Clear Vision
Compelling Results

2017 ANNUAL REPORT

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WILLIAM P. HAYES
Chairman of the Board, President and Chief Executive Officer

The 2017 Annual Report represents a special opportunity for us to reflect on an extraordinary watershed year for Kish Bancorp. Because the term "watershed" has the potential for a range of definitions, allow us to simply state that 2017 was a year where vision, strategy, execution, culture, and external events all came together to produce powerful and compelling results. These results affirm the strategic decisions of Kish's leadership team over time, and they also form the foundation upon which we will confidently build a long-term future at Kish.

Many of the 2017 outcomes can be measured in dollars, and we will discuss the numbers throughout this letter. But, we also like to speak in terms of stories at Kish: human stories, client experiences, community impact, and the people side of our business. We all understand and appreciate the important discipline of producing financial results, and we pride ourselves on the consistency of those results for Kish, but it is the human side of what we do that drives us and binds us together as a team. So this letter incorporates stories that reflect the culture at Kish and validate the core belief that it is Kish's focus on people which delivers shareholder value and creates long-term sustainability for the Corporation.

For many years, Kish has differentiated itself through a business model based upon the simple philosophy that satisfied and motivated teams who care about their customers and are supported by their coworkers will consistently deliver great service. Great service will in turn build customer satisfaction and loyalty. Satisfied customers will then do more with Kish across all business units, recommend us to their friends and neighbors, and the cycle will be renewed. While this business model has been validated many times, at no time in Kish's history has it delivered more compelling results than in 2017.

2017 was a year in which many new individual and business customers came to Kish Bank because of the reputation of Kish's bankers for delivering great service and customer support. By contrast, often those customers were experiencing declining or unresponsive service from their former banks, many of which were undergoing mergers or acquisitions. The resounding refrain throughout the past few years from many new clients has been: "If I had known I would be treated this well, I would have switched to Kish a long time ago!"

Those were the words of one new customer at the Bank's South Atherton branch in State College who had moved her relationship to Kish several years ago. Eileen Leibowitz came to Kish because she was no longer recognized at the bank where she had done business for decades. Whenever I encountered Eileen, she always remarked, "You have the most wonderful people at Kish. They always know me and call me by name. I come inside just to say hello, even though I could easily go to the drive-thru, which I never do! Whatever you're doing, please don't change a thing." And we always assure her, "It will not change. Hospitality is the culture at Kish. People matter to us. You matter to us." Fortunately, Eileen's story was repeated many times over during 2017 as our client numbers and retail deposits expanded dramatically.

In addition to the referrals of satisfied Bank customers, it was often the referral of clients from other business units that led to new banking relationships. Of particular note was the performance of our travel services subsidiary. The team at Kish Travel had an exceptional year from several perspectives. First, they grew net revenues by just under 40%, with most of that growth coming from clients who were new to Kish Travel. One satisfied client commented, "We came to Kish Travel because we wanted professional help planning the trip of a lifetime for us and our family. They delivered an experience beyond our expectations that we will never forget!" Another couple and new client of Kish Travel expressed gratitude for being able to reach out to their Travel Specialist when they experienced a medical emergency while traveling outside the U.S. "We called Sandy on her cell phone and before we knew it, she had arranged a flight back to the states where I made a full recovery. We are now 100% satisfied Kish Travel customers and will travel again with them soon." Both of these couples now have banking relationships with Kish Bank as well, and the number of satisfied Kish Travel clients with broad banking, insurance, and wealth management relationships with Kish continues to grow. Not only has Kish Travel dramatically expanded its own revenues and profitability, it has added materially to the relationship-building efforts and financial results of the entire Kish organization.

SANDY BERARDIS
Kish Travel Specialist

This leads us to the next compelling element of Kish's results in 2017: the performance of Kish Bank's investment advisory, brokerage, and wealth management unit, Kish Financial Solutions. Wade Curry and his team of licensed advisors and support staff were addressing changes to Department of Labor regulations while fulfilling the needs of their more than 3,500 client relationships. At the same time, they were reorganizing the practice around a heightened emphasis on tailoring solutions to specific client objectives. Despite these distractions, Kish Financial Solutions achieved another stellar year of growth and financial results, with assets under management rising to more than $300 million and net operating revenue increasing by 9.4%. In addition, they collaborated with the sales teams in every market to share relationship expansion opportunities and participate in new client development efforts.

> Behind every dollar in new business was a human connection that was established one client at a time.

Another important part of the Kish story in 2017 was the expansion of residential mortgage lending activity. While many of the residential mortgages Kish Bank originates go directly to the secondary market and therefore don't show up in outstanding loan totals, mortgage loan originations reached a new high of more than $64 million in 2017. Results were strong in all of our markets, but it was especially gratifying to witness the expansion of activity in Centre County following the addition of a new mortgage origination team in Alta Corman-Wolf and Justine Lilja. Alta remarked, "It's amazing that in my first full year of production at Kish, I far exceeded any annual results I had achieved in the past. I was also able to deliver non-conforming mortgage solutions that would not have been possible at other banks. Those clients are now Kish customers for life."

WINTHROP WATSON
President, Federal Home Loan Bank of Pittsburgh

Also noteworthy was Kish's mortgage lending team's success in referring over 50% of their new clients to Kish Insurance for their homeowners and auto insurance. As a consequence of the strong collaboration between the Residential Lenders and Personal Lines Specialists, along with the rest of the Bank's retail services team, Personal Lines Specialists at Kish Insurance were able to expand revenues by 10% in 2017. This enabled Kish Insurance to maintain a stable revenue contribution level despite challenging market conditions for commercial insurance lines in 2017.

ALTA CORMAN-WOLF
VP, Residential Lender

For its success in delivering mortgages to first-time home buyers, Kish Bank was honored with the prestigious Pillars of the Community Award by the Federal Home Loan Bank of Pittsburgh for our level of participation in their First Front Door program. First Front Door is designed to provide first-time homeowner financing to families and single parents who might not otherwise qualify for a home mortgage. The Pillars of the Community Award also recognized Kish Bank's commitment to community revitalization. FHLB President and CEO Winthrop Watson, who attended the Kish Celebrates Community event in Mifflin County to present the award, stated, "Kish Bank is wholly committed to helping communities become better places to live and work, as witnessed by its support of first-time home buyer programs, FHLB's downtown revitalization program, and neighborhoods that need a boost."

It wasn't just retail clients who were seeking out a relationship-oriented bank during 2017. Businesses frequently were motivated to find a client-focused institution as well. Again,

JEFF GUM
VP, Managing Director of Benefit Management Group

it was the reputation of our Commercial Relationship Managers, combined with the inattention these businesses were receiving from their former banks, that motivated them to move their more complex banking relationships to Kish. And whether it was a dairy operation seeking financing to install an automated system for its 700-head dairy herd, an international company that sought to acquire a manufacturing facility in Huntingdon while keeping jobs and financing local, a machining company in Centre County that wanted to double its size through a leveraged acquisition, a State College commercial real estate development firm seeking to expand a diversified portfolio, or an established Mifflin County construction firm experiencing renewed growth, all these businesses shared a common experience. When they came to Kish, they didn't just find a bank with a "take it or leave it" attitude—they found professionals who were motivated to listen and think creatively about their specific situation. They found the resources necessary to make the right long-term decisions for their companies. They found access to a team of experienced bankers who care about their clients' aspirations and are dedicated to helping them succeed.

As the year came to an end, we were very pleased to announce an expansion to our services available to meet the needs of our business clients. The addition of the Benefit Management Group practice was an important addition that will provide employee benefits consulting services to new and existing medium-sized business clients. We are very pleased to welcome Jeff Gum, VP and Managing Director, and his team to Kish.

So, the number of clients who established new relationships with Kish soared during 2017, and the numbers reflected that powerful trend in almost every way. By year end, the cumulative surge in new relationships impacted the Corporation's total assets, which ended the period at $811 million, an increase of $86.1 million, or 11.88%, compared to total assets of $725 million as of December 31, 2016. When compared to the prior year, total deposits grew by $91.8 million to $654 million, an increase of 16.33% from $562 million the year before. Total loans grew by 16.20%, or $80.1 million, to $575 million from $495 million at the end of December 2016. While the expansion in the commercial loan portfolio was spread across all counties in Kish's market area, it was especially gratifying to see much of the growth occur in Centre County, where we have invested heavily over the past decade to establish a visible market presence and build strong market share, despite the heavy concentration of banks in the Centre Region.

Unprecedented growth in the Bank's balance sheet, accompanied by strong results from Kish's non-bank affiliates, produced record earnings in 2017. Before year-end adjustments precipitated by the Tax Cuts and Jobs Act, net income of $5.06 million represented a 9.65% increase over 2016 net income of $4.6 million. The key factor contributing to this result was a $2.2 million expansion in net interest income, which was up 10.70% to $23.1 million from $20.9 million the prior year. This expansion was more than sufficient to offset a 7.69% rise in noninterest expense to $23.88 million from $22.18 million the prior year. The increase in salary and benefits related to a continued expansion in the sales force. There was also an increase in data processing expense necessary to support significantly higher customer volumes.

The passage of the Tax Cuts and Jobs Act in late December triggered several unanticipated non-cash charges to earnings that reduced reported net income for 2017. Enactment of the Act required a GAAP-related adjustment for accumulated net deferred tax assets of over $400 thousand. Tax-related losses from securities sales further reduced reported net income by more than $500 thousand for 2017. Compared with the prior year, gains from securities sales declined by $672 thousand. When the total impact of the accounting changes and related charges are taken into account, reported net income for 2017 was $4.140 million, a decline from $4.617 million in 2016. As stated previously, this compares to core earnings before the passage of the Act of $5.06 million. It is important to note that almost every bank in the country was subject to financial statement reporting adjustments as a consequence of tax reform.

The downward adjustments to 2017 results should not obscure the enormous benefit of the enactment of the Tax Cuts and Jobs Act to Kish's customers, communities, and shareholders. The enactment of the first meaningful tax reform in more than 30 years meant that Kish Bancorp experienced an immediate reduction in its corporate income tax rate from 34% to 21%. This reduction will free up considerable resources for investment in initiatives that will support the Corporation's growth and the economic health of the region. Because of the improved outlook for Kish and the region's economy, we immediately sought to identify opportunities to express that positive outlook to our team and communities by announcing a number of key economic stimulus initiatives. These included an expanded 2018 budget for support of community and charitable organizations; payment of an immediate, one-time bonus to all team members; and a commitment to evaluate the starting hourly wage and salary ranges for all non-exempt employees. To support continued rapid expansion in the business, Kish announced plans to construct a Technology and Operations Facility next to the Reedsville branch in Mifflin County, accompanied by elevated capital equipment expenditures and hiring activity. Finally, the Board announced the reauthorization of a stock repurchase plan in the amount of $2 million for 2018. The public announcement of these actions was distributed in a mid-January release and is available on Kish Bancorp's investor website.

Needless to say, the Tax Cuts and Jobs Act, along with a sea change in the regulatory environment in which banks operate, should prove to be enormously positive for Kish Bancorp and the region we serve. Stronger earnings will enable us to build capital at a faster rate. Higher capital levels will support continued lending growth and further expansion in the metrics that drive shareholder returns.

With growth reaching historic levels in 2017, it is important to remember that behind every dollar in new business was a human connection that was established one client at a time by relationship managers who cared about the quality and

> Unprecedented growth produced record earnings in 2017.

responsiveness of their service. Most of those managers were longstanding Kish team members who have helped to build the Kish culture over time. But there were also others that joined Kish more recently and brought relationship focus and many of their valued clients with them. They came to Kish because they were looking for a place that shared their values and client focus—a place they could call home. While there are many stories, let us tell one more that illustrates the power of a dynamic relationship manager who joined the supportive client-focused culture at Kish and had an immediate impact.

Terry Horner joined Kish in mid-2016 with over 40 years of banking experience, primarily in the Bellefonte market. After Terry had retired from his previous institution, he agreed to consider a limited business development position with Kish. He had reservations, but agreed to "get back in the harness." At a reception welcoming Terry to Kish Bank, his friends and previous clients showed up in droves, all with stories to share about Terry. It was clear why Terry had been so successful in the Bellefonte market. He has a warm, personal relationship with each of his clients. Since his arrival and through the end of 2017, working with the Bellefonte team, Terry has been responsible for establishing more than 90 consumer and 59 small business relationships. When you ask Terry how he's doing today, he breaks out in a big grin, and says, "Just fabulous! I only wish I had known how good things would be at Kish years ago. I may never retire!"

Those are just a sampling of the many human stories which form the backdrop to the incredible progress the team achieved in 2017. Hopefully, these examples fully demonstrate the power of the core philosophy and business model at Kish. It is a philosophy reflected in the oft repeated sentiment, "People might forget what you said, and people might forget what you did, but they will never forget how you made them feel." The people of Kish have built a caring and responsive culture that can be translated into financial performance because clients value how they are treated at Kish.

TERRY HORNER
VP, Business
Development Officer

As at all successful institutions, enduring cultures would not be possible without the steadfast leadership and long-term perspectives of a great board. Kish has been blessed with such a visionary board that has been thoughtful, independent, and fully engaged in establishing the long-term goals of the organization. During the year, we were sorry to lose the services of Phyllis Palm, who reached mandatory retirement after 25 years of extraordinary board leadership. However, we are reassured that the tradition of great board leadership will be sustained with the appointment of new community leaders to the Kish Bancorp and Bank Boards. To that end, we announced the appointment of Francis Vaughn of Huntingdon and George Woskob of State College during the year. Each of them has become fully engaged in the governance responsibilities of Kish. We were further pleased to very recently announce the appointment of Dr. Eric J. Barron, President of Penn State University, to the Kish Bancorp Board. Fran, George, and Eric have all engaged enthusiastically in charting the future of the Corporation and providing their unique and very valuable perspectives to the governance function at Kish. The full board listings are in the back of this report.

We were also pleased to announce the recent appointment of Gregory T. Hayes to the Kish Bank Board. Greg's appointment was in conjunction with his promotion to the leadership position of President and Chief Operating Officer of the Bank. The public announcement of his promotion and appointment was shared earlier and is available on Kish Bancorp's investor website. This is an auspicious moment in the history of Kish Bank as we plan for leadership succession and the future of the Bank and Corporation. Since Kish's founding in 1900, Greg represents the fourth generation of the Hayes family to continuously engage in a leadership capacity at the Bank. Let's simply call it a watershed moment within a watershed year.

GREGORY T. HAYES
President and
Chief Operating Officer

For many years, the vision for the future of Kish has been to be a major and visible force in banking and financial services across the entire region that Kish serves. We know we are achieving that position by being passionately focused on fulfilling client needs and elevating the quality of life in our communities. We understand that sustaining our vision and viability as an independent institution requires that we deliver strong financial performance and that our shareholder returns earn the loyalty and long-term support of our investors. As Kish's exceptional growth and compelling results for 2017 have made a strong statement about the sustainability of the Kish franchise, so too has the performance of Kish Bancorp stock continued to validate our sense of long-term optimism. We believe that the outlook for the future of Kish has never been brighter and trust that the Kish story of success will be told for many years to come. We thank you for your support and encourage you to engage with and recommend Kish whenever opportunities arise.

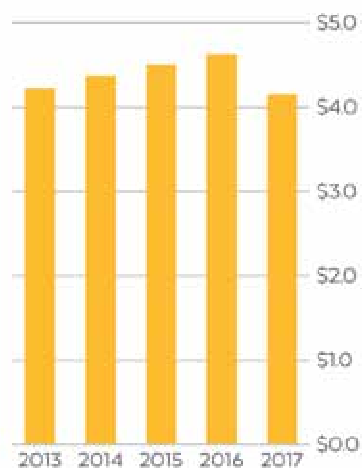
Sincerely,

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

For the Year	2017	2016	2015	2014	2013
Net Income	$4,139,770	$4,616,894	$4,494,241	$4,358,608	$4,216,873
Net Income Before Taxes	5,141,399	5,254,277	5,125,151	5,130,129	4,980,589
Total Dividends Declared	2,301,565	2,130,197	2,112,600	2,005,848	1,971,992
At Year End (in $000s)					
Total Assets	$811,192	$725,071	$696,895	$659,600	$630,132
Total Loans (Net)	569,010	488,588	445,425	414,061	381,261
Total Deposits	653,687	561,928	542,629	508,616	494,374
Stockholders' Equity	56,339	53,593	51,281	48,853	40,681
Loan Loss Reserve	5,698	6,011	5,752	6,009	5,928
Net Loan Losses (Recoveries)	913	271	492	219	34
Ratio Analysis					
Return on Average Assets*	0.54%	0.65%	0.66%	0.67%	0.69%
Return on Average Equity*	7.45%	8.54%	8.89%	9.54%	9.70%
Dividend Declared/Net Income	55.60%	46.14%	47.01%	46.02%	46.76%
Loans/Deposits	87.05%	86.95%	82.09%	81.41%	77.12%
Primary Capital/Total Assets	7.65%	8.22%	8.18%	8.32%	7.40%
Total Capital/Risk Weighted Assets	11.65%	13.10%	12.62%	13.07%	13.17%
Loan Loss Reserve/Loans	0.99%	1.22%	1.27%	1.43%	1.53%
Net Loan Losses to Total Loans (Net)	0.17%	0.06%	0.12%	0.05%	0.01%
Per Share Data					
Basic Earnings	$3.37	$3.80	$3.73	$3.63	$3.54
Fully Diluted Earnings	3.33	3.77	3.69	3.60	3.51
Dividends Paid	1.84	1.72	1.72	1.64	1.62
Equity (Book Value)	44.99	43.27	41.78	39.96	33.40
Equity Plus Loan Loss Reserve	49.54	48.12	46.46	44.87	38.27
Average Shares Outstanding (#)	1,229,584	1,215,067	1,203,630	1,199,207	1,192,755

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

Net Income (in millions)



Earnings & Dividends (per share)

Stock Valuation (per share)

Board 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, 2017 and 2016; 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, 2017 and 2016, 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 1, 2018

S.R. Snodgrass, P.C. • 2009 Mackenzie Way, Suite 340 • Cranberry Township, Pennsylvania 16066 • Phone: 724-934-0344 • Fax: 724-934-0345

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 7,964,222	$ 8,334,193
Interest-bearing deposits with other institutions	35,923,762	12,070,309
Cash and cash equivalents	43,887,984	20,404,502
Certificates of deposit in other financial institutions	3,492,344	3,492,330
Securities available for sale, at fair value	140,047,639	161,270,378
Securities held to maturity, fair value of $6,162,790 and $6,123,118	6,000,000	6,000,000
Loans held for sale	1,279,431	1,006,096
Loans	574,708,035	494,599,165
Less allowance for loan losses	5,697,810	6,011,169
Net loans	569,010,225	488,587,996
Premises and equipment	12,996,668	12,761,615
Goodwill	2,143,699	1,668,699
Regulatory stock	6,149,000	6,519,400
Bank-owned life insurance	15,437,997	15,010,555
Accrued interest and other assets	10,746,897	8,349,874
TOTAL ASSETS	$ 811,191,883	$ 725,071,445
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 85,526,265	$ 73,448,103
Interest-bearing demand	11,986,932	8,662,868
Savings	63,773,855	63,630,053
Money market	233,973,580	209,252,147
Time	258,426,421	206,934,437
Total deposits	653,687,053	561,927,608
Short-term borrowings	8,930,710	14,782,918
Other borrowings	85,931,850	89,348,878
Accrued interest and other liabilities	6,303,539	5,418,662
TOTAL LIABILITIES	754,853,152	671,478,066
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	2,066,936	2,273,684
Retained earnings	56,207,032	54,452,646
Accumulated other comprehensive income	509,366	109,725
Treasury stock, at cost (98,864 and 106,324 shares in 2017 and 2016, respectively)	(3,118,978)	(3,917,051)
TOTAL STOCKHOLDERS' EQUITY	56,338,731	53,593,379
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 811,191,883	$ 725,071,445

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2017	Year Ended December 31, 2016
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 22,855,386	$ 19,371,566
Exempt from federal income tax	1,336,603	1,442,942
Interest and dividends on investment securities:		
Taxable	2,655,876	3,044,915
Exempt from federal income tax	1,332,272	1,415,615
Interest-bearing deposits with other institutions	345,042	152,151
Other dividend income	602,245	610,665
Total interest and dividend income	29,127,424	26,037,854
INTEREST EXPENSE		
Deposits	3,864,807	3,236,122
Short-term borrowings	22,677	29,892
Other borrowings	2,138,665	1,903,929
Total interest expense	6,026,149	5,169,943
NET INTEREST INCOME	23,101,275	20,867,911
Provision for loan losses	600,000	530,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,501,275	20,337,911
NONINTEREST INCOME		
Service fees on deposit accounts	1,614,103	1,672,615
Investment securities gains, net	101,117	773,237
Gain on sale of loans	866,798	963,681
Earnings on bank-owned life insurance	429,766	444,154
Insurance commissions	1,128,094	1,124,080
Travel agency commissions	377,295	273,064
Wealth Management	1,399,589	1,278,978
Other	607,702	566,019
Total noninterest income	6,524,463	7,095,827
NONINTEREST EXPENSE		
Salaries and employee benefits	14,633,030	13,477,290
Occupancy and equipment	2,878,318	2,744,267
Data processing	2,089,133	1,943,146
Professional fees	315,071	420,802
Advertising	252,065	303,862
Federal deposit insurance	237,000	351,927
Pennsylvania shares tax	598,948	497,282
Other	2,880,774	2,440,885
Total noninterest expense	23,884,340	22,179,461
Income before income taxes	5,141,399	5,254,277
Income taxes (includes revaluation of net deferred tax asset due to tax reform in the amount of $416,852 for the year ended 2017)	1,001,629	637,383
NET INCOME	$ 4,139,770	$ 4,616,894
EARNINGS PER SHARE		
Basic	$ 3.37	$ 3.80
Diluted	$ 3.33	$ 3.77

See accompanying notes to the consolidated financial statements.

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net income	$ 4,139,770	$ 4,616,894
Other comprehensive income (loss)		
Securities available for sale:		
Change in unrealized holding gains on available-for-sale securities	485,646	292,357
Tax effect	(165,120)	(99,402)
Change in comprehensive income related to cash flow hedges	93,989	-
Tax effect	(31,956)	-
Reclassification adjustment for net gains realized in net income	(101,117)	(773,237)
Tax effect	34,380	262,901
Total other comprehensive income (loss)	315,822	(317,381)
Total comprehensive income	$ 4,455,592	$ 4,299,513

See accompanying notes to the consolidated financial statements.

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
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
Reclassification of certain income tax effects from accumulated other comprehensive income			(83,819)	83,819		-
Net income			4,139,770			4,139,770
Other comprehensive income				315,822		315,822
Stock option compensation expense		31,922				31,922
Purchase of shares by restricted stock plan (12,092 shares)		(488,720)			488,720	-
Exercise of stock options (12,874 shares)		(115,016)				(115,016)
Forfeiture of shares by restricted stock plan (523 shares)		21,701			(21,701)	-
Amortization of unearned restricted stock plan shares		316,662				316,662
Cash dividends ($1.84 per share)			(2,301,565)			(2,301,565)
Purchase of treasury stock (3,435 shares)					(179,637)	(179,637)
Sale of treasury stock (12,398 shares)		26,703			510,691	537,394
Balance, December 31, 2017	$ 674,375	$ 2,066,936	$ 56,207,032	$ 509,366	$ (3,118,978)	$ 56,338,731

See accompanying notes to the consolidated financial statements.

	Year Ended December 31, 2017	2016
OPERATING ACTIVITIES		
Net income	$ 4,139,770	$ 4,616,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600,000	530,000
Investment securities gains, net	(101,117)	(773,237)
Proceeds from sale of loans held for sale	32,239,960	30,894,716
Origination of loans held for sale	(31,646,497)	(29,664,291)
Gain on sales of loans	(866,798)	(963,681)
Depreciation, amortization, and accretion	1,339,186	1,348,301
Deferred income taxes	(283,626)	(372,623)
Increase in accrued interest receivable	(147,625)	(131,214)
Increase in accrued interest payable	329,023	22,395
Earnings on bank-owned life insurance	(429,766)	(444,154)
Loss on sale of other assets	-	(25,165)
Compesation expense	348,584	344,554
Other, net	(1,291,028)	76,235
Net cash provided by operating activities	4,230,066	5,458,730
INVESTING ACTIVITIES		
Purchase of certificates of deposit	-	(490,000)
Acquisition of Benefit Management Group	(475,000)	-
Investment securities available for sale:		
Proceeds from sale of investments	11,101,516	15,233,731
Proceeds from repayments and maturities	10,284,013	52,362,440
Purchases	-	(44,987,447)
Investment held to maturity:		
Purchases	-	(2,750,000)
Increase in loans, net	(81,330,229)	(43,693,002)
Purchase of regulatory stock	(1,493,400)	(1,353,900)
Redemption of regulatory stock	1,863,800	1,343,900
Purchase of premises and equipment	(1,246,667)	(858,109)
Proceeds from sale of other real estate owned	117,996	127,687
Net cash used for investing activities	(61,177,971)	(25,064,700)
FINANCING ACTIVITIES		
Increase in deposits, net	91,759,445	19,298,913
(Decrease) increase in short-term borrowings, net	(5,852,208)	4,770,553
Proceeds from other borrowings	6,565,000	26,524,468
Repayments of other borrowings	(9,982,027)	(25,307,545)
Purchases of treasury stock	(179,637)	(570,367)
Proceeds from sale of treasury stock	537,394	599,025
Exercise of stock options	(115,016)	(229,898)
Cash dividends	(2,301,564)	(2,130,197)
Net cash provided by financing activities	80,431,387	22,954,952
Increase in cash and cash equivalents	23,483,482	3,348,982
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,404,502	17,055,520
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 43,887,984	$ 20,404,502
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 5,693,614	$ 5,147,548
Income taxes	1,225,000	840,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	$ 308,000	$ -

See accompanying 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, 2017 and 2016. 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 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investment Securities (Continued)

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, the Company recorded compensation expense of $31,922 and $20,112, respectively, related to share-based compensation awards. At December 31, 2017, there was approximately $49,142 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)
2017	3.24 %	2.35 %	11.08 %	10.00
2016	3.90 %	1.81 %	9.76 %	10.00

The weighted-average fair value of each stock option granted for 2017 and 2016 was $4.03 and $1.51, respectively. Stock options exercised during the years ended December 31, 2017 and 2016 were 12,874 and 25,204, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, the Company recorded gross servicing rights of $630,259 and $678,338, respectively, with a reserve for impairment of $214,725 and $225,053, 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.

Derivatives and Hedging Activities

The Company engages in a number of business activities that are vulnerable to interest rate risk. The associated variability in cash flows related to interest rate risk may impact the results of operations of the Company. The Company's hedging objective is to reduce, to the extent possible, unpredictable cash flows associated with interest rate risk, via approved hedging strategies, related to business strategies and business objectives.

All derivatives are recorded on the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value of derivatives depends on whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Derivatives and Hedging Activities (Continued)

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings, together and in the same income statement line item with changes in the fair value of the related hedged item. Changes in the fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive loss and are reclassified into the line item in the income statement in which the hedged item is recorded and in the same period in which the hedged item affects earnings. Hedge ineffectiveness and gains and losses on the excluded component of a derivative in assessing hedge effectiveness are recorded in earnings.

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.

	2017	2016
Weighted-average common shares issued	1,348,750	1,348,750
Average treasury stock shares	(96,516)	(110,048)
Average unearned nonvested restricted share plan shares	(22,650)	(23,635)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,229,584	1,215,067
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	112	348
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	14,933	9,968
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	1,244,629	1,225,383

Options to purchase 106,435 shares of common stock at a price of $25.50 to $54.00, as of December 31, 2017, and 25,196 shares of restricted stock ranging in price from $30.00 to $55.13 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

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.

3. **INVESTMENT SECURITIES**

The amortized cost, gross unrealized gains and losses and fair value of investment securities are as follows:

	2017			
Available for Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 6,996,146	$ -	$ (250,696)	$ 6,745,450
U.S. government agency securities	32,743,522	-	(675,334)	32,068,188
Obligations of states and political subdivisions	51,262,205	667,103	(66,648)	51,862,660
Corporate securities	23,894,085	176,694	(122,423)	23,948,356
Mortgage-backed securities in government-sponsored entities	21,456,583	80,649	(166,109)	21,371,123
Total debt securities	136,352,541	924,446	(1,281,210)	135,995,777
Equity securities - financial institutions	3,144,316	908,622	(1,076)	4,051,862
Total Available for Sale	$ 139,496,857	$ 1,833,068	$ (1,282,286)	$ 140,047,639
Held to Maturity:				
Corporate Securities	$ 6,000,000	$ 162,790	$ -	$ 6,162,790

	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

3. **INVESTMENT SECURITIES (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, 2017 and 2016.

2017	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	$ 975,350	$ (10,735)	$ 5,770,100	$ (239,961)	$ 6,745,450	$ (250,696)
U.S. government agency securities	11,417,325	(120,511)	20,650,863	(554,823)	32,068,188	(675,334)
Obligations of states and political subdivisions	6,087,843	(54,512)	697,451	(12,136)	6,785,294	(66,648)
Corporate securities	3,083,422	(29,545)	7,571,993	(92,877)	10,655,415	(122,423)
Mortgage-backed securities in govern-ment-sponsored entities	15,075,655	(113,514)	2,460,569	(52,595)	17,536,224	(166,109)
Equity securities - financial institutions	-	-	148,853	(1,076)	148,853	(1,076)
Total	$ 36,639,595	$ (328,817)	$ 37,299,829	$ (953,468)	$ 73,939,424	$ (1,282,286)

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 - financial institutions	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)

U.S. treasury securities. The unrealized loss on 4 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, 2017.

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, 2017.

Obligations of states and political subdivisions. The Company's unrealized losses on 14 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, 2017.

Corporate securities. The Company had unrealized losses on investments in 21 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, 2017.

Mortgage-backed securities in government-sponsored entities. The unrealized losses on 18 of the Company's investments in mortgage-backed securities were caused by interest rate increases. The Company purchased 0 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, 2017.

Equity securities - financial institutions. The Company had unrealized losses on investments in 1 equity security. 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 this security and it is not more likely than not that the Company will be required to sell the investment before recovery of the book value, it does not consider this investment to be other-than-temporarily impaired at December 31, 2017.

3. INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of debt securities at December 31, 2017, 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	$ 6,101,545	$ 6,100,355	$ -	$ -
Due after one year through five years	53,208,702	53,085,819	-	-
Due after five years through ten years	64,579,473	64,468,312	6,000,000	6,162,790
Due after ten years	12,462,821	12,341,291	-	-
Total	$ 136,352,541	$ 135,995,777	$ 6,000,000	$ 6,162,790

Investment securities with a carrying value of $130,015,638 and $63,339,054 at December 31, 2017 and 2016, 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:

	2017	2016
Proceeds from sales	$ 11,101,516	$ 15,233,731
Gross gains	506,026	803,269
Gross losses	(404,909)	(30,032)

4. LOANS

Major classifications of loans are summarized as follows:

	2017	2016
Commercial real estate	$ 190,488,417	$ 151,335,017
Commercial and industrial	98,104,822	81,326,419
Agricultural	27,793,961	21,025,621
State and political subdivisions	38,247,171	40,682,476
Consumer	9,644,462	11,714,706
Residential real estate	210,429,202	188,514,926
	574,708,035	494,599,165
Less allowance for loan losses	5,697,810	6,011,169
Net loans	$ 569,010,225	$ 488,587,996

Mortgage loans serviced by the Company for others amounted to $63,196,825 and $68,051,957 at December 31, 2017 and 2016, respectively.

Unearned fees included in loans receivable amounted to $15,662 and $21,547 at December 31, 2017 and 2016, respectively.

4. LOANS (Continued)

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, 2017 and 2016, 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, 2017 and 2016, is as follows:

Balance 2015	Additions	Amounts Collected	Balance 2016	Additions	Amounts Collected	Balance 2017
$ 13,822,227	$ 1,680,816	$ 2,303,312	$ 13,199,731	$ 4,782,315	$ 1,280,296	$ 16,701,750

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.

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 2017, management decreased the qualitative factors reserve percentage for commercial and industrial, commercial real estate, and residential real estate pool of loans because of improving economic conditions both locally and nationally. Further reductions in the commercial and industrial and commercial real estate qualitative factors reserve percentages were made due to the consistent and experienced loan and credit staff in these areas. Management increased qualitative factors on reserve percentages for commercial and industrial loan participations transacted with the BancAlliance portfolio for related changes in volume and severity of past dues in this sector. A decrease in the residential real estate qualitative factors reserve percentages was done in conjunction with the increase in underlying values of these collateral dependent loans. Strong asset quality supported by low levels of past-due, non-accrual and classified loans and a diversified portfolio with minimal levels of concentration support management's decision to have the remaining qualitative factor reserve percentages unchanged in 2017.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

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.

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:

	2017							
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,387,561	$ 1,086,099	$ 215,719	$ 204,977	$ 155,602	$ 1,383,750	$ 577,461	$ 6,011,169
Charge-offs	(550,350)	(210,459)	-	-	(127,675)	(53,881)	-	(942,365)
Recoveries	7,677	8,132	900	-	12,297	-	-	29,006
Provision	653,880	346,471	49,897	(22,895)	94,000	33,986	(555,339)	600,000
Ending balance	$ 2,498,768	$ 1,230,243	$ 266,516	$ 182,082	$ 134,224	$ 1,363,855	$ 22,122	$ 5,697,810
Ending balance individually evaluated for impairment	$ 2,796	$ 12,286	$ 31,341	$ -	$ -	$ 28,059	$ -	$ 74,482
Ending balance collectively evaluated for impairment	$ 2,495,972	$ 1,217,957	$ 235,175	$ 182,082	$ 134,224	$ 1,335,796	$ 22,122	$ 5,623,328
Loans:								
Individually evaluated for impairment	$ 4,680,918	$ 382,014	$ 297,105	$ 77,085	$ -	$ 470,589		$ 5,907,711
Collectively evaluated for impairment	185,807,499	97,722,808	27,496,856	38,170,086	9,644,462	209,958,613		568,800,324
Ending balance	$ 190,488,417	$ 98,104,822	$ 27,793,961	$ 38,247,171	$ 9,644,462	$ 210,429,202		$ 574,708,035

5. ALLOWANCE FOR LOAN LOSSES (Continued)

	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

The reserve requirement for commercial real estate loans increased by $111,207 from 2016 to 2017, and for commercial and industrial loans increased by $144,144 during the same period. This was a result of increases in outstanding balances in commercial real estate and commercial and industrial loans during 2017. A decrease in impaired and criticized assets of $701 thousand net an increase of $285 thousand in classified assets for commercial real estate loans, which at $5.202 million at December 31, 2017, indicates a 9.49 percent or $546 thousand net decrease from December 31, 2016.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2017 and 2016, 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.

	2017				
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 185,286,273	$ 94,080,746	$ 27,222,926	$ 38,247,171	$ 344,837,116
Special Mention	779,433	3,112,341	489,900	-	4,381,674
Substandard	-	879,449	81,136	-	960,585
Doubtful	4,422,711	32,285	-	-	4,454,996
Total	$ 190,488,417	$ 98,104,821	$ 27,793,962	$ 38,247,171	$ 354,634,371

	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

5. ALLOWANCE FOR LOAN LOSSES (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:

	2017		
	Consumer	Residential Real Estate	Total
Performing	$ 9,644,462	$ 210,212,909	$ 219,857,371
Nonperforming	-	216,293	216,293
Total	$ 9,644,462	$ 210,429,202	$ 220,073,664

	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

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:

	2017						
	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	$ -	$ -	$ 4,422,711	$ 4,422,711	$ 186,065,706	$ 190,488,417	$ -
Commercial and industrial	-	6,334	32,285	38,619	98,066,203	98,104,822	-
Agricultural	47,177	-	-	47,177	27,746,784	27,793,961	-
State and political subdivisions	-	-	-	-	38,247,171	38,247,171	-
Consumer	2,407	-	-	2,407	9,642,055	9,644,462	-
Residential real estate	687,599	-	216,293	903,892	209,525,310	210,429,202	-
Total	$ 737,183	$ 6,334	$ 4,671,289	$ 5,414,806	$ 569,293,229	$ 574,708,035	$ -

	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	$ -

Consumer mortgage loans held by the Company in the process of foreclosure amounted to $537,545 as of December 31, 2017.

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.

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

	2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 4,646,148	$ 4,646,148	$ -	$ 5,834,297	$ 11,811
Commercial and industrial	203,505	203,505	-	243,207	10,859
Agricultural	94,659	94,659	-	101,588	5,490
State and political subdivisions	77,085	77,085	-	80,931	3,715
Consumer	-	-	-	-	-
Residential real estate	290,815	290,815	-	579,843	5,489
	5,312,212	5,312,212	-	6,839,866	37,364
With an allowance recorded:					
Commercial real estate	34,770	34,770	2,796	714,262	1,907
Commercial and industrial	178,509	178,509	12,286	90,889	12,509
Agricultural	202,446	202,446	31,341	205,897	9,318
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	19,333	-
Residential real estate	179,774	179,774	28,059	198,159	9,026
	595,499	595,499	74,482	1,228,540	32,760
Total:					
Commercial real estate	4,680,918	4,680,918	2,796	6,548,559	13,718
Commercial and industrial	382,014	382,014	12,286	334,096	23,368
Agricultural	297,105	297,105	31,341	307,485	14,808
State and political subdivisions	77,085	77,085	-	80,931	3,715
Consumer	-	-	-	19,333	-
Residential real estate	470,589	470,589	28,059	778,002	14,515
Total	$ 5,907,711	$ 5,907,711	$ 74,482	$ 8,068,406	$ 70,124

Impaired Loans (Continued)

	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

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. Interest income that would have been recorded on nonaccrual loans in accordance with their original terms totaled approximately $1.2 million in 2017 and $1.1 million in 2016.

The following table includes the loan balances on nonaccrual status as of December 31:

	2017	2016
Commercial real estate	$ 4,422,711	$ 5,123,910
Commercial and industrial	32,285	32,971
Residential real estate	216,293	497,332
Total	$ 4,671,289	$ 5,654,213

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructuring (TDR's)

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. 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, either through a charge-off to the allowance or a specific reserve. Segment and class status are determined by the loan's classification at origination. As of December 31, 2017, a specific reserve allocation of $74,482 has been established against the troubled debt restructurings. Also, as of December 31, 2017, no charge-offs for the troubled debt restructurings were required.

The restructuring of the loan was due to an extension of the maturity date. No modifications involved any changes in principal balance for 2017 or 2016. There were no loans modified in a troubled debt restructuring from January 1, 2015 through December 31, 2016, that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2017 and 2016, respectively. There were no loan modifications that are considered troubled debt restructurings for the year ended December 31, 2017.

Loan modifications that are considered troubled debt restructurings completed during the year ended December 31, 2016 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

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2017	2016
Land and land improvements	$ 1,307,103	$ 805,852
Building and leasehold improvements	17,762,296	17,184,727
Furniture, fixtures, and equipment	6,840,866	6,673,019
	25,910,265	24,663,598
Less accumulated depreciation	12,913,597	11,901,983
Total	$ 12,996,668	$ 12,761,615

Depreciation charged to operations was $1,016,345 in 2017 and $1,028,830 in 2016.

7. GOODWILL

As of the year ended December 31, 2017, goodwill had a gross carrying amount of $2,757,712 and accumulated amortization of $614,013 for a net carrying value of $2,143,699. As of the year ended December 31, 2016, 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, 2017 and 2016, respectively.

Changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016, are as follows:

	Total
Balance as of December 31, 2016	$ 1,668,699
Additions	475,000
Balance as of December 31, 2017	$ 2,143,699

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2018	$ 124,057,272
2019	72,086,486
2020	20,340,561
2021	22,786,359
2022	16,276,833
Thereafter	2,878,910
	$ 258,426,421

The aggregate of all time deposit accounts of $250,000 or more amounted to $93,941,525 and $44,645,266 at December 31, 2017 and 2016, respectively. Total amount of Brokered Deposits included above for each of the years ended December 31, 2017 and 2016 were $5,662,000 and $7,450,000, respectively. Depositors with over 5% of total deposits include State College Area School District at $37.5 million and Altoona Area School District at $14.7 million as of December 31, 2017.

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 funds from a $5,000,000 unsecured line of credit with a commercial bank for the years ended December 31, 2017 and 2016, 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:

	2017	2016
Balance at year-end	$ 8,930,710	$ 14,782,918
Average balance outstanding	5,333,368	5,173,755
Maximum month-end balance	10,018,072	14,782,918
Weighted-average rate at year-end	1.34%	0.70%
Weighted-average rate during the year	0.58%	0.79%

The collateral pledged on the repurchase agreements by the remaining contractual maturity of the repurchase agreements in the Consolidated Balance Sheets as of years ended December 31, 2017 and 2016, is presented in the following table.

	Remaining Contractual Maturity Overnight and Continuous	
	December 31, 2017	December 31, 2016
Securities of U.S Government Agencies, U.S Treasuries and obligations of state and political subdivisions pledged, fair value	$ 3,600,854	$ 6,368,218
Repurchase agreements	2,550,710	4,029,918

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, 2017	At December 31, 2016
Fixed rate	02/08/18	08/04/26	1.84 %	0.93 %	4.00 %	$ 50,297,498	$ 49,266,349
Fixed rate amortizing	06/26/18	07/15/24	1.70	1.08	6.53	13,328,352	16,776,529
Mid-term repos	01/29/18	01/29/19	1.14	1.07	1.30	6,000,000	7,000,000
Subordinated capital notes	03/24/24	03/03/26	5.07	4.75	5.25	10,120,000	10,120,000
Note payable	03/17/35	11/23/35	3.28	2.95	3.60	6,186,000	6,186,000
						$ 85,931,850	$ 89,348,878

Maturities of other borrowings at December 31, 2017, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2018	$ 11,559,598	1.15 %
2019	3,293,637	1.18
2020	14,890,735	1.70
2021	9,118,311	1.80
2022	9,193,000	1.97
2023 and after	37,876,570	3.09
	$ 85,931,851	2.13 %

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, 2017, the Bank's maximum borrowing capacity with the FHLB was approximately $266.7 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, 2017 is approximately $8.4 million.

The Bank also maintains a $10.0 million, $10.0, million and a $5.0 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, 2017.

10. OTHER BORROWINGS (Continued)

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. DERIVATIVE FINANICAL INSTRUMENTS

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings. The Company also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

11. DERIVATIVE FINANICAL INSTRUMENTS (Continued)

The Company has contracted with a third party to engage pay-fixed interest rate swap contracts and the outstanding as of December 31, 2017, is being utilized to hedge $6.0 million in floating rate debt. Below is a summary of the interest rate swap agreements and the terms as of the year ended December 31, 2017:

	2017				
	Notional Amount	Pay Rate	Receive Rate	Maturity Date	Unrealized Gain/(Loss)
Interest rate swap contract	$ 6,000,000	1.99%	3-Month Libor	5/22/24	$ 93,989

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed interest payments. As of December 31, 2017, the Company had one interest rate swap with a notional of $6.0 million associated with the Company's cash outflows associated with various floating-rate liabilities.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the period ended December 31, 2017.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate liabilities. During the next twelve months, the Company estimates that $0 will be reclassified as an increase in interest expense.

Credit-Risk-Related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain the following provisions:

- if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations;
- if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions, and the Company would be required to settle its obligations under the agreements;
- if the Company fails to maintain a specified minimum leverage ratio, then the Company could be declared in default on its derivative obligations.

At December 31, 2017, the fair value of derivatives in a net asset position, which includes accrued interest and any credit valuation adjustments related to these agreements, was $90,478. At December 31, 2017, the Company had no required cash collateral with certain of its derivative counterparties. If the Company had breached any of the above provisions at December 31, 2017, it would have been required to settle its obligations under the agreements at termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

11. **DERIVATIVE FINANICAL INSTRUMENTS (Continued)**

Fair Values of Derivative Instruments on the Balance Sheet

The following table presents the fair values of derivative instruments in the balance sheet:

	Assets			Liabilities		
	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
December 31, 2017						
Interest rate derivatives	Other assets	$	93,989	Other liabilities	$	(3,511)

12. **INCOME TAXES**

The provision for federal income taxes consists of:

		2017		2016
Current	$	718,003	$	1,010,006
Deferred		(133,226)		(372,623)
Change in corporate tax rate		416,852		-
Total provision	$	1,001,629	$	637,383

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, 2017 and 2016 are as follows:

		2017		2016
Deferred tax assets:				
Allowance for loan losses	$	1,196,540	$	2,043,797
Deferred compensation		230,166		300,077
Core deposit intangible assets		15,060		24,382
Alternative minimum tax carryforward		927,273		927,273
Asset valuation allowances		92,342		154,919
Employee compensation accruals		278,459		391,699
Nonaccrual interest receivable		248,405		385,776
Other		1,235		2,000
Deferred tax assets		2,989,480		4,229,923
Deferred tax liabilities:				
Premises and equipment		484,726		878,295
Goodwill		340,247		550,876
Deferred loan fees		61,970		96,533
Partnerships		147,908		259,804
Other		3,346		5,417
Unrealized gain on available-for-sale securities		115,664		56,526
Unrealized gain on swaps - balance sheet hedge		19,737		-
Low income housing		22,234		-
Deferred tax liabilities		1,195,832		1,847,451
Net deferred tax assets	$	1,793,648	$	2,382,472

12. **INCOME TAXES (Continued)**

No valuation allowance was established at December 31, 2017 and 2016, 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:

		2017			2016		
		Amount	% of Pretax Income		Amount	% of Pretax Income	
Provision at statutory rate	$	1,748,076	34.0	% $	1,786,454	34.0	%
Tax-exempt interest		(907,417)	(17.6)		(971,909)	(18.5)	
Life insurance income		(46,308)	(0.9)		(122,447)	(2.3)	
Change in corporate tax rate		(416,852)	(8.1)		-	-	
Other		624,130	12.1		(54,715)	(1.0)	
Actual tax expense and effective rate	$	1,001,629	19.5	% $	637,383	12.2	%

The Tax Cuts and Jobs Act, enacted on December 22, 2017, lowered the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, the carrying value of net deferred tax assets was reduced which increased income tax expense by $416,852.

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 2013 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

13. **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 $355,319 and $332,136 for the years ended December 31, 2017 and 2016, respectively. The fair value of plan assets includes $1,882,945 and $1,432,583 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2017 and 2016, respectively.

13. **EMPLOYEE BENEFITS (Continued)**

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 2017 and 2016 were $1,096,030 and $882,578, respectively, and are reported as “Other liabilities” on the Consolidated Balance Sheet. Expenses related to this plan were $160,022 and $80,522 for December 31, 2017 and 2016, 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 30,000 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 $316,662 and $324,442 for the years ended December 31, 2017 and 2016, respectively.

The following is a summary of the status of the Company’s restricted stock as of December 31, 2017, 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
Granted	12,092		54.53
Vested	(7,790)		40.03
Forfeited	(288)		44.08
Nonvested at December 31, 2017	25,196	$	47.00

13. **EMPLOYEE BENEFITS (Continued)**

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/Expired	(4,620)		41.28
Outstanding, December 31, 2016	107,141	$	36.45
Granted	15,678		54.00
Exercised	(12,874)		33.92
Forfeited/Expired	(3,510)		42.91
Outstanding, December 31, 2017	106,435	$	39.13
Exercisable at year-end	71,665	$	34.98

The following table summarizes the characteristics of stock options at December 31, 2017:

			Outstanding				Exercisable		
Grant Date		Exercise Price	Shares	Contractual Average Life		Average Exercise Price	Shares		Average Exercise Price
01/31/08	$	38.18	6,100	0.08	$	38.18	6,100	$	38.18
03/26/09	$	25.50	4,500	1.23	$	25.50	4,500	$	25.50
04/01/10	$	34.13	9,000	2.24	$	34.13	9,000	$	34.13
04/28/11	$	29.75	5,700	3.32	$	29.75	5,700	$	29.75
04/02/12	$	30.00	7,200	4.25	$	30.00	7,200	$	30.00
04/01/13	$	33.25	12,880	5.25	$	33.25	12,880	$	33.25
09/12/13	$	35.00	300	5.70	$	35.00	300	$	35.00
04/01/14	$	36.50	8,164	6.25	$	36.50	8,164	$	36.50
09/22/14	$	39.50	500	6.72	$	39.50	500	$	39.50
04/01/15	$	38.95	15,876	7.25	$	38.95	10,478	$	38.95
04/01/16	$	44.00	18,737	8.25	$	44.00	6,183	$	44.00
10/31/16	$	44.80	1,000	8.83	$	44.80	330	$	44.80
12/12/16	$	44.75	1,000	8.95	$	44.75	330	$	44.75
04/03/17	$	54.00	15,478	9.25	$	54.00	-	$	54.00
			106,435				71,665		

14. 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:

	2017	2016
Commitments to extend credit	$ 157,013,677	$ 121,375,912
Standby letters of credit	5,308,908	5,239,555
Total	$ 162,322,585	$ 126,615,467

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.

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, 2017, are as follows:

	Minimum Lease Payment
2018	$ 396,297
2019	382,857
2020	356,013
2021	315,765
2022	315,765
Thereafter	3,984,842
Total	$ 5,751,540

Rent expense under leases for each of the years ended December 31, 2017 and 2016, was $358,994 and $355,500, 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.

15. 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, 2017 and 2016 was $2,399,000 and $2,009,000, 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, 2017, the Bank had a capital surplus of $5,723,535 which was not available for distribution to the Company as dividends.

16. 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, 2017 and 2016, 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.

16. REGULATORY CAPITAL (Continued)

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

	2017		2016	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 75,941,873	11.65 %	$ 74,507,455	13.10 %
For capital adequacy purposes	52,161,842	8.00	45,508,255	8.00
To be well capitalized	65,202,302	10.00	56,885,318	10.00
Common Equity Tier I (to risk-weighted assets)				
Actual	$ 53,675,439	8.23 %	$ 51,873,835	9.12 %
For capital adequacy purposes	29,341,036	4.50	25,598,393	4.50
To be well capitalized	42,381,496	6.50	36,975,457	6.50
Tier I capital (to risk-weighted assets)				
Actual	$ 59,490,667	9.12 %	$ 57,534,849	10.11 %
For capital adequacy purposes	39,121,381	6.00	34,131,191	6.00
To be well capitalized	52,161,842	8.00	45,508,255	8.00
Tier I capital (to average assets)				
Actual	$ 59,490,667	7.35 %	$ 57,534,849	8.01 %
For capital adequacy purposes	32,364,684	4.00	28,747,338	4.00
To be well capitalized	40,455,855	5.00	35,934,173	5.00

16. REGULATORY CAPITAL (Continued)

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

	2017		2016	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 73,198,801	11.25 %	$ 72,160,102	12.68 %
For capital adequacy purposes	52,070,175	8.00	45,519,158	8.00
To be well capitalized	65,087,718	10.00	56,898,947	10.00
Common Equity Tier I (to risk-weighted assets)				
Actual	$ 66,939,931	10.28 %	$ 65,350,966	11.49 %
For capital adequacy purposes	29,289,473	4.50	25,604,526	4.50
To be well capitalized	42,307,017	6.50	36,984,316	6.50
Tier I capital (to risk-weighted assets)				
Actual	$ 66,939,931	10.28 %	$ 65,350,966	11.49 %
For capital adequacy purposes	39,052,631	6.00	34,139,368	6.00
To be well capitalized	52,070,175	8.00	45,519,158	8.00
Tier I capital (to average assets)				
Actual	$ 66,939,931	8.29 %	$ 65,350,966	9.12 %
For capital adequacy purposes	26,035,087	4.00	28,674,897	4.00
To be well capitalized	32,543,859	5.00	35,843,622	5.00

17. 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, 2017 and 2016, 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, 2017			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 6,745,450	$ -	$ 6,745,450
U.S. government agency securities	-	32,068,188	-	32,068,188
Obligations of states and political subdivisions	-	51,862,660	-	51,862,660
Corporate securities	-	23,948,356	-	23,948,356
Mortgage-backed securities in government-sponsored entities	-	21,371,123	-	21,371,123
Equity securities	4,051,862	-	-	4,051,862
Total	$ 4,051,862	$ 135,995,777	$ -	$ 140,047,639

	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

17. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2017 and 2016, 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, 2017			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 5,833,229	$ 5,833,229
Other real estate owned	-	-	255,000	255,000
Mortgage servicing rights	-	-	415,533	415,533

	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

17. 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, 2017 and 2016.

December 31, 2017	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 2,064,013	Discounted Cash Flows	Discount Rate	4.23% - 6.75% discount Weighted Average (5.40%)
Impaired loans	$ 3,769,216	Property appraisals	Management discount for property type and recent market volatility	15% - 24.4% discount Weighted Average (22.87%)
Other real estate owned	$ 255,000	Property appraisals	Management discount for property type and recent market volatility	0% - 50% discount Weighted Average (12.07%)
Mortage servicing rights	$ 415,533	Discounted cash flows	Discount rate	2.89 - 3.48% discount Weighted Average (3.185%)
			Prepayment speeds	1.32 - 2.76 prepayment factor Weighted Average (1.53%)

December 31, 2016	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 2,368,763	Discounted Cash Flows	Management discount for property type and recent market volatility	4.23% - 6.00% discount Weighted Average (5.42%)
Impaired loans	$ 4,270,269	Property appraisals	Management discount for property type and recent market volatility	10% - 24.4% discount Weighted Average (22.01%)
Mortage servicing rights	$ 453,285	Discounted cash flows	Discount rate	2.76 - 3.57% discount Weighted Average (3.17%)
			Prepayment speeds	1.22 - 2.81 prepayment factor Weighted Average (1.60%)

18. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

	2017				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$ 43,887,984	$ 43,887,984	$ 43,887,984	$ -	$ -
Certificates of deposit	3,492,344	3,492,344	3,492,344	-	-
Investment securities available for sale	140,047,639	140,047,639	4,051,862	135,995,777	-
Investment securities held to maturity	6,000,000	6,162,790	-	6,162,790	-
Loans held for sale	1,279,431	1,279,431	1,279,431	-	-
Net loans	569,010,225	551,495,272	-	-	551,495,272
Regulatory stock	6,149,000	6,149,000	6,149,000	-	-
Bank-owned life insurance	15,437,997	15,437,997	15,437,997	-	-
Hedges	93,989	93,989	-	93,989	-
Accrued interest receivable	2,477,312	2,477,312	2,477,312	-	-
Mortgage servicing rights	415,533	415,533	-	-	415,533
Financial liabilities:					
Deposits	$ 653,687,053	$ 652,211,264	$ 395,260,633	$ -	$ 256,940,459
Short-term borrowings	8,930,710	8,930,710	8,930,710	-	-
Other borrowings	85,931,850	84,682,347	-	-	84,682,347
Accrued interest payable	1,138,006	1,138,006	1,138,006	-	-

	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	-	-

18. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Derivative Instruments

The Company enters into interest rate swaps that allow our commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate into a fixed-rate. The Company then enters into a swap agreement with a third party in order to economically hedge its exposure through the customer agreement.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives may use Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, at December 31, 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined they are not significant. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

	Notional Amount December 31,		Interest	Interest	Fair Value December 31,	
	2017	2016	Rate Paid	Rate Received	2017	2016
Third Party interest rate swap						
Maturing in 2024	$ 6,000,000	$ -	**Fixed**	**3-Month Libor**	$ 90,478	$ -

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.

Investment Securities (Continued)

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.

Cash Flow Hedges

The fair values of interest rate swaps are determined using models that use readily observable market inputs and a market standard methodology applied to the contractual terms of the derivatives, including the period to maturity and interest rate indices.

The methodology nets the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings and thresholds, mutual settlements, and guarantees.

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 14.

19. 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, 2017 and 2016:

	Net Unrealized Gains on Investment Securities	Cash Flow Hedges	Total
Accumulated other comprehensive loss, January 1, 2016	$ 427,106	$ -	$ 427,106
Other comprehensive income before reclassification	192,955	-	192,955
Amounts reclassified from accumulated other comprehensive loss	(510,336)	-	(510,336)
Accumulated other comprehensive income, December 31, 2016	$ 109,725	$ -	$ 109,725
Other comprehensive income before reclassification	320,526	-	320,526
Amounts reclassified from accumulated other comprehensive income	(66,737)	62,033	(4,704)
Reclassification of certain income tax effects from AOCI	83,819	-	83,819
Accumulated other comprehensive income, December 31, 2017	$ 447,333	$ 62,033	$ 509,366

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2017, and 2016:

	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 securities December 31, 2017	$ 101,117	Investment securities gains, net
	(34,380)	Income taxes
	$ 66,737	
Unrealized gains on investment securities December 31, 2016	$ 773,237	Investment securities gains, net
	(262,901)	Income taxes
	$ 510,336	

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 1, 2018, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

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