BANK OF
Bird-in-Hand
a full service community bank

Financial Statements

Years Ended December 31, 2016 and 2015

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

BDO

Bank of Bird-in-Hand

Contents

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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, 2016 and 2015, and the related statements of operations, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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, 2016 and 2015, 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.

BDO USA, LLP

Harrisburg, Pennsylvania
April 10, 2017

Financial Statements

Bank of Bird-in-Hand

Balance Sheets

(in thousands, except share and per share data)

December 31,	**2016**	2015
Assets		
Cash and due from banks	**$ 4,467**	$ 2,057
Interest bearing deposits with banks	**9,918**	10,212
Federal funds sold	**805**	3,116
Cash and cash equivalents	**15,190**	15,385
Loans receivable, net of allowance for loan losses (2016: $1,768; 2015: $1,299)	**152,937**	103,344
Bank premises and equipment, net	**800**	638
Accrued interest receivable	**380**	218
Restricted investment in bank stock	**529**	234
Other assets	**291**	138
Total Assets	**$ 170,127**	$ 119,957
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 21,124**	$ 10,017
Interest-bearing demand	**76,297**	45,709
Time deposits	**47,109**	46,589
Total deposits	**144,530**	102,315
FHLB advances	**10,000**	3,000
Accrued interest payable	**34**	31
Other liabilities	**469**	260
Total Liabilities	**155,033**	105,606
Shareholders' Equity		
Common stock, $1 par value; authorized 20,000,000 shares; 1,721,100 and 1,716,100 shares issued and outstanding at December 31, 2016 and 2015, respectively	**1,721**	1,716
Additional paid-in capital	**15,407**	15,362
Accumulated deficit	**(2,034)**	(2,727)
Total Shareholders' Equity	**15,094**	14,351
Total Liabilities and Shareholders' Equity	**$ 170,127**	$ 119,957

See accompanying notes to financial statements.

Bank of Bird-in-Hand

Statements of Operations
(in thousands)

Years Ended December 31,	**2016**	2015
Interest Income		
Loans, including fees	**$ 4,519**	$ 2,811
Federal funds sold and other	**68**	27
Total Interest Income	**4,587**	2,838
Interest Expense		
Deposits	**988**	625
Borrowings	**3**	15
Total Interest Expense	**991**	640
Net interest income	**3,596**	2,198
Provision for Loan Losses	**471**	537
Net interest income after provision for loan losses	**3,125**	1,661
Other Income		
Service fees	**299**	89
ATM and debit card fees	**99**	49
Other	**12**	6
Total Other Income	**410**	144
Non-Interest Expenses		
Salaries and employee benefits	**1,445**	1,050
Occupancy	**270**	190
Data processing	**240**	222
Professional services	**275**	259
Advertising	**8**	24
PA shares tax	**-**	110
Other operating expenses	**514**	348
Total Non-Interest Expenses	**2,752**	2,203
Income (loss) before income taxes	**783**	(398)
Income Taxes	**90**	-
Net Income (Loss)	**$ 693**	$ (398)

See accompanying notes to financial statements.

Bank of Bird-in-Hand

Statements of Shareholders' Equity

(in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance, January 1, 2015	$ 1,716	$ 15,362	$ (2,329)	$ 14,749
Net loss	-	-	(398)	(398)
Balance, December 31, 2015	1,716	15,362	(2,727)	14,351
Issuance of 5,000 shares of common stock for exercise of originator stock warrant	**5**	**45**	**-**	**50**
Net income	**-**	**-**	**693**	**693**
Balance, December 31, 2016	**$ 1,721**	**$ 15,407**	**$ (2,034)**	**$ 15,094**

See accompanying notes to financial statements.

Bank of Bird-in-Hand

Statements of Cash Flows
(in thousands)

Years Ended December 31,	**2016**	2015
Cash Flows from Operating Activities		
Net income (loss)	**$ 693**	$ (398)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	**471**	537
Depreciation of premises and equipment	**90**	66
Increase in accrued interest receivable and other assets	**(315)**	(72)
Increase in accrued interest payable and other liabilities	**212**	54
Net Cash Provided by Operating Activities	**1,151**	187
Cash Flows from Investing Activities		
Net increase in loans	**(50,064)**	(45,015)
Maturities of securities available-for-sale	**-**	12,000
Net purchases of restricted investment in bank stock	**(295)**	(154)
Purchases of premises and equipment	**(252)**	(372)
Net Cash Used in Investing Activities	**(50,611)**	(33,541)
Cash Flows from Financing Activities		
Net increase in deposits	**42,215**	51,534
Repayments of federal funds purchased	**-**	(6,825)
Proceeds from FHLB advances	**7,000**	3,000
Issuance of common stock from the exercise of stock warrants	**50**	-
Net Cash Provided by Financing Activities	**49,265**	47,709
Net (decrease) increase in cash and cash equivalents	**(195)**	14,355
Cash and Cash Equivalents, Beginning	**15,385**	1,030
Cash and Cash Equivalents, Ending	**$ 15,190**	$ 15,385
Supplementary Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 988**	$ 619
Income taxes	**$ 90**	$ -

See accompanying notes to financial statements.

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.

On December 1, 2015, the Bank, in accordance with Section 1609 of the Pennsylvania Banking Code of 1965, effected a conversion from a Pennsylvania state-chartered bank into a Pennsylvania state-chartered stock savings bank. The Plan of Conversion was approved and adopted by a unanimous vote of the Directors and by at least two-thirds vote of shareholders at a special meeting on October 27, 2015. As a state-chartered stock savings 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.

Certain amounts reported in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications did not significantly impact the Bank's financial position or results of operations.

Basis of Presentation

The Bank has early adopted FASB ASU 2016-01, "*Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*." For entities other than public business entities, the update eliminates the requirement under Topic 825, *"Financial Instruments,"* to disclose the fair values of financial assets and financial liabilities measured in the financial statements at amortized cost. Further, this update excludes receivables and payables due in one year or less, deposit liabilities with no defined or contractual maturities and nonmarketable equity securities accounted for under the practicability election from this disclosure requirement.

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 2. Its debtors' ability to honor their contracts is influenced by the region's economy.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, cash in banks, and overnight deposits with original maturities of three months or less.

The Bank maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

The Bank is required to maintain average reserve balances in vault cash or with the Federal Reserve Bank based upon outstanding balances of deposit transaction accounts. The total of this reserve balance was $-0- at December 31, 2016 and 2015.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits with banks, and federal funds sold. Generally, federal funds are purchased or sold for one day periods. As of December 31, 2016 and 2015, the Bank had federal funds sold in the amount of $805,000 and $3,116,000, 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.

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. The Bank had no available-for-sale securities at December 31, 2016 and 2015.

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, 2016 and 2015.

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 2016 or 2015.

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

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.

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.

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, and commercial real estate 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.

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, 2016 and 2015.

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.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2016 and 2015 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $459,200 and $163,500, respectively, and Atlantic Community Bankers Bank ("ACBB") in the amount of $70,000 for December 31, 2016 and 2015. 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, 2016.

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, 2016.

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 2016 and 2015.

Federal and state tax returns through December 31, 2013 are open for examination as of December 31, 2016.

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 Federal Deposit Insurance Corporation ("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. During 2016, an organizer exercised 5,000 warrants at the price of $10 per share.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet of December 31, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 10, 2017, the date these financial statements were available to be issued.

2. Loans Receivable

The composition of loans receivable at December 31, 2016 and 2015 is as follows (in thousands):

	2016	2015
Commercial and industrial	**$ 122,083**	$ 81,910
Commercial real estate	**3,525**	4,492
Residential mortgage	**19,844**	14,715
Home equity	**8,014**	2,783
Consumer, other	**214**	23
Total loans	**153,680**	103,923
Unearned net loan origination fees and costs	**1,025**	720
Allowance for loan losses	**(1,768)**	(1,299)
Net Loans	**$ 152,937**	$ 103,344

The Bank has no impaired, non-accrual or past due loans as of December 31, 2016 and 2015.

3. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2016 and 2015, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2016 and 2015 (in thousands):

December 31, 2016	Allowance for Loan Losses				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	**$ 1,032**	**$ -**	**$ -**	**$ 372**	**$ 1,404**
Commercial real estate	**57**	**-**	**-**	**(16)**	**41**
Residential mortgage	**177**	**-**	**-**	**51**	**228**
Home equity	**33**	**-**	**-**	**59**	**92**
Consumer, other	**-**	**(2)**	**-**	**5**	**3**
	$ 1,299	**$ (2)**	**$ -**	**$ 471**	**$ 1,768**

December 31, 2015	Allowance for Loan Losses				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	$ 654	$ -	$ -	$ 378	$ 1,032
Commercial real estate	28	-	-	29	57
Residential mortgage	69	-	-	108	177
Home equity	11	-	-	22	33
Consumer, other	-	-	-	-	-
	$ 762	$ -	$ -	$ 537	$ 1,299

December 31, 2016	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	**$ 1,404**	**$ -**	**$ 1,404**	**$ 122,083**	**$ -**	**$ 122,083**
Commercial real estate	**41**	**-**	**41**	**3,525**	**-**	**3,525**
Residential mortgage	**228**	**-**	**228**	**19,844**	**-**	**19,844**
Home equity	**92**	**-**	**92**	**8,014**	**-**	**8,014**
Consumer, other	**3**	**-**	**3**	**214**	**-**	**214**
	$ 1,768	**$ -**	**$ 1,768**	**$ 153,680**	**$ -**	**$ 153,680**

December 31, 2015	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	$ 1,032	$ -	$ 1,032	$ 81,910	$ -	$ 81,910
Commercial real estate	57	-	57	4,492	-	4,492
Residential mortgage	177	-	177	14,715	-	14,715
Home equity	33	-	33	2,783	-	2,783
Consumer, other	-	-	-	23	-	23
	$ 1,299	$ -	$ 1,299	$ 103,923	$ -	$ 103,923

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, 2016 and 2015 (in thousands):

December 31, 2016	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Home Equity	Consumer, Other	Total
Pass	**$ 122,083**	**$ 3,525**	**$ 19,844**	**$ 8,014**	**$ 214**	**$ 153,680**
Special mention	**-**	**-**	**-**	**-**	**-**	**-**
Substandard	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**
	$ 122,083	**$ 3,525**	**$ 19,844**	**$ 8,014**	**$ 214**	**$ 153,680**

December 31, 2015	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Home Equity	Consumer, Other	Total
Pass	$ 81,910	$ 4,492	$ 14,715	$ 2,783	$ 23	$ 103,923
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
	$ 81,910	$ 4,492	$ 14,715	$ 2,783	$ 23	$ 103,923

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, 2016 and 2015 (in thousands):

December 31, 2016	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	**$ -**	**$ -**	**$ -**	**$ -**	**$ 122,083**	**$ 122,083**	**$ -**
Commercial real estate	**-**	**-**	**-**	**-**	**3,525**	**3,525**	**-**
Residential mortgage	**-**	**-**	**-**	**-**	**19,844**	**19,844**	**-**
Home equity	**-**	**-**	**-**	**-**	**8,014**	**8,014**	**-**
Consumer, other	**-**	**-**	**-**	**-**	**214**	**214**	**-**
	$ -	**$ -**	**$ -**	**$ -**	**$ 153,680**	**$ 153,680**	**$ -**

December 31, 2015	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	$ -	$ -	$ -	$ -	$ 81,910	$ 81,910	$ -
Commercial real estate	-	-	-	-	4,492	4,492	-
Residential mortgage	-	-	-	-	14,715	14,715	-
Home equity	-	-	-	-	2,783	2,783	-
Consumer, other	-	-	-	-	23	23	-
	$ -	$ -	$ -	$ -	$ 103,923	$ 103,923	$ -

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, 2016 and 2015 and had no TDRs that subsequently defaulted during the years ended December 31, 2016 and 2015.

4. Bank Premises and Equipment

The components of premises and equipment at December 31, 2016 and 2015 are as follows (in thousands):

	Estimated Useful Lives	**2016**	2015
Leasehold improvements	15	**$ 522**	$ 498
Furniture, fixtures and equipment	3-10	**475**	247
		997	745
Accumulated depreciation		**(197)**	(107)
		$ 800	$ 638

Depreciation expense charged to operations amounted to $90,000 and $66,000 for the years ended December 31, 2016 and 2015, respectively.

5. Deposits

The components of deposits at December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Demand, noninterest-bearing	**$ 21,124**	$ 10,017
Demand, interest-bearing	**44,019**	17,490
Savings	**6,749**	1,689
Money market accounts	**25,529**	26,530
Time, $250,000 and over	**11,499**	10,719
Time, other	**35,610**	35,870
	$ 144,530	$ 102,315

At December 31, 2016, the scheduled maturities of time deposits are as follows (in thousands):

Year Ending December 31,	
2017	$ 23,276
2018	22,535
2019	653
2020	43
2021	602
	$ 47,109

6. Borrowings

Short-Term Debt

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

	2016		2015	
	Amount	Rate	Amount	Rate
FHLB advances	**$ 10,000**	**0.80 %**	$ 3,000	0.52 %

The Bank utilizes overnight borrowings from the FHLB for cash flow needs. Short-term borrowings at December 31, 2016 consisted of an advance from the Federal Home Loan Bank (FHLB) of $10,000,000, due January 4, 2017 with interest at 0.80%. Short-term borrowings at December 31, 2015 consisted of an advance from the Federal Home Loan Bank (FHLB) of $3,000,000, due January 7, 2016 with interest at 0.52%.

The Bank has a $7,500,000 federal funds overnight line of credit with a correspondent bank ($3,500,000 on an unsecured basis and $4,000,000 secured by investments). Borrowings on the line of credit at December 31, 2016 and 2015 were $-0-.

The Bank has borrowing capacity with the FHLB of Pittsburgh of approximately $77,373,000, of which $10,000,000 was outstanding at December 31, 2016. Advances from the Federal Home Loan Bank line are secured by loans of the Bank.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window of $1,190,303 as of December 31, 2016. All borrowings through this facility are secured by specific pledge of loans. There were no borrowings outstanding under this facility at December 31, 2016 and 2015.

7. Income Taxes

The Bank has incurred net losses since inception which has caused there to be no provision for federal and state income taxes, deferred taxes and income taxes payable for the years ended December 31, 2016 and 2015. The Bank is subject to an annual thrift tax.

The components of the net deferred asset as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deferred tax assets:		
Organizational costs	**$ 192**	$ 208
Net operating loss carryforwards	**549**	781
Allowance for loan losses	**428**	268
Other	**43**	3
	1,212	1,260
Valuation allowance	**(689)**	(925)
Total Deferred Tax Assets, Net of Valuation Allowance	**523**	335
Deferred tax liabilities:		
Depreciation	**67**	34
Loan origination costs	**368**	263
Prepaid expenses	**26**	18
Accrual to cash	**62**	20
Net Deferred Taxes	**$ -**	$ -

In assessing the realizability of deferred tax assets at December 31, 2016, 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 $1,614,000 which expire from 2033 through 2035.

8. Employee Benefit Plans

401(k) Retirement Plan

The Bank established, in 2015, a 401(k) Plan (the "Plan") which covers employees who meet the eligibility requirements of having worked 1,000 hours in a plan year and have attained the age of 21. Participants are permitted to contribute up to the maximum percentage allowable by law of their compensation to the Plan. The Bank elected to make a 4% matching contribution for all employees' contributions up to 5% as part of its Safe Harbor Plan. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2016 and 2015 was $57,027 and $41,798, respectively.

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 years ended December 31, 2016 and 2015 was $117,000 and $79,000, respectively.

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

Year Ending December 31,		
2017	$	137
2018		137
2019		137
2020		137
2021		137
Thereafter		808
	$	1,493

10. Employment Agreements

The Bank has employment agreements with its chief executive officer, chief lending officer and chief financial officer. The Bank also has a change of control agreement with its information technology manager. 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. During 2016 and 2015, a member of the Board provided business development services to the Bank which totaled approximately $2,400. Loans receivable from related parties totaled $1,550,000 and $752,000 at December 31, 2016 and 2015, respectively. During 2016, new loans and advances to such related parties totaled $4,088,000 and repayments aggregated $3,290,000. Deposits of related parties totaled $1,874,000 and $2,625,000 at December 31, 2016 and 2015, respectively.

The Bank leased its main office from a related party as described in Note 9. Rent expense for the years ended December 31, 2016 and 2015 was $117,000 and $79,000, 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, 2016 and 2015 is as follows (in thousands):

	Contract Amount	
	2016	2015
Unfunded commitments under lines of credit	**$ 44,029**	$ 19,127
Letters of credit	**890**	1,205

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, 2016 and 2015, performance standby, financial and commercial letters of credit with customers were $890,000 and $1,205,000, respectively. The current amount of the liability as of December 31, 2016 and 2015 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.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Total, Tier 1 and Common Equity 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 was required to maintain a Tier 1 capital-to-assets leverage ratio of not less than eight percent (8.00%) throughout the first three years of operation through December 31, 2016. Under these guidelines, the Bank is considered well capitalized as of December 31, 2016 and 2015.

The Bank was notified on April 6, 2016 that the FDIC would reduce the heightened supervisory monitoring period for de novo institutions from seven to three years. As a result, the FDIC has modified Bank of Bird-in-Hand's Order for Federal Deposit Insurance, dated November 27, 2013, to reflect this change. As part of the Modified Order for Federal Deposit Insurance, the Bank's Tier 1 capital-to-assets leverage ratio (as defined in the capital regulations of the FDIC) be maintained at not less than eight percent (8.00%) throughout the first three years of operation had been satisfied and is no longer applicable as of January 1, 2017.

The Bank is under additional regulatory requirements in order to maintain federal deposit insurance. Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank’s actual capital amounts and ratios at December 31, 2016 and 2015 are presented in the following tables (in thousands):

December 31, 2016	Actual		Capital Adequacy with Capital Conservation Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 (to risk weighted assets)	**$ 15,094**	**10.04%**	**$ ≥ 7,708**	**≥5.125%**	**$ ≥ 9,776**	**≥ 6.50%**
Total capital (to risk-weighted assets)	**16,866**	**11.21%**	**≥12,971**	**≥8.625%**	**≥15,047**	**≥10.00%**
Tier 1 capital (to risk-weighted assets)	**15,094**	**10.04%**	**≥ 9,964**	**≥6.625%**	**≥12,032**	**≥ 8.00%**
Tier 1 capital (to average assets)	**15,094**	**9.16%**	**≥13,181**	**≥8.000%**	**≥ 8,238**	**≥ 5.00%**

December 31, 2015	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 (to risk weighted assets)	$ 14,351	15.12%	$ ≥4,271	≥4.50%	$ ≥6,169	≥ 6.50%
Total capital (to risk-weighted assets)	15,539	16.37%	≥7,592	≥8.00%	≥9,491	≥10.00%
Tier 1 capital (to risk-weighted assets)	14,351	15.12%	≥5,694	≥6.00%	≥7,592	≥ 8.00%
Tier 1 capital (to average assets)	14,351	12.48%	≥4,598	≥8.00%	≥5,748	≥ 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.

The new risk-based capital rules adopted effective January 1, 2015 require that banks maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. Effective January 1, 2016, the capital level required to avoid limitation on elective distributions applicable to the Bank were as follows:

(i) a common equity Tier 1 risked-based capital ratio of 5.125%
(ii) a Tier 1 risk-based capital ratio of 6.625%; and
(iii) a Total risk-based capital ratio of 8.625%.

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 future dividend payments until the Bank reaches certain levels of accumulated net retained earnings, which would also require regulatory approval as stated in Note 13.

Charter Conversion

On December 1, 2015, the Bank, in accordance with Section 1609 of the Pennsylvania Banking Code of 1965, effected a conversion from a Pennsylvania state-chartered bank into a Pennsylvania state-chartered stock savings bank. The Plan of Conversion was approved and adopted by a unanimous vote of the Directors and by at least two-thirds vote of shareholders at a special meeting on October 27, 2015. As a state-chartered stock savings bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation.

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.

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. During 2015, the resignation of a Board Director resulted in the termination of 1,000 warrants.

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. During 2016, an organizer exercised 5,000 warrants at the price of $10 per share.

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, 2015	210,500	$ 10.00
Granted	-	
Expired/terminated	-	
Exercised	5,000	10.00
Outstanding, December 31, 2016	205,500	$ 10.00
Exercisable December 31, 2016	205,500	$ 10.00

The warrants have a weighted-average remaining contractual life of 6.92 years and there are 205,500 warrants exercisable as of December 31, 2016.

The intrinsic value of the stock warrants outstanding and exercisable at December 31, 2016 was $308,250.

15. Subsequent Events

During 2016, the Bank sold 1,043,478 shares of common stock, par value $1.00 per share, at $11.50 per share totaling $11,938,111, net of offering costs of $62,000, that closed on January 3, 2017. As of December 31, 2016, the net offering costs are recorded in Other Assets.

Effective on March 1, 2017, Alan Dakey retired from the current positions of President and Chief Executive Officer and as a director of Bank of Bird-in-Hand. Concurrent with Mr. Dakey's announcement, the Board of Directors named Ms. Lori A. Maley, CPA, to be his successor as President and Chief Executive Officer effective March 1, 2017.

On March 22, 2017, the Bank entered into an operating lease agreement with a member of the Board of Directors for its Operations Center. This lease, which is slated to commence on May 1, 2017, has a five-year term with two additional five-year renewal options.