565
	579,950	657,066
Net interest income	7,905,674	7,180,983
Provision for loan losses	(132,649)	-
Net interest income after provision for loan losses	8,038,323	7,180,983
Other income		
Service charges and fees	1,457,174	1,275,136
Trust income	493,538	471,880
Net gain (loss) on sale of securities	(44,250)	10,568
Net gain on sale of loans	159,566	230,988
Earnings from bank owned life insurance	203,378	205,648
Other income	238,069	308,638
	2,507,475	2,502,858
Other expenses		
Salaries and employee benefits	4,751,298	4,630,674
Occupancy and equipment	1,295,841	1,197,090
Data processing	1,092,744	1,005,332
Professional fees	366,954	379,000
FDIC Insurance	153,827	158,079
Other operating expenses	1,100,871	1,065,546
	8,761,535	8,435,721
Income before federal income taxes	1,784,263	1,248,120
Federal income taxes	240,000	170,000
Net income	$ 1,544,263	$ 1,078,120
Basic and Diluted earnings per share	$ 1.45	$ 1.01

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2014 and 2013

	2014	2013
Net income	$ **1,544,263**	$ 1,078,120
Available-for-sale securities		
Unrealized holding gains (losses) arising during the year	**1,389,586**	(736,734)
Reclassification adjustment for net realized gains (losses) included in net income (A)	**(44,250)**	10,568
Defined Benefit Plans		
Net unrealized gains on defined benefit plan	**-**	8,735
Reclassification adjustment for recognition of unrealized gains (B)	**-**	(8,203)
Other comprehensive income (loss) before income tax benefit	**1,345,336**	(725,634)
Income tax benefit related to other comprehensive income (loss) (C)	**(457,414)**	246,716
Other comprehensive income (loss)	**887,921**	(478,918)
Comprehensive Income	$ **2,432,184**	$ 599,202

(A) - Included in net gains on sale of securities
(B) - Included in salaries and employee benefits
(C) - Federal Income Tax expense in 2014 and 2013 includes $15,045 and $(804) related to reclassification adjustments

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013	$ 1,623,800	$ 2,601,641	$ 20,427,019	$ 598,676	$ 25,251,136
Net income	-	-	1,078,120	-	1,078,120
Other comprehensive income (loss)	-	-	-	(478,918)	(478,918)
Dividends declared - $.52 per share	-	-	(554,320)	-	(554,320)
Balance at December 31, 2013	1,623,800	2,601,641	20,950,819	119,758	25,296,018
Net income	**-**	**-**	**1,544,263**	**-**	**1,544,263**
Other comprehensive income (loss)	**-**	**-**	**-**	**887,921**	**887,921**
Dividends declared - $.57 per share	**-**	**-**	**(607,621)**	**-**	**(607,621)**
Balance at December 31, 2014	**$ 1,623,800**	**$ 2,601,641**	**$ 21,887,461**	**$ 1,007,679**	**$ 27,120,581**

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net income	$ **1,544,263**	$ 1,078,120
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**(132,649)**	-
Depreciation	**518,792**	448,881
Net amortization of securities	**268,245**	278,067
Earnings on bank owned life insurance, net	**(172,878)**	(176,594)
Loans originated for sale	**(5,549,405)**	(8,905,545)
Proceeds from sale of loans	**5,708,971**	9,136,533
Net (gain)/loss on sales of other real estate	**23,206**	(35,438)
Net gain on sales of loans	**(159,566)**	(230,988)
Net gain on sales of securities	**44,250**	(10,568)
Net change in:		
Accrued interest receivable and other assets	**(700,094)**	648,790
Accrued interest payable and other liabilities	**(117,014)**	329,051
Net cash from operating activities	**1,276,121**	**2,560,309**
Cash flows from investing activities		
Net change in interest-bearing deposits in other financial institutions	**4,757,000**	(5,915,297)
Activity in available-for-sale securities:		
Sales	**8,716,350**	4,448,190
Maturities, prepayments, calls	**18,127,659**	22,101,278
Purchases	**(58,441,738)**	(35,052,336)
Activity in held-to-maturity securities:		
Maturities, prepayments, calls	**515,000**	214,000
Net Purchase of Federal Home Loan Bank stock	**(203,300)**	-
Loan originations and payments, net	**(8,162,995)**	(12,010,360)
Purchases of premises and equipment, net	**(715,781)**	(465,439)
Proceeds from sales of other real estate owned	**165,416**	312,467
Net cash from investing activities	**(35,242,389)**	**(26,367,497)**
Cash flows from financing activities		
Net change in deposits	**22,651,422**	**12,994,635**
Proceeds from Federal Home Loan Bank advances	**11,000,000**	**-**
Repayments of Federal Home Loan Bank advances	**(1,663,000)**	**(1,665,643)**
Cash dividends paid	**(554,320)**	**(415,740)**
Net cash from financing activities	**31,434,102**	**10,913,252**
Net change in cash and cash equivalents	**(2,532,166)**	**(12,893,936)**
Cash and cash equivalents at beginning of year	**12,000,661**	24,894,597
Cash and cash equivalents at end of year	**$ 9,468,495**	**$ 12,000,661**
Supplemental disclosures of cash flow information		
Cash paid for interest	$ **581,410**	$ 670,061
Cash paid for income taxes	**260,000**	180,000
Supplemental non-cash disclosures		
Dividends declared and not paid	$ **191,880**	$ 138,580
Transfer of loans to other real estate owned	**191,500**	277,215

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: HCB Financial Corp. (the Company) is a bank holding company headquartered in Hastings, Michigan. The Company's wholly owned subsidiary, Hastings City Bank (the Bank) operates seven full-service banking offices in and around Barry County. The Bank offers a variety of deposit and lending services.

Principles of Consolidation: The consolidated financial statements include the accounts and operations of HCB Financial Corp. and its wholly owned subsidiaries, Hastings City Bank, Banin Corp., Citybanc Insurance Services, and HCB Real Estate Holdings LLC. All significant inter-company balances and transactions have been eliminated in consolidation.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through February 17, 2015, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses and fair values of certain financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions under 90 days, federal funds sold, and short term borrowings. Net cash flows are reported for customer loan and deposit transactions and for Federal Home Loan Bank (FHLB) stock purchases.

Cash and Cash Equivalents: The Company maintains deposit accounts with other financial institutions which generally exceed federally insured limits or are uninsured.

Interest-Bearing Deposits in other Financial Institutions: Interest-bearing deposits in other financial institutions consist of fully insured certificates of deposits with $7,684,000 maturing within 1 year, $26,147,000 maturing within 2-5 years and $2,732,000 maturing within 6-10 years.

Restricted Investments: The Bank is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted annually by the FHLB.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts are amortized on the level yield method. Gains and losses on sales are based on the amortized cost of the security sold. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets.

Interest income is reported on the interest method. Interest income on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received, for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans held for sale are reported at the lower of cost or market, on an aggregate basis. Mortgage loans held for sale are generally sold with servicing rights retained, the carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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 specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Commercial and commercial real estate loans are individually evaluated for impairment if outstanding loans to a borrower are, in aggregate, over $150,000 and the risk rating assigned to a loan is a non-pass rating. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Troubled debt restructurings are also considered impaired 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 Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component of the Allowance for Loan Losses covers non-impaired loans and large groups of homogeneous loans and is based on historical loss experience, over the last three years, adjusted for current risk factors. The current risk factors that adjust the allowance for loan losses for the different classes of loans are as follows:

Residential real estate loans are evaluated for impairment using various economic indicators. Environmental factors that may impact collateral value on residential real estate loans include data on average local home sales, national and local economic conditions, and local employment rates. These factors are used to calculate an adjustment for current economic conditions. Other residential real estate loans with additional risk factors are loans where the payment is more than 30 days past due.

Commercial loans are evaluated for impairment using the following risk classification codes assigned to commercial credits internally:

- Risk Ratings 1-5 are considered to be within an acceptable risk tolerance to the bank.
- Risk Rating 6 is considered special mention. Typically, these loans are inadequately protected by the current net worth or paying capacity of the obligor, even though the value of underlying collateral may be sufficient to protect against loss. These loans are included on the watch list.
- Risk Rating 7 is considered substandard. Typically, these loans have well-defined weaknesses, normal repayment is in jeopardy.
- Risk Rating 8 is considered impaired non-accrual. All the weaknesses of a 7 rating exist plus the loan is in non-accrual status. These loans have significant weaknesses making full collection of interest unlikely.
- Risk Rating 9 is considered doubtful. All the weaknesses of an 8 rating exist, however, these weaknesses now make collection or liquidation in full, based on existing conditions, improbable.
- Risk Rating 10 is considered loss. The bank recognizes loss credits by recording the charge-off in a timely manner.

These risk codes are reviewed and adjusted as appropriate in several circumstances. A formal loan review process is conducted on loans above various dollar thresholds based on the type of collateral securing the credit. The loan reviewer will either affirm that the risk rating is appropriate or recommend a change. Risk codes are also adjusted upon loan renewals, additional requests, and upon receipt of knowledge that an event has caused a change in apparent risk of an individual credit. In addition, business loan charge-offs are evaluated annually to assess the likelihood of deteriorating to charge-off before the determination that an allocated reserve is required. That additional loss factor is applied to non-impaired loans with a 5 and 6 rating. Any loans that are not individually evaluated for impairment are assigned an additional risk factor if they become past due by 30 days or more.

Consumer loans with an additional risk factor applied are loans that are past due by 30 days or more.

Bank-Owned Life Insurance: The Company 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 contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts that are probable at settlement.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Rights: Servicing rights represent the fair value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates and then, secondarily, as to prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance to the extent that fair value is less than the capitalized amount.

Servicing fee income, which is reported on the income statement as ***other income,*** is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees total $114,000 and $111,000 for the years ended December 31, 2014 and 2013, respectively. Late fees and ancillary fees related to loan servicing are not material.

Premises and Equipment: Land is stated at cost. Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed principally using the straight-line method over the estimated lives of the related assets. Expenditures for normal repair and maintenance are charged to expenses as incurred.

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure, are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Post Retirement Benefit: The Bank sponsors a post retirement benefit plan that provides medical and life insurance benefits to eligible retirees, who retired prior to 2004, for life. At year-end 2014, the plan provided benefits to 13 participants. At year-end 2014 and 2013, the accrued benefit obligation recognized in the consolidated balance sheet and the unrecognized actuarial gain were $323,491 and $112,828 and $348,986 and $128,802, respectively. Additional disclosures related to the postretirement health care plan are not material to the financial statements.

Income Taxes: Income tax expense is the total 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 amounts for the temporary differences between carrying amounts and tax basis 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period, which were 1,066,000 for both 2014 and 2013. There were no potentially dilutive common stock equivalents for 2014 or 2013.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and changes in the funded status of the Company's post retirement benefit plans, which are also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed 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.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Reclassifications: Certain items in the prior year financial statements were reclassified to conform to the current presentation.

NOTE 2 - SECURITIES

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

Available-for-sale

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agency	**$ 22,107,397**	**$ 141,919**	**$ 60,118**	**$ 22,189,198**
State and municipal	**45,298,422**	**1,375,938**	**71,588**	**46,602,772**
Mortgage-backed, residential	**15,199,049**	**36,840**	**10,997**	**15,224,892**
Corporate	**1,253,774**	**5,448**	**1,827**	**1,257,395**
Asset-backed securities	**377,814**	**-**	**1,657**	**376,157**
Total	**$ 84,236,456**	**$ 1,560,145**	**$ 146,187**	**$ 85,650,414**
2013				
U.S. Government and federal agency	$ 5,494,905	$ 57,662	$ 56,061	$ 5,496,506
State and municipal	40,521,405	495,288	451,223	40,565,470
Mortgage-backed, residential	5,456,118	52,208	20,265	5,488,061
Corporate	992,567	874	1,994	991,447
Asset-backed securities	486,227	-	7,867	478,360
Total	$ 52,951,222	$ 606,032	$ 537,410	$ 53,019,844

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

Held-to-maturity

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$ 430,000**	**$ 47,313**	**$ -**	**$ 477,313**
2013				
State and municipal	$ 945,000	$ 167,351	$ -	$ 1,112,351

The fair value of debt securities and carrying amount, if different, at year-end 2014 by contractual maturity were as follows: Securities not due at a single maturity date, primarily consisting of mortgage backed securities, are shown separately.

	Held-to-maturity		Available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 105,000	$ 108,721	$ 6,867,409	$ 6,926,706
Due after one through five years	99,000	102,081	37,539,335	37,799,227
Due after five through ten years	226,000	266,511	19,161,497	19,901,726
Due after ten years	-	-	5,091,351	5,421,707
Mortgage and asset-backed	-	-	15,576,863	15,601,048
	$ 430,000	$ 477,313	$ 84,236,456	$ 85,650,414

NOTE 2 - SECURITIES (Continued)

Securities pledged at year-end 2014 and 2013 had a carrying amount of $25,221,000 and $7,843,000 respectively, and were pledged to secure public deposits and other purposes as required or permitted by law.

Securities with unrealized losses at year-end 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
2014	**Value**	**Loss**	**Value**	**Loss**	**Value**	**Loss**
U.S. Govt. and federal agency	**$ 14,001,791**	**$ 51,858**	**$ 987,823**	**$ 8,260**	**$ 14,989,614**	**$ 60,118**
State and municipal	**4,821,633**	**20,852**	**1,957,422**	**50,736**	**6,779,055**	**71,588**
Mortgage-backed, residential	**7,605,598**	**10,997**	**-**	**-**	**7,605,598**	**10,997**
Corporate	**507,840**	**1,827**	**-**	**-**	**507,840**	**1,827**
Asset-backed securities	**-**	**-**	**376,157**	**1,657**	**376,157**	**1,657**
	$ 26,936,862	**$ 85,534**	**$ 3,321,402**	**$ 60,653**	**$ 30,258,264**	**$ 146,187**
2013						
U.S. Govt. and federal agency	$ 2,861,810	$ 56,061	$ -	$ -	$ 2,861,810	$ 56,061
State and municipal	13,533,522	444,806	751,759	6,417	14,285,281	451,223
Mortgage-backed, residential	2,091,600	20,265	-	-	2,091,600	20,265
Corporate	490,572	1,994	-	-	490,572	1,994
Asset-backed securities	-	-	478,360	7,867	478,360	7,867
	$ 18,977,504	$ 523,126	$ 1,230,119	$ 14,284	$ 20,207,623	$ 537,410

Sales of available-for-sale securities were as follows:

	2014	2013
Proceeds	**$ 8,716,350**	$ 4,448,190
Gross gains	**18,708**	18,819
Gross losses	**62,958**	8,251

Unrealized losses have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline.

NOTE 3 - LOANS

Loans at year-end were as follows:

	2014	2013
Residential real estate:		
Residential mortgages	$ 56,419,912	$ 57,931,097
Home equity loans	8,385,444	6,940,157
Commercial		
Real estate secured	38,550,517	36,659,007
Not real estate secured	13,251,423	12,387,280
Municipal	28,933,520	23,915,041
Consumer	8,349,940	8,117,484
Subtotal	153,890,756	145,950,066
Allowance for loan losses	(1,616,507)	(1,779,961)
	$ 152,274,249	$ 144,170,105

Mortgage loans serviced for others are not reported as assets. Such loans aggregated to $45,549,000 and $45,905,000 at year-end 2014 and 2013, respectively. Capitalized mortgage servicing rights were $345,000 and $359,000 at year-end 2014 and 2013, respectively.

Certain directors and executive officers of the Company, including their associates, were loan customers of the Bank during 2014 and 2013. The outstanding loan balances for these persons at December 31, 2014 and 2013 amounted to $1,463,000 and $1,450,000, respectively. During 2014, new loans to these persons amounted to $539,000 and payments amounted to $526,000, compared to new loans of $365,000 and payments of $1,490,000 during 2013.

Activity in the allowance for loan losses for 2014 and 2013, by portfolio segment, was as follows:

December 31, 2014	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 597,854	$ 1,159,862	$ 22,245	$ 1,779,961
Provision for loan losses	(50,050)	(107,622)	25,023	(132,649)
Loans charged-off	(46,199)	-	(38,255)	(84,454)
Recoveries	-	36,873	16,776	53,649
Ending balance:	$ 501,605	$ 1,089,113	$ 25,789	$ 1,616,507

December 31, 2013	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 628,879	$ 1,244,145	$ 26,976	$ 1,900,000
Provision for loan losses	10,025	(8,800)	(1,225)	-
Loans charged-off	(41,650)	(90,778)	(10,454)	(142,882)
Recoveries	600	15,295	6,948	22,843
Ending balance:	$ 597,854	$ 1,159,862	$ 22,245	$ 1,779,961

NOTE 3 - LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2014 and 2013:

December 31, 2014	**Residential Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for Loan Losses:				
Individually Evaluated for Impairment	$ 364,985	$ 726,451	$ 4,534	$ 1,095,970
Collectively Evaluated for Impairment	136,620	362,661	21,255	520,537
Ending Allowance Balance Attributable to loans:	$ 501,605	$ 1,089,113	$ 25,789	$ 1,616,507
Loan Balances:				
Individually Evaluated for Impairment	$ 1,513,591	$ 3,128,968	$ 66,581	$ 4,709,140
Collectively Evaluated for Impairment	63,291,765	77,606,492	8,283,359	149,181,616
Total ending loan balances:	$ 64,805,356	$ 80,735,460	$ 8,349,940	$ 153,890,756

December 31, 2013	**Residential Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for Loan Losses:				
Individually Evaluated for Impairment	$ 371,999	$ 506,888	$ 8,513	$ 887,400
Collectively Evaluated for Impairment	225,855	652,974	13,732	892,561
Ending Allowance Balance Attributable to loans:	$ 597,854	$ 1,159,862	$ 22,245	$ 1,779,961
Loan Balances:				
Individually Evaluated for Impairment	$ 1,399,582	$ 2,697,243	$ 77,643	$ 4,174,468
Collectively Evaluated for Impairment	63,471,672	70,264,085	8,039,841	141,775,598
Total ending loan balances:	$ 64,871,254	$ 72,961,328	$ 8,117,484	$ 145,950,066

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2014 and 2013:

December 31, 2014

	Unpaid Principal Balance	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basis Interest Recognized**
With no related allowance recorded:						
Residential real estate						
Residential mortgages	$ 245,477	$ 245,477	$ -	$ 246,885	$ 11,108	$ 11,375
Commercial						
Real estate secured	1,257,109	1,257,109	-	1,384,052	64,630	62,520
Non-real estate secured	-	-	-	-	-	-
Consumer	24,178	24,178	-	26,587	1,449	1,449
Subtotal	1,526,764	1,526,764	-	1,657,524	77,187	75,344
With related allowance recorded:						
Residential real estate						
Residential mortgages	1,254,756	1,254,756	363,921	1,269,022	58,010	58,769
Home equity loans	13,358	13,358	1,064	14,728	663	675
Commercial						
Real estate secured	1,860,861	1,860,861	720,954	1,895,202	68,579	72,976
Non-real estate secured	10,998	10,998	5,497	13,234	598	767
Consumer	42,403	42,403	4,534	45,428	315	322
Subtotal	3,182,376	3,182,376	1,095,970	3,237,614	128,165	133,509
Total	$ 4,709,140	$ 4,709,140	$ 1,095,970	$ 4,895,138	$ 205,352	$ 208,853

NOTE 3 - LOANS (Continued)

December 31, 2013	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate						
Residential mortgages	$ 100,023	$ 100,023	$ -	$ 100,583	$ 3,314	$ 3,319
Commercial						
Real estate secured	1,287,993	1,287,993	-	1,308,784	77,988	77,859
Non-real estate secured	15,000	15,000	-	14,943	909	854
Consumer	28,903	28,903	-	30,781	1,104	1,095
Subtotal	1,431,919	1,431,919	-	1,455,091	83,315	83,127
With related allowance recorded:						
Residential real estate						
Residential mortgages	1,283,551	1,283,551	369,736	1,296,275	55,565	55,001
Home equity loans	16,008	16,008	2,263	17,414	784	792
Commercial						
Real estate secured	1,342,319	1,170,575	398,887	1,317,514	39,885	54,899
Non-real estate secured	223,675	223,675	108,001	232,660	14,743	15,043
Consumer	48,740	48,740	8,513	50,976	359	371
Subtotal	2,914,293	2,742,549	887,400	2,914,839	111,336	126,106
Total	$ 4,346,212	$ 4,174,468	$ 887,400	$ 4,369,930	$ 194,651	$ 209,233

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.

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2014 and December 31, 2013:

	2014		2013	
	Nonaccrual	**Loans Past Due Over 90 Days Still Accruing**	**Nonaccrual**	**Loans Past Due Over 90 Days Still Accruing**
Residential real estate				
Residential mortgages	**$ -**	**$ -**	$ -	$ 160,413
Home equity	**-**	**12,203**	-	-
Commercial				
Real estate secured	**240,170**	**-**	232,392	-
Non-real estate secured	**-**	**-**	-	-
Municipal loans	**-**	**-**	-	-
Consumer	**-**	**1,006**	-	4,279
	$ 240,170	**$ 13,209**	$ 232,392	$ 164,692

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2014 and 2013:

December 31, 2014	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due
Residential real estate				
Residential mortgages	$ 88,728	$ -	$ 88,728	$ 56,331,184
Home equity	9,998	12,203	22,201	8,363,243
Commercial				-
Real estate secured	190,949	240,170	431,119	38,120,987
Non-real estate secured	1,589	-	1,589	13,248,245
Municipal loans	-	-	-	28,933,520
Consumer	25,556	1,006	26,562	8,323,378
	$ 316,820	$ 253,379	$ 570,199	$ 153,320,557

December 31, 2013	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due
Residential real estate				
Residential mortgages	$ 278,547	$ 160,413	$ 438,960	$ 57,492,137
Home equity	49,228	-	49,228	6,890,929
Commercial				
Real estate secured	291,958	232,392	524,350	36,134,657
Non-real estate secured	3,515	-	3,515	12,383,765
Municipal loans	-	-	-	23,915,041
Consumer	24,250	4,279	28,529	8,088,955
	$ 647,498	$ 397,084	$ 1,044,582	$ 144,905,484

Troubled Debt Restructurings:

The Company has allocated $846,000 and $787,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013. Of these reserves, $596,000 and $562,000 represent reserves on collateral dependent troubled debt restructures. The Company committed to lending additional amounts of $32,000 and $0, as of December 31, 2014 and 2013 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The modifications of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the market rate for new debt with similar risk, capitalization of interest due or a nominal principal advance to enhance collectability of the debt.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 30 years. Modifications involving an extension of the maturity date were for periods ranging from 12 months to 30 years.

NOTE 3 - LOANS (Continued)

The following tables present loans by class modified as troubled debt restructurings that occurred during the years ending December 31, 2014 and 2013:

December 31, 2014	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Balance at December 31, 2014**
Troubled Debt Restructurings:				
Residential real estate				
Residential mortgages	**2**	**$ 143,100**	**$ 150,334**	**$ 148,668**
Home equity	**-**	**-**	**-**	**-**
Commercial				
Real estate secured	**2**	**398,504**	**454,047**	**445,739**
Non-real estate secured	**-**	**-**	**-**	**-**
Municipal loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	4	**$ 541,604**	**$ 604,381**	**$ 594,407**

The troubled debt restructurings described above have increased the allowance for loan losses by $45,000 and did not result in any net charge-offs during the year ending December 31, 2014.

There were no troubled debt restructurings in payment default within twelve months following the modification during the year ending December 31, 2014. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

December 31, 2013	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Balance at December 31, 2013**
Troubled Debt Restructurings:				
Residential real estate				
Residential mortgages	2	$ 179,622	$ 186,000	$ 184,778
Home equity	-	-	-	-
Commercial				
Real estate secured	3	394,154	418,472	385,652
Non-real estate secured	-	-	-	-
Municipal loans	-	-	-	-
Consumer	2	25,345	24,712	22,847
	7	$ 599,121	$ 629,184	$ 593,277

The troubled debt restructurings described above have increased the allowance for loan losses by $165,000 and did not result in any net charge-offs during the year ending December 31, 2013.

There were no troubled debt restructurings in payment default within twelve months following the modification during the year ending December 31, 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes credit relationships with an outstanding balance greater than $150,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed annually, at renewals, and when new information on a credit is learned. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention are included on the watch list, have identifiable weaknessess and reviewed quarterly for impairment. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Not rated loans that are past due 30-89 days are also included in this category.

Substandard. Loans classified as substandard are considered very high risk, included on watch list, have well-defined weaknesses, normal repayment is in jeopardy and they are reviewed quarterly for impairment. Not rated loans that are more than 89 days past due are included in this category.

Impaired Non-Accrual. Loans classified as impaired non-accrual are very high risk and are in non-accrual status. These loans have significant weaknesses making full collection of interest unlikely

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as impaired non-accrual, plus significant weaknesses making full collection through payment or liquidation questionable and improbable. The bank had no doubtful loans in 2014 and 2013

Loans not meeting the criteria above, that are analyzed individually as part of the above described process, are considered to be pass rated loans. Municipal loans are primarily drain notes serviced by approved special assessments and other credit enhancing features. The Company reviews updated financial information on long-term issues periodically. Groups of homogeneous loans and municipal loans are not rated and are listed as pass.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2014	**Pass**	**Special Mention**	**Substandard**	**Impaired Non-Accrual**	**Total**
Residential real estate					
Residential mortgages	**$ 54,830,949**	**$ 1,588,963**	**$ -**	**$ -**	**$ 56,419,912**
Home equity	**8,349,886**	**23,355**	**12,203**	**-**	**8,385,444**
Commercial					
Real estate secured	**34,277,908**	**2,864,511**	**1,181,705**	**226,393**	**38,550,517**
Non-real estate secured	**13,156,990**	**83,435**	**10,998**	**-**	**13,251,423**
Municipal loans	**28,933,520**	**-**	**-**	**-**	**28,933,520**
Consumer	**8,256,797**	**92,137**	**1,006**	**-**	**8,349,940**
Total	**$ 147,806,050**	**$ 4,652,401**	**$ 1,205,912**	**$ 226,393**	**$ 153,890,756**

December 31, 2013	**Pass**	**Special Mention**	**Substandard**	**Impaired Non-Accrual**	**Total**
Residential real estate					
Residential mortgages	$ 56,245,570	$ 1,525,114	$ 160,413	$ -	$ 57,931,097
Home equity	6,890,929	49,228	-	-	6,940,157
Commercial					
Real estate secured	33,234,855	2,603,496	588,263	232,393	36,659,007
Non-real estate secured	11,804,398	567,882	15,000	-	12,387,280
Municipal loans	23,915,041	-	-	-	23,915,041
Consumer	7,997,704	115,501	4,279	-	8,117,484
Total	$ 140,088,497	$ 4,861,221	$ 767,955	$ 232,393	$ 145,950,066

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	2014	2013
Land	**$ 1,835,288**	$ 1,835,288
Buildings	**9,085,963**	8,488,679
Furniture and equipment	**5,257,596**	4,991,789
Projects in progress	**-**	201,975
	16,178,846	15,517,731
Less: Accumulated depreciation	**(7,814,093)**	(7,349,967)
	$ 8,364,753	$ 8,167,764

NOTE 5 - DEPOSITS

Time deposits of $250,000 or more were $1,555,000 and $2,364,000 at year-end 2014 and 2013, respectively. Scheduled maturities of all time deposits for the next five years and thereafter are as follows:

2015	$ 18,367,962
2016	3,788,372
2017	4,455,088
2018	1,522,276
2019	1,339,757
Thereafter	447,413

The Company held deposits of approximately $1,671,000 and $1,903,000 for related parties at December 31, 2014 and 2013, respectively.

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were $17,989,000 and $8,652,000 at year-end 2014 and 2013, respectively. The weighted average fixed interest rate of outstanding advices was 1.71% and 3.44% at year-end 2014 and 2013, respectively.

Advances are payable at maturity date or with penalty for prepayment. The advances were collateralized by $49,399,000 and $50,737,000 of first mortgage loans under a blanket lien arrangement at year-end 2014 and 2013, respectively.

Scheduled maturities and required payments over the next five years and thereafter:

2015	$ 10,663,000
2016	1,663,000
2017	1,663,000
2018	2,000,000
2019	2,000,000
Thereafter	-

NOTE 7 - RETIREMENT PLAN

The Bank sponsors a 401(k) savings plan that allows eligible employees to contribute a percentage of their annual compensation. The Bank matches a portion of the participant's contribution, up to plan-specified maximums. The Bank contributed $56,000 and $59,000 to the plan during 2014 and 2013, respectively. The Bank may also elect to make a profit-sharing contribution to the Plan.

Additionally, retirement benefits are provided to substantially all employees under a discretionary profit-sharing and employee stock ownership plan (ESOP). The Bank recognized expense of $185,000 and $125,000 during 2014 and 2013, respectively, related to the profit-sharing plan, which includes contributions to the ESOP of $120,000 and $60,000 in 2014 and 2013, respectively.

NOTE 8 - FEDERAL INCOME TAXES

The provision for income taxes is summarized as follows:

	Year ended December 31	
	2014	2013
Current	**$ 322,000**	$ 164,000
Deferred	**(82,000)**	(88,000)
Change in valuation allowance	**-**	94,000
	$ 240,000	$ 170,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Bank's deferred tax assets and liabilities are as follows:

	December 31	
	2014	2013
Deferred income tax assets:		
Allowance for loan losses in excess of deductible amounts	**$ 287,000**	$ 332,000
Post retirement benefits	**110,000**	119,000
AMT credit carry forward	**1,808,000**	1,511,000
Capital Losses	**223,000**	502,000
Net Operating loss carry forward	**47,000**	248,000
Accrued Liabilities	**81,000**	61,000
Other	**69,000**	69,000
	2,625,000	2,842,000
Deferred income tax liabilities:		
Prepaid expenses	**(47,000)**	(34,000)
Book-tax basis differences on property and equipment	**(185,000)**	(214,000)
Unrealized gains on securities	**(481,000)**	(23,000)
Mortgage Servicing Rights	**(117,000)**	(122,000)
Other	**(63,000)**	(63,000)
	(893,000)	(456,000)
Valuation allowance	**(223,000)**	(502,000)
Net deferred tax assets	**$ 1,509,000**	$ 1,884,000

A valuation allowance has been provided to recognize the uncertainty of realizing the Bank's net deferred income tax asset related to the recognized capital losses of $655,000. Realization of the deferred tax asset related to the capital losses is dependent upon the Bank generating future capital gains within five years of the capital loss recognition. During 2014, $814,000 of the capital loss carryforward expired. The remaining $655,000 will expire if not used in 2015. Management has determined it is not likely that the future tax benefit of the capital loss for each underlying security will be realized and has established a valuation allowance against the entire remaining capital loss carry forward. The deferred tax assets include $47,000 related to $138,000 of net operating loss carry forwards which will being to expire in 2030, if unused. The AMT credits do not expire. There were no interest or penalties recorded during 2014 or 2013. The Company is subject to U.S. federal income tax and is no longer subject to examination by taxing authorities for years before 2011.

A reconciliation of the difference between federal income taxes and the amount computed by applying the statutory rate are as follows:

	Year ended December 31	
	2014	2013
Taxes at statutory rate	**$ 607,000**	$ 424,000
Effect of tax-exempt interest	**(336,000)**	(286,000)
Effect of BOLI Income	**(59,000)**	(60,000)
Valuation Allowance	**-**	94,000
Other	**28,000**	(2,000)
	$ 240,000	$ 170,000

NOTE 9 - LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

At December 31, 2014 and 2013, the Bank's customers had commitments to fund loans and available unused lines of credit of $18,242,000 and $19,849,000, respectively. Commitments under outstanding standby letters of credit amounted to $668,000 and $680,000 at December 31, 2014 and 2013, respectively.

NOTE 10 – REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes, as of December 31, 2014, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2014 and 2013, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (000's omitted) and ratios at year end are presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
2014						
Total capital to risk-weighted assets:	**$ 26,534**	**18.28%**	**$ 11,615**	**8.00%**	**$ 14,519**	**10.00%**
Tier 1 (Core) Capital to risk-weighted assets:	**24,917**	**17.16**	**5,808**	**4.00**	**8,711**	**6.00**
Tier 1 (Core) Capital to average assets:	**24,917**	**8.36**	**11,918**	**4.00**	**14,897**	**5.00**
2013						
Total capital to risk-weighted assets:	$ 25,221	18.65%	$ 10,820	8.00%	$ 13,525	10.00%
Tier 1 (Core) Capital to risk-weighted assets:	23,529	17.40	5,410	4.00	8,115	6.00
Tier 1 (Core) Capital to average assets:	23,529	8.86	10,623	4.00	13,279	5.00

NOTE 11 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and Treasury curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations. The fair value of Level 3 securities are determined by the Chief Financial Officer (CFO) who reports to the Chief Executive Officer (CEO) and the Investment Committee. The CFO and CEO review the calculated fair values and these are reported to the Investment Committee.

Impaired Loans: The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate valuations. These valuations 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 usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate valuations which are updated no less frequently than annually. These valuations 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 independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Valuations for both collateral-dependent impaired loans and real estate owned 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 Company. Once received, an officer reviews the assumptions and approaches utilized in the valuation as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent valuation to determine what additional adjustment should be made to the valuation to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied to properties with valuations performed within 3 months. A discount of 20% should be applied to properties with valuations performed within 3 to 12 months.

NOTE 11 - FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at December 31 using:

2014	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and federal agency	**$ 22,189,198**	**$ 9,445,586**	**$ 12,743,612**	**$ -**
State and municipal	**46,602,773**	**-**	**46,602,773**	**-**
Mortgage-backed	**15,224,891**	**-**	**15,224,891**	**-**
Corporate	**1,257,395**	**-**	**1,257,395**	**-**
Asset-backed security	**376,157**	**-**	**376,157**	**-**
Available-for-sale securities	**$ 85,650,414**	**$ 9,445,586**	**$ 76,204,828**	**$ -**
2013				
U.S. Government and federal agency	$ 5,496,506	**$ -**	$ 5,496,506	$ -
State and municipal	40,565,470	**-**	38,015,621	2,549,849
Mortgage-backed	5,488,061	**-**	5,488,061	-
Corporate	991,447	**-**	991,447	-
Asset-backed security	478,360	**-**	478,360	-
Available-for-sale securities	**$ 53,019,844**	**$ -**	**$ 50,469,995**	**$ 2,549,849**

The table below presents a reconciliation of state and municipal securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended December 31, 2014 and December 31 2013:

	2014	**2013**
Balance at beginning of period	**$2,549,849**	$2,541,432
Total net gains or losses (realized/unrealized)		
Included in earnings - realized	**50,151**	**-**
Included in other comprehensive income	**-**	8,417
Sales	**(2,600,000)**	-
Net transfers in/out of Level 3	**-**	**-**
Balance at end of period	**-**	$ 2,549,849

Level 3 securities at December 31, 2013 consisted of two municipal bonds, from the same issuer, with maturities in excess of 10 years. These bonds have maintained credit ratings of A3 or better. The bonds are evaluated for impairment quarterly or when news on the issuer is released. Pools of student loans, substantially all of which are government guaranteed, secure the bonds. The bonds were impacted in the past few years by an illiquid market, caused by failure of regular redemption auctions, leading management to price the bond using third party information and internal assumptions. These bonds were called at par in 2014.

NOTE 11 - FAIR VALUE (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

December 31, 2014	**Level 1**	**Level 2**	**Level 3**
Impaired Loans			
Residential real estate			
Residential mortgages	**$**	**$**	**$ 264,733**
Commercial			
Real estate secured	**-**	**-**	**420,887**
Non-real estate secured	**-**	**-**	**-**
Total Impaired Loans	**-**	**-**	**685,620**
Other Real Estate Owned			
Commercial real estate	**-**	**-**	**298,700**
Total impaired loans / other real estate owned	**$**	**$**	**$ 984,320**

December 31, 2013	**Level 1**	**Level 2**	**Level 3**
Impaired Loans			
Residential real estate			
Residential mortgages	$	$	$ 211,636
Commercial			
Real estate secured	-	-	501,401
Non-real estate secured	-	-	-
Total Impaired Loans	-	-	713,037
Other Real Estate Owned			
Commercial real estate	-	-	261,000
Total impaired loans / other real estate owned	$	$	$ 974,037

As discussed previously, the fair values of impaired loans carried at fair value are determined by third party appraisals. Management makes adjustments to these appraised values based on the age of the appraisal. The following tables 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

December 31, 2014	**Fair Value**	**Valuation Technique**	**Unobservable Input(s)**	**Range (Weighted average)**
Impaired loans - commercial real estate	**$ 420,887**	Sales comparison approach	Management discount for property type and recent volatility	10% - 20% (17%)

NOTE 11 - FAIR VALUE (Continued)

December 31, 2013	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted
Impaired loans - commercial real estate	$ 501,401	Sales comparison approach	Management discount for property type and recent volatility	10% - 20% (17%)

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, a level 3 value, had a carrying amount of $1,282,000 prior to a valuation allowance of $596,000 at December 31, 2014, resulting in an additional allocation for loan losses of $55,000 for the year ending December 31, 2014. At December 31, 2013, impaired loans had a carrying amount of $1,375,000, prior to a valuation allowance of $662,000, resulting in an additional allocation for loan losses of $237,000 for the year ending December 31, 2013.

Other real estate owned, with a valuation reserve, measured at the lower of carrying or fair value less costs to sell, a level 3 value, had a net carrying amount of $298,700, which is made up of the outstanding balance of $388,000, net of a valuation allowance of $89,300 at December 31, 2014, resulting in a write-down of $25,300 for the year ending December 31, 2014. As of December 31, 2013, the net carrying amount was $261,000, which is made up of outstanding balance of $325,000, net of a valuation allowance of $64,000 for the year ended December 31, 2013, resulting in a write-down of $0 for the year ending December 31, 2013.

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest-bearing deposits, accrued interest receivable and payable, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or interest bearing deposits and for variable rate loans or deposits with infrequent repricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off balance sheet items is not considered material.

The carrying amounts and the estimated fair values of financial instruments are summarized as follows:

	2014		2013	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and cash equivalents	**$ 9,468,495**	**$ 9,468,000**	$ 12,000,661	$ 12,001,000
Interest Bearing Deposits	**36,563,000**	**35,683,000**	41,320,000	40,110,000
Securities - held-to-maturity	**430,000**	**477,000**	945,000	1,112,000
Securities - available-for-sale	**85,650,414**	**85,650,000**	53,019,844	53,020,000
Federal Home Loan Bank stock	**1,582,200**	**NA**	1,378,900	NA
Loans, net	**152,274,249**	**153,738,000**	144,170,105	145,022,000
Accrued interest receivable	**1,027,490**	**1,027,000**	915,726	916,000
Liabilities:				
Deposits	**$ 258,081,798**	**$ 257,875,000**	$ 235,430,376	$ 235,631,000
Federal Home Loan Bank advances	**17,989,000**	**18,417,000**	8,652,000	9,019,000
Accrued interest payable	**42,604**	**43,000**	44,063	44,100

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Our Commitment To The Community

We're proud of what we do. And equally proud of where we do it. Hastings City Bank has always been committed to improving the communities we serve—and 2014 was no different. Whether the need was for time, money, or expertise, we took every opportunity to give back as a way to propel our communities forward.

CHARITABLE CONTRIBUTIONS AND SPONSORSHIPS

Supporting our local schools and nonprofit organizations is what differentiates us as a true community bank. We supported nearly 120 organizations in 2014—from schools, to recreational events, fairs, senior services and everything in between.

COMMUNITY INVOLVEMENT

Hastings City Bank staff members eagerly give their time and expertise to local nonprofit agencies serving on boards and committees. Together, they mirror the same spirit of service and teamwork that is shared at work every day. In 2014, nearly 50 organizations benefited from our collective contribution of time and knowledge.

380+ CHILDREN

Received School Supplies & Backpacks

OUR COMMITMENT IN ACTION

Each year, since 2006, Hastings City Bank has partnered with the Barry County United Way to provide backpacks and back to school supplies for children referred by local social service agencies. In 2014, over 380 children came through the HCB community room to choose a backpack, supplies and free books.

This past year a similar program was started in the Marshall area in partnership with the Marshall United Way and Marshall Public Schools.

A Year of Service To Our Communities

SUMMERFEST

In 2014, the Summerfest theme was Super Heroes. To recognize the real heroes around us, we invited "community superheroes" to ride on the parade float—including law enforcement, the community foundation, United Way, the school superintendent, and military veterans.

HORIZONS CLUB

Our Horizons Club members travel together twice a year and celebrate the holidays with an annual luncheon. Members enjoy learning, eating good food and renewing friendships with every trip.

TAILGATE PARTY

People from Hastings City Bank love to show their true colors. In the fall of 2014, staff members served free hot dogs, chips and pop to attendees at the Hastings High School homecoming game.

DAY OF CARING

We serve the community one day at a time. Last year, Hastings City Bank staff members donated their time to a Day of Caring with the Barry County United Way. Projects included cleaning and repairing the green roof of the Hastings Public Library.

Directors & Officers

DIRECTORS

Joseph J. Babiak
President and C.E.O.
Hastings Mutual
Insurance Company

James H. Fisher
Of Counsel, Law Weathers
Chair, Michigan Indigent
Defense Commission

Matthew R. Garber
Physician and Director of
Hospitalist Program
Pennock Hospital

Neil A. Gardner
Retired, Executive Vice President
Hastings City Bank

Barbara L. Hunt
Accounting Manager
Bethany Christian Services

Mark A. Kolanowski
President and C.E.O.
Hastings City Bank

W. Scott McKeown
Partner
McKeown, Kraai and Phillips P.L.C.

Archie A. Warner
President and C.E.O.
Harder and Warner
Landscaping/Nursery Inc.

OFFICERS

Mark A. Kolanowski
President and C.E.O.

Joan M. Heffelbower
Executive Vice President
and C.F.O.

Robert G. Ranes Jr.
Senior Vice President,
Lending

Randoulph L. Teegardin
Senior Vice President,
Trust and Investment Group

Khaja (Jay) Ahmed
Vice President,
Credit Manager

Jane M. DeBat
Vice President,
Retail Banking

Barbara L. Denny
Vice President,
Retail Lending

Kimberly G. Finkbeiner
Vice President,
Operations

Amanda M. Currier
Assistant Vice President,
Controller, Compliance Officer

Linda G. Engle
Assistant Vice President,
Business Development Officer

Nancy A. Goodin
Assistant Vice President,
Marketing Director

Julie E. Palmatier
Assistant Vice President,
Human Resources Director

Stephen R. Ritsema
Assistant Vice President,
Market Manager

Karen S. Scoby
Assistant Vice President,
Market Manager

Joseph S. Chamberlin
Information Technology Officer

Timothy P. Kelly
Commercial Loan Officer

Karla J. KruKo
Retail Loan Officer

Terry L. Lowell
Retail Banking Officer

Carol A. Svihl
Trust Officer

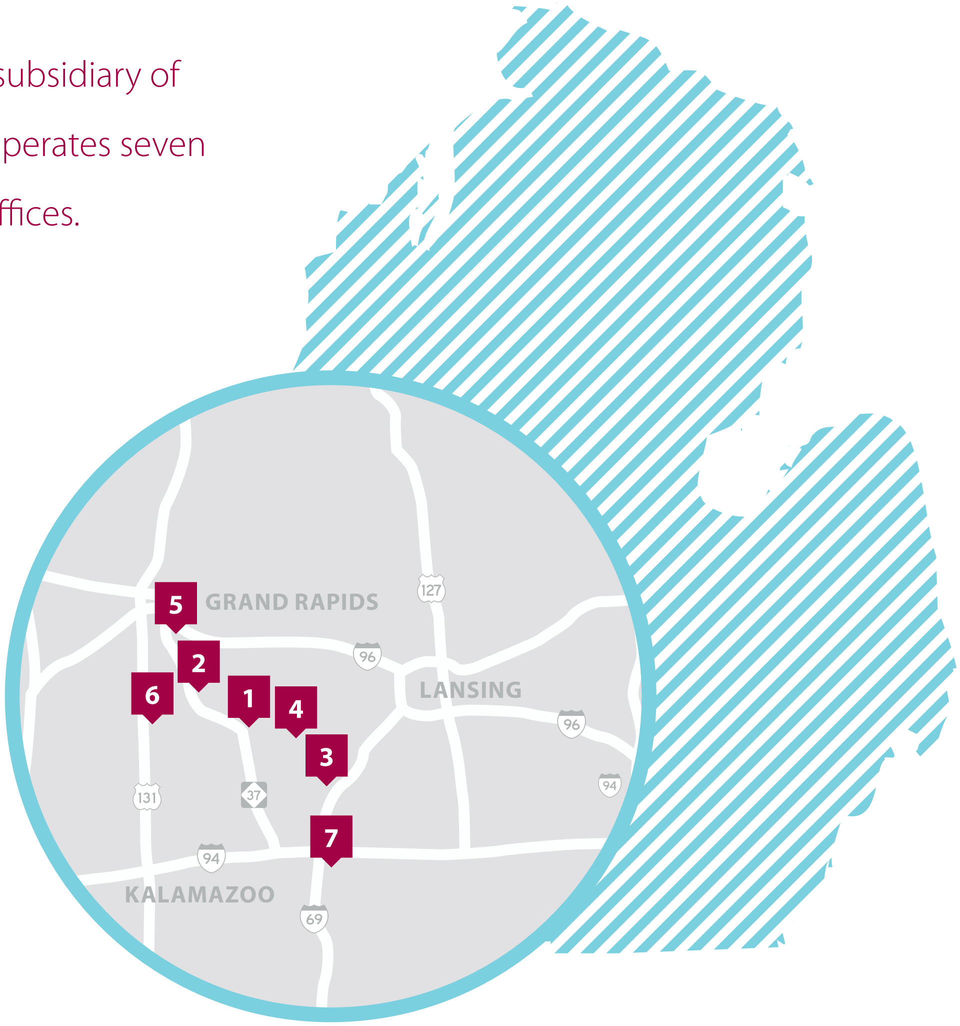
Ashley E. Ulberg
Senior Retail Banking Officer

Valorie K. Vaughan
Branch Manager

Patricia L. Woods
Branch Manager,
Security Officer

Locations

Hastings City Bank, a subsidiary of HCB Financial Corp., operates seven full-service banking offices.



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150 West Court Street
Hastings, MI 49058
269-945-2401
888-422-2280

2. MIDDLEVILLE
435 Arlington Street
Middleville, MI 49333
269-795-3338

3. BELLEVUE
111 East Capital Avenue
Bellevue, MI 49021
269-763-9418

4. NASHVILLE
310 North Main Street
Nashville, MI 49073
517-852-0790

5. CALEDONIA
9265 Cherry Valley SE
Caledonia, MI 49316
616-891-0010

6. WAYLAND
156 West Superior Street
Wayland, MI 49348
269-792-6201

7. MARSHALL
124 West Michigan Avenue
Marshall, MI 49068
269-558-0994

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