

INNOVATION
P2P
FUTURE
CONTENT
SPEED
DIGITAL
TECHNOLOGY
ENGAGEMENT
TRANSFORMATION
NEW
PAYMENTS
OMNICHANNEL
DELIVERY
MOBILE
VIDEO
DIGITAL
P2P
CONNECTED
SECURE
EFFICIENCY
SECURED
CONTENT
PAYMENTS
CLOUD
ONLINE
FUTURE



Evolving Touchpoints

RELATIONSHIP
SERVICE
COMMUNITY
CULTURE
LEADER
TRUST
SUPPORT
EXPERIENCE
VALUES
LOYALTY
SOLUTIONS
PERSONAL
SATISFACTION
TRUST
FACTORS
INTEGRITY
PARTNERS
STRENGTH
TEAM
EXPERIENCE
SERVICE
PERFORMANCE
DELIVER
GOALS
PERSONAL
LEADER
TEAM

 **KISH BANCORP**
expect more

2016 Annual Report

ENGAGEMENT
SATISFACTION
COMMUNITY
TECHNOLOGY
RELATIONSHIPS
COMMITMENT
SECURITY
SPEED

2016

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Chairman's Letter To The Shareholders



William P. Hayes
Chairman of the Board, President
and Chief Executive Officer

It is my pleasure to present the 2016 Annual Report to the shareholders and community stakeholders of Kish Bancorp, Inc. The Corporation continued its focus on growth in the region during the year, investing in talent, systems, products, and the communities we serve. All of Kish's indicators are green, encouraging continued growth and expansion. Our performance metrics are positive and reflect results that document the long-term sustainability of the Kish model:

- Net income reached a new high at \$4.617 million, an increase of \$123 thousand, or 2.74%, compared to \$4.494 million in 2015.
- Loans increased by \$43 million, or 9.62%, to \$495 million from \$451 million at the end of December 2015.
- Total deposits grew by \$19 million to \$562 million, an increase of 3.56%.
- Total assets reached a new high of \$725 million at year end 2016.
- Book value of \$43.27 per share as of December 31, 2016 increased 3.57% over book value of \$41.78 per share as of December 31, 2015.
- Total equity increased to \$53.593 million from \$51.281 million the prior year.
- The net interest margin was 3.31% for 2016, compared to 3.29% for the prior year.

The banking industry is emerging from perhaps the most challenging period for community banking in nearly a century. Sustained low interest rates and a longer-than-anticipated recovery from the global financial crisis of 2008 and 2009 have compressed margins industry-wide. This phenomenon has made strategic planning, while always valuable, a mission critical activity. Kish's engagement in the strategic planning process has served us well. The Corporation's key ratios for the past three years have been stable when compared to peers, and position the Corporation well to continue its growth trajectory.

Strategic planning also has helped to identify a number of competitive advantages at Kish. First among those is Kish's continuing commitment to its client centric business model. Kish clients continue to express their appreciation for what

they have come to recognize as "the Kish experience," which reflects the Corporation's commitment to go the distance required to help clients reach their goals in ways that are not just smart and successful, but welcoming and hospitable. A persistent theme among newly acquired Kish clients is: "If I had known how well Kish was going to treat me, I would have switched a long time ago!"

With 2016 now behind us, we are optimistic that a growing understanding of the role community banks play in the state and nation will lead to some relief from the regulatory burdens designed for much larger banks.

In 2016, Kish continued its investment in talent, both by elevating top performers and adding new talent recognized in the industry and in the market. Of particular note for shareholders and community stakeholders are:

Gregory Hayes, who joined Kish Bank in 2006 and worked his way through a comprehensive set of responsibilities that ranged from Teller to Head of Retail Banking and Client Solutions, was promoted to Senior Executive Vice President and Chief Operating Officer. Mr. Hayes leads the Corporation's organization-wide sales and marketing efforts and has responsibility for the day-to-day operating activities of the Bank, including operations, systems, information security, technology, and compliance.

James Shilling was promoted to Executive Vice President and Chief Business Banking Officer. Mr. Shilling, a widely respected veteran of the industry, with 26 years at Kish Bank, leads a commercial banking team that increased loans outstanding by \$43 million, or 9.62%, in 2016. In his new position, Mr. Shilling is responsible for the development and delivery of all lending and non-lending business banking services.



All of Kish's indicators are green, encouraging continued growth and expansion.

Richard Sarfert was recruited to fill the position of Executive Vice President and Senior Lending Officer, previously held by Mr. Shilling. With 30 years of experience in the financial services industry focused on commercial lending and credit administration, Mr. Sarfert will report to Mr. Shilling as the two executives partner to continue to grow Kish's commercial lending presence across the central Pennsylvania region.

Mark Cvrkel was recruited to the position of Executive Vice President and Chief Financial Officer of Kish Bank and Kish Bancorp. He brings knowledge and experience gained at banks with assets in excess of \$1 billion and is providing strategic advice and financial oversight regarding the continued growth and development of the Corporation. He replaces Ms. Sangeeta Kishore, who resigned to pursue other career opportunities.

Kevin Rimmey was recruited to the position of Assistant Vice President, Commercial Relationship Manager. Mr. Rimmey is a member of the PA Bankers Association's Agricultural & Rural Issues Advisory Committee. Before joining Kish, he was a business development lender in Centre and Clinton Counties for Jersey Shore State Bank.

Alta Corman-Wolf was recruited to the position of Vice President, Residential Lender, adding depth and reputation to Kish's mortgage banking unit. Ms. Corman-Wolf has broad experience in Kish's Centre County region and shares Kish's commitment to exemplary client service.

Terry Horner was recruited to the position of Vice President, Business Development Officer for the Bellefonte region. Mr. Horner brings over 40 years of industry experience, most recently with M&T Bank in Bellefonte.

In addition to the acquisition and development of talent, the Corporation also invested this year in a state-of-the-art client relationship management system designed to help the Kish team serve clients more broadly and efficiently. All Kish team members were trained to use the system to its fullest advantage to engage with clients in support of Kish's service excellence culture.

The exemplary performance of the mortgage banking unit in 2016 is worthy of special mention. The mortgage bankers mastered new and complex regulatory requirements, instituted processes that led to a decrease in the amount of time it takes to close mortgage loans, and added new products to respond to market needs. The combined efforts of this highly professional and hard-working team enabled the unit to reach its stretch goal of \$55 million in mortgage loan originations this year.

In 2016, Kish hosted its second annual "Kish Celebrates Community" event at Juniata College, a valued partner in the community and region. We hold this celebration each year to recognize the power of individuals to come together to make a positive difference. In the process, the Corporation's culture of volunteerism is validated as Kish continues its focus on our communities.

None of this would be possible without the leadership and support of the distinguished members of our Board of Directors. We gratefully acknowledge their contributions in guiding Kish's vision for service excellence, while monitoring the risks inherent in the banking and financial services industry. Our deepest gratitude is expressed to the members of our Board and Regional Boards, who are listed separately in this report.

We also want to express sincere thanks to our shareholders and community stakeholders. We know we could not be successful without a shared belief in the value and worth that Kish brings to this region that is our home.

We all live in a world where change is an ever-accelerating constant. The future and sustainability of community banking requires continuous monitoring of the environment that surrounds us in order to plan and prepare for the future. Toward that end, I encourage you to read the following pages regarding the "twin rails" Kish Bancorp has put in place to craft the bright future we seek for the Corporation, its employees, and the communities we serve.

Sincerely,

William P. Hayes
Chairman of the Board, President and
Chief Executive Officer

Riding the Twin Rails to the Future.



The Expect More Store

Kish Bancorp enjoyed its 116th year in business in 2016. The durability of Kish Bank and its affiliates far exceeds the average corporate life cycle of about 40 years. An important reason for the Corporation's noteworthy success and sustainability is its unwavering commitment to making a positive difference in the lives of its clients and communities. Another reason is Kish's willingness to anticipate and adapt to change as the Company works to deliver a full menu of banking and financial services to its clients. To do that, Kish has embraced change intentionally and strategically, while remaining focused on its client centric business model. The formula is simple: when clients succeed, the Corporation succeeds. And we are committed to doing whatever it takes to make success happen.

In the current environment, the rate of change is accelerating, and nowhere is that pace more evident than in the proliferation of FinTech companies, those companies that use technology platforms to conduct the fundamental functions provided by the financial services industry. These tech start-ups seek to transform how consumers store, save, borrow, invest, move, pay, and protect money. FinTech start-ups in August 2016 were greater than 2,000, compared to 800 in April 2015. Billions of venture capital and growth equity dollars are being invested in these start-ups—\$12.2 billion in 2014 alone. With the adoption of mobile banking surging, the necessity of traditional branch banking is on the decline. This is occurring amidst a significant demographic shift. In the United States alone, 85 million millennials,

those with birthdates beginning in 1980–1982 and ending in 2002–2004, are all digital natives coming of age, giving rise to companies such as Airbnb, Uber, and Rocket Mortgage.

Recognizing that FinTech companies are not regulated and are not likely to be regulated until they begin to attain “meaningful scale,” the consensus in the industry today, and the conclusion at Kish Bancorp, is that an informed middle ground is a wise stance to adopt at this time. That means focusing now on what digital services Kish customers value and building the capabilities that matter most in a digital future. It means, among other things, recognizing that while new digital innovations cannot be ignored, many of the start-ups may never evolve to be anything more than that.

Clearly, the challenge ahead is to keep pace with emerging technologies, products, and services in concert with client needs and expectations without overreacting or overinvesting. Kish is doing that by embracing a “twin rail” approach to the future introduced in this report. Our theme, “Riding the Twin Rails to the Future,” recognizes changes emerging in the industry,

while acknowledging the security many in the central Pennsylvania marketplace find in familiar ways of engaging with Kish to define and meet their goals, be they personal, corporate, or in local and regional government. Thus, the Corporation’s strategic plan for the next 3–5 year period has been crafted to ensure that Kish will remain focused on fulfilling client needs and expectations, while traveling on the parallel tracks of traditional relationship management and new digital delivery channels.

The first of the Twin Rails represents the traditional approach to banking. This rail is true to the promise Kish has made to provide personal, one-on-one banking solutions to clients. The traditional approach is clearly visible in the warmth and welcoming hospitality found at all of Kish’s facilities in the region. Words associated with the first rail are service, relationships, community, values, trust, support, solutions, culture, team, personal, and consultative. Such words reflect Kish’s core values and differentiated business model, one that is tightly tied to Kish’s service excellence culture and requires staying closely connected to clients



The “explore more” area of The Store engages visitors through interactive digital content on both a large format touch screen kiosk and handheld devices at the tech bar.

through all available touchpoints. Kish has communicated this through the promotion of the brand with great success this year, most notably in the Kish is Home advertising campaign, delivered in both traditional and digital channels.

The second of the Twin Rails represents the use of digital delivery channels as a means to achieve customer fulfillment. At Kish, these alternative, technology-enabled delivery channels will continue to be client-focused and adapted to client preferences for digital delivery. Words associated with the second rail are speed, omnichannel, data, mobile, simplicity, secure, connected, efficiency, social, video, and transformation. Understanding that everything will move to digital technology over time, Kish remains steadfast that its differentiating focus on the client will not change as the two rails converge over time.

Kish initiated its first venture on the Twin Rails in 2016 by planning, developing, and opening The Expect More Store in the heart of downtown State College. Located in a former historic theatre, The Expect More Store gives clients and community stakeholders a preview of how financial services are likely to be delivered in the future. The Store contains a teller pod with a cash recycler that receives, counts, and disperses money. A digital wall features dramatic videos including exotic travel opportunities available through the Corporation’s full-service travel subsidiary, Kish Travel. Customers and visitors are welcome to browse Kish services and opportunities on a touch screen kiosk that connects to the Kish websites. They also are invited to enjoy a cup of coffee while using one of several tablets available to them or to just relax on the sofa and chairs in the sitting area. A Kish Concierge Banker staffs The



With a fresh and comfortable design, guests of The Expect More Store are invited to engage in conversation with other guests or a Concierge Banker.



“I value the personal touch from the trusted, competent, and courteous Kish team who helps me with loans, financial planning, travel, and everyday banking.”
—Frances Vaughn



“I love Kish Bank’s online technology for my business. They made the transition effortless, and respond quickly and professionally when I have questions.”
—Tom Songer



“As young business owners, my husband and I like being able to get advice from someone we’ve come to know and trust—not just a voice on an 800 number.”
—Amy Gravine



“I appreciate the friendly atmosphere of the branch and the convenience of online account access, which helps me to monitor the daily activity of my accounts.”
—Ed Bridgens

By removing the traditional barriers of a teller line, Expect More Store clients can stand side by side with their banker, who is focused on listening.



Expect More Store and is available to answer questions and to connect interested clients or prospective clients with Kish experts in, for example, consumer loans, checking and savings options, mortgages, investments, travel, and insurance.

Digitally appointed in an historic space that is filled with beautiful wooden features, including remnants of the old theatre, The Expect More Store is a hub for community activity, a place where clients and community members gather to meet, to learn, to do business, or to simply enjoy. In 2016, a variety of seminars have been offered at The Expect More Store, ranging from conversations around women in business, to investing, insurance, art, and travel. Recognizing the importance of strong downtowns in communities, Kish is present in a number of downtowns in the region and is proud to have joined other businesses in downtown State College as well.

The Expect More Store is a laboratory for how Kish Bancorp will deliver services and grow its businesses in the future. Plans are underway to develop a similar store in the region next year. Ultimately, the Twin Rails strategy will

be a success when the two rails become one. The Corporation intends to accomplish this in a way that maintains and upholds what differentiates Kish in the marketplace: putting the customer first. The reality is that innovation has been, and remains, a long-term core value for the Company. As Kish Bancorp continues to prepare for the future, the Company will recognize that its client centric model has consistently translated into long-term growth in market share and shareholder performance. Kish will invest in the future in ways that are enlightened by the client experience, sustained by exceptional teamwork, and aware of the growing changes that hold both challenges and opportunities. In that process, Kish’s priorities will continue to focus on supporting economic growth in the community; building value for individuals, families, and businesses; providing an attractive and sustainable workplace for employees; and providing attractive long-term value for shareholders. The promise Kish Associates derive from devoting themselves to these activities, which are all bigger than themselves, inspires and sustains them.

FINANCIAL HIGHLIGHTS FIVE-YEAR SUMMARY

FOR THE YEAR

	2016	2015	2014	2013	2012
Net Income	\$4,616,894	\$4,494,241	\$4,358,608	\$4,216,873	\$3,629,794
Net Income Before Taxes	5,254,277	5,125,151	5,130,129	4,980,589	4,168,872
Total Dividends Declared	2,130,197	2,112,600	2,005,848	1,971,992	1,960,051

AT YEAR END (in \$000s)

Total Assets	\$725,071	\$696,895	\$659,600	\$630,132	\$557,575
Total Loans (Net)	488,588	445,425	414,061	381,261	351,040
Total Deposits	561,928	542,629	508,616	494,374	460,450
Stockholders’ Equity	53,593	51,281	48,853	40,681	46,252
Loan Loss Reserve	6,011	5,752	6,009	5,928	6,867
Net Loan Losses (Recoveries)	271	492	219	34	445

RATIO ANALYSIS

Return on Average Assets*	0.65%	0.66%	0.67%	0.69%	0.65%
Return on Average Equity*	8.54%	8.89%	9.54%	9.70%	8.61%
Dividend Declared/Net Income	46.14%	47.01%	46.02%	46.76%	54.00%
Loans/Deposits	86.95%	82.09%	81.41%	77.12%	76.24%
Primary Capital/Total Assets	8.22%	8.18%	8.32%	7.40%	9.53%
Total Capital/Risk Weighted Assets	13.10%	12.62%	13.07%	13.17%	14.05%
Loan Loss Reserve/Loans	1.22%	1.27%	1.43%	1.53%	1.92%
Net Loan Losses to Total Loans (Net)	0.06%	0.12%	0.05%	0.01%	0.12%

PER SHARE DATA

Basic Earnings	\$3.80	\$3.73	\$3.63	\$3.54	\$3.05
Fully Diluted Earnings	3.77	3.69	3.60	3.51	3..05
Dividends Paid	1.72	1.72	1.64	1.62	1.62
Equity (Book Value)	43.27	41.78	39.96	33.40	38.10
Equity Plus Loan Loss Reserve	48.12	46.46	44.87	38.27	43.76
Average Shares Outstanding (#)	1,215,067	1,203,630	1,199,207	1,192,755	1,189,222

*Due to fluctuations in the mark to market valuation for investment securities, these are not included in the totals for average assets and average equity.

NET INCOME (IN MILLIONS)



EARNINGS & DIVIDENDS (PER SHARE)



STOCK VALUATION (PER SHARE)



BOARD MEMBERS AND DIRECTORS

TEAM
PARTNERS
CONNECTED
LEADER
OMNICHANNEL
SOLUTIONS
VALUES
SERVICE
TRANSFORMATION

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William L. Dancy, Secretary
Spyros A. Degleris, Member
Edward A. Friedman, Member
Paul G. Howes, Member
William S. Lake, Member
Phyllis L. Palm, Member
Paul H. Silvis, Member

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Harvard K. McCardle, Member
Alan J. Metzler, Member
Gary L. Oden, Member
Phyllis L. Palm, Member
John Pannizzo, Member

EXECUTIVE OFFICERS

William P. Hayes, Chairman, President and Chief Executive Officer
Gregory T. Hayes, Senior Executive Vice President, Chief Operating Officer
Peter D. Collins, Executive Vice President, Chief Credit Officer
Mark J. Cvrkel, Executive Vice President, Chief Financial Officer
Robert S. McMinn, Executive Vice President, General Counsel
Richard A. Sarfert, Executive Vice President, Senior Lending Officer
James L. Shilling, Jr., Executive Vice President, Chief Business Banking Officer

SENIOR OFFICERS

Robert L. Crane, Senior Vice President, Profitability Director
Carol M. Herrmann, Senior Vice President, Administration and Communications Director/CEO, Kish Travel
Amy M. Muchler, Senior Vice President, Bank Operations and Support Director
Debra K. Weikel, Senior Vice President, Loan Administration Director
Suzanne M. White, Senior Vice President, Human Resources and Organization Development Director
Stanley N. Ayers, Vice President, Special Assets Manager
Douglas C. Baxter, Vice President, Accounting and Controls Manager
Kathleen M. Boop, Vice President, Personal Lines Insurance Manager
Kimberly A. Bubb, Vice President, Systems and Client Solutions Director
Larry E. Burger, Vice President, Commercial Relationship Manager
Cynthia L. Chase, Vice President, Loan Review Manager
David A. Coble, Vice President, Branch Manager
Alta Corman-Wolf, Vice President, Residential Lender
John P. Cunningham, II, Vice President, Regional Market Manager
Wade E. Curry, LUTCF, Vice President, Investment Services
Terra L. Decker, Vice President, Compliance and BSA Training Director/BSA Officer
Ann K. Guss, Vice President, Residential Lender
Allana L. Hartung, Vice President, Commercial Relationship Manager
Marsha K. Kuhns, Vice President, Residential Lender
Terry P. Horner, Vice President, Business Development Officer
John Q. Massie, Vice President, Commercial Relationship Manager
Kristie R. McKnight, Vice President, Commercial Relationship Manager
Virginia A. McAdoo, Vice President, Lending Services Manager
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Denise F. Quinn, Vice President, Commercial Relationship Manager
Melissa K. Royer, Vice President, Client Solutions Technical Advisor
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William W. Yaudes, Vice President, Regional Market Manager





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