# KISH BANCORP, INC.

## Consolidated Audited Financial Statements

## December 31, 2016



KISH BANCORP

expect more

# INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Kish Bancorp, Inc.

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Kish Bancorp, Inc. and subsidiaries which comprise the consolidated balance sheet as of December 31, 2016 and 2015; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated 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 of 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 Kish Bancorp, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 3, 2017

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KISH BANCORP, INC.
CONSOLIDATED BALANCE SHEET

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 8,334,193 | $ 7,077,874 |
| Interest-bearing deposits with other institutions | 12,070,309 | 9,977,646 |
| Cash and cash equivalents | 20,404,502 | 17,055,520 |
| Certificates of deposit in other financial institutions | 3,492,330 | 3,002,319 |
| Securities available for sale, at fair value | 161,270,378 | 183,906,227 |
| Securities held to maturity, fair value of $6,123,118 and $3,250,000 | 6,000,000 | 3,250,000 |
| Loans held for sale | 1,006,096 | 1,272,840 |
| Loans | 494,599,165 | 451,177,040 |
| Less allowance for loan losses | 6,011,169 | 5,752,046 |
| Net loans | 488,587,996 | 445,424,994 |
| Premises and equipment | 12,761,615 | 12,907,171 |
| Goodwill | 1,668,699 | 1,668,699 |
| Regulatory stock | 6,519,400 | 6,509,400 |
| Bank-owned life insurance | 15,010,555 | 14,566,884 |
| Accrued interest and other assets | 8,349,874 | 7,331,097 |
| TOTAL ASSETS | $ 725,071,445 | $ 696,895,151 |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | $ 73,448,103 | $ 69,159,662 |
| Interest-bearing demand | 8,662,868 | 8,683,711 |
| Savings | 63,630,053 | 61,269,253 |
| Money market | 209,252,147 | 208,363,252 |
| Time | 206,934,437 | 195,152,817 |
| Total deposits | 561,927,608 | 542,628,695 |
| Short-term borrowings | 14,782,918 | 10,012,365 |
| Other borrowings | 89,348,878 | 88,131,955 |
| Accrued interest and other liabilities | 5,418,662 | 4,841,387 |
| TOTAL LIABILITIES | 671,478,066 | 645,614,402 |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, $.50 par value; 500,000 shares authorized, no shares issued and outstanding | - | - |
| Common stock, $.50 par value; 2,000,000 shares authorized, 1,348,750 shares issued | 674,375 | 674,375 |
| Additional paid-in capital | 2,273,684 | 2,706,651 |
| Retained earnings | 54,452,646 | 51,965,949 |
| Accumulated other comprehensive income | 109,725 | 427,106 |
| Treasury stock, at cost (118,596 and 124,778 shares in 2016 and 2015, respectively) | (3,917,051) | (4,493,332) |
| TOTAL STOCKHOLDERS' EQUITY | 53,593,379 | 51,280,749 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 725,071,445 | $ 696,895,151 |

See accompanying notes to consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| **INTEREST AND DIVIDEND INCOME** | | |
| Interest and fees on loans: | | |
| Taxable | $ 19,371,566 | $ 17,781,049 |
| Exempt from federal income tax | 1,442,942 | 1,377,759 |
| Interest and dividends on investment securities: | | |
| Taxable | 3,044,915 | 3,182,055 |
| Exempt from federal income tax | 1,415,615 | 1,467,225 |
| Interest-bearing deposits with other institutions | 152,151 | 107,099 |
| Other dividend income | 610,665 | 630,573 |
| Total interest and dividend income | 26,037,854 | 24,545,760 |
| **INTEREST EXPENSE** | | |
| Deposits | 3,236,122 | 3,180,441 |
| Short-term borrowings | 29,892 | 72,826 |
| Other borrowings | 1,903,929 | 1,631,625 |
| Total interest expense | 5,169,943 | 4,884,893 |
| **NET INTEREST INCOME** | 20,867,911 | 19,660,867 |
| Provision for loan losses | 530,000 | 235,000 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES** | 20,337,911 | 19,425,867 |
| **NONINTEREST INCOME** | | |
| Service fees on deposit accounts | 1,672,615 | 1,653,881 |
| Investment securities gains, net | 773,237 | 535,080 |
| Gain on sale of loans | 963,681 | 820,689 |
| Earnings on bank-owned life insurance | 444,154 | 445,010 |
| Insurance commissions | 1,124,080 | 1,093,733 |
| Travel agency commissions | 273,064 | 246,884 |
| Other | 1,844,996 | 1,953,054 |
| Total noninterest income | 7,095,827 | 6,748,331 |
| **NONINTEREST EXPENSE** | | |
| Salaries and employee benefits | 13,477,290 | 12,946,065 |
| Occupancy and equipment | 2,744,267 | 2,763,464 |
| Data processing | 1,943,146 | 1,563,929 |
| Professional fees | 420,802 | 394,668 |
| Advertising | 303,862 | 267,785 |
| Federal deposit insurance | 351,927 | 378,989 |
| Pennsylvania shares tax | 497,282 | 455,000 |
| Other | 2,440,885 | 2,279,145 |
| Total noninterest expense | 22,179,461 | 21,049,047 |
| Income before income taxes | 5,254,277 | 5,125,151 |
| Income taxes | 637,383 | 630,910 |
| **NET INCOME** | $ 4,616,894 | $ 4,494,241 |
| **EARNINGS PER SHARE** | | |
| Basic | $ 3.80 | $ 3.73 |
| Diluted | $ 3.77 | $ 3.69 |

See accompanying notes to the consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year Ended December 31, 2016 | 2015 |
|---|---|---|
| Net income | $ 4,616,894 | $ 4,494,241 |
| Other comprehensive loss | | |
| Securities available for sale: | | |
| Change in unrealized holding gains on available-for-sale securities | 292,357 | 347,773 |
| Tax effect | (99,402) | (118,243) |
| Reclassification adjustment for net gains realized in net income | (773,237) | (535,080) |
| Tax effect | 262,901 | 181,927 |
| Total other comprehensive loss | (317,381) | (123,623) |
| Total comprehensive income | $ 4,299,513 | $ 4,370,618 |

See accompanying notes to the consolidated financial statements.



KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | $ 674,375 | $ 2,932,003 | $ 49,584,308 | $ 550,729 | $ (4,888,259) | $ 48,853,156 |
| Net income | | | 4,494,241 | | | 4,494,241 |
| Other comprehensive loss | | | | (123,623) | | (123,623) |
| Stock option compensation expense | | 17,780 | | | | 17,780 |
| Purchase of shares by restricted stock plan (10,182 shares) | | (468,925) | | | 468,925 | - |
| Exercise of Stock Options | | (75,286) | | | | (75,286) |
| Forfeiture of shares by restricted stock plan (5,642 shares) | | 183,200 | | | (183,200) | - |
| Amortization of unearned restricted stock plan shares | | 180,924 | | | | 180,924 |
| Cash dividends ($1.72 per share) | | | (2,112,600) | | | (2,112,600) |
| Purchase of treasury stock (6,713 shares) | | | | | (276,668) | (276,668) |
| Sale of treasury stock (8,355 shares) | | (63,045) | | | 385,870 | 322,825 |
| Balance, December 31, 2015 | 674,375 | 2,706,651 | 51,965,949 | 427,106 | (4,493,332) | 51,280,749 |
| Net income | | | 4,616,894 | | | 4,616,894 |
| Other comprehensive loss | | | | (317,381) | | (317,381) |
| Stock option compensation expense | | 20,112 | | | | 20,112 |
| Purchase of shares by restricted stock plan (11,590 shares) | | (508,888) | | | 508,888 | - |
| Exercise of stock options | | (229,898) | | | | (229,898) |
| Forfeiture of shares by restricted stock plan (2,158 shares) | | 64,478 | | | (64,478) | - |
| Amortization of unearned restricted stock plan shares | | 324,442 | | | | 324,442 |
| Cash dividends ($1.72 per share) | | | (2,130,197) | | | (2,130,197) |
| Purchase of treasury stock (13,055 shares) | | | | | (570,367) | (570,367) |
| Sale of treasury stock (15,896 shares) | | (103,213) | | | 702,238 | 599,025 |
| Balance, December 31, 2016 | $ 674,375 | $ 2,273,684 | $ 54,452,646 | $ 109,725 | $ (3,917,051) | $ 53,593,379 |

See accompanying notes to the consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended December 31, 2016 | 2015 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income | $ 4,616,894 | $ 4,494,241 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 530,000 | 235,000 |
| Investment securities gains, net | (773,237) | (535,080) |
| Proceeds from sale of loans held for sale | 30,894,716 | 27,354,743 |
| Origination of loans held for sale | (29,664,291) | (27,731,844) |
| Gain on sales of loans | (963,681) | (820,689) |
| Depreciation, amortization, and accretion | 1,348,301 | 1,339,045 |
| Deferred income taxes | (372,623) | (25,665) |
| Increase in accrued interest receivable | (131,214) | (101,344) |
| Increase in accrued interest payable | 22,395 | 21,306 |
| Earnings on bank-owned life insurance | (444,154) | (445,010) |
| Loss on sale of other assets | (25,165) | 3,548 |
| Other, net | 420,789 | (30,183) |
| Net cash provided by operating activities | 5,458,730 | 3,758,068 |
| INVESTING ACTIVITIES | | |
| Maturities of certificates of deposit | - | 490,000 |
| Purchase of certificates of deposit | (490,000) | (739,000) |
| Investment securities available for sale: | | |
| Proceeds from sale of investments | 15,233,731 | 11,939,378 |
| Proceeds from repayments and maturities | 52,362,440 | 28,995,311 |
| Purchases | (44,987,447) | (40,421,198) |
| Investment held to maturity: | | |
| Purchases | (2,750,000) | (3,250,000) |
| Increase in loans, net | (43,693,002) | (31,598,783) |
| Purchase of regulatory stock | (1,353,900) | (1,177,800) |
| Redemption of regulatory stock | 1,343,900 | 1,302,600 |
| Purchase of premises and equipment | (858,109) | (605,868) |
| Proceeds from sale of other real estate owned | 127,687 | 59,426 |
| Net cash used for investing activities | (25,064,700) | (35,005,934) |
| FINANCING ACTIVITIES | | |
| Increase in deposits, net | 19,298,913 | 34,013,194 |
| Increase in short-term borrowings, net | 4,770,553 | (1,193,769) |
| Proceeds from other borrowings | 26,524,468 | 18,115,499 |
| Repayments of other borrowings | (25,307,545) | (16,178,896) |
| Purchases of treasury stock | (570,367) | (276,668) |
| Proceeds from sale of treasury stock | 599,025 | 322,824 |
| Exercise of stock options | (229,898) | (75,286) |
| Cash dividends | (2,130,197) | (2,112,600) |
| Net cash provided by financing activities | 22,954,952 | 32,614,298 |
| Increase in cash and cash equivalents | 3,348,982 | 1,366,432 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 17,055,520 | 15,689,088 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 20,404,502 | $ 17,055,520 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on deposits and borrowings | $ 5,147,548 | $ 4,863,587 |
| Income taxes | 840,000 | 875,000 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION | | |
| Real estate acquired in settlement of loans | $ - | $ - |

See accompanying notes to consolidated financial statements.



**KISH BANCORP, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

**Nature of Operations and Basis of Presentation**

Kish Bancorp, Inc. (the "Company") is a diversified financial services organization whose principal activity is the ownership and management of its subsidiaries, Kish Bank (the "Bank"), Kish Travel Services, Inc., and the Bank's subsidiary, Kish Agency, Inc. The Company generates commercial and industrial, agricultural, commercial mortgage, residential real estate, and consumer loans and deposit services to its customers located primarily in central Pennsylvania and the surrounding areas. The Bank operates under a Pennsylvania Department of Banking and Securities bank charter and provides full banking services. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law. Kish Agency, Inc. provides insurance products and services. Kish Travel Services, Inc. is a Pennsylvania business established to provide travel services to its customers.

The consolidated financial statements include the accounts of Kish Bancorp, Inc., and its subsidiaries, Kish Bank and Kish Travel Services, Inc., after elimination of all intercompany transactions.

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles ("GAAP") and to general practice within the banking industry. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the Consolidated Balance Sheet date and revenues and expenses for that period. Actual results could differ from those estimates.

**Investment Securities**

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity, available for sale, or trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Debt securities which are held principally as a source of liquidity are classified as available for sale. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings. Realized securities gains and losses are computed using the specific identification method. The Company does not have trading securities as of December 31, 2016 and 2015. Interest and dividends on investment securities are recognized as income when earned.

Securities are evaluated at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in fair value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference

**Investment Securities (Continued)**

defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh represents ownership in an institution that is wholly owned by other financial institutions. These equity securities are accounted for at cost and are shown separately on the Consolidated Balance Sheet as regulatory stock.

The Bank is a member of the FHLB and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

**Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their principal amount net of the allowance for loan losses and deferred origination fees or costs. Interest on loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectability of additional interest. Interest previously accrued but deemed uncollectible is deducted from current interest income. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of such principal. Nonaccrual loans will generally be put back on accrual status after demonstrating six consecutive months of no delinquency.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized is accounted for as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

In general, fixed rate, permanent residential mortgage loans originated by the Bank are held for sale and are carried in the aggregate at the lower of cost or fair value. The Bank sells these loans to various other financial institutions. Currently, the Bank retains the servicing of those loans sold to the FHLB and releases the servicing of loans sold to all other institutions.

**Allowance for Loan Losses**

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to change in the near term.





**Allowance for Loan Losses (Continued)**

Impaired loans are those for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates commercial and industrial, agricultural, state and political subdivisions, commercial real estate, and all troubled debt restructuring loans for possible impairment. Consumer and residential real estate loans are also evaluated if part of a commercial lending relationship. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees, and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the Consolidated Statement of Income.

**Premises and Equipment**

Land is carried at cost. 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, which range from 3 to 7 years for furniture, fixtures, and equipment, and 31 to 39½ years for building premises. Leasehold improvements are depreciated over shorter of the term of the lease or useful life. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

**Goodwill**

The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts.

**Bank-Owned Life Insurance ("BOLI")**

The Company purchased life insurance policies on certain key employees. BOLI is recorded at its cash surrender value, or the amount that can be realized.

**Real Estate Owned**

Real estate acquired by foreclosure is included with other assets on the Consolidated Balance Sheet at the lower of the recorded investment in the property or its fair value less estimated costs of sale. Prior to foreclosure, the value of the underlying collateral is written down by a charge to the allowance for loan losses if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included in other noninterest expense.

**Treasury Stock**

Treasury stock is carried at cost. Sales are determined by the first-in, first-out method.

**Advertising Costs**

Advertising costs are expensed as the costs are incurred.

**Income Taxes**

The Company and its subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

**Earnings Per Share**

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options, warrants, and convertible securities are adjusted in the denominator. Treasury shares are not deemed outstanding for earnings per share calculations.

**Stock Options**

As of December 31, 2016 and 2015, the Company recorded compensation expense of $20,112 and $17,780 related to share-based compensation awards. At December 31, 2016, there was approximately $35,293 in unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next three years.

For purposes of computing stock compensation expense, the Company estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

| Grant Year | Expected Dividend Yield | Risk-Free Interest Rate | Expected Volatility | Expected Life (in Years) |
|---|---|---|---|---|
| 2016 | 3.90 % | 1.81 % | 9.76 % | 10.00 |
| 2015 | 4.26 % | 1.94 % | 8.83 % | 10.00 |

The weighted-average fair value of each stock option granted for 2016 and 2015 was $1.51 and $0.90, respectively. Stock options exercised during the years ended December 31, 2016 and 2015 were 25,204 and 11,628.





**Mortgage Servicing Rights ("MSRs")**

The Company has agreements for the express purpose of selling loans in the secondary market. The Company retains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. The Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. MSRs are a component of accrued interest and other assets on the Consolidated Balance Sheet. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made with limited recourse. For the years ended December 31, 2016 and 2015, the Company recorded gross servicing rights of $678,338 and $720,304 with a reserve for impairment of $225,053 and $233,401, respectively.

**Transfer of 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.

**Cash Flow Information**

The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions "Cash and due from banks" and "Interest-bearing deposits with other institutions" that have original maturities of less than 90 days.

**Reclassification of Comparative Amounts**

Certain items previously reported have been reclassified to conform to the current year's format. Such reclassifications did not affect net income or stockholders' equity.

## 2. EARNINGS PER SHARE

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

| | 2016 | 2015 |
|---|---|---|
| Weighted-average common shares outstanding | 1,348,750 | 1,348,750 |
| Average treasury stock shares | (110,048) | (121,311) |
| Average unearned nonvested restricted share plan shares | (23,635) | (23,809) |
| Weighted-average common shares and common stock equivalents used to calculate basic earnings per share | 1,215,067 | 1,203,630 |
| Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share | 348 | 495 |
| Additional common stock equivalents (stock options) used to calculate diluted earnings per share | 9,968 | 13,953 |
| Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share | 1,225,383 | 1,218,078 |

Options to purchase 107,141 shares of common stock at a price of $25.50 to $45.00, as of December 31, 2016, and 21,182 shares of restricted stock ranging in price from $30.00 to $45.00 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

Options to purchase 112,849 shares of common stock at a price of $25.50 to $45.00 as of December 31, 2015, and 19,292 shares of restricted stock ranging in price from $29.75 to $42.75 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

## 3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities are as follows:

| | 2016 | | | |
|---|---|---|---|---|
| Available for Sale: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. treasury securities | $ 9,005,324 | $ - | $ (419,234) | $ 8,586,090 |
| U.S. government agency securities | 33,773,609 | 140 | (813,696) | 32,960,053 |
| Obligations of states and political subdivisions | 64,594,328 | 862,051 | (635,253) | 64,821,126 |
| Corporate securities | 25,078,709 | 170,318 | (208,684) | 25,040,343 |
| Mortgage-backed securities in government-sponsored entities | 24,392,260 | 102,495 | (261,743) | 24,233,012 |
| Total debt securities | 156,844,230 | 1,135,004 | (2,338,610) | 155,640,624 |
| Equity securities - financial institutions | 4,259,894 | 1,373,731 | (3,871) | 5,629,754 |
| Total Available for Sale | $ 161,104,124 | $ 2,508,735 | $ (2,342,481) | $ 161,270,378 |
| Held to Maturity: | | | | |
| Corporate Securities | $ 6,000,000 | $ 123,118 | $ - | $ 6,123,118 |

| | 2015 | | | |
|---|---|---|---|---|
| Available for Sale: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. treasury securities | $ 9,934,176 | $ - | $ (121,776) | $ 9,812,400 |
| U.S. government agency securities | 59,296,160 | 42,044 | (764,208) | 58,573,996 |
| Obligations of states and political subdivisions | 60,931,357 | 1,599,898 | (38,582) | 62492673 |
| Corporate securities | 25,177,319 | 223,200 | (345,284) | 25,055,235 |
| Mortgage-backed securities in government-sponsored entities | 24,177,619 | 188,006 | (305,645) | 24,059,980 |
| Total debt securities | 179,516,631 | 2,053,148 | (1,575,495) | 179,994,284 |
| Equity securities - financial institutions | 3,742,462 | 195,590 | (26,110) | 3,911,943 |
| Total Available for Sale | $ 183,259,093 | $ 2,248,739 | $ (1,601,605) | $ 183,906,227 |
| Held to Maturity: | | | | |
| Corporate Securities | $ 3,250,000 | $ - | $ - | $ 3,250,000 |

## 3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015.

| 2016 | Less than Twelve Months | | Twelve Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. treasury securities | $ 8,586,090 | $ (419,234) | $ - | $ - | $ 8,586,090 | $ (419,234) |
| U.S. government agency securities | 31,959,914 | (813,696) | - | - | 31,959,914 | (813,696) |
| Obligations of states and political subdivisions | 29,327,606 | (635,253) | - | - | 29,327,606 | (635,253) |
| Corporate securities | 9,003,340 | (159,629) | 4,358,910 | (49,055) | 13,362,250 | (208,684) |
| Mortgage-backed securities in govern-ment-sponsored entities | 18,128,683 | (261,743) | - | - | 18,128,683 | (261,743) |
| Equity securities | 223,368 | (1,122) | 147,180 | (2,749) | 370,548 | (3,871) |
| Total | $ 97,229,001 | $ (2,290,677) | $ 4,506,090 | $ (51,804) | $ 101,735,091 | $ (2,342,481) |

| 2015 | Less than Twelve Months | | Twelve Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. treasury securities | $ 9,812,400 | $ (121,776) | $ - | $ - | $ 9,812,400 | $ (121,776) |
| U.S. government agency securities | 31,383,790 | (415,839) | 14,589,764 | (348,369) | 45,973,554 | (764,208) |
| Obligations of states and political subdivisions | 5,414,145 | (28,027) | 1,305,616 | (10,555) | 6,719,761 | (38,582) |
| Corporate securities | 15,426,266 | (218,451) | 2,649,402 | (126,833) | 18,075,668 | (345,284) |
| Mortgage-backed securities in govern-ment-sponsored entities | 16,160,116 | (305,645) | - | - | 16,160,116 | (305,645) |
| Equity securities | 884,336 | (26,110) | - | - | 884,336 | (26,110) |
| Total | $ 79,081,052 | $ (1,115,847) | $ 18,544,782 | $ (485,757) | $ 97,625,834 | $ (1,601,605) |





*U.S. treasury securities.* The unrealized loss on 5 investments in U.S. treasury notes was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

*U.S. government agency securities.* The unrealized loss on 31 investments in U.S. government obligations and direct obligations of U.S. government agencies was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

*Obligations of states and political subdivisions.* The Company's unrealized losses on 54 municipal bonds relate to investments within the governmental service sector. The unrealized losses are primarily caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the security at a price less than the par value of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their par value, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

*Corporate securities.* The Company had unrealized losses on investments in 24 different debt securities that were primarily the result of interest rate increases. The Company currently does not believe it is probable that it will be unable to collect all amounts due, according to the contractual terms of the investments. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost basis, it does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

*Mortgage-backed securities in government-sponsored entities.* The unrealized losses on 16 of the Company's investments in mortgage-backed securities were caused by interest rate increases. The Company purchased 11 of these investments at a premium relative to its face amount, and the contractual cash flows of the investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

*Equity securities - financial institutions.* The Company had unrealized losses on investments in 2 different equity securities. The Company currently does not believe it is probable that it will be unable to collect all amounts due, according to the contractual terms of the investments. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the book value, it does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

## 3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The amortized cost and fair value of debt securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 1,556,004 | $ 1,559,892 | $ - | $ - |
| Due after one year through five years | 38,585,845 | 38,668,374 | - | - |
| Due after five years through ten years | 93,698,098 | 92,737,583 | 6,000,000 | 6,123,118 |
| Due after ten years | 23,004,283 | 22,674,775 | - | - |
| Total | $ 156,844,230 | $ 155,640,624 | $ 6,000,000 | $ 6,123,118 |

Investment securities with a carrying value of $63,339,054 and $77,967,833 at December 31, 2016 and 2015, respectively, were pledged to secure deposits and other purposes as required by law.

The following is a summary of proceeds received, gross gains, and gross losses realized on the sale of investment securities available for sale for the years ended December 31:

| | 2016 | 2015 |
|---|---|---|
| Proceeds from sales | $ 15,233,731 | $ 11,939,378 |
| Gross gains | 803,269 | 545,140 |
| Gross losses | (30,032) | (10,060) |

## 4. LOANS

Major classifications of loans are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Commercial real estate | $ 151,335,017 | $ 136,394,740 |
| Commercial and industrial | 81,326,419 | 71,063,238 |
| Agricultural | 21,025,621 | 20,031,110 |
| State and political subdivisions | 40,682,476 | 43,707,208 |
| Consumer | 11,714,706 | 9,420,842 |
| Residential real estate | 188,514,926 | 170,559,902 |
| | 494,599,165 | 451,177,040 |
| Less allowance for loan losses | 6,011,169 | 5,752,046 |
| Net loans | $ 488,587,996 | $ 445,424,994 |

Mortgage loans serviced by the Company for others amounted to $68,051,957 and $71,945,471 at December 31, 2016 and 2015, respectively.

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in central Pennsylvania. Such loans are subject to, at origination, credit risk assessment by management following the Company's lending policy. Although the Company has a diversified loan portfolio at December 31, 2016 and 2015, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates with loan balances in excess of $60,000 for the year ended December 31, 2016 and 2015, is as follows:

| Balance 2014 | Additions | Amounts Collected | Balance 2015 | Additions | Amounts Collected | Balance 2016 |
|---|---|---|---|---|---|---|
| $ 7,884,115 | $ 9,828,115 | $ 3,890,003 | $ 13,822,227 | $ 1,680,816 | $ 2,303,312 | $ 13,199,731 |

## 5. ALLOWANCE FOR LOAN LOSSES

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial real estate loans, commercial and industrial loans, agricultural loans, state and political subdivision loans, consumer loans, and residential real estate loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a five-year period for all portfolio segments. Certain qualitative factors are then added to the historical loss percentages to get the adjusted factor to be applied to non-classified loans.

## 5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following qualitative factors are analyzed to determine allocations for non-classified loans for each portfolio segment:

- Changes in lending policies and procedures
- Changes in economic and business conditions
- Changes in nature and volume of the loan portfolio
- Changes in lending staff experience and ability
- Changes in past-due loans, nonaccrual loans, and classified loans
- Changes in loan review
- Changes in underlying value of collateral-dependent loans
- Levels of credit concentrations
- Effects of external factors, such as legal and regulatory requirements

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the Bank's operating environment. During 2016, management neither increased nor decreased the qualitative factors reserve percentage for commercial and industrial, commercial real estate, commercial agriculture, consumer, state and political, or residential real estate pool of loans. Improving economic conditions both locally and nationally, a consistent and experienced loan and credit staff, and strong asset quality supported by low levels of past-due, non-accrual and classified loans support this conclusion. Management did create two additional subset categories with separate qualitative factors. New qualitative factors were established for commercial and industrial loan participations transacted with BancAlliance, and for a portfolio of consumer loans purchased from Lending Club. These products were added to the loan portfolio in order to diversify exposure in both the commercial/industrial and consumer pools. By assigning separate qualitative factors to these two subsets, management can manage the specific additional risk associated with these loan types.

We consider commercial real estate loans, commercial and industrial loans, agricultural loans, and consumer loans to be riskier than one-to-four family residential mortgage loans. Commercial real estate loans entail significant additional credit risks compared to one-to-four family residential mortgage loans, as they involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is also the primary occupant, and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial and industrial loans, along with agricultural loans, involve a higher risk of default than residential mortgage loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any. The repayment of agricultural loans can also be impacted by commodity prices going up and down. Although a customer's ability to repay for both one-to-four family residential mortgage loans and consumer loans is highly dependent on the local economy, especially employment levels, consumer loans as a group generally present a higher degree of risk because of the nature of collateral, if any.



## 5. ALLOWANCE FOR LOAN LOSSES (Continued)

State and political subdivision loans carry the lowest risk, as most state and political subdivision loans are either backed by the full taxing authority of a municipality or the revenue of a municipal authority.

The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of and for the years ended December 31:

| | 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial and Industrial | Agricultural | State and Political Subdivisions | Consumer | Residential Real Estate | Unallocated | Total |
| **Allowance for loan losses:** | | | | | | | | |
| Beginning balance | $ 2,436,871 | $ 928,323 | $ 178,568 | $ 217,608 | $ 72,002 | $ 1,253,900 | $ 664,774 | $ 5,752,046 |
| Charge-offs | (250,000) | (24,946) | - | - | (44,734) | - | - | (319,680) |
| Recoveries | 24,640 | 3,329 | - | - | 3,817 | 17,017 | - | 48,803 |
| Provision | 176,050 | 179,393 | 37,151 | (12,631) | 124,517 | 112,833 | (87,313) | 530,000 |
| Ending balance | $ 2,387,561 | $ 1,086,099 | $ 215,719 | $ 204,977 | $ 155,602 | $ 1,383,750 | $ 577,461 | $ 6,011,169 |
| Ending balance individually evaluated for impairment | $ 254,889 | $ 5,000 | $ 36,511 | $ - | $ - | $ 42,298 | $ - | $ 338,698 |
| Ending balance collectively evaluated for impairment | $ 2,132,672 | $ 1,081,099 | $ 179,208 | $ 204,977 | $ 155,602 | $ 1,341,452 | $ 577,461 | $ 5,672,471 |
| **Loans:** | | | | | | | | |
| Individually evaluated for impairment | $ 5,406,335 | $ 399,468 | $ 319,864 | $ 85,971 | $ - | $ 766,092 | | $ 6,977,730 |
| Collectively evaluated for impairment | 145,928,682 | 80,926,951 | 20,705,757 | 40,596,505 | 11,714,706 | 187,748,834 | | 487,621,435 |
| Ending balance | $ 151,335,017 | $ 81,326,419 | $ 21,025,621 | $ 40,682,476 | $ 11,714,706 | $ 188,514,926 | | $ 494,599,165 |

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial and Industrial | Agricultural | State and Political Subdivisions | Consumer | Residential Real Estate | Unallocated | Total |
| **Allowance for loan losses:** | | | | | | | | |
| Beginning balance | $ 2,978,458 | $ 809,657 | $ 210,380 | $ 190,489 | $ 66,042 | $ 1,154,025 | $ 599,550 | $ 6,008,601 |
| Charge-offs | (318,495) | (225,817) | - | - | (10,518) | - | - | (554,830) |
| Recoveries | 28,624 | 32,854 | - | - | 1,797 | - | - | 63,275 |
| Provision | (251,716) | 311,629 | (31,812) | 27,119 | 14,681 | 99,875 | 65,224 | 235,000 |
| Ending balance | $ 2,436,871 | $ 928,323 | $ 178,568 | $ 217,608 | $ 72,002 | $ 1,253,900 | $ 664,774 | $ 5,752,046 |
| Ending balance individually evaluated for impairment | $ 466,536 | $ 5,000 | $ - | $ - | $ - | $ 33,355 | $ - | $ 504,891 |
| Ending balance collectively evaluated for impairment | $ 1,970,333 | $ 923,323 | $ 178,568 | $ 217,608 | $ 72,004 | $ 1,220,545 | $ 664,772 | $ 5,247,153 |
| **Loans:** | | | | | | | | |
| Individually evaluated for impairment | $ 5,923,986 | $ 666,544 | $ 341,351 | $ - | $ - | $ 698,931 | | $ 7,630,812 |
| Collectively evaluated for impairment | 130,470,754 | 70,396,694 | 19,689,759 | 43,707,208 | 9,420,842 | 169,860,971 | | 443,546,228 |
| Ending balance | $ 136,394,740 | $ 71,063,238 | $ 20,031,110 | $ 43,707,208 | $ 9,420,842 | $ 170,559,902 | | $ 451,177,040 |

## 5. ALLOWANCE FOR LOAN LOSSES (Continued)

The reserve requirement for commercial real estate loans decreased by $49,310 from 2015 to 2016, while those for commercial and industrial loans increased by $157,776 during the same period. This was a result of increases in outstanding balances in commercial and industrial loans during 2016, and management's decision to establish additional qualitative factors to a subset of commercial and industrial loans pertaining to its participation loan relationship with BancAlliance. A decrease in impaired, criticized and classified assets for commercial real estate loans, which at $5.748 million at December 31, 2016, indicates a 15.35 percent or $1.04 million decrease from December 31, 2015.

**Credit Quality Information**

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2016 and 2015, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally-assigned grades are as follows:

Pass loans are loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Special Mention loans are loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. Substandard loans are loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful loans have all the weaknesses inherent in a substandard asset and these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Finally, loans classified as Loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial and Industrial | Agricultural | State and Political Subdivisions | Total |
| Pass | $ 145,587,287 | $ 79,783,282 | $ 20,466,665 | $ 40,682,476 | $ 286,519,710 |
| Special Mention | 494,158 | 534,815 | 379,066 | - | 1,408,039 |
| Substandard | 129,662 | 975,351 | 179,890 | - | 1,284,903 |
| Doubtful | 5,123,910 | 32,971 | - | - | 5,156,881 |
| Total | $ 151,335,017 | $ 81,326,419 | $ 21,025,621 | $ 40,682,476 | $ 294,369,533 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial and Industrial | Agricultural | State and Political Subdivisions | Total |
| Pass | $ 129,604,716 | $ 69,866,144 | $ 19,276,947 | $ 43,707,208 | $ 262,455,015 |
| Special Mention | 1,153,394 | 880,059 | 185,808 | - | 2,219,262 |
| Substandard | 261,414 | 282,404 | 568,355 | - | 1,112,173 |
| Doubtful | 5,375,215 | 34,631 | - | - | 5,409,846 |
| Total | $ 136,394,740 | $ 71,063,238 | $ 20,031,110 | $ 43,707,208 | $ 271,196,296 |

## 5. ALLOWANCE FOR LOAN LOSSES (Continued)

**Credit Quality Information (Continued)**

For consumer and residential real estate loans, the Company evaluates credit quality based on whether the loan is considered performing or nonperforming. Nonperforming loans are those loans past due 90 days or more and loans on nonaccrual. The following tables present the balances of consumer and residential real estate loans by classes of loan portfolio based on payment performance as of December 31:

| | 2016 | | |
|---|---|---|---|
| | Consumer | Residential Real Estate | Total |
| Performing | $ 11,714,706 | $ 188,017,594 | $ 199,732,300 |
| Nonperforming | - | 497,332 | 497,332 |
| Total | $ 11,714,706 | $ 188,514,926 | $ 200,229,632 |

| | 2015 | | |
|---|---|---|---|
| | Consumer | Residential Real Estate | Total |
| Performing | $ 9,420,842 | $ 170,244,987 | $ 179,665,829 |
| Nonperforming | - | 314,915 | 314,915 |
| Total | $ 9,420,842 | $ 170,559,902 | $ 179,980,744 |

**Age Analysis of Past-Due Loans by Class**

The following are tables which show the aging analysis of past-due loans as of December 31:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | Recorded Investment 90 Days and Accruing |
| Commercial real estate | $ - | $ - | $ 5,123,910 | $ 5,123,910 | $ 146,211,107 | $ 151,335,017 | $ - |
| Commercial and industrial | 9,763 | - | 32,971 | 42,734 | 81,283,685 | 81,326,419 | - |
| Agricultural | - | - | - | - | 21,025,621 | 21,025,621 | - |
| State and political subdivisions | - | - | - | - | 40,682,476 | 40,682,476 | - |
| Consumer | 25,406 | 1,461 | - | 26,867 | 11,687,839 | 11,714,706 | - |
| Residential real estate | 370,717 | 164,894 | 497,332 | 1,032,943 | 187,481,983 | 188,514,926 | - |
| Total | $ 405,886 | $ 166,355 | $ 5,654,213 | $ 6,226,454 | $ 488,372,711 | $ 494,599,165 | $ - |

5. **ALLOWANCE FOR LOAN LOSSES (Continued)**

**Age Analysis of Past-Due Loans by Class (Continued)**

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | Recorded Investment 90 Days and Accruing |
| Commercial real estate | $ - | $ - | $ 5,375,215 | $ 5,375,215 | $ 131,019,525 | $ 136,394,740 | $ - |
| Commercial and industrial | - | - | 34,631 | 34,631 | 71,028,607 | 71,063,238 | - |
| Agricultural | - | 7,498 | - | 7,498 | 20,023,612 | 20,031,110 | - |
| State and political subdivisions | - | - | - | - | 43,707,208 | 43,707,208 | - |
| Consumer | 16,710 | - | - | 16,710 | 9,404,132 | 9,420,842 | - |
| Residential real estate | 180,063 | - | 314,915 | 494,978 | 170,064,924 | 170,559,902 | - |
| Total | $ 196,773 | $ 7,498 | $ 5,724,761 | $ 5,929,032 | $ 445,248,008 | $ 451,177,040 | $ - |

Consumer mortgage loans held by the Company in the process of foreclosure amounted to $370,469 as of December 31, 2016.

**Impaired Loans**

Management considers commercial real estate loans, commercial and industrial loans, agricultural loans, and state and political subdivision loans which are 90 days or more past due to be impaired. After becoming 90 days or more past due, these categories of loans are measured for impairment. Any consumer and residential real estate loans related to these delinquent loans are also considered to be impaired. Troubled debt restructurings are measured for impairment at the time of restructuring. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the fair value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through a provision or through a charge to the allowance for loan losses.

5. **ALLOWANCE FOR LOAN LOSSES (Continued)**

**Impaired Loans (Continued)**

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount as of December 31:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | | |
| Commercial real estate | $ 4,743,197 | $ 4,743,197 | $ - | $ 6,195,946 | $ 13,509 |
| Commercial and industrial | 215,144 | 215,144 | - | 490,835 | 13,306 |
| Agricultural | 109,652 | 109,652 | - | 312,351 | 5,935 |
| State and political subdivisions | 85,971 | 85,971 | - | 88,847 | 4,079 |
| Consumer | - | - | - | 366 | - |
| Residential real estate | 558,255 | 558,255 | - | 612,421 | 17,012 |
| | 5,712,219 | 5,712,219 | - | 7,700,766 | 53,841 |
| With an allowance recorded: | | | | | |
| Commercial real estate | 663,138 | 913,138 | 254,889 | 895,988 | 2,013 |
| Commercial and industrial | 184,324 | 184,324 | 5,000 | 96,019 | 12,753 |
| Agricultural | 210,212 | 210,212 | 36,511 | 18,545 | 8,830 |
| State and political subdivisions | - | - | - | - | - |
| Consumer | - | - | - | 1,437 | - |
| Residential real estate | 207,837 | 207,837 | 42,298 | 283,663 | 1,519 |
| | 1,265,511 | 1,515,511 | 338,698 | 1,295,652 | 25,115 |
| Total: | | | | | |
| Commercial real estate | 5,406,335 | 5,656,335 | 254,889 | 7,091,934 | 15,522 |
| Commercial and industrial | 399,468 | 399,468 | 5,000 | 586,854 | 26,059 |
| Agricultural | 319,864 | 319,864 | 36,511 | 330,896 | 14,765 |
| State and political subdivisions | 85,971 | 85,971 | - | 88,847 | 4,079 |
| Consumer | - | - | - | 1,803 | - |
| Residential real estate | 766,092 | 766,092 | 42,298 | 896,084 | 18,531 |
| Total | $ 6,977,730 | $ 7,227,730 | $ 338,698 | $ 8,996,418 | $ 78,956 |

## 5. ALLOWANCE FOR LOAN LOSSES (Continued)

### Impaired Loans (Continued)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | | |
| Commercial real estate | $ 1,681,940 | $ 1,973,237 | $ - | $ 4,785,273 | $ 98,967 |
| Commercial and industrial | 442,017 | 442,017 | - | 718,304 | 19,212 |
| Agricultural | 341,351 | 341,351 | - | 169,000 | 16,493 |
| State and political subdivisions | - | - | - | 96,147 | - |
| Consumer | - | - | - | 402 | - |
| Residential real estate | 495,865 | 495,865 | - | 775,957 | 22,422 |
| | 2,961,173 | 3,252,470 | - | 6,545,083 | 157,094 |
| With an allowance recorded: | | | | | |
| Commercial real estate | 4,242,046 | 4,242,046 | 466,536 | 2,156,203 | - |
| Commercial and industrial | 224,527 | 224,527 | 5,000 | 162,126 | 14,997 |
| Agricultural | - | - | - | - | - |
| State and political subdivisions | - | - | - | - | - |
| Consumer | - | - | - | 816 | - |
| Residential real estate | 203,066 | 203,066 | 33,355 | 121,696 | 3,066 |
| | 4,669,639 | 4,669,639 | 504,891 | 2,440,841 | 18,063 |
| Total: | | | | | |
| Commercial real estate | 5,923,986 | 6,215,283 | 466,536 | 6,941,476 | 98,967 |
| Commercial and industrial | 666,544 | 666,544 | 5,000 | 880,430 | 34,209 |
| Agricultural | 341,351 | 341,351 | - | 169,000 | 16,493 |
| State and political subdivisions | - | - | - | 96,147 | - |
| Consumer | - | - | - | 1,218 | - |
| Residential real estate | 698,931 | 698,931 | 33,355 | 897,653 | 25,488 |
| Total | $ 7,630,812 | $ 7,922,109 | $ 504,891 | $ 8,985,924 | $ 175,157 |

### Nonaccrual Loans

Loans are considered nonaccrual upon reaching 90 days of delinquency even though the Company may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

On the following table are the loan balances on nonaccrual status as of December 31:

| | 2016 | 2015 |
|---|---|---|
| Commercial real estate | $ 5,123,910 | $ 5,375,215 |
| Commercial and industrial | 32,971 | 34,631 |
| Residential real estate | 497,332 | 314,915 |
| Total | $ 5,654,213 | $ 5,724,761 |



## 5. ALLOWANCE FOR LOAN LOSSES (Continued)

### Troubled Debt Restructuring

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment of class of loan, as applicable, through a charge-off to the allowance. Segment and class status are determined by the loan's classification at origination. As of December 31, 2016, a specific reserve allocation of $42,051 has been established against the troubled debt restructurings. Also, as of December 31, 2016, no charge-offs for the troubled debt restructurings were required.

The restructuring of the loans was either an extension of the maturity date or temporary reduction or moratorium on the payment terms or amounts. No modifications involved any changes in principal balance for 2016 or 2015. There were no loans modified in a troubled debt restructuring from January 1, 2014 through December 31, 2015, that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2016 and 2015.

Loan modifications that are considered troubled debt restructurings completed during the years ended December 31 were as follows:

| | 2016 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled debt restructurings: | | | |
| Commercial and industrial | 1 | $ 5,829 | $ 5,829 |

| | 2015 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled debt restructurings: | | | |
| Commercial real estate | 2 | $ 315,943 | $ 315,943 |
| Commercial and industrial | 1 | 120,000 | 120,000 |
| Residential real estate | 1 | 32,223 | 32,223 |
| Total | 4 | $ 468,166 | $ 468,166 |

## 6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Land and land improvements | $ 805,852 | $ 790,550 |
| Building and leasehold improvements | 17,184,727 | 16,820,359 |
| Furniture, fixtures, and equipment | 6,673,019 | 6,259,284 |
| | 24,663,598 | 23,870,193 |
| Less accumulated depreciation | 11,901,983 | 10,963,022 |
| Total | $ 12,761,615 | $ 12,907,171 |

Depreciation charged to operations was $1,028,830 in 2016 and $1,087,271 in 2015.

## 7. GOODWILL

As of each of the years ended December 31, 2016 and 2015, goodwill had a gross carrying amount of $2,282,712 and accumulated amortization of $614,013 for a net carrying value of $1,668,699. The carrying amount of goodwill was tested for impairment in the fourth quarter, after the annual forecasting process. There was no impairment for the years ended December 31, 2016 and 2015.

## 8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

| Year Ending December 31, | Amount |
|---|---|
| 2017 | $ 87,491,843 |
| 2018 | 42,849,816 |
| 2019 | 25,672,363 |
| 2020 | 17,704,211 |
| 2021 | 20,466,779 |
| Thereafter | 12,749,425 |
| | $ 206,934,437 |

The aggregate of all time deposit accounts of $250,000 or more amounted to $44,645,266 and $26,607,001 at December 31, 2016 and 2015, respectively. Total amount of Brokered Deposits included above for each of the years ended December 31, 2016 and 2015 were $7,450,000 and $7,450,000 respectively.

## 9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, federal funds purchased, and repurchase agreements with customers. Short-term borrowings also include a $5,000,000 unsecured line of credit with a commercial bank for the years ended December 31, 2016 and 2015, respectively. The line of credit agreement contains various covenants requiring the Company to maintain certain levels of financial performance. The outstanding balances and related information for short-term borrowings are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at year-end | $ 14,782,918 | $ 10,012,365 |
| Average balance outstanding | 5,173,755 | 6,057,520 |
| Maximum month-end balance | 14,782,918 | 10,012,365 |
| Weighted-average rate at year-end | 0.70% | 0.87% |
| Weighted-average rate during the year | 0.79% | 1.20% |

The collateral pledged on the repurchase agreements by the remaining contractual maturity of the repurchase agreements in the Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015 is presented in the following table.

| | Remaining Contractual Maturity Overnight and Continuous | |
|---|---|---|
| | December 31, 2016 | December 31, 2015 |
| Securities of U.S Government Agencies, U.S Treasuries and obligations of state and political subdivisions pledged, fair value | $ 6,368,218 | $ 14,213,315 |
| Repurchase Agreements | 4,029,918 | 2,662,053 |

## 10. OTHER BORROWINGS

The following table sets forth information concerning other borrowings:

| Description | Maturity Range From | Maturity Range To | Weighted-Average Interest Rate | Stated Interest Rate Range From | Stated Interest Rate Range To | At December 31, 2016 | At December 31, 2015 |
|---|---|---|---|---|---|---|---|
| Fixed rate | 01/30/17 | 08/04/26 | 1.76 % | 0.93 % | 4.96 % | $ 49,266,349 | $ 39,657,349 |
| Fixed rate amortizing | 06/12/17 | 07/15/24 | 1.71 | 1.08 | 6.53 | 16,776,529 | 17,218,606 |
| Mid-term repos | 01/29/18 | 05/03/19 | 1.13 | 1.04 | 1.30 | 7,000,000 | 17,500,000 |
| Subordinated capital notes | 03/24/24 | 03/03/26 | 5.07 | 4.75 | 5.25 | 10,120,000 | 7,570,000 |
| Note payable | 03/17/35 | 11/23/35 | 2.71 | 2.42 | 2.99 | 6,186,000 | 6,186,000 |
| | | | | | | $ 89,348,878 | $ 88,131,955 |

Maturities of other borrowings at December 31, 2016, are summarized as follows:

| Year Ending December 31, | Amount | Weighted-Average Rate |
|---|---|---|
| 2017 | $ 6,784,522 | 1.50 % |
| 2018 | 11,601,278 | 1.12 |
| 2019 | 4,307,707 | 1.18 |
| 2020 | 14,890,735 | 1.70 |
| 2021 | 9,510,363 | 1.80 |
| 2022 and after | 42,254,273 | 2.84 |
| | $ 89,348,878 | 2.14 % |

Borrowing capacity consists of credit arrangements with the FHLB. FHLB borrowings are subject to annual renewal, incur no service charges, and are secured by a blanket security agreement on certain investment and mortgage-backed securities, outstanding residential mortgages, and the Bank's investment in FHLB stock. As of December 31, 2016, the Bank's maximum borrowing capacity with the FHLB was approximately $231 million.

The Bank may request a Federal Reserve Advance secured by acceptable collateral. The Bank's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2016 is approximately $8.3 million.

The Bank also maintains a $10.0 million, $5.0, million, and a $4.0 million federal funds line of credit with three other financial institutions. The Bank did not have outstanding borrowings related to these lines of credit at December 31, 2016.





The Company formed a special purpose entity ("Entity") to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of March 17, 2035. The rate on these securities is determined quarterly and floats based on three-month LIBOR plus 2.00 percent. The Entity may redeem them, in whole or in part, at face value on or after March 17, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company formed an additional special purpose entity to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of November 23, 2035. These securities had a fixed rate of 6.11 percent until November 23, 2015, at which time the rate converted to floating, is determined quarterly, and floats based on three-month LIBOR plus 1.50 percent. The Entity may redeem them, in whole or in part, at face value on or after November 23, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company's minority interests in these entities were recorded at the initial investment amount and are included in the accrued interest and other assets on the Consolidated Balance Sheet. These entities are not consolidated as part of the Company's consolidated financial statements.

The Company issued $3,620,000 of fixed rate subordinated capital notes with stated maturities of March 24, 2024 through December 26, 2024. These securities bear a fixed annual rate of 4.75 percent. The Company may redeem them, in whole or in part, at face value on or after March 24, 2019. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company issued $6,500,000 of fixed rate subordinated capital notes with stated maturities of September 22, 2025 through March 3, 2026. The fixed securities bear an annual rate of 5.25 percent. The Company may redeem them, in whole or in part, at face value on or after September 22, 2020. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company issued $650,000 of fixed rate senior debt with stated maturities of September 2020 through November 2020. The fixed rate securities bear an annual rate of 4.00 percent. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

## 11. INCOME TAXES

The provision for federal income taxes consists of:

| | 2016 | 2015 |
|---|---|---|
| Current | $ 1,010,006 | $ 656,575 |
| Deferred | (372,623) | (25,665) |
| Total provision | $ 637,383 | $ 630,910 |

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 2,043,797 | $ 1,955,696 |
| Deferred compensation | 300,077 | 252,850 |
| Core deposit intangible assets | 24,382 | 24,382 |
| Alternative minimum tax carryforward | 927,273 | 816,877 |
| Asset valuation allowances | 154,919 | 232,937 |
| Employee compensation accruals | 391,699 | 340,375 |
| Nonaccrual interest receivable | 385,776 | 227,822 |
| Capital loss carryforward | - | 34,003 |
| Other | 2,000 | 2,000 |
| Deferred tax assets | 4,229,923 | 3,886,942 |
| Deferred tax liabilities: | | |
| Premises and equipment | 878,295 | 883,922 |
| Goodwill | 550,876 | 550,876 |
| Deferred loan fees | 96,533 | 95,478 |
| Partnerships | 259,804 | 284,874 |
| Other | 5,417 | 5,417 |
| Unrealized gain on available-for-sale securities | 56,526 | 220,026 |
| Deferred tax liabilities | 1,847,451 | 2,040,593 |
| Net deferred tax assets | $ 2,382,472 | $ 1,846,349 |

No valuation allowance was established at December 31, 2016 and 2015, in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount | % of Pretax Income | Amount | % of Pretax Income |
| Provision at statutory rate | $ 1,786,454 | 34.0 % | $ 1,742,552 | 34.0 % |
| Tax-exempt interest | (971,909) | (18.5) | (967,295) | (18.9) |
| Life insurance income | (122,447) | (2.3) | (126,595) | (2.5) |
| Other | (54,715) | (1.0) | (17,752) | 0.1 |
| Actual tax expense and effective rate | $ 637,383 | 12.2 % | $ 630,910 | 12.7 % |

## 11. INCOME TAXES (Continued)

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2012 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

## 12. EMPLOYEE BENEFITS

**Savings Plan**

The Bank maintains a qualified 401(k) salary reduction and profit sharing plan that covers substantially all employees. Under the plan, employees make voluntary, pretax contributions to their accounts, and the Bank contributions to the plan are at the discretion of the Board of Directors. Contributions by the Bank charged to operations were $332,136 and $310,492 for the years ended December 31, 2016 and 2015, respectively. The fair value of plan assets includes $1,432,583 and $1,197,980 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2016 and 2015, respectively.

**Deferred Compensation Plan**

The Company has a nonqualified deferred compensation plan that allows directors and senior executives to defer fees and salaries. Outstanding balances under this arrangement for 2016 and 2015 were $882,578 and $743,675, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were $80,522 and ($10,608) for December 31, 2016 and 2015, respectively.

**Restricted Stock Plan**

The Company maintains a Restricted Stock Plan (the "Plan"). Employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance-related requirements. Awards granted under the Plan are in the form of the Company's common stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 24,000 shares of the Company's common stock to the plan. The Plan assists the Company in attracting, retaining and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. Compensation expense recognized related to the vesting of shares was $324,442 and $180,924 for the years ended December 31, 2016 and 2015, respectively.

**Restricted Stock Plan (Continued)**

The following is a summary of the status of the Company's restricted stock as of December 31, 2016, and changes therein during the year then ended:

| | Number of Shares of Restricted Stock | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2016 | 19,292 | $ 36.33 |
| Granted | 11,590 | 44.12 |
| Vested | (7,591) | 37.03 |
| Forfeited | (2,109) | 38.87 |
| Nonvested at December 31, 2016 | 21,182 | $ 40.09 |

**Stock Option Plan**

The Company has a fixed director and employee stock-based compensation plan. The plan has total options available to grant of 380,000 shares of common stock. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant. Options granted are primarily vested evenly over a three-year period from the grant date.

The following table presents share data related to the outstanding options:

| | Number of Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding, January 1, 2016 | 112,849 | $ 33.77 |
| Granted | 24,116 | 44.05 |
| Exercised | (25,204) | 30.84 |
| Forfeited | (4,620) | 41.28 |
| Outstanding, December 31, 2016 | 107,141 | $ 36.45 |
| Exercisable at year-end | 70,564 | $ 33.70 |

12. EMPLOYEE BENEFITS (Continued)

**Stock Option Plan (Continued)**

The following table summarizes the characteristics of stock options at December 31, 2016:

| | | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|---|
| Grant Date | Exercise Price | Shares | Contractual Average Life | Average Exercise Price | Shares | Average Exercise Price |
| 01/25/07 | $ 44.00 | 654 | 0.06 | $ 44.00 | 654 | $ 44.00 |
| 02/23/07 | 45.00 | 1,050 | 0.14 | 45.00 | 1,050 | 45.00 |
| 01/31/08 | 38.18 | 9,800 | 1.08 | 38.18 | 9,800 | 38.18 |
| 03/26/09 | 25.50 | 5,900 | 2.23 | 25.50 | 5,900 | 25.50 |
| 04/01/10 | 34.13 | 9,600 | 3.24 | 34.13 | 9,600 | 34.13 |
| 04/28/11 | 29.75 | 7,100 | 4.32 | 29.75 | 7,100 | 29.75 |
| 04/02/12 | 30.00 | 9,400 | 5.25 | 30.00 | 9,400 | 30.00 |
| 04/01/13 | 33.25 | 14,081 | 6.25 | 33.25 | 14,081 | 33.25 |
| 09/12/13 | 35.00 | 300 | 6.70 | 35.00 | 300 | 35.00 |
| 04/01/14 | 36.50 | 9,882 | 7.25 | 36.50 | 6,522 | 36.50 |
| 09/22/14 | 39.50 | 500 | 7.72 | 39.50 | 330 | 39.50 |
| 11/03/14 | 38.90 | 500 | 7.84 | 38.90 | 330 | 38.90 |
| 04/01/15 | 38.95 | 16,658 | 8.25 | 38.95 | 5,497 | 38.95 |
| 03/07/16 | 43.00 | 250 | 9.18 | 43.00 | - | 43.00 |
| 04/01/16 | 44.00 | 19,466 | 9.25 | 44.00 | - | 44.00 |
| 10/31/16 | 44.80 | 1,000 | 9.83 | 44.80 | - | 44.80 |
| 12/12/16 | 44.75 | 1,000 | 9.95 | 44.75 | - | 44.75 |
| | | 107,141 | | | 70,564 | |

## 13. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities such as commitments to extend credit, financial guarantees, and letters of credit that are not reflected in the accompanying consolidated financial statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet.

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments that consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Commitments to extend credit | $ 121,375,912 | $ 117,486,259 |
| Standby letters of credit | 5,239,555 | 4,693,005 |
| Total | $ 126,615,467 | $ 122,179,264 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

## 13. COMMITMENTS (Continued)

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period, with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized upon expiration of the commitment period. For secured letters of credit, the collateral is typically Bank deposit instruments or real estate.

The Bank has committed to various operating leases for its branch and office facilities. Some of these leases include renewal options as well as specific provisions relating to rent increases. The minimum annual rental commitments under these leases outstanding at December 31, 2016, are as follows:

| | Minimum Lease Payment |
|---|---|
| 2017 | $ 353,022 |
| 2018 | 369,522 |
| 2019 | 369,522 |
| 2020 | 349,398 |
| 2021 | 274,290 |
| Thereafter | 3,671,568 |
| Total | $ 5,387,322 |

Rent expense under leases for each of the years ended December 31, 2016 and 2015, was $355,500 and $321,735, respectively.

### Contingent Liabilities

The Company from time to time may be a party in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

## 14. REGULATORY RESTRICTIONS

### Restriction on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2016 and 2015 was $2,009,000 and $1,918,000, respectively.

### Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

### Dividends

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2016, the Bank had a capital surplus of $5,723,535 which was not available for distribution to the Company as dividends.

## 15. REGULATORY CAPITAL

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets. In 2015, BASEL III was implemented that required the Bank to maintain an additional Common Equity Tier 1 capital ratio.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2016 and 2015, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Total risk-based, Common Equity Tier I, Tier I risk-based, and Tier I leverage capital ratios must be at least 10 percent, 6.50 percent, 6 percent, and 5 percent, respectively.

## 15. REGULATORY CAPITAL (Continued)

The Company's actual capital ratios are presented in the following table that shows the Company met all regulatory capital requirements:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | | Amount | Ratio | |
| Total capital | | | | | | |
| (to risk-weighted assets) | | | | | | |
| Actual | $ 74,507,455 | 13.10 | % | $ 68,682,873 | 12.62 | % |
| For capital adequacy purposes | 45,508,255 | 8.00 | | 43,555,305 | 8.00 | |
| To be well capitalized | 56,885,318 | 10.00 | | 54,444,132 | 10.00 | |
| Common Equity Tier I | | | | | | |
| (to risk-weighted assets) | | | | | | |
| Actual | $ 51,873,835 | 9.12 | % | $ 49,475,206 | 9.09 | % |
| For capital adequacy purposes | 25,598,393 | 4.50 | | 24,499,859 | 4.50 | |
| To be well capitalized | 36,975,457 | 6.50 | | 35,388,686 | 6.50 | |
| Tier I capital | | | | | | |
| (to risk-weighted assets) | | | | | | |
| Actual | $ 57,534,849 | 10.11 | % | $ 55,059,560 | 10.11 | % |
| For capital adequacy purposes | 34,131,191 | 6.00 | | 32,666,479 | 6.00 | |
| To be well capitalized | 45,508,255 | 8.00 | | 43,555,305 | 8.00 | |
| Tier I capital | | | | | | |
| (to average assets) | | | | | | |
| Actual | $ 57,534,849 | 8.01 | % | $ 55,059,560 | 7.94 | % |
| For capital adequacy purposes | 28,747,338 | 4.00 | | 27,721,393 | 4.00 | |
| To be well capitalized | 35,934,173 | 5.00 | | 34,651,741 | 5.00 | |



## 15. REGULATORY CAPITAL (Continued)

The Bank's actual capital ratios are presented in the following table which shows the Bank met all regulatory capital requirements:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | | Amount | Ratio | |
| Total capital | | | | | | |
| (to risk-weighted assets) | | | | | | |
| Actual | $ 72,160,102 | 12.68 | % | $ 66,446,736 | 11.97 | % |
| For capital adequacy purposes | 45,519,158 | 8.00 | | 44,421,193 | 8.00 | |
| To be well capitalized | 56,898,947 | 10.00 | | 55,526,491 | 10.00 | |
| Common Equity Tier I | | | | | | |
| (to risk-weighted assets) | | | | | | |
| Actual | $ 65,350,966 | 11.49 | % | $ 60,418,164 | 10.88 | % |
| For capital adequacy purposes | 25,604,526 | 4.50 | | 24,986,921 | 4.50 | |
| To be well capitalized | 36,984,316 | 6.50 | | 36,092,219 | 6.50 | |
| Tier I capital | | | | | | |
| (to risk-weighted assets) | | | | | | |
| Actual | $ 65,350,966 | 11.49 | % | $ 60,418,164 | 10.88 | % |
| For capital adequacy purposes | 34,139,368 | 6.00 | | 33,315,895 | 6.00 | |
| To be well capitalized | 45,519,158 | 8.00 | | 44,421,193 | 8.00 | |
| Tier I capital | | | | | | |
| (to average assets) | | | | | | |
| Actual | $ 65,350,966 | 9.12 | % | $ 60,418,164 | 8.73 | % |
| For capital adequacy purposes | 28,674,897 | 4.00 | | 27,670,243 | 4.00 | |
| To be well capitalized | 35,843,622 | 5.00 | | 34,587,803 | 5.00 | |

## 16. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value on a recurring basis as of December 31, 2016 and 2015, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| U.S. treasury securities | $ - | $ 8,586,090 | $ - | $ 8,586,090 |
| U.S. government agency securities | - | 32,960,053 | - | 32,960,053 |
| Obligations of states and political subdivisions | - | 64,821,126 | - | 64,821,126 |
| Corporate securities | - | 25,040,343 | - | 25,040,343 |
| Mortgage-backed securities in government-sponsored entities | - | 24,233,012 | - | 24,233,012 |
| Equity securities | 5,629,754 | - | - | 5,629,754 |
| Total | $ 5,629,754 | $ 155,640,624 | $ - | $ 161,270,378 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| U.S. treasury securities | $ - | $ 9,812,400 | $ - | $ 9,812,400 |
| U.S. government agency securities | - | 58,573,996 | - | 58,573,996 |
| Obligations of states and political subdivisions | - | 62,492,673 | - | 62,492,673 |
| Corporate securities | - | 25,055,235 | - | 25,055,235 |
| Mortgage-backed securities in government-sponsored entities | - | 24,059,980 | - | 24,059,980 |
| Equity securities | 3,911,943 | - | - | 3,911,943 |
| Total | $ 3,911,943 | $ 179,994,284 | $ - | $ 183,906,227 |





The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2016 and 2015, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs and observable inputs employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input. Other real estate owned is measured at fair value, less cost to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount, or fair value less cost to sell. The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| Impaired loans | $ - | $ - | $ 6,639,032 | $ 6,639,032 |
| Mortgage servicing rights | - | - | 453,285 | 453,285 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| Impaired loans | $ - | $ - | $ 7,125,921 | $ 7,125,921 |
| Other real estate owned | - | - | 127,687 | 127,687 |
| Mortgage servicing rights | - | - | 486,903 | 486,903 |

## 16. FAIR VALUE MEASUREMENTS (Continued)

The following tables provide a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2016 and 2015.

| December 31, 2016 | Fair Value | Valuation Techniques | Unobservable Inputs | Range |
|---|---|---|---|---|
| Impaired loans | $ 6,639,032 | Property appraisals | Management discount for property type and recent market volatility | 0% - 50% discount<br>Weighted Average (20.25%) |
| Mortage servicing rights | $ 453,285 | Discounted cash flows | Discount rate | 2.76 - 3.57% discount<br>Weighted Average (3.17%) |
| | | | Prepayment speeds | 1.22 - 2.81 prepayment factor<br>Weighted Average (1.60%) |

| December 31, 2015 | Fair Value | Valuation Techniques | Unobservable Inputs | Range |
|---|---|---|---|---|
| Impaired loans | $ 7,125,921 | Property appraisals | Management discount for property type and recent market volatility | 0% - 70% discount<br>Weighted Average (16.86%) |
| Other real estate owned | $ 127,687 | Property appraisals | Management discount for property type and recent market volatility | 0% - 15% discount<br>Weighted Average (7.00%) |
| Mortage servicing rights | $ 486,903 | Discounted cash flows | Discount rate | 2.59 - 3.44% discount<br>Weighted Average (3.02%) |
| | | | Prepayment speeds | 1.19 - 3.69 prepayment factor<br>Weighted Average (1.75%) |

## 17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments at December 31 are as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Level I | Level II | Level III |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 20,404,502 | $ 20,404,502 | $ 20,404,502 | $ - | $ - |
| Certificates of deposit | 3,492,330 | 3,492,330 | 3,492,330 | - | - |
| Investment securities available for sale | 161,270,378 | 161,270,378 | 5,629,754 | 155,640,624 | - |
| Investment securities held to maturity | 6,000,000 | 6,123,118 | - | 6,123,118 | - |
| Loans held for sale | 1,006,096 | 1,006,096 | 1,006,096 | - | - |
| Net loans | 488,587,996 | 478,290,715 | - | - | 478,290,715 |
| Regulatory stock | 6,519,400 | 6,519,400 | 6,519,400 | - | - |
| Bank-owned life insurance | 15,010,555 | 15,010,555 | 15,010,555 | - | - |
| Accrued interest receivable | 2,329,267 | 2,329,267 | 2,329,267 | - | - |
| Mortgage servicing rights | 453,285 | 453,285 | - | - | 453,285 |
| Financial liabilities: | | | | | |
| Deposits | $ 561,927,608 | $ 561,960,230 | $ 354,993,172 | $ - | $ 206,967,058 |
| Short-term borrowings | 14,782,918 | 14,782,918 | 14,782,918 | - | - |
| Other borrowings | 89,348,878 | 88,318,530 | - | - | 88,318,530 |
| Accrued interest payable | 805,471 | 805,471 | 805,471 | - | - |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Level I | Level II | Level III |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 17,055,520 | $ 17,055,520 | $ 17,055,520 | $ - | $ - |
| Certificates of deposit | 3,002,319 | 3,002,319 | 3,002,319 | - | - |
| Investment securities available for sale | 183,906,227 | 183,906,227 | 3,911,943 | 179,994,284 | - |
| Loans held for sale | 1,272,840 | 1,272,840 | 1,272,840 | - | - |
| Net loans | 445,424,994 | 443,726,641 | - | - | 443,726,641 |
| Regulatory stock | 6,509,400 | 6,509,400 | 6,509,400 | - | - |
| Bank-owned life insurance | 14,566,884 | 14,566,884 | 14,566,884 | - | - |
| Accrued interest receivable | 2,198,052 | 2,198,052 | 2,198,052 | - | - |
| Mortgage servicing rights | 486,903 | 486,903 | - | - | 486,903 |
| Financial liabilities: | | | | | |
| Deposits | $ 542,628,695 | $ 543,352,475 | $ 347,475,878 | $ - | $ 195,876,597 |
| Short-term borrowings | 10,012,365 | 10,012,365 | 10,012,365 | - | - |
| Other borrowings | 88,131,955 | 85,612,407 | - | - | 85,612,407 |
| Accrued interest payable | 783,076 | 783,076 | 783,076 | - | - |

## 17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates, which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available, based upon the following assumptions:

**Cash and Cash Equivalents, Certificates of Deposit, Loans Held for Sale, Regulatory Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings**

The fair value is equal to the current carrying value.

**Investment Securities**

The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

**Loans**

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

**Bank-Owned Life Insurance**

The fair value is equal to the cash surrender value of the life insurance policies.

**Mortgage Servicing Rights**

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.





**Deposits**

The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end.

**Other Borrowings**

Fair values for other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered for similar borrowings.

**Commitments to Extend Credit**

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 13.

## 18. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the year ended December 31, 2016 and 2015:

| | Net Unrealized Gains on Investment Securities |
|---|---|
| Accumulated other comprehensive loss, January 1, 2015 | $ 550,729 |
| Other comprehensive income before reclassification | 229,530 |
| Amounts reclassified from accumulated other comprehensive loss | (353,153) |
| Accumulated other comprehensive income, December 31, 2015 | 427,106 |
| | |
| Other comprehensive income before reclassification | 192,955 |
| Amounts reclassified from accumulated other comprehensive income | (510,336) |
| Accumulated other comprehensive income, December 31, 2016 | $ 109,725 |

## 18. ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2016, and 2015:

| | | Amount Reclassified from Accumulated Other Comprehensive Income | Affected Line Item in the Consolidated Statement of Income where Net Income is Presented |
|---|---|---|---|
| Unrealized gains on investment | $ | 773,237 | Investment securities gains, net |
| securities December 31, 2016 | | (262,901) | Income taxes |
| | $ | 510,336 | |
| Unrealized gains on investment | $ | 535,080 | Investment securities gains, net |
| securities December 31, 2015 | | (181,927) | Income taxes |
| | $ | 353,153 | |

## 19. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 03, 2017, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

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