ORBISONIA COMMUNITY BANCORP, INC.

ORBISONIA, PENNSYLVANIA

AUDIT REPORT
DECEMBER 31, 2016

ORBISONIA COMMUNITY BANCORP, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orbisonia Community Bancorp, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary, which comprise the consolidated balance sheet as of December 31, 2016 and 2015; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 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 Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 15, 2017

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

ORBISONIA COMMUNITY BANCORP. INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 12,261,025	$ 9,660,263
Interest-bearing deposits in other banks	409,276	703,265
Federal funds sold	5,691,000	-
Total cash and cash equivalents	18,361,301	10,363,528
Certificates of deposit	2,976,000	2,728,000
Investment securities available for sale	18,868,583	16,341,179
Loans, net of unearned discount and allowance for loan losses ($3,356,306 and $2,883,643 at 2016 and 2015, respectively)	267,030,919	269,460,966
Premises and equipment	5,581,303	5,728,192
Restricted bank stock	317,600	320,800
Accrued interest receivable	642,079	610,808
Bank-owned life insurance	7,999,442	5,819,451
Foreclosed assets	21,500	158,499
Other assets	1,624,089	2,082,540
TOTAL ASSETS	$ 323,422,816	$ 313,613,963
LIABILITIES		
Deposits:		
Noninterest bearing	$ 18,220,774	$ 16,723,896
Interest bearing	266,348,363	259,535,072
Total deposits	284,569,137	276,258,968
Federal Home Loan Bank borrowings	3,000,000	3,000,000
Accrued interest payable	61,733	66,180
Other liabilities	1,027,881	1,097,336
TOTAL LIABILITIES	288,658,751	280,422,484
STOCKHOLDERS' EQUITY		
Capital stock, voting common, par value $0.25; authorized and issued 800,000 shares, 778,509 and 777,839 shares outstanding at 2016 and 2015, respectively	200,000	200,000
Additional paid-in-capital	2,053,619	2,041,532
Retained earnings	32,815,262	31,343,191
Accumulated other comprehensive income	470,120	398,415
Less cost of treasury stock (21,491, shares 2016; 22,161 shares 2015)	(774,936)	(791,659)
TOTAL STOCKHOLDERS' EQUITY	34,764,065	33,191,479
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 323,422,816	$ 313,613,963

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2016	Year Ended December 31, 2015
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 13,601,135	$ 14,090,177
Interest and dividends on investment securities	362,321	346,442
Interest on federal funds sold	35,368	3,721
Total interest and dividend income	13,998,824	14,440,340
INTEREST EXPENSE		
Interest on deposits	2,572,973	2,898,324
Interest on borrowings	38,500	13,411
Total interest expense	2,611,473	2,911,735
Net interest income	11,387,351	11,528,605
PROVISION FOR LOAN LOSSES	780,000	780,000
Net interest income after provision for loan losses	10,607,351	10,748,605
OTHER INCOME		
Service charges on deposit accounts	538,861	574,784
Other service charges	1,176,044	1,114,404
Earnings on bank-owned life insurance	179,991	146,734
Loss on sales of foreclosed assets	(7,405)	(54,522)
Other income	30,374	33,258
Total other income	1,917,865	1,814,658
OTHER EXPENSE		
Salaries and wages	3,936,421	3,823,721
Pensions and other employee benefits	1,408,632	1,215,016
Occupancy expense (including depreciation of $372,824 - 2016 and $456,825 - 2015)	801,617	872,518
Data processing	1,375,763	1,350,124
Pennsylvania shares tax	278,132	269,975
Professional fees	142,139	122,544
Other operating expenses	1,444,655	1,480,770
Total other expense	9,387,359	9,134,668
Income before income taxes	3,137,857	3,428,595
APPLICABLE INCOME TAXES	895,262	999,310
Net income	$ 2,242,595	$ 2,429,285
Earnings per share of common stock:		
Net income	$ 2.89	$ 3.12
Weighted-average shares outstanding	774,936	779,025

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2016	2015
Net income	$ 2,242,595	$ 2,429,285
Other comprehensive income:		
Unrealized holding gains on securities available for sale arising during the year	108,645	17,878
Tax effect	(36,940)	(6,078)
Total other comprehensive income	71,705	11,800
Total comprehensive income	$ 2,314,300	$ 2,441,085

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2014	$ 200,000	$ 2,041,223	$ 29,568,345	$ 386,615	$ (738,589)	$ 31,457,594
Net income			2,429,285			2,429,285
Other comprehensive income, net of taxes				11,800		11,800
Sale of treasury stock (40 shares)		309			1,411	1,720
Purchase of treasury stock (1,267 shares)					(54,481)	(54,481)
Cash dividends declared on common stock ($0.84 per share)			(654,439)			(654,439)
Balance December 31, 2015	200,000	2,041,532	31,343,191	398,415	(791,659)	33,191,479
Net income			2,242,595			2,242,595
Other comprehensive income, net of taxes				71,705		71,705
Sale of treasury stock (1,661 shares)		12,087			59,336	71,423
Purchase of treasury stock (991 shares)					(42,613)	(42,613)
Cash dividends declared on common stock ($0.99 per share)			(770,524)			(770,524)
Balance December 31, 2016	$ 200,000	$ 2,053,619	$ 32,815,262	$ 470,120	$ (774,936)	$ 34,764,065

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,242,595	$ 2,429,285
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	295,318	391,981
Provision for loan losses	780,000	780,000
Loss on sale of foreclosed assets	7,405	54,522
Deferred income taxes	(156,799)	164,877
Earnings on bank-owned life insurance	(179,991)	(146,734)
(Increase) decrease in accrued interest receivable	(31,271)	56,697
Decrease in accrued interest payable	(4,447)	(34,737)
Other, net	508,855	(415,802)
Net cash provided by operating activities	3,461,665	3,280,089
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of certificates of deposit	(248,000)	(2,728,000)
Proceeds from maturities of available-for-sale securities	6,065,514	7,649,742
Purchases of available-for-sale securities	(8,484,273)	(6,253,984)
Proceeds from redemption of restricted bank stock	3,200	-
Purchases of restricted bank stock	-	(123,900)
Net decrease in loans	1,725,301	5,097,274
Purchases of bank premises and equipment	(225,935)	(216,054)
Proceeds from sale of other real estate	151,094	429,344
Purchase of bank-owned life insurance	(2,000,000)	-
Net cash (used for) provided by investing activities	(3,013,099)	3,854,422
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	8,290,921	(12,980,556)
Advances on Federal Home Loan Bank borrowings	-	3,000,000
Dividends paid	(770,524)	(654,439)
Purchases of treasury stock	(42,613)	(54,481)
Proceeds from sale of treasury stock	71,423	1,720
Net cash provided by (used for) financing activities	7,549,207	(10,687,756)
Net increase (decrease) in cash and cash equivalents	7,997,773	(3,553,245)
Cash and cash equivalents, beginning balance	10,363,528	13,916,773
Cash and cash equivalents, ending balance	$ 18,361,301	$ 10,363,528
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		
Interest	$ 2,615,920	$ 2,946,472
Income taxes	889,749	1,070,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate acquired in settlement of loans	$ 21,500	$ 176,499

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Orbisonia Community Bancorp, Inc. (the "Corporation")'s primary activity consists of owning and supervising its subsidiary, Community State Bank of Orbisonia (the "Bank"), which is engaged in providing banking and bank-related services in South Central Pennsylvania, principally Fulton, Huntingdon, and Juniata Counties. Its seven offices are located in Orbisonia, Waterfall, Mount Union, Smithfield, Saxton, Three Springs, and McConnellsburg, Pennsylvania.

Principles of Consolidation and Basis of Accounting

The consolidated financial statements include the accounts of the Corporation and the Bank. All significant intercompany transactions and accounts have been eliminated. See Note 11 for parent company financial statements. The Corporation uses the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of deferred tax assets, and Level III fair value measurements and disclosures. In connection with the determination of the allowance for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Additionally, the valuation of deferred tax assets is dependent upon management's judgment regarding the Corporation's ability to generate taxable income in order to fully utilize the assets.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for losses on loans and foreclosed real estate. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include those amounts included in the Consolidated Balance Sheet captions "cash and due from banks," "interest-bearing deposits in other banks," and "federal funds sold," which all have original maturities of 90 days or less. The Corporation has elected to present the net increase or decrease in loans and deposits in the Consolidated Statement of Cash Flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

The Corporation's investments in securities are classified in three specific categories and accounted for as follows:

Trading Securities. Securities held principally for resale in the near term are classified as trading securities and recorded at their fair values. Unrealized gains and losses on trading securities are included in other income.

Securities to Be Held to Maturity. Bonds and notes for which the Corporation has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income using the interest method over the period to maturity.

Securities Available for Sale. Securities available for sale consist of bonds and notes not classified as trading securities nor as securities to be held to maturity. These are securities that management intends to use as part of its asset and liability management strategy and may be sold in response to changes in interest rates, resultant prepayment risk, and other related factors.

Management determines the appropriate classification of securities at the time of purchase. The Corporation had only available-for-sale securities in 2016 and 2015.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its fair value, the Corporation's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value, and whether or not the Corporation intends to sell the security or whether it's more likely than not that the Corporation would be required to sell the security before its anticipated recovery in fair value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

The Corporation segments its loan portfolio into commercial, residential mortgage, home equity loans and lines of credit, and installment and other consumer loans with each segment having varying risk characteristics. Although these segments may contain varying loan types, management generally monitors credit risk based on these groupings; therefore, management believes the loan segments and classes are the same.

Commercial loans can consist of a variety of loan types and purposes ranging from commercial owner occupied and non-owner occupied real estate loans, commercial construction and land development, farm and agricultural, and general commercial and industrial loans. Commercial loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy, which could increase the risk of loss. Other risks associated with commercial loans include the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses; assessment of the property's value at the completion of construction projects and changing real estate market conditions; unfavorable weather conditions that can affect the production of crops for sale or feed, milk production and prices, and mortality rates of cattle; and general downturns in the value of underlying commercial assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

Residential mortgage loans include fixed-rate and adjustable first lien mortgage loans with the underlying one-to-four family owner-occupied residential property securing the loan. Risk exposure is mitigated somewhat through the evaluation of the credit worthiness of the borrower, including credit scores and debt-to-income ratios, and limits on the loan-to-value ratios. The credit worthiness of the borrower is considered, including credit scores and debt-to-income ratios.

Home equity loans and lines of credit represent a slightly higher risk than residential family first liens, as these loans can be first or second liens on residential family owner-occupied residential property, but the loan-to-value ratios on collateral limit some of the risk. The credit worthiness of the borrower is considered including credit scores and debt-to-income ratios.

Installment and other consumer loans' credit risk is mitigated through evaluation of the credit worthiness of the borrower through credit scores and debt-to-income ratios and, if secured, the collateral value of the assets. However, these loans can be unsecured or secured by assets that may depreciate quickly or may fluctuate and represent a greater risk than one-to-four family residential loans.

The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but generally includes equipment, inventory, accounts receivable, and real estate.

The accrual of interest income on loans in all loan segments (including impaired loans) is discontinued when principal or interest is past due 90 days or more and, in the opinion of management, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of all principal and interest is unlikely. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal.

The allowance for loan losses is increased through a provision for loan losses charged to expense and reduced by charge-offs, net of recoveries. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible based on management's evaluation of the collectability of loans in light of historical loss experience, the nature and volume of the loan portfolio, overall loan portfolio quality, review of specific problem loans, loan delinquencies, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loan delinquencies for all loan segments are determined based on contractual terms of the loan.

The allowance for loan losses is estimated based on management's evaluation of historical loss factors and other environmental factors for each loan segment. Historical losses (net charge-offs) are calculated on each loan segment as a percentage of outstanding loans in each loan segment using a 24-month average that is evaluated each quarter.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Bank building, equipment, furniture, and fixtures are carried at cost less accumulated depreciation. Expenditures for replacements are capitalized and any replaced items are retired. Depreciation is computed based on a straight-line method over the estimated useful lives of the related assets as follows:

	Years
Bank building	25 - 40
Premises and equipment	3 - 10
Land improvements	15 - 20

The cost of computer software is amortized over a three- to five-year period.

Repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction of Bank premises are capitalized unless they are determined to be insignificant.

Restricted Bank Stock

Restricted investments in bank stock, which represent required investments in the common stock of correspondent banks, are carried at cost and as of December 31, 2016 and 2015, consist of the common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Atlantic Community Bankers Bank ("ACBB"). Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula.

Management evaluates the restricted stock for impairment at least annually, or more frequently, if necessary. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value.

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 restricted stock as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB and ACBB 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 ACBB, and (d) the liquidity position of the FHLB and ACBB. There was no impairment of the FHLB and ACBB stock as of December 31, 2016 or 2015.

Other Real Estate Owned ("OREO")

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value based on an independent appraisal, less estimated cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at acquisition are charged to the allowance for loan losses. If an increase in basis results, it is classified as noninterest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. Improvements to the property are added to the basis of the assets. Costs incurred in obtaining and maintaining foreclosed properties and subsequent fair value adjustments to the carrying amount of the property are classified as "other operating expenses."

During 2015, the Corporation adopted Accounting Standards Update ("ASU") 2014-04, *Receivables – Troubled Debt Restructuring by Creditors*. As of December 31, 2016 and 2015, the Bank had $21,500 and $158,499 of foreclosed residential real estate property obtained by physical possession and $922,402 and $600,757 of loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

Earnings per common share were computed based upon weighted-average shares of common stock outstanding of 774,936 and 779,025 for 2016 and 2015, respectively.

Treasury Stock

The purchase of the Company's common stock is recorded at cost.

Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting, including depreciation, loan losses, and nonaccrual loan interest, deferred income taxes are provided in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and 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. See Note 10 for further details.

Bank-Owned Life Insurance

The Corporation owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of benefit plans. The cash surrender value of these polices is included as an asset on the Consolidated Balance Sheet, and any increases in the cash surrender value are recorded as earnings on bank-owned life insurance on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Corporation would receive a death benefit, which would be recorded as earnings on bank-owned life insurance.

Endorsement Split-Dollar Life Insurance Arrangements

The Company recognizes a liability and related compensation cost for endorsed split-dollar life insurance arrangement that provides a benefit to specific retired employees. The amount recognized as a liability represents the present value of the post retirement cost for the endorsement split-dollar life insurance policies. See Note 9 for additional information.

Advertising

The Corporation expenses advertising costs as they are incurred. Advertising expense was $99,034 and $96,594 for the years ended December 31, 2016 and 2015, respectively, which is included in other operating expenses on the Consolidated Statement of Income.

Comprehensive Income

Comprehensive income includes all changes in equity except those resulting from investments by stockholders and distributions to shareholders. For the Corporation, comprehensive income includes net income and certain elements of "other comprehensive income" such as unrealized gains and losses on investment securities available for sale.

The only element of "other comprehensive income" that the Corporation has is unrealized gains or losses on available-for-sale securities.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

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

Correspondent Bank Accounts

The Corporation maintains balances with its correspondent banks that may exceed federally insured limits, which management considers being a normal business risk.

2. **INVESTMENT SECURITIES**

The amortized cost gross unrealized gains and losses, and fair values of investment securities available for sale at December 31, 2016 and 2015, were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		2016		
Obligations of other U.S. government agencies and corporations	$ 10,495,145	$ 14,959	$ (866)	$ 10,509,238
Obligations of state and political subdivisions	7,638,322	61,089	(1,994)	7,697,417
Equity securities - financial services	22,813	639,115	-	661,928
	$ 18,156,280	$ 715,163	$ (2,860)	$ 18,868,583
		2015		
Obligations of other U.S. government agencies and corporations	$ 7,748,182	$ -	$ (53,142)	$ 7,695,040
Obligations of state and political subdivisions	7,966,526	45,515	(6,068)	8,005,973
Equity securities - financial services	22,813	617,353	-	640,166
	$ 15,737,521	$ 662,868	$ (59,210)	$ 16,341,179

The amortized cost and fair values of investment securities available for sale at December 31, 2016, by contractual maturity are shown in the following table. Contractual maturities will differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 542,743	$ 543,934
Due after one year through five years	12,812,983	12,875,008
Due after five years through ten years	4,777,741	4,787,713
Total debt securities	18,133,467	18,206,655
Equity securities - financial services	22,813	661,928
Total	$ 18,156,280	$ 18,868,583

There were no sales of available-for-sale securities in 2016 or 2015.

The Corporation's investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

2. INVESTMENT SECURITIES (Continued)

The following table shows the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2016 and 2015, respectively:

	12 Months or Less		More than 12 Months		Total	
Description	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			2016			
Obligations of other U.S. government agencies and corporations	$ 994,851	$ (295)	$ 2,499,429	$ (571)	$ 3,494,280	$ (866)
Obligations of state and political subdivisions	612,989	(1,801)	249,675	(193)	862,664	(1,994)
Total	$ 1,607,840	$ (2,096)	$ 2,749,104	$ (764)	$ 4,356,944	$ (2,860)
			2015			
Obligations of other U.S. government agencies and corporations	$ 6,455,515	$ (42,667)	$ 1,239,525	$ (10,475)	$ 7,695,040	$ (53,142)
Obligations of state and political subdivisions	363,659	(464)	921,634	(5,604)	1,285,293	(6,068)
Total	$ 6,819,174	$ (43,131)	$ 2,161,159	$ (16,079)	$ 8,980,333	$ (59,210)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2016, seven U.S. government agencies and four obligations of state and political subdivisions securities had unrealized losses. These securities are considered temporarily impaired. The unrealized losses on these securities have not been recognized into income because the issuers' bonds are of high-credit quality, management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The Corporation also considers sector-specific credit rating changes in its analysis. The fair value is expected to recover as the securities approach their maturity date or reset date. The Corporation does not intend to sell until recovery and does not believe selling will be required before recovery.

Investment securities that are pledged to secure public funds and for other purposes as required or permitted by law are as follows:

	December 31, 2016	December 31, 2015
Amortized cost	$ 14,945,000	$ 11,561,632
Fair value	14,851,736	11,598,031

3. LOANS

Loans receivable consist of the following at December 31:

	2016	2015
Commercial	$ 40,670,373	$ 41,366,055
Residential mortgage	188,265,687	193,686,955
HELOC/jr. liens/lines of credit	21,393,645	19,227,206
Installment/individuals	20,057,520	18,064,393
Total	$ 270,387,225	$ 272,344,609

The loan balances above are net of deferred loan fees and unearned discounts of $391,984 and $301,776 for 2016 and 2015, respectively.

Following is an aging analysis of past-due loans at December 31, 2016 and 2015:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Gross Loans	Recorded Invesment > 90 Days and Accruing
2016							
Commercial	$ 89,738	$ -	$ 159,344	$ 249,082	$ 40,421,291	$ 40,670,373	$ -
Residential mortgage	2,770,491	237,048	1,211,516	4,219,055	184,046,632	188,265,687	-
HELOC/jr. liens/lines of credit	37,425	-	-	37,425	21,356,220	21,393,645	-
Installment/individuals	407,850	125,023	179,561	712,434	19,345,086	20,057,520	-
Total	$ 3,305,504	$ 362,071	$ 1,550,421	$ 5,217,996	$ 265,169,229	$ 270,387,225	$ -
2015							
Commercial	$ 172,626	$ 32,135	$ 117,252	$ 322,013	$ 41,044,042	$ 41,366,055	$ -
Residential mortgage	3,047,780	345,401	1,262,186	4,655,367	189,031,588	193,686,955	-
HELOC/jr. liens/lines of credit	26,169	4,325	-	30,494	19,196,712	19,227,206	-
Installment/individuals	466,044	147,201	138,653	751,898	17,312,495	18,064,393	-
Total	$ 3,712,619	$ 529,062	$ 1,518,091	$ 5,759,772	$ 266,584,837	$ 272,344,609	$ -

3. LOANS (Continued)

Loans on nonaccrual status were as follows at December 31, 2016 and 2015:

	2016	2015
Commercial	$ 247,531	$ 179,266
Residential mortgage	2,045,537	1,766,782
HELOC/jr. liens/lines of credit	39,377	81,389
Installment/individuals	238,930	270,051
Total	$ 2,571,375	$ 2,297,488

The amount of foregone interest on nonaccrual loans was $106,823 and $121,715 for 2016 and 2015, respectively.

Loans of a commercial nature and non-commercial loans determined to be troubled debt restructurings (“TDRs”) are subject to impairment evaluation by management. Loans classified as Substandard are evaluated for possible impairment. A loan is considered impaired when, based on current information and events, it is probable that scheduled collections of principal and interest will not be made according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is normally measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's original effective interest rate, the loan's obtainable market price, or the fair value of the underlying collateral. Interest income on such loans is recognized only to the extent of interest payments received. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

The following is a summary of information pertaining to impaired loans at December 31, 2016 and 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
		2016			
With no related allowance recorded:					
Commercial	$ 1,139,488	$ 1,181,890	$ -	$ 1,093,436	$ 45,084
Residential mortgage	2,449,901	2,136,626	-	2,500,629	75,706
HELOC/jr. liens/lines of credit	174,830	183,914	-	176,814	11,114
Installment/individuals	97,254	113,027	-	98,576	6,800
	3,861,473	3,615,457	-	3,869,455	138,704
With an allowance recorded:					
Commercial	-	-	-	-	-
Residential mortgage	318,503	318,503	77,487	319,264	12,171
HELOC/jr. liens/lines of credit	-	-	-	-	-
Installment/individuals	-	-	-	-	-
	318,503	318,503	77,487	319,264	12,171
Total:					
Commercial	1,139,488	1,181,890	-	1,093,436	45,084
Residential mortgage	2,768,404	2,455,129	77,487	2,819,893	87,877
HELOC/jr. liens/lines of credit	174,830	183,914	-	176,814	11,114
Installment/individuals	97,254	113,027	-	98,576	6,800
Total	$ 4,179,976	$ 3,933,960	$ 77,487	$ 4,188,719	$ 150,875

3. LOANS (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			2015		
With no related allowance recorded:					
Commercial	$ 1,512,775	$ 1,512,775	$ -	$ 1,222,630	$ 62,737
Residential mortgage	1,074,065	1,074,065	-	959,434	36,477
HELOC/jr. liens/lines of credit	114,636	114,636	-	120,398	7,640
Installment/individuals	109,102	109,102	-	110,317	7,425
	2,810,578	2,810,578	-	2,412,779	114,279
With an allowance recorded:					
Commercial	63,752	63,752	7,578	5,313	-
Residential mortgage	438,329	438,652	57,127	233,529	7,687
Installment/individuals	40,468	40,468	27,686	17,522	87
	542,549	542,872	92,391	256,364	7,774
Total:					
Commercial	1,576,527	1,576,527	7,578	1,227,943	62,737
Residential mortgage	1,512,394	1,512,717	57,127	1,192,963	44,164
HELOC/jr. liens/lines of credit	114,636	114,636	-	120,398	7,640
Installment/individuals	149,570	149,570	27,686	127,839	7,512
Total	$ 3,353,127	$ 3,353,450	$ 92,391	$ 2,669,143	$ 122,053

The Corporation from time to time will modify a loan agreement to provide temporary relief and, if necessary, longer-term financial relief to loan customers. The Corporation may grant concessions for economic or legal reasons related to the borrower's financial difficulties that may not otherwise be considered. These concessions may be one or a combination of the following: movement of unpaid principal and interest to the end of the loan; deferral of principal payments for a period of time; and/or a reduction of interest rates either permanently or for a specified period of time. When such concessions are made, and management considers the loan to be material, this is considered to be a troubled debt restructuring. For all loans, the determination as to whether a concession has been made for economic or legal reasons that the Corporation would not have otherwise considered is made on a case-by-case basis.

The Corporation had four loans modified as troubled debt restructurings during the year ended December 31, 2016. The Corporation had six loans modified during the year ended December 31, 2015, that were considered troubled debt restructurings. All of these loans were refinanced in order to lower the monthly loan payments required and at times borrowers were extended additional credit as part of the restructuring agreement. The Corporation would not have typically originated these loans given the customers' financial condition. Information about modified loans at December 31, 2016, is as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
		2016		
Troubled debt restructurings:				
Residential mortgage	1	$ 54,460	$ 54,460	$ 54,460
Installment/individuals	3	20,280	20,280	20,280
	4	$ 74,740	$ 74,740	$ 74,740

3. LOANS (Continued)

	Number of Contracts		Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		December 31 Outstanding Recorded Investment
				2015			
Troubled debt restructurings:							
Residential mortgage	3	$	416,270	$	420,700	$	414,751
Installment/individuals	3		448,269		536,500		493,268
	6	$	864,539	$	957,200	$	908,019

There were no loans that were modified in 2015, which subsequently defaulted in 2016.

Troubled debt restructurings had specific reserves of $38,385 and $2,035 as of December 31, 2016 and 2015 respectively.

The Corporation did not have any commitments to loan additional funds to borrowers whose loans have been modified.

4. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses consists of specific, general, and unallocated components. The specific component relates to loans that are considered to be impaired, including troubled debt restructurings. For such loans, an impairment allowance is established when the present value of future cash flows, the loan's obtainable market price, or the fair value of the underlying collateral less costs to sell is lower than the carrying value of that loan.

The general component covers non-impaired loans and is based on management's internal risk ratings as well as historical loss experience adjusted for qualitative risk factors. The following qualitative risk factors relevant to each portfolio segment are reviewed and evaluated:

- Changes in lending policies and procedures which include underwriting standards and collection, charge-off, and recovery practices.
- Changes in national and local economic business conditions and developments, including the condition of various market segments.
- Changes in the nature and volume of the portfolio.
- Changes in the experience, ability, and depth of lending management and staff.
- Changes in the volume and severity of past-due and classified loans, trends in the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications.
- Changes in the quality of the Bank's loan review system and degree of oversight by the Bank's Board of Directors.
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses.
- Changes in the value of collateral-dependent loans.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance for loan losses reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

There have been no significant changes in management's methodology for evaluating the allowance for loan losses from prior periods.

Credit quality of loans is monitored on an ongoing basis by risk rating commercial loan relationships in excess of $175,000 on an annual basis.

Following is an analysis of the loan loss at December 31, 2016 and 2015:

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Unallocated	Total
2016						
Allowance for loan losses:						
Beginning balance	$ 178,687	$ 2,078,036	$ 144,618	$ 482,302	$ -	$ 2,883,643
Losses charged to allowance	(4,978)	(137,160)	(4,356)	(235,115)	-	(381,609)
Recoveries credited to allowance	-	25,143	-	49,129	-	74,272
Current-year provision	(38,991)	(126,445)	66,264	47,691	831,481	780,000
Ending balance	$ 134,718	$ 1,839,574	$ 206,526	$ 344,007	$ 831,481	$ 3,356,306
Ending balance individually evaluated for impairment	$ -	$ 77,487	$ -	$ -	$ -	$ 77,487
Ending balance collectively evaluated for impairment	$ 134,718	$ 1,762,087	$ 206,526	$ 344,007	$ 831,481	$ 3,278,819
Loans receivable:						
Ending balance	$ 40,670,373	$ 188,265,687	$ 21,393,645	$ 20,057,520	$ -	$ 270,387,225
Ending balance: individually evaulated for impairment	$ 1,139,488	$ 2,768,404	$ 174,830	$ 97,254	$ -	$ 4,179,976
Ending balance: collectively evaluated for impairment	$ 39,530,885	$ 185,497,283	$ 21,218,815	$ 19,960,266	$ -	$ 266,207,249
2015						
Allowance for loan losses:						
Beginning balance	$ 131,998	$ 2,253,535	$ 163,575	$ 633,256	$ 81,267	$ 3,263,631
Losses charged to allowance	(4,829)	(765,143)	(132,060)	(313,847)	-	(1,215,879)
Recoveries credited to allowance	14,561	1,798	74	39,458	-	55,891
Current-year provision	36,957	587,846	113,029	123,435	(81,267)	780,000
Ending balance	$ 178,687	$ 2,078,036	$ 144,618	$ 482,302	$ -	$ 2,883,643
Ending balance individually evaluated for impairment	$ 7,578	$ 57,127	$ -	$ 27,686	$ -	$ 92,391
Ending balance collectively evaluated for impairment	$ 171,109	$ 2,020,909	$ 144,618	$ 454,616	$ -	$ 2,791,252
Loans receivable:						
Ending balance	$ 41,366,055	$ 193,686,955	$ 19,227,206	$ 18,064,393	$ -	$ 272,344,609
Ending balance: individually evaulated for impairment	$ 1,576,527	$ 1,512,394	$ 114,636	$ 149,570	$ -	$ 3,353,127
Ending balance: collectively evaluated for impairment	$ 39,789,528	$ 192,174,561	$ 19,112,570	$ 17,914,823	$ -	$ 268,991,482

In 2016, the commercial real estate and installment loan portfolios had a reduction due primarily to a decrease in historical charge-offs. During 2015, decreases were made to the qualitative factors related to past-due and nonaccrual loans within the Corporation's residential mortgage and installment/individual portfolios as past-due and nonaccrual loans have declined over the preceding two years.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Following is the credit risk profile by internally assigned grade as of December 31, 2016 and 2015:

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Total
As of December 31, 2016					
Not rated	$ 16,639,307	$ 181,458,871	$ 20,450,755	$ 9,856,178	$ 228,405,111
Strong	19,027	-	-	-	19,027
Satisfactory/pass	17,885,851	5,647,724	838,387	7,816,864	32,188,826
Watch	5,949,404	1,011,264	104,503	2,384,478	9,449,649
Substandard	176,784	147,828	-	-	324,612
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 40,670,373	$ 188,265,687	$ 21,393,645	$ 20,057,520	$ 270,387,225
As of December 31, 2015					
Not rated	$ 13,727,601	$ 186,400,660	$ 18,383,587	$ 11,536,413	$ 230,048,261
Strong	-	-	-	-	-
Satisfactory/pass	20,964,494	5,877,653	733,323	5,474,190	33,049,660
Watch	6,016,454	1,275,430	110,296	1,053,790	8,455,970
Substandard	657,507	133,211	-	-	790,718
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 41,366,056	$ 193,686,954	$ 19,227,206	$ 18,064,393	$ 272,344,609

Loans graded Strong and Satisfactory/Pass are loans with acceptable risk. Other internally assigned grades indicate the following:

Watch **-** These loans have weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or in the Bank's credit position at some future date. They are exhibiting problem characteristics and downward trends, but the Bank remains adequately protected.

Substandard **-** These loans have weaknesses that deserve management's close attention. They are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

Doubtful **-** Weaknesses in these loans are so pronounced that the collection or liquidation of principal and interest is highly questionable or improbable. They contain most of the weaknesses of a Substandard loan and the probability of loss is great.

Loss **-** These loans are considered uncollectible and are charged off. Some recovery may be possible, but the extent of recovery and time frame involved are uncertain at best.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present performing and nonperforming loans based on payment activity.

	2016		
	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals
Performing	$ 186,220,150	$ 21,354,268	$ 19,818,590
Nonperforming	2,045,537	39,377	238,930
Total	$ 188,265,687	$ 21,393,645	$ 20,057,520

	2015		
	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals
Performing	$ 191,743,542	$ 19,107,914	$ 18,008,876
Nonperforming	1,943,413	119,292	55,517
Total	$ 193,686,955	$ 19,227,206	$ 18,064,393

5. PREMISES and EQUIPMENT

Premises and equipment consisted of the following at December 31, 2016 and 2015:

Description	Cost	Accumulated Depreciation	Depreciated Cost
		2016	
Land	$ 1,427,128	$ -	$ 1,427,128
Bank building	6,016,929	2,363,738	3,653,191
Premises and equipment	3,217,559	2,755,937	461,622
Land improvements	144,738	105,376	39,362
	$ 10,806,354	$ 5,225,051	$ 5,581,303
		2015	
Land	$ 1,427,128	$ -	$ 1,427,128
Bank building	6,019,018	2,256,767	3,762,251
Premises and equipment	3,051,574	2,552,123	499,451
Land improvements	144,738	105,376	39,362
	$ 10,642,458	$ 4,914,266	$ 5,728,192

Depreciation charged to operations was $372,824 in 2016 and $456,825 in 2015.

6. DEPOSITS

Interest-bearing deposits as of December 31, 2016 and 2015, were as follows:

	2016	2015
Savings deposits	$ 112,568,458	$ 99,157,954
Time certificates	153,258,373	159,886,896
Other time deposits	521,532	490,222
	$ 266,348,363	$ 259,535,072

At December 31, 2016, the scheduled maturities of time certificates are as follows:

2017	$ 51,308,965
2018	24,551,984
2019	22,208,535
2020	19,568,935
2021	21,206,021
Thereafter	14,413,933
	$ 153,258,373

The aggregate amount of time deposit accounts that meet or exceeded the FDIC insurance limit of $250,000 totaled $12,051,637 and $16,965,037 at December 31, 2016 and 2015 respectively.

7. BORROWED FUNDS

The Corporation has pledged certain securities, loans, and other assets as collateral on the Federal Home Loan Bank borrowings in the approximate amount of $160,558,600 at December 31, 2016. The maximum borrowing capacity from the Federal Home Loan Bank is approximately $82,832,600 at December 31, 2016.

During the year ended December 31, 2016, the Corporation entered into an unsecured agreement related to federal funds purchased through the Atlantic Community Bankers Bank for up to $4,000,000. The federal funds purchased agreement includes a variable interest rate of 0.25 percent at December 31, 2016. There were no federal funds purchased at December 31, 2016.

The Corporation had $3,000,000 in FHLB borrowings outstanding as of December 31, 2016 and 2015. The total consisted of an advance of $1,500,000 at a rate of 1.12 percent maturing in 2017 and an advance of $1,500,000 at a rate of 1.42 percent maturing in 2018.

8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (Continued)

Financial instruments whose contract amounts represent credit risk at December 31 consist of:

	Contract or Notional Amount	
	2016	**2015**
Commitments to extend credit	$ 16,938,584	$ 16,764,372
Standby letters of credit and financial guarantees written	128,259	125,832
	$ 17,066,843	$ 16,890,204

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. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments when deemed necessary by management.

9. RETIREMENT PLANS

Defined Contribution Retirement Plan

The Corporation has a 401(k) profit sharing plan covering all full-time employees who have attained the age of 18 and have completed 12 months of service. The plan provides for the Corporation to make contributions that will match employee deferrals on a one-to-one basis up to 3 percent of employees' eligible compensation. Additional contributions can be made at the discretion of the Board of Directors based on the Corporation's performance. The contributions for the years ended December 31, 2016 and 2015, were $106,023 and $103,217, respectively.

Bank-Owned Life Insurance

The Corporation has purchased life insurance covering directors and executive officers. The policies were funded with single premium life insurance contracts. The cash surrender value of the life insurance policies is an unrestricted asset of the Corporation, which totaled $7,999,442 and $5,819,451 at December 31, 2016 and 2015, respectively.

The Corporation has promised a continuation of life insurance coverage to persons post-retirement through a split-dollar feature of the bank-owned life insurance policies. The total liability related to this post-retirement benefit was $400,906 at December 31, 2016 and 2015.

9. RETIREMENT PLANS (Continued)

Supplemental Executive Retirement Agreement

The Corporation established a supplemental executive retirement agreement in 2013 for which the Corporation will fund a future benefit to certain executives upon retirement. A net expense of $3,697 and $3,059 was recorded for the years ended December 31, 2016 and 2015, respectively, for deferred compensation costs. The total liability related to this executive retirement benefit was $79,589 and $89,493 at December 31, 2016 and 2015, respectively.

10. FEDERAL INCOME TAXES

The components of federal income tax expense are summarized as follows:

	2016	2015
Current-year provisions	$ 1,052,061	$ 834,433
Deferred income taxes	(156,799)	164,877
Applicable income tax	$ 895,262	$ 999,310

Federal income taxes were computed after adjusting pretax accounting income for nontaxable interest income in the amounts of $345,752 and $339,929 and for earnings on bank-owned life insurance at $179,991 and $146,734 for 2016 and 2015, respectively.

A reconciliation of the effective applicable income tax rate to the federal statutory rate is as follows:

	2016	2015
Federal income tax rate	34.0 %	34.0 %
Reduction resulting from:		
Nontaxable interest income (net of nondeductable interest)	(3.5)	(3.1)
Life insurance income	(2.0)	(1.5)
Other	-	(0.3)
Effective income tax rate	28.5 %	29.1 %

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation, investments in partnerships, and unrealized gains on available-for-sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, deferred compensation plans, and nonaccrual interest on loans. The net deferred tax assets included in other assets in the accompanying Consolidated Balance Sheet include the following components:

	2016	2015
Total deferred tax assets:		
Loan loss provision	$ 949,325	$ 783,863
Nonaccrual interest	36,320	51,239
Deferred compensation	31,400	33,210
Total deferred tax liabilities:		
Depreciation expense	(198,336)	(209,003)
Investment in partnerships	(2,601)	-
Unrealized gains on available-for-sales securities	(645,709)	(205,243)
Net deferred tax assets	$ 170,399	$ 454,066

The Corporation has not recorded a valuation allowance for the deferred tax assets as management feels that it is more likely than not that they will be ultimately realized.

10. FEDERAL INCOME TAXES (Continued)

Uncertain Tax Positions

The Corporation files income tax returns in the U.S. federal jurisdiction and the state of Pennsylvania. With few exceptions, the Corporation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2013.

The Corporation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in the financial statements. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the Consolidated Statement of Income. As of December 31, 2016 and 2015, there was no liability for unrecognized tax benefits.

11. ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS

The following are the condensed balance sheets, statements of income, and statements of cash flows for the parent company:

Balance Sheets

	December 31,	
	2016	**2015**
Assets		
Cash	$ 165,748	$ 136,331
Equity securities available for sale	661,928	640,166
Investment in wholly owned subsidiary	34,153,688	32,624,882
Total assets	$ 34,981,364	$ 33,401,379
Liabilities		
Deferred taxes	$ 217,299	$ 209,900
Stockholders' equity		
Common stock, par value $0.25; authorized and issued 800,000 shares, 778,509 and 777,839 shares outstanding at 2016 and 2015, respectively	200,000	200,000
Additional paid-in capital	2,053,619	2,041,532
Retained earnings	32,815,262	31,343,191
Accumulated other comprehensive income	470,120	398,415
Less cost of treasury stock (21,491 shares 2016; 22,161 shares 2015)	(774,936)	(791,659)
Total stockholders' equity	34,764,065	33,191,479
Total liabilities and stockholders' equity	$ 34,981,364	$ 33,401,379

11. ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS (Continued)

Statements of Income

	Years Ended December 31 2016	2015
Income		
Cash dividends from wholly owned subsidiary	$ 770,524	$ 784,439
Dividends from bank stock	31,918	31,918
Total income	802,442	816,357
Expenses		
Other expenses	31,310	23,074
Total expense	31,310	23,074
Income before equity in undistributed income of subsidiary	771,132	793,283
Equity in undistributed income of subsidiary	1,471,463	1,636,002
Net income	$ 2,242,595	$ 2,429,285
Comprehensive income	$ 2,314,300	$ 2,441,085

Statements of Cash Flows

	Years Ended December 31, 2016	2015
Cash flows from operating activities:		
Net income	$ 2,242,595	$ 2,429,285
Adjustments to reconcile net income to cash provided by operating activities		
Equity in undistributed income of subsidiary	(1,471,463)	(1,636,002)
Net cash provided by operating activities	771,132	793,283
Cash flows from financing activities:		
Proceeds from sale of treasury stock	71,423	1,720
Purchase of treasury stock	(42,614)	(54,481)
Dividends paid	(770,524)	(654,439)
Net cash used for financing activities	(741,715)	(707,200)
Net increase in cash	29,417	86,083
Cash, beginning balance	136,331	50,248
Cash, ending balance	$ 165,748	$ 136,331

12. REGULATORY MATTERS

Dividends paid by the Corporation are provided from the Bank's dividends to the parent company. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or additional paid-in capital be equal to the amount of capital. The Corporation's balance of retained earnings at December 31, 2016, is $32,815,262 and would be available for cash dividends, although payment of dividends to such extent would not be prudent or likely. The Federal Reserve Board, which regulates bank holding companies, establishes guidelines which indicate that cash dividends should be covered by current period earnings. The Corporation is also subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Corporation's financial statements. Under capital adequacy guidelines, the Bank is required to maintain minimum capital ratios. The leverage ratio compares capital to total balance sheet assets, while the risk-based ratios compare capital to risk-weighted assets and off-balance-sheet activity in order to make capital levels more sensitive to risk profiles of individual banks.

For December 31, 2016, the final Basel III rules require the Bank to maintain minimum amounts and ratios of common equity Tier 1 capital to risk-weighted assets. Additionally, under Basel III rules, the decision was made to opt out of including accumulated other comprehensive income in regulatory capital. For December 31, 2015, the final Basel III rules require the Bank to maintain minimum amounts and ratios of common equity Tier 1 capital to risk-weighted assets. Additionally, under Basel III rules, the decision was made to opt out of including accumulated other comprehensive income in regulatory capital.

A comparison of the Corporation's capital ratios to regulatory minimums at December 31 is as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Rate**	**Amount**	**Rate**
As of December 31, 2016						
Total capital (to risk-weighted assets)	$ 37,054	18.8%	$ 15,744	8.0%	$ 19,680	10.0%
Common equity Tier 1 (to risk-weighted assets)	34,294	17.4%	8,856	4.5%	12,792	6.5%
Tier 1 capital (to risk-weighted assets)	34,294	17.4%	11,808	6.0%	15,744	8.0%
Tier 1 capital (to average assets)	34,294	10.6%	12,955	4.0%	16,193	5.0%
As of December 31, 2015						
Total capital (to risk-weighted assets)	$ 35,307	18.3%	$ 15,560	8.0%	$ 19,450	10.0%
Common equity Tier 1 (to risk-weighted assets)	32,793	16.9%	8,753	4.5%	12,643	6.5%
Tier 1 capital (to risk-weighted assets)	32,793	16.9%	11,670	6.0%	15,560	8.0%
Tier 1 capital (to average assets)	32,793	10.4%	12,606	4.0%	15,758	5.0%

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the above table. There are no conditions or events since that notification that management believes have changed the Bank's category.

13. FAIR VALUE DISCLOSURES

Fair Values of Financial Instruments

The Corporation meets the requirements for disclosure of fair value information about financial instruments, whether or not recognized on the Consolidated Balance Sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair values of financial instruments as disclosed herein:

Cash and Due from Banks, Federal Funds Sold, and Interest-Bearing Deposits in Other Banks. The carrying amounts of cash and short-term instruments approximate their fair value.

Certificates of deposit. Fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates to a schedule of aggregated expected monthly maturities.

Investment Securities Available for Sale. Fair values for investment securities are based on quoted market prices.

Loans Receivable. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using market interest rates for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Restricted Bank Stock. These investments are carried at cost. The Corporation is required to maintain minimum investment balances in these stocks, which are not actively traded and therefore have no readily determinable market value.

Bank-Owned Life Insurance. The fair value of bank-owned life insurance is based upon the cash surrender value of the underlying policies and matches the bank value.

Deposits. The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit and fixed-term money market accounts approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit and IRAs are estimated using a discounted cash flow calculation that applies market interest rates to a schedule of aggregated expected monthly maturities on time deposits.

Accrued Interest. The carrying amounts of accrued interest approximate their fair values.

Federal Home Loan Bank Borrowings. The fair value of FHLB borrowings was calculated using a discounted cash flow approach that applies a comparable FHLB advance rate to the weighted-average maturity of the borrowings.

Off-Balance-Sheet Instruments. The Corporation generally does not charge commitment fees. Fees for standby letters of credit and other off-balance-sheet instruments are not significant.

13. FAIR VALUE DISCLOSURES (Continued)

Fair Values of Financial Instruments (Continued)

The estimated fair values of the Corporation's financial instruments were as follows at December 31, 2016 and 2015:

2016	Carrying Amount	Fair Value	Level I	Level II	Level III
FINANCIAL ASSETS					
Cash and due from banks and interest-bearing deposits in other banks	$ 12,670,301	$ 12,670,301	$ 12,670,301	$ -	$ -
Federal funds sold	5,691,000	5,691,000	5,691,000	-	-
Certificates of deposit	2,976,000	2,976,000	-	2,976,000	-
Investment securities available for sale	18,868,583	18,868,583	661,928	18,206,655	-
Restricted bank stock	317,600	317,600	317,600	-	-
Loans receivable, net	267,030,919	269,571,694	-	-	269,571,694
Accrued interest receivable	642,079	642,079	642,079	-	-
Bank-owned life insurance	7,999,442	7,999,442	7,999,442		-
FINANCIAL LIABILITIES					
Time certificates	153,258,373	156,137,689	-	-	156,137,689
Other deposits	131,310,764	131,145,120	131,145,120	-	-
Federal Home Loan Bank borrowings	3,000,000	2,984,000	-	-	2,984,000
Accrued interest payable	61,733	61,733	61,733	-	-

2015	Carrying Amount	Fair Value	Level I	Level II	Level III
FINANCIAL ASSETS					
Cash and due from banks and interest-bearing deposits in other banks	$ 10,363,528	$ 10,363,528	$ 10,363,528	$ -	$ -
Certificates of deposit	2,728,000	2,735,356	-	2,735,356	-
Investment securities available for sale	16,341,179	16,341,179	640,166	15,701,013	-
Restricted bank stock	320,800	320,800	320,800	-	-
Loans receivable, net	269,460,966	271,103,357	-	-	271,103,357
Accrued interest receivable	610,808	610,808	610,808	-	-
Bank-owned life insurance	5,819,451	5,819,451	5,819,451	-	-
FINANCIAL LIABILITIES					
Time certificates	159,886,896	161,152,525	-	-	161,152,525
Other deposits	116,372,072	116,372,072	116,372,072	-	-
Federal Home Loan Bank borrowings	3,000,000	2,991,341	-	-	2,991,341
Accrued interest payable	66,180	66,180	66,180	-	-

13. FAIR VALUE DISCLOSURES (Continued)

Fair Value Measurement

Fair value measurements and disclosures under generally accepting accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements by establishing a three-level hierarchy that prioritizes the input to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The three levels are defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.

Level III: The valuation methodology is derived from model-based techniques in which at least one significant input is unobservable to the fair value measurement and based on the corporation's own assumptions about market participants' assumptions.

Following is a description of the valuation methodologies used for financial assets and liabilities measured on a recurring basis at estimated fair value in the financial statements.

Securities

Where quoted prices are available in an active market, securities are classified within Level I of the valuation hierarchy. Level I securities would include highly liquid government bonds, mortgage products, and exchange-traded equities. If quoted market prices are not available, securities are classified within Level II and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level II securities would include debt securities issues by U.S. agencies, mortgage-backed agency securities, obligations of state and political subdivisions, certain corporate assets backed, and other securities. All of the Corporation's securities are classified as available for sale.

The Corporation had no liabilities reflected at estimated fair value at December 31, 2016 and 2015.

13. FAIR VALUE DISCLOSURES (Continued)

Securities (Continued)

A summary of assets at December 31, 2016 and 2015, measured at estimated fair value on a recurring basis follows:

	Level I	Level II	Level III	Total Fair Value Measurements
2016				
Obligations of other U.S. government agencies and corporations	$ -	$ 10,509,238	$ -	$ 10,509,238
Obligations of state and political subdivisions	-	7,697,417	-	7,697,417
Equity securities - financial services	661,928	-	-	661,928
	$ 661,928	$ 18,206,655	$ -	$ 18,868,583
2015				
Obligations of other U.S. government agencies and corporations	$ -	$ 7,695,040	$ -	$ 7,695,040
Obligations of state and political subdivisions	-	8,005,973	-	8,005,973
Equity securities - financial services	640,166	-	-	640,166
	$ 640,166	$ 15,701,013	$ -	$ 16,341,179

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Corporation to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired Loans

Loans of a commercial nature are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral (if collateral-dependent), or the present value of expected future cash flows. Fair value is measured based on the value of the collateral securing the loan less estimated costs to sell or the expected present value of future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of the collateral is typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level II). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level III. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value of the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level III).

13. FAIR VALUE DISCLOSURES (Continued)

Impaired Loans (Continued)

Impaired loans with an allocation to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statement of Income. The fair value of impaired loans reported below is based on the total impaired loans with a specific allowance for loan losses allocation less the total allocations for such loans, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for loan losses for impaired loans were $77,487 and $92,391 at December 31, 2016 and 2015. The estimated holding and selling costs, which have not been included in fair value of the loan, but were included in the estimation of the specific allocation were $377,328 and $73,600 as of December 31, 2016 and 2015, respectively.

Other Real Estate Owned

Certain assets such as other real estate owned ("OREO") acquired through foreclosure are initially recorded at fair value of the property at the transfer date less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure. The real estate is then valued and subsequently carried at the lesser of the appraised value or the loan balance, including interest receivable at the time of foreclosure, less an estimate of costs to sell the property. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data or on a recent sales offer (Level II). However, if the acquired property is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level III. The estimate of costs to sell the property is based on historical transactions of similar holdings.

A summary of assets at December 31, 2016 and 2015, measured at estimated fair value on a nonrecurring basis is as follows:

	Level I	Level II	Level III	Total Fair Value Measurements
		2016		
Impaired loans	$ -	$ -	$ 318,503	$ 318,503
Other real estate owned	-	-	21,500	21,500
	$ -	$ -	$ 340,003	$ 340,003
		2015		
Impaired loans	$ -	$ -	$ 523,758	$ 523,758
Other real estate owned	-	-	158,499	158,499
	$ -	$ -	$ 682,257	$ 682,257

13. FAIR VALUE DISCLOSURES (Continued)

Other Real Estate Owned (Continued)

The following table presents additional qualitative information about assets measured on a nonrecurring basis and how the Corporation has utilized Level III inputs to determine fair value:

		Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
2016					
Impaired loans	$	318,503	Appraisal of collateral	Management adjustments for age of appraisal	0% - 56% discount
Other real estate owned		21,500		Management adjustments for liquidation expenses	40% discount
2015					
Impaired loans	$	523,758	Appraisal of collateral	Management adjustments for liquidation expenses	0% - 57% discount
Other real estate owned		158,499		Management adjustments for liquidation expenses	40% discount

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

		Net Unrealized Gains on Investment Securities
Accumulated other comprehensive income, December 31, 2014	$	386,615
Unrealized gain on available-for-sale securities		17,878
Tax effect		(6,078)
Net unrealized gain on available-for-sale securities		11,800
Accumulated other comprehensive income, December 31, 2015		398,415
Unrealized gain on available-for-sale securities		108,645
Tax effect		(36,940)
Net unrealized gain on available-for-sale securities		71,705
Accumulated other comprehensive income, December 31, 2016	$	470,120

15. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 15, 2017, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.