Neffs Bancorp, Inc.

Financial Statements and
Selected Financial Data

December 31, 2016 and 2015

DIRECTORS of the CORPORATION and BANK

Robert B. Heintzelman

John J. Remaley

Duane A. Schleicher

Kevin A. Schmidt

John F. Sharkey, Jr.

John F. Simock

Dean H. Snyder

Mary Ann Wagner

OFFICERS of the CORPORATION

John J. Remaley
President

Kevin A. Schmidt
Vice President

David C. Matulevich
Secretary/Treasurer

OFFICERS of the BANK

John J. Remaley
Chairman of the Board

Kevin A. Schmidt
President and Chief Executive Officer

Michael J. Bailey
Executive Vice President, Cashier and Chief Operations Officer

Ronald B. Gildner
Vice President Retail Lending

Ronald K. Miller
Vice President Retail Lending

Marianne Eisenhauer
Vice President Commercial Lending/Credit Administration

Colleen Worysz
Vice President Customer Service Relations

Ann Marie L. Osika
Vice President Commercial Lending

David C. Matulevich
Vice President Administration/ Chief Financial Officer

Year End 2016

To Our Valued Shareholders:

Approaching the new year is usually an exciting time and I'm sure 2017 will be no exception. The world, national and local economic events make the coming year one which could be troubling, exciting, and satisfying all at the same time. With the sense of apprehension, while reflecting on past achievements, we look forward to reaching new and greater accomplishments.

The operational results of the subsidiary for 2016, while troubling throughout the early part of the year, have been gratifying indeed! With Total Income exceeding $13,000,000 and Net Income before Taxes approaching $6,000,000, the excitement of the expectations of the new year are an integral part of the planning process. The ability to continue the goals set by the board and management several years ago, with the continual hard work of the staff, and the advice and counsel of a dedicated shareholder base all help to make the organization a satisfying environment.

In an effort to provide the best and most personal services available to the corporation's clientele, we are continuing the process of up-dating many parts of our business. Some changes will be visible to our patrons while others will take place behind the scenes, but each is designed to have a definitive and positive effect on our success.

Your continual patronage and positive influence is evident in the promising future for local community, independent banking. The Neffs National Bank and its parent organization, Neffs Bancorp, Inc. exemplify the corporate vision - "Strength, Trust, Community" - because you've chosen to help to keep it that way. Why not ask your family, friends and neighbors to *bank where you bank?* They'll be glad you did!

Cordially yours,

John J. Remaley
President

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BAKER TILLY

Independent Auditors' Report

Board of Directors and Stockholders
Neffs Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Neffs Bancorp, Inc. and its subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, 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.

Auditors' 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 from 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 auditors' 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 Neffs Bancorp, Inc. and its 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.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
March 10, 2017

an independent member of
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INTERNATIONAL

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollars In Thousands, Except Share and Per Share Data)	December 31 2016	December 31 2015
ASSETS		
Cash and cash equivalents	**$ 5,388**	$ 5,038
Interest bearing deposits with banks	**259**	869
Securities available for sale	**34,825**	31,528
Securities held to maturity, fair value 2016: $125,973; 2015: $117,316	**128,177**	115,153
Loans receivable, net of allowance for loan losses 2016: $2,002; 2015: $2,058	**164,753**	169,476
Premises and equipment, net	**1,927**	1,948
Other real estate owned	**625**	-
Restricted investments in bank stock	**380**	777
Other assets	**2,720**	2,693
Total Assets	**$339,054**	$327,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	**$ 45,363**	$ 33,036
Interest bearing	**227,803**	221,361
Total Deposits	**273,166**	254,397
Short-term borrowings	**3,000**	9,700
Long-term borrowings	**1,500**	4,800
Other liabilities	**730**	765
Total Liabilities	**278,396**	269,662
Stockholders' equity:		
Common stock, $1 par value; authorized 2,500,000 shares; 2016: issued 187,919 shares; outstanding shares 158,864; 2015: issued 187,919 shares; outstanding shares 159,259	**188**	188
Serial preferred stock, $1 par value; authorized 1,000,000 shares; authorized 500,000 Preferred Series A shares; issued 7,516 shares; 2016: outstanding shares 6,567; liquidation preference $1,708,799; 2015: outstanding shares 6,627; liquidation preference $1,724,412	**8**	8
Paid-in capital	**46**	37
Retained earnings	**69,005**	65,685
Accumulated other comprehensive loss	**(774)**	(424)
Treasury stock (common), at cost 2016 29,055 shares; 2015 28,660 shares	**(7,557)**	(7,433)
Treasury stock (Preferred Series A), at cost 2016 949 shares; 2015 889 shares	**(258)**	(241)
Total Stockholders' Equity	**60,658**	57,820
Total Liabilities and Stockholders' Equity	**$339,054**	$327,482

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

	Years Ended December 31, 2016	2015
(Dollars In Thousands, Except Share and Per Share Data)		
INTEREST INCOME		
Interest and fees on loans	**$ 7,493**	$ 7,375
Interest and dividends on investments:		
Taxable	**3,483**	3,597
Exempt from federal income taxes	**1,816**	1,691
Interest on federal funds sold and other	**7**	4
Total Interest Income	**12,799**	12,667
INTEREST EXPENSE		
Deposits	**2,362**	2,391
Borrowings	**47**	53
Total Interest Expense	**2,409**	2,444
Net Interest Income	**10,390**	10,223
PROVISION FOR LOAN LOSSES	**-**	332
Net Interest Income after Provision for Loan Losses	**10,390**	9,891
OTHER INCOME (EXPENSE)		
Impairment accretion on securities	**60**	60
Portion of accretion recognized in other comprehensive income (before tax)	**(60)**	(60)
Net impairment losses	**-**	-
Service charges on deposit accounts	**76**	83
Other service charges and fees	**103**	118
Gain on sale of other real estate owned	**55**	-
Gain on called securities	**8**	-
Other income	**45**	39
Total Other Income	**287**	240
OTHER EXPENSES		
Salaries and employee benefits	**2,379**	2,273
Occupancy	**274**	250
Furniture and equipment	**330**	291
Pennsylvania shares tax	**403**	378
FDIC expense	**120**	159
Other expenses	**1,320**	1,188
Total Other Expenses	**4,826**	4,539
Income before Income Taxes	**5,851**	5,592
INCOME TAX EXPENSE		
Current	**1,256**	1,325
Deferred	**41**	(62)
Total Income Tax Expense	**1,297**	1,263
Net Income	**4,554**	4,329
Preferred Stock Dividend	**(49)**	(45)
Income Available to Common Shareholders	**$ 4,505**	$ 4,284
EARNINGS PER SHARE, BASIC	**$ 28.32**	$ 26.85
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**159,044**	159,519

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Dollars in Thousands)	Years Ended December 31 2016	2015
Net Income	**$4,554**	$4,329
Other Comprehensive Income (Loss)		
Unrealized holding losses on securities available for sale, net of tax benefit: 2016 $201; 2015 $191	**(390)**	(371)
Unrealized holding gains on securities other-than-temporarily impaired held to maturity, net of tax expense: 2016 $20; 2015 $20	**40**	40
Total other comprehensive loss	**(350)**	(331)
Total Comprehensive Income	**$4,204**	$3,998

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Treasury Stock	Preferred Treasury Stock	Total Stockholders' Equity
	Years Ended December 31, 2016 and 2015							
	(Dollars in Thousands, Except per Share Data)							
BALANCE - JANUARY 1, 2015	$188	$8	$ 21	$62,477	$(93)	$(7,157)	$ (222)	$55,222
Net income	-	-	-	4,329	-	-	-	4,329
Other comprehensive loss	-	-	-	-	(331)	-	-	(331)
Common stock cash dividend declared, $6.75 per share	-	-	-	(1,076)	-	-	-	(1,076)
Preferred stock cash dividend declared, $6.75 per share	-	-	-	(45)	-	-	-	(45)
Purchase of common treasury stock (1,138 shares)	-	-	-	-	-	(319)	-	(319)
Purchase of Series A Preferred treasury stock (68 shares)	-	-	-	-	-	-	(19)	(19)
Sale of common treasury stock (210 shares)	-	-	16	-	-	43	-	59
BALANCE - DECEMBER 31, 2015	188	8	37	65,685	(424)	(7,433)	(241)	57,820
Net income	**-**	**-**	**-**	**4,554**	**-**	**-**	**-**	**4,554**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(350)**	**-**	**-**	**(350)**
Common stock cash dividend declared, $7.45 per share	**-**	**-**	**-**	**(1,185)**	**-**	**-**	**-**	**(1,185)**
Preferred stock cash dividend declared, $7.45 per share	**-**	**-**	**-**	**(49)**	**-**	**-**	**-**	**(49)**
Purchase of common treasury stock (500 shares)	**-**	**-**	**-**	**-**	**-**	**(146)**	**-**	**(146)**
Purchase of Series A Preferred treasury stock (60 shares)	**-**	**-**	**-**	**-**	**-**	**-**	**(17)**	**(17)**
Sale of common treasury stock (105 shares)	**-**	**-**	**9**	**-**	**-**	**22**	**-**	**31**
BALANCE - DECEMBER 31, 2016	**$188**	**$8**	**$46**	**$69,005**	**$(774)**	**$(7,557)**	**$(258)**	**$60,658**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,	
	2016	**2015**
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 4,554**	$ 4,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**227**	221
Provision for loan losses	**-**	332
Net amortization of securities	**25**	121
Gain on called securities	**(8)**	-
Gain on sale of other real estate owned	**(55)**	-
Deferred income tax (benefit) expense	**41**	(62)
Decrease (increase) in assets:		
Accrued interest receivable	**(76)**	87
Other assets	**189**	(134)
Increase (decrease) in liabilities:		
Accrued interest payable	**(18)**	36
Other liabilities	**(17)**	(19)
Net Cash Provided by Operating Activities	**4,862**	4,911
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in interest bearing deposits with banks	**610**	(739)
Purchases of securities available for sale	**(10,744)**	(3,668)
Purchases of securities held to maturity	**(63,691)**	(24,197)
Proceeds from maturities/calls and principal repayments of securities available for sale	**6,587**	6,578
Proceeds from maturities/calls of securities held to maturity	**50,979**	20,820
Net (increase) decrease in restricted investment in bank stock	**397**	(150)
Net (increase) decrease in loans	**3,985**	(14,844)
Proceeds from sale of other real estate owned	**168**	-
Purchases of premises and equipment	**(206)**	(141)
Net Cash Used in Investing Activities	**(11,915)**	(16,341)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	**18,769**	11,429
Dividends paid	**(1,234)**	(1,121)
Increase (decrease) in short term borrowing	**(6,700)**	3,000
Proceeds from long-term borrowings	**-**	1,500
Repayments of long-term borrowings	**(3,300)**	(1,000)
Purchase of treasury stock	**(163)**	(338)
Sale of treasury stock	**31**	59
Net Cash Provided by Financing Activities	**7,403**	13,529
Net Increase in Cash and Cash Equivalents	**350**	2,099
CASH AND CASH EQUIVALENTS - BEGINNING	**5,038**	2,939
CASH AND CASH EQUIVALENTS - ENDING	**$ 5,388**	$ 5,038
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 2,427**	$ 2,408
Income taxes paid	**$ 1,115**	$ 1,437
SUPPLEMENTARY SCHEDULE OF NON CASH INVESTING ACTIVITIES		
Other real estate owned acquired in settlement of loans	**$ 738**	$ -

See notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Neffs Bancorp, Inc. and its wholly-owned subsidiary, The Neffs National Bank (the "Bank"), (collectively the "Corporation"). All material intercompany transactions have been eliminated.

Subsequent Events

The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 10, 2017, the date these consolidated financial statements were available to be issued.

Nature of Operations

The Bank operates from one location in Lehigh County, Pennsylvania. The Bank provides a full range of financial services to individuals, small businesses and corporate customers. The primary source of revenue is interest and fees earned from providing residential mortgages, consumer loans and commercial loans to customers located within the Lehigh Valley of Pennsylvania. The Bank's primary deposits are checking accounts, savings accounts and certificates of deposit. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of Currency and the Federal Deposit Insurance Corporation. The Corporation is also subject to regulations of the Federal Reserve Bank.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the evaluation of other than temporary impairment losses, the determination of the allowance for loan losses, the valuation of other real estate owned, and deferred tax assets.

Significant Concentrations of Credit Risk

Most of the Corporation's activities are with customers located within the Lehigh Valley of Pennsylvania. Note 3 discusses the types of securities that the Corporation invests in. Note 4 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer. Although the Corporation has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Corporation has defined cash and cash equivalents as cash on hand and amounts due from banks, all of which mature within 90 days.

Securities

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities except for other-than-temporarily impaired securities.

Securities classified as available for sale are those debt securities that the Corporation intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income (loss), net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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 to sell or be required to sell such investments until maturity or market price recovery.

Restricted Investment in Bank Stocks

Restricted stocks include primarily Federal Home Loan Bank (“FHLB”) stock, which is carried at cost. Federal law requires a member institution of the FHLB system to hold stock of its district FHLB according to a predetermined formula. Restricted stocks include FHLB, Atlantic Community Bankers Bank, Federal Reserve Bank, and Independent Community Bankers of America of $348,000, $10,000, $21,000 and $1,000, respectively, at December 31, 2016 and $745,000, $10,000, $21,000 and $1,000, respectively, at December 31, 2015. Both cash and stock dividends are reported as income.

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. Management believes no impairment charge was necessary related to these investments during 2016 or 2015.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due for commercial loans or 120 days past due for consumer loans or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

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.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance for loan losses is reviewed at least quarterly and includes a portfolio analysis and a review of various qualitative/quantitative factors.

Qualitative/quantitative factors include the following:

- historical loan loss experience,
- recent trends in losses,
- changes in lending policies and procedures including underwriting standards and collection, charge-off, and recovery practices,
- changes in national and local economic and business conditions including condition of various market segments,
- changes in nature and volume of the portfolio,
- experience, ability, and depth of lending management and staff,
- trends in the volume and severity of past due and classified loans and volume of non-accrual loans, troubled debt restructuring, and other loan modifications,
- changes in the quality of the Bank's loan review system,
- the existence and effect of any large credits and 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 in the portfolio, and
- trends in values of collateral and lending standards relating to various types of collateral.

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Commercial loans are continuously reviewed and have the following internal credit classifications. Loans are classified as Pass when there is no material financial or collateral weaknesses and they are performing according to terms. Loans classified as OAEM/Special Mention have potential financial weaknesses, minor or no collateral weaknesses, and minor delinquencies. Substandard loans have material financial/collateral weaknesses and/or substantial delinquencies.

For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the net realizable value of the collateral if the loan is collateral dependent.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property. Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging, equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. In underwriting commercial and industrial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Corporation's analysis. Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the type of collateral securing the loans.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential and consumer loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

Residential mortgage loans are originated primarily within the Corporation's market area. The Corporation offers fixed-rate mortgage loans with terms up to a maximum of 30 years for both permanent structures and those under construction. The Corporation's residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Corporation's residential mortgage loans originate with a loan-to-value of 80% or less. In underwriting residential real estate loans, the Corporation evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. The ability to repay is determined by the borrower's employment history, current financial conditions, and credit background. Properties securing real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires borrowers to obtain an attorney's title opinion or title insurance, as well as fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Corporation has not engaged in subprime residential mortgage originations.

The Corporation originates home equity lines of credit primarily within the Corporation's market area or with customers primarily from the market area. In underwriting home equity lines of credit, a thorough analysis of the borrower's willingness and financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower's employment history, current financial conditions, and credit background. The analysis is based on the customer's ability to repay and on the collateral or security. Home equity lines of credit generally present a lower level of risk than non-real estate consumer loans because they are secured by the borrower's primary residence.

The Corporation offers a variety of secured and unsecured consumer loans, including vehicle and loans secured by savings deposits as well as other types of consumer loans. Consumer loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower's willingness and financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial conditions, and credit background. Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and 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, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Other Real Estate Owned

Other real estate owned is comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure. Foreclosed assets initially are recorded at the lower of cost or fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. Any write downs at this time are recorded through the allowance for loan losses. After foreclosure, valuations are periodically performed by management based on current fair value net of estimated selling costs. Net expenses from operations and changes in the valuation allowance after foreclosure are included in other expenses and totaled $126,000 and $29,000 for the years ended December 31, 2016 and 2015, respectively. Gains or losses on the sale of other real estate owned are included in other income. The Corporation had $625,000 other real estate owned at December 31, 2016 and no other real estate owned at December 31, 2015. At December 31, 2016 and December 31, 2015 the recorded investment of residential real estate and home equity loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $201,000 and $830,000, respectively.

Troubled Debt Restructurings

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may include extending the maturity date of the loan, reducing the interest rate on the loan to a rate which is below market for those borrowers, a combination of rate adjustments and maturity extensions, or by other means including covenant modifications, forbearances or other concessions. Generally, interest is not accrued on loans that were on non-accrual status prior to the troubled debt restructuring until they have performed in accordance with the modified terms for a period of at least six months. Interest is accrued on troubled debt restructurings which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their modified terms. Management evaluates the allowance for loan losses with respect to troubled debt restructurings under the same policy and guidelines as all other performing loans are evaluated with respect to the allowance for loan losses.

Transfers of Financial Assets

Transfers of financial assets, including sales of loan participations, 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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the premises and equipment. Charges for maintenance and repairs are expensed as incurred.

Advertising Costs

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2016 and 2015 was $143,000, respectively.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expenses reflect taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Corporation files a consolidated federal income tax return with the Bank.

The Corporation follows the Financial Accounting Standards Board guidance on accounting for uncertainty in income taxes. A tax position is recognized as a benefit at the largest amount that is more-likely-than-not to be sustained in a tax examination based solely on its merits. An uncertain tax position will not be recognized if it has a less than 50% likelihood of being sustained. Under the threshold guidelines, the Corporation believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of December 31, 2016 and 2015.

Earnings per Share

Earnings per share is based on the weighted average shares of common stock outstanding during each year. The Corporation currently maintains a simple capital structure, thus there are no dilutive effects on earnings per share.

Employee Benefit Plan

The Bank has a non-contributory defined contribution pension plan covering all full-time employees having at least one year of service. Contribution amounts are determined annually by the Corporation and are charged to current operating expense. The expense amounted to $86,000 and $84,000 for 2016 and 2015, respectively.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income and are reflected in the Consolidated Statement of Comprehensive Income.

The components of accumulated other comprehensive income (loss), net of related tax effects, at December 31, 2016 and 2015 are as follows:

	2016	2015
Unrealized holding gains (losses) on securities available for sale, net of tax	$(25)	$365
Unrealized losses on securities other-than-temporarily impaired held to maturity, net of tax	(749)	(789)
	$(774)	$(424)

Treasury Stock

The acquisition of treasury stock is recorded under the cost method. At the date of subsequent reissue, the treasury stock is reduced by the cost of such stock on the first-in first-out basis with any excess proceeds being credited to paid-in capital. When treasury stock is retired the par value of shares is charged to common stock, the original paid-in capital is charged to that account and the excess of the cost of the treasury stock is charged to retained earnings.

Newly Issued not yet Effective Accounting Standard

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326) to replace the incurred loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans receivable and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees, and other similar instruments. For the assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. This new standard will be effective for the Corporation for fiscal years beginning after December 15, 2020. The Corporation is currently evaluating the impact this new standard will have on the consolidated financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or a non-interest bearing balance held with the Federal Reserve Bank. The Bank also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. The reserve requirement at December 31, 2016 and 2015 was $895,000 and $761,000, respectively.

NOTE 3 - SECURITIES

The amortized cost and fair values of securities are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
SECURITIES AVAILABLE FOR SALE:				
Mortgage-backed securities (Government agencies- residential)	$34,862	$530	$(567)	$34,825
SECURITIES HELD TO MATURITY:				
Obligations of U.S. Government agencies	$50,472	$ 36	$(3,902)	$46,606
Obligations of states and political subdivisions	75,586	2,509	(1,041)	77,054
Corporate securities	500	28	-	528
Collateralized debt obligations	1,125	636	(518)	1,243
Mortgage-backed securities (Government agencies- residential)	494	48	-	542
	$128,177	$3,257	$(5,461)	$125,973

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
SECURITIES AVAILABLE FOR SALE:				
Mortgage-backed securities (Government agencies- residential)	$30,974	$772	$(218)	$31,528
SECURITIES HELD TO MATURITY:				
Obligations of U.S. Government agencies	$47,484	$ 245	$(1,115)	$46,614
Obligations of states and political subdivisions	65,472	3,484	(32)	68,924
Corporate securities	500	38	-	538
Collateralized debt obligations	1,105	80	(590)	595
Mortgage-backed securities (Government agencies- residential)	592	53	-	645
	$115,153	$3,900	$(1,737)	$117,316

The amortized cost and fair values of securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities 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
	(In Thousands)			
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	2,296	2,363
Due after five years through ten years	-	-	10,358	10,490
Due after ten years	-	-	115,029	112,578
	-	-	127,683	125,431
Mortgage-backed securities	34,862	34,825	494	542
	$34,862	$34,825	$128,177	$125,973

There were no sales of securities during 2016 and 2015.

Securities with an amortized cost and fair value of approximately $14,500,000 and $14,513,000 at December 31, 2016 and $14,500,000 and $14,243,000 at December 31, 2015 were pledged to secure public deposits and for other purposes required or permitted by law.

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
DECEMBER 31, 2016:						
Securities Available for Sale:						
Mortgage-backed securities	$9,571	$ (361)	$8,698	$(206)	$18,269	$(567)
Securities Held to Maturity:						
Obligations of U.S. Government agencies	44,655	(3,821)	1,719	(81)	46,374	(3,902)
Obligations of states and political subdivisions	19,354	(1,001)	3,114	(40)	22,468	(1,041)
Collateralized debt obligations	-	-	394	(518)	394	(518)
Total Temporarily Impaired Securities	$73,580	$(5,183)	$13,925	$(845)	$87,505	$(6,028)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
DECEMBER 31, 2015:						
Securities Available for Sale:						
Mortgage-backed securities	$4,174	$ (58)	$6,203	$(160)	$10,377	$(218)
Securities Held to Maturity:						
Obligations of U.S. Government agencies	14,606	(390)	25,616	(725)	40,222	(1,115)
Obligations of states and political subdivisions	3,041	(27)	1,089	(5)	4,130	(32)
Collateralized debt obligations	-	-	324	(590)	324	(590)
Total Temporarily Impaired Securities	$21,821	$(475)	$33,232	$(1,480)	$55,053	$(1,955)

The Corporation had 190 and 102 securities in an unrealized loss position at December 31, 2016 and 2015, respectively. The decline in fair value is due to interest rate and market fluctuations. There were no other-than-temporary impairment charges in 2016 or 2015. See Note 16 for further discussion on management's other-than-temporary impairment analysis. As the Corporation does not intend to sell nor is it expected to be required to sell other such investments until maturity or market price recovery, no other securities were deemed to be other-than-temporarily impaired.

NOTE 4 - LOANS

The composition of the Corporation's loan portfolio at December 31, 2016 and 2015 is as follows:

	2016	2015
	(In Thousands)	
Commercial real estate	$ 60,231	$ 65,484
Commercial non-real estate	16,795	19,113
Residential real estate	71,538	68,756
Real estate construction	1,407	1,041
Home equity	11,371	11,512
Other consumer	5,413	5,628
Total loans	166,755	171,534
Allowance for loan losses	(2,002)	(2,058)
Total loans, net of allowance for loan losses	$164,753	$169,476

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses are summarized as follows:

	2016	2015
	(In Thousands)	
Balance, beginning	$2,058	$1,911
Provision	-	332
Recoveries credited to allowance	-	1
Loans charged to allowance	(56)	(186)
Balance, ending	$2,002	$2,058

The following summarizes the allowance for loan losses and recorded investment in classes of loans as of and for year ended December 31, 2016:

	Commercial Real Estate	Commercial Non-Real Estate	Residential Real Estate	Real Estate Construction	Home Equity	Other Consumer	Total
				(In Thousands)			
Allowance beginning balance	$769	$164	$951	$9	$106	$59	$2,058
Losses charged to allowance	(19)	-	(18)	-	-	(19)	(56)
Recoveries credited to allowance	-	-	-	-	-	-	-
Provision	-	-	-	-	-	-	-
Allowance ending balance	$750	$164	$933	$9	$106	$40	$2,002
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$750	$164	$933	$9	$106	$40	$2,002
Loans							
Ending balance	$60,231	$16,795	$71,538	$1,407	$11,371	$5,413	$166,755
Ending balance: individually evaluated for impairment	$3,349	$2	$681	$-	$39	$-	$4,071
Ending balance: collectively evaluated for impairment	$56,882	$16,793	$70,857	$1,407	$11,332	$5,413	$162,684

The following summarizes the allowance for loan losses and recorded investment in classes of loans as of and for year ended December 31, 2015:

	Commercial Real Estate	Commercial Non-Real Estate	Residential Real Estate	Real Estate Construction	Home Equity	Other Consumer	Total
				(In Thousands)			
Allowance beginning balance	$771	$108	$877	$-	$106	$49	$1,911
Losses charged to allowance	-	-	(183)	-	-	(3)	(186)
Recoveries credited to allowance	-	-	1	-	-	-	1
Provision	(2)	56	256	9	-	13	332
Allowance ending balance	$769	$164	$951	$9	$106	$59	$2,058
Ending balance: individually evaluated for impairment	$13	$-	$-	$-	$-	$5	$18
Ending balance: collectively evaluated for impairment	$756	$164	$951	$9	$106	$54	$2,040
Loans							
Ending balance	$65,484	$19,113	$68,756	$1,041	$11,512	$5,628	$171,534
Ending balance: individually evaluated for impairment	$3,674	$4	$1,091	$-	$287	$18	$5,074
Ending balance: collectively evaluated for impairment	$61,810	$19,109	$67,665	$1,041	$11,225	$5,610	$166,460

The following summarizes commercial credit risk profile by internally assigned grade at December 31, 2016 and 2015:

	2016		2015	
	Commercial Real Estate	Commercial Non-Real Estate	Commercial Real Estate	Commercial Non-Real Estate
	(In Thousands)			
Pass	$52,784	$16,598	$55,828	$18,834
OAEM/Special Mention	3,230	129	3,987	263
Substandard	3,240	66	4,445	16
Non-Accrual	977	2	1,224	-
Total	$60,231	$16,795	$65,484	$19,113

The following summarizes consumer credit risk profile based on payment activity at December 31, 2016 and 2015:

	2016			
	Residential Real Estate	Real Estate Construction	Home Equity	Other Consumer
	(In Thousands)			
Performing	$70,857	$1,407	$11,332	$5,413
Nonperforming	681	-	39	-
Total	$71,538	$1,407	$11,371	$5,413

	2015			
	Residential Real Estate	Real Estate Construction	Home Equity	Other Consumer
	(In Thousands)			
Performing	$67,665	$1,041	$11,225	$5,610
Nonperforming	1,091	-	287	18
Total	$68,756	$1,041	$11,512	$5,628

The composition of impaired loans at December 31, 2016 and 2015 is as follows:

	2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded					
Commercial real estate	$3,349	$3,370	$ -	$3,457	$90
Commercial non-real estate	2	2	-	3	-
Residential real estate	681	685	-	698	29
Home equity	39	46	-	44	1
Total	$4,071	$4,103	$ -	$4,202	$120

	2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded					
Commercial real estate	$3,390	$3,396	$ -	$3,898	$187
Commercial non-real estate	4	4		6	1
Residential real estate	1,091	1,181	-	1,095	31
Home equity	287	299	-	292	3
Other consumer	13	13	-	16	1
With related allowance recorded					
Commercial real estate	284	284	13	290	4
Other consumer	5	5	5	5	-
Total	$5,074	$5,182	$18	$5,602	$227

The Corporation did not have any impaired loans with a related allowance recorded at December 31, 2016.

Age analysis of past due loans and non-accrual loans by class of the loan portfolio as of December 31, 2016 and December 31, 2015 is as follows:

2016	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Total Loans Receivable	90 Days and Over and Accruing	Non-Accrual
	(In Thousands)							
Commercial real estate	$2,014	$228	$601	$2,843	$57,388	$60,231	$ -	$977
Commercial non-real estate	-	-	-	-	16,795	16,795	-	2
Residential real estate	2,026	708	379	3,113	68,425	71,538	317	62
Real estate construction	-	-	-	-	1,407	1,407	-	-
Home equity	314	230	-	544	10,827	11,371	-	18
Other consumer	116	28	-	144	5,269	5,413	-	-
Total	$4,470	$1,194	$980	$6,644	$160,111	$166,755	$317	$1,059

2015	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Total Loans Receivable	90 Days and Over and Accruing	Non-Accrual
	(In Thousands)							
Commercial real estate	$1,488	$1,236	$848	$3,572	$61,912	$65,484	$ -	$1,224
Commercial non-real estate	86	-	4	90	19,023	19,113	4	-
Residential real estate	1,664	522	831	3,017	65,739	68,756	143	688
Real estate construction	-	-	-	-	1,041	1,041	-	-
Home equity	229	53	212	494	11,018	11,512	-	263
Other consumer	96	65	18	179	5,449	5,628	18	-
Total	$3,563	$1,876	$1,913	$7,352	$164,182	$171,534	$165	$2,175

The Corporation may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Corporation may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Corporation identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

As of December 31, 2016 and 2015, the Corporation has a recorded investment in TDRs of $2,808,000 and $3,047,000, respectively. The Corporation has allocated no specific allowance for these loans at December 31, 2016 and 2015, and has committed to lend no additional amounts on such loans.

The following tables reflect information regarding the Corporation's TDRs for the years ended December 31, 2016 and December 31, 2015. There were no TDRs over 90 days past due at December 31, 2016. Two commercial real estate TDRs of $113,000 and $70,000 and one other consumer TDR of $26,000 were over 90 days past due at December 31, 2015

	Troubled Debt Restructurings Completed During the Year Ended December 31, 2016		
	Number of Contracts	Pre-modification outstanding recorded investments	Post-modification outstanding recorded investments
	(In Thousands)		
Troubled debt restructurings:			
Commercial real estate	-	$ -	$ -
Commercial non-real estate	1	3	3
Residential real estate	1	57	57
Real estate construction	-	-	-
Home equity	-	-	-
Other consumer	-	-	-
Total	2	$60	$60

	Troubled Debt Restructurings Completed During the Year Ended December 31, 2015		
	Number of Contracts	Pre-modification outstanding recorded investments	Post-modification outstanding recorded investments
	(In Thousands)		
Troubled debt restructurings:			
Commercial real estate	-	$ -	$ -
Commercial non-real estate	-	-	-
Residential real estate	1	99	99
Real estate construction	-	-	-
Home equity	-	-	-
Other consumer	-	-	-
Total	1	$99	$99

NOTE 6 - PREMISES AND EQUIPMENT

The following summarizes premises and equipment at December 31, 2016 and 2015:

	Estimated Useful Lives	2016	2015
		(In Thousands)	
Premises	5-39 years	$3,201	$3,199
Furniture, fixtures and equipment	5-10 years	3,272	3,068
		6,473	6,267
Accumulated depreciation		(4,784)	(4,557)
		1,689	1,710
Land		238	238
		$1,927	$1,948

NOTE 7 - INTEREST BEARING DEPOSITS

Interest bearing deposits include certificates of deposit issued in denominations of $100,000 or greater which amounted to $50,552,000 and $49,270,000 at December 31, 2016 and 2015, respectively.

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at December 31, 2016 and 2015 were $10,982,000 and $10,826,000, respectively.

Interest bearing deposits at December 31, 2016 and 2015 are further detailed as follows:

	2016	2015
	(In Thousands)	
Savings accounts	$ 85,390	$ 81,373
NOW accounts	8,878	7,755
Certificates and other time deposits	133,535	132,233
	$227,803	$221,361

Time deposits at December 31, 2016 had the following scheduled maturities (in thousands):

2017	$ 44,555
2018	24,480
2019	19,946
2020	25,984
2021	18,570
Total	$133,535

NOTE 8 – BORROWINGS AND BORROWING CAPACITY

The Bank has a line of credit commitment available from Atlantic Community Bankers Bank for borrowings up to $10,000,000 in federal funds. Borrowings on this line are repaid on a daily basis. There were no borrowings under this line as of December 31, 2016 and December 31, 2015.

The Bank has maximum borrowing capacity with the Federal Home Loan Bank of approximately $93,835,000. Borrowings under this line were $4,500,000 at December 31, 2016 and $14,500,000 at December 31, 2015. Advances from the Federal Home Loan Bank are secured by qualifying assets of the Bank. At December 31, 2016 borrowings included a $1.5 million original 2 year term (1.03% interest) and a $3 million short-term borrowing (0.83% interest), maturing within ninety days. At December 31, 2015 borrowings included a $1 million original 1 year term (0.81% interest), a $2.3 million original 2 year term (0.56% interest), and a $1.5 million original 2 year term (1.03% interest) borrowings through a community lending program. The remaining $9.7 million (0.57% interest) are short-term, maturing within ninety days.

NOTE 9 - INCOME TAXES

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

	2016	2015
	(In Thousands)	
Losses on impaired security	$387	$407
Unrealized loss on securities	12	-
Allowance for loan losses	630	649
Accrued benefits	46	42
Other asset writedowns	-	5
Total Deferred Tax Assets	1,075	1,103
Securities accretion	99	110
Unrealized gains on securities	-	189
Depreciation	100	68
Total Deferred Tax Liabilities	199	367
Net Deferred Tax Asset (included in other assets)	$876	$736

The income tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. The differences for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(Dollars in Thousands)			
Tax at statutory rate	$1,989	34 %	$1,901	34 %
Increase (decrease) resulting from:				
Tax-exempt interest income	(734)	(13)	(678)	(12)
TEFRA interest expense disallowance	42	1	40	1
	$ 1,297	22 %	$ 1,263	23 %

The Corporation is subject to income taxes in the U.S. and the state of Pennsylvania. Tax regulations are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

NOTE 10 – STOCKHOLDERS' EQUITY

The Corporation is authorized to issue 2,500,000 shares of common stock and 1,000,000 shares of serial preferred stock, par value of $1.00 per share, of which 500,000 shares of Series A preferred stock was authorized in August 2011. The Series A preferred stock liquidation value is $260.21 per share and is non-cumulative with respect to dividends. The Series A preferred stock ranks senior to the common stock and all classes and series of equity securities of the Corporation as to dividend rights, rights of liquidation, and dissolution or winding up of the Corporation. Holders of the Series A preferred stock are generally entitled to vote upon any merger or similar transaction involving the Corporation in which the holders of common stock are entitled to vote and are otherwise entitled to vote as required by law. The Series A preferred stock is entitled to a preference in the distribution of dividends and liquidation rights, callable any time after the fifth anniversary following issuance, automatically convert into shares of the Corporation's common stock immediately prior to the closing of a change in control, and provides antidilution adjustments when the outstanding shares of common stock are increased or decreased. Series A preferred stock does not have any preemptive or preferential rights.

NOTE 11 - RELATED PARTY TRANSACTIONS

Some of the Corporation's or the Bank's directors, principal officers, principal shareholders and their related interests had transactions with the Bank in the ordinary course of business. All transactions were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions with persons not related. In the opinion of management, these transactions do not involve more than normal risk of collectability or present other unfavorable features. Deposits of related parties totaled $3,889,000 and $3,634,000 at December 31, 2016 and 2015, respectively. It is anticipated that similar transactions will be made in the future.

The following is an analysis of loans to these related parties during 2016 and 2015:

	2016	2015
	(In Thousands)	
Balances, January 1	$1,197	$854
Advances	413	598
Repayments	(363)	(255)
Balances, December 31	$1,247	$1,197

NOTE 12 - 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 financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of these 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 and letters of credit written is represented by the contract or notional 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. The following table identifies the contract or notional amount of those instruments at December 31, 2016 and 2015:

	2016	2015
	(In Thousands)	
Commitments to grant loans	$4,285	$1,733
Unfunded commitments under lines of credit	12,626	9,982
Letters of credit	752	776
	$17,663	$12,491

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 credit worthiness 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 counterparty. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

Outstanding letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Corporation requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2016 and 2015 was $752,000 and $776,000, respectively. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2016 and 2015 for guarantees under standby letters of credit issued is not material.

NOTE 13 - DIVIDEND RESTRICTIONS

The amount of funds available to a parent from its subsidiary bank is limited for all national banks by restrictions imposed by the Comptroller of the Currency. A national bank is required to obtain the approval of the Comptroller of the Currency if the total of all dividends declared in any calendar year exceeds the Bank’s net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank can declare dividends at December 31, 2016 of approximately $6,136,000 plus an additional amount equal to the Bank’s net profits for 2016, up to the date of any such dividend declaration.

NOTE 14 - CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The final rules implementing BASEL Committee on Banking Supervisor's Capital Guidance for U.S. Banks (BASEL III rules) became effective for the Corporation on January 1, 2016, with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Under the BASEL III rules, the Corporation and Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2016. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the tables below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 Capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the regulatory agencies 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, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital ratios as of December 31, 2016 and 2015, and the minimum ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are presented in the following table. The Corporation's ratios are not significantly different.

	2016					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Total capital (to risk-weighted assets):	$63,231	35.8 %	$≥14,113	≥8.0 %	$≥17,642	≥10.0 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets):	61,229	34.7	≥ 7,939	≥4.5	≥ 11,467	≥ 6.5
Tier 1 capital (to risk-weighted assets):	61,229	34.7	≥10,585	≥6.0	≥ 14,113	≥ 8.0
Tier 1 capital (to average assets):	61,229	18.4	≥13,321	≥4.0	≥ 16,652	≥ 5.0
	2015					
Total capital (to risk-weighted assets):	$60,075	33.7 %	$≥14,263	≥8.0 %	$≥17,829	≥10.0 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets):	58,017	32.5	≥ 8,023	≥4.5	≥ 11,589	≥ 6.5
Tier 1 capital (to risk-weighted assets):	58,017	32.5	≥ 10,697	≥6.0	≥ 14,263	≥ 8.0
Tier 1 capital (to average assets):	58,017	17.7	≥13,089	≥4.0	≥ 16,361	≥ 5.0

The Federal Reserve Board approved a final rule in February 2006 that expands the definition of a small bank holding company ("BHC") under the Board's Small Bank Holding Company Policy Statement and the Board's risk-based and leverage capital guidelines for bank holding companies by raising the small BHC asset size threshold from $150 million to $500 million and amended the related qualitative criteria for determining eligibility as a small BHC for the purposes of the policy statement and the capital guidelines. Based on the ruling, Neffs Bancorp, Inc. meets the eligibility criteria of a small BHC and is exempt from regulatory capital requirements administered by the federal banking agencies.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC Topic 820 – Fair Value Measurement, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in some instances, there are no quoted market prices for the Corporation's various financial instruments. 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. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

	2016			
	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Mortgage-backed securities available for sale	$ 34,825	$ -	$ 34,825	$ -
	2015			
Mortgage-backed securities available for sale	$ 31,528	$ -	$ 31,528	$ -

For assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

	December 31, 2016			
	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired trust preferred securities held to maturity	$ 212	$ -	$ -	$ 212
Other real estate owned	625	-	-	625

	Fair Value	Valuation Technique	Unobservable Input	Range
		(In Thousands)		
Impaired trust preferred securities held to maturity	$ 212	Income valuation	Collateral credit quality	8.5-10.5%
Other real estate owned	625	Appraisal of collateral(1)(2)	Collateral discounts(2)	20-30%
	$ 837			

(1) Fair value is generally determined through independent appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

	December 31, 2015			
	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired trust preferred securities held to maturity	$ 191	$ -	$ -	$ 191
Impaired loans	$ 271	$ -	$ -	$ 271

	Fair Value	Valuation Technique	Unobservable Input	Range
		(In Thousands)		
Impaired trust preferred securities held to maturity	$ 191	Income valuation	Collateral credit quality	7.7-9.0%
Impaired loans	271	Appraisal of collateral(1)(2)	Collateral discounts(2)	20-30%
	$ 462			

(1) Fair value is generally determined through independent appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

The Corporation's adoption of ASC Topic 820 applies only to its financial instruments required to be reported at fair value. The Corporation does not have non-financial assets and non-financial liabilities for which adoption would apply in accordance with ASC Topic 820.
The following methods and assumptions were used by the Corporation in estimating financial instrument fair values:

Cash and Cash Equivalents and Interest Bearing Deposits with Banks (Carried at Cost)

The statement of financial condition carrying amounts for cash and cash equivalents and interest bearing deposits with banks approximate the estimated fair values of such assets.

Securities

Level 1 fair values of unimpaired securities held to maturity (carried at cost) and securities available for sale are generally determined by quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Mortgage-backed securities were valued using Level 2 inputs where quoted process are available and observable but not necessarily quotes on identical securities traded in active markets on a daily basis.

At December 31, 2016 the Corporation owned four collateralized debt obligation securities, classified as securities held to maturity, totaling $1,125,000 book value and $1,243,000 fair value that are backed by trust preferred securities issued by banks, thrifts, and insurance companies (TRUP CDOs). The Corporation analyzed the cash flow characteristics of these securities and determined that three securities were other-than-temporarily impaired with one fully charged off as described in Note 16. The market for these securities at December 31, 2016 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which TRUP CDOs trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive as no new TRUP CDOs have been issued since 2007. There are currently very few market participants who are willing and or able to transact for these securities.

Loans Receivable (Carried at Cost)

Fair values of variable rate loans subject to frequent repricing and which entail no significant credit risk are based on the carrying amounts. The estimated fair values of other loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Impaired loans are considered impaired under the guidance of the loan impairment subsection of the Receivables Topic, ASC Section 310-10-35, under which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value consists of the loan balance less its valuation allowance and is generally determined based on independent third-party appraisals of the collateral or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate Owned

Other real estate owned consists of properties acquired as a result of deeds in lieu of foreclosure, foreclosure or through other means related to collateral on Corporation loans. Costs relating to the development or improvement of assets are capitalized, and costs relating to holding the property are charged to expense. The Corporation had $625,000 other real estate owned at December 31, 2016 and no other real estate owned at December 31, 2015.

Restricted Investments in Bank Stock (Carried at Cost)

The carrying amount of restricted investments in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable (Carried at Cost)

The carrying amount of accrued interest is considered a reasonable estimate of fair value.

Deposit Liabilities (Carried at Cost)

For deposits which are payable on demand, the carrying amount is a reasonable estimate of fair value. Fair values of fixed rate time deposits are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregate expected maturities.

Accrued Interest Payable (Carried at Cost)

The carrying amount of accrued interest approximates its fair value.

Short-term and Long-term Borrowings (Carried at Cost)

The fair value of these borrowings are estimated using discounted cash flow analysis, based on quoted prices for new advances with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Instruments (Disclosed at Cost)

The fair value of commitments to extend credit and for outstanding letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

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

	December 31, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)				
Financial assets:					
Cash and short-term investments	$ 5,388	$ 5,388	$ 5,388	$ -	$ -
Securities available for sale	34,825	34,825	-	34,825	-
Securities held to maturity	128,177	125,973	-	124,730	1,243
Loans, net	164,753	163,808	-	-	163,808
Accrued interest receivable	1,574	1,574	-	1,574	-
Restricted stock	380	380	-	380	-
Financial liabilities:					
Deposits	273,166	274,989	-	274,989	-
Accrued interest payable	530	530	-	530	-
Borrowings	4,500	4,500	-	4,500	-
Off-balance sheet instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

	December 31, 2015				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)				
Financial assets:					
Cash and short-term investments	$ 5,907	$ 5,907	$ 5,907	$ -	$ -
Securities available for sale	31,528	31,528	-	31,528	-
Securities held to maturity	115,153	117,316	-	116,721	595
Loans, net	169,476	174,109	-	-	174,109
Accrued interest receivable	1,498	1,498	-	1,498	-
Restricted stock	777	777	-	777	-
Financial liabilities:					
Deposits	254,397	256,018	-	256,018	-
Accrued interest payable	548	548	-	548	-
Borrowings	14,500	14,500	-	14,500	-
Off-balance sheet instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

NOTE 16 – OTHER-THAN-TEMPORARY IMPAIRMENT

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the other-than-temporary impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

The Corporation conducts other-than-temporary impairment analysis on a quarterly basis. The initial indication of other-than-temporary impairment for both debt and equity securities is a decline in the market value below the amount recorded for an investment. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the consolidated statement of income.

In determining whether an impairment is other than temporary, the Corporation considers a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Corporation's intent to sell or the likelihood it will be required to sell the security before a sufficient period of time to allow for a recovery in market value or maturity. Among the factors that are considered in determining the Corporation's intent and ability is a review of its capital adequacy, interest rate risk position and liquidity.

The Corporation also considers the issuer's financial condition, capital strength and near-term prospects. In addition, for debt securities and perpetual preferred securities that are treated as debt securities for the purpose of other-than-temporary analysis, the Corporation considers the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), current ability to make future payments in a timely manner and the issuer's ability to service debt.

The assessment of a security's ability to recover any decline in market value, the ability of the issuer to meet contractual obligations and the Corporation's intent to sell or the likelihood it will be required to sell the security before recovery in value require considerable judgment.

Certain of the corporate debt securities are accounted for under ASC 325, Investments - Other. For investments within the scope of ASC 325 at acquisition, the Corporation evaluates current available information in estimating the future cash flows of these securities and determines whether there have been favorable or adverse changes in estimated cash flows from the cash flows previously projected. The Corporation considers the structure and term of the pool and the financial condition of the underlying issuers. Specifically, the evaluation incorporates factors such as interest rates and appropriate risk premiums, the timing and amount of interest and principal payments and the allocation of payments to the various note classes. Current estimates of cash flows are based on the most recent trustee reports, announcements of deferrals or defaults, expected future default rates and other relevant market information related to the underlying securities and issuers.

There were no impairment charges recognized in earnings in 2016 or 2015 on other-than-temporarily impaired trust preferred securities. Based on several factors including credit ratings, principal coverage tests, break in yield analysis, and cash flow forecasts, management expects to recover the remaining amortized cost of these securities. A break in yield for a given tranche of a collateralized debt obligation (investment) means that deferrals/defaults have reached such a level that the tranche would not receive all of its contractual cash flows (principal and interest) by maturity (so not just a temporary interest shortfall, but an actual loss in yield on the investment). In other words, the magnitude of the defaults/deferrals has depleted all of the credit enhancement (excess interest and over-collateralization) beneath the given tranche. Based on this analysis and because the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell before its recovery of amortized cost basis, which may be at maturity, and, for investments within the scope of ASC 325, the Corporation determined that there was no adverse change in the cash flows as viewed by a market participant except as noted. However, there is a risk that such reviews could result in recognition of additional other-than-temporary impairment charges in the future.

The market values for these securities (and any securities other than those issued or guaranteed by the US Treasury) are very depressed relative to historical levels. The yield spreads for the broad market of investment grade and high yield corporate bonds recently reached all time wide levels and remain near those levels today. Thus in today's market, a low market price for a particular bond may only provide evidence of stress in the credit markets in general versus being an indicator of credit problems with a particular issuer.

Given conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, we determined:

- the few observable transactions and market quotations that are available are not reliable for purposes of determining fair value at December 31, 2016,
- an income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates and
- our TRUP CDOs are classified within Level 3 of the fair value hierarchy because we determined that significant adjustments are required to determine fair value at the measurement date.

Our TRUP CDO valuations were prepared with the assistance of a third party. Their approach to determining fair value involved these steps:

1. The credit quality of the collateral is estimated using average risk-neutral probability of default values for each industry (i.e. banks, REITs and insurance companies are evaluated separately).
2. Asset defaults are then generated taking account both the probability of default of the asset and an assumed level of correlation among the assets.
3. A higher level of correlation is assumed among assets from the same industry (e.g. banks with other banks) than among those from different industries.
4. The loss given default was assumed to be 95% (i.e. a 5 % recovery).
5. The cash flows were forecast for the underlying collateral and applied to each tranche to determine the resulting distribution among the securities.
6. The calculations were modeled in several thousand scenarios using a Monte Carlo engine.
7. The expected cash flows for each scenario are discounted using a discount rate that Moody's calculates for each bond that represents an estimate of the yield that would be required in today's market for a bond with a similar credit profile as the bond in question.
8. The average price was used for valuation purposes.

We recalculated the overall effective discount rates for determining the fair values. The overall discount rates range from 8.5% to 10.5% and are highly dependent and reflected upon the credit quality of the collateral, the relative position of the tranche in the capital structure of the CDO and the prepayment assumptions.

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities, including the Corporation and the Bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." These rules became effective on April 1, 2014. Certain collateralized debt obligations ("CDO") securities backed by trust preferred securities were initially defined as covered funds subject to the investment prohibitions of the final rule. Action taken by the Federal Reserve in January 2014 exempted many such securities to address the concern that many community banks holding such CDO securities may have been required to recognize losses on those securities. The Corporation owns four CDOs, all of which were included on the Federal Reserve's list of exempt securities and therefore are exempt from the requirements of the Volcker Rule.

As of December 31, 2016, management does not believe any unrealized loss in its other debt securities represents an other-than-temporary impairment except as noted. The unrealized losses at December 31, 2016 were primarily interest rate-related.

NOTE 17 - CONDENSED FINANCIAL INFORMATION OF NEFFS BANCORP, INC. (PARENT ONLY)

STATEMENT OF FINANCIAL CONDITION

	December 31, 2016	December 31, 2015
	(In Thousands)	
ASSETS		
Cash	$ 14	$ 34
Investment in subsidiary	60,455	57,592
Premises and equipment	181	188
Other assets	31	30
Total Assets	$60,681	$57,844
LIABILITY AND STOCKHOLDERS' EQUITY		
Liability, accounts payable	$ 23	$ 24
Stockholders' equity	60,658	57,820
Total Liability and Stockholders' Equity	$60,681	$57,844

STATEMENT OF INCOME

	Years Ended December 31, 2016	2015
	(In Thousands)	
Dividends from subsidiary	$1,400	$1,464
Rental income	16	16
Expenses	(107)	(104)
Income before Income Taxes and Equity in Undistributed Earnings of Subsidiary	1,309	1,376
Income tax benefit	32	30
	1,341	1,406
Equity in undistributed earnings of subsidiary	3,213	2,923
Net income	4,554	4,329
Preferred stock dividend	(49)	(45)
Net income available to common shareholders	$4,505	$4,284

STATEMENT OF CASH FLOWS

	Years Ended December 31, 2016	2015
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	$4,554	$4,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7	6
Equity in undistributed earnings of subsidiary	(3,213)	(2,923)
Increase in other assets	(1)	(5)
Decrease in accounts payable	(1)	-
Net Cash Provided by Operating Activities	1,346	1,407
Cash Flows Used in Financing Activities		
Dividends paid	(1,234)	(1,121)
Purchase of treasury stock	(163)	(338)
Sale of treasury stock	31	59
Net Cash Used in Financing Activities	(1,366)	(1,400)
Net Increase (decrease) in Cash	(20)	7
Cash - Beginning	34	27
Cash - Ending	$ 14	$ 34

SELECTED FINANCIAL DATA

The following financial information is not covered by the auditor's report and must be read in conjunction with the consolidated financial statements and related notes.

	At or For the Year Ended December 31,				
	2016	2015	2014	2013	2012
Interest Income	(Dollars in Thousands, Except Per Share Data)				
Interest and fees on loans	$7,493	$7,375	$7,255	$7,361	$7,472
Interest and dividends on securities	5,299	5,288	5,192	5,017	5,527
Interest on federal funds sold and other	7	4	3	6	7
Total interest income	12,799	12,667	12,450	12,384	13,006
Interest Expense					
Deposits	2,362	2,391	2,272	2,741	3,512
Borrowings	47	53	40	6	-
Total interest expense	2,409	2,444	2,312	2,747	3,512
Net interest income	10,390	10,223	10,138	9,637	9,494
Provision for loan losses	-	332	783	254	240
Net interest income after provision for loan losses	10,390	9,891	9,355	9,383	9,254
Other income (expense)	287	240	313	358	163
Other expenses	4,826	4,539	4,548	4,296	3,934
Income before income taxes	5,851	5,592	5,120	5,445	5,483
Income Tax Expense	1,297	1,263	1,124	1,240	1,238
Net income	$4,554	$4,329	$3,996	$4,205	$4,245
Per Share Data					
Basic earnings per common share	$28.32	$26.85	$24.54	$25.57	$25.52
Book value	$371.06	$352.23	$333.86	$311.46	$297.19
Dividends declared	$7.45	$6.75	$6.50	$6.50	$5.50
At End of Period					
Total assets	$339,054	$327,482	$309,938	$303,840	$294,245
Securities	163,002	146,681	146,836	143,586	138,752
Total loans, gross	166,755	171,534	156,875	151,182	142,876
Allowance for loan losses	2,002	2,058	1,911	1,653	1,562
Deposits	273,166	254,397	242,968	239,062	242,947
Stockholders' equity	$60,658	$57,820	$55,222	$52,371	$50,455
Common shares outstanding	158,864	159,259	160,187	162,376	163,644
Series A Preferred shares outstanding	6,567	6,627	6,695	6,904	7,004
Key Ratios					
Return on average assets	1.37%	1.36%	1.30%	1.41%	1.46%
Return on average equity	7.69%	7.66%	7.43%	8.18%	8.62%
Net loans to deposit ratio	60.31%	66.62%	63.78%	62.55%	58.17%
Dividend payout ratio (dividends declared divided by net income)	27.09%	25.90%	27.27%	26.18%	22.22%
Equity to asset ratio (average equity divided by average total assets)	17.78%	17.74%	17.53%	17.19%	16.95%