

# 2017 Annual Report



**YORK TRADITIONS**  
B · A · N · K

226 Pauline Drive • P.O. Box 3658 • York, Pennsylvania 17402-0136  
717-741-1770 • [www.yorktraditionsbank.com](http://www.yorktraditionsbank.com)

# York Traditions Bank

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## Independent Auditor's Report

To the Board of Directors  
York Traditions Bank  
York, Pennsylvania

We have audited the accompanying financial statements of York Traditions Bank, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of York Traditions Bank as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

Harrisburg, Pennsylvania  
February 16, 2018

## Financial Statements

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# York Traditions Bank

## Balance Sheets (in thousands, except share data)

<i>December 31,</i>	2017	2016
<b>Assets</b>		
Cash and due from banks	\$ 5,249	\$ 5,005
Interest bearing deposits	2,195	886
Cash and cash equivalents	7,444	5,891
Securities available-for-sale	55,258	50,185
Loans held-for-sale	13,885	18,451
Loans receivable, net of allowance for loan losses 2017: \$3,551; 2016: \$3,108	344,982	302,169
Investment in restricted bank stocks	2,232	2,673
Property and equipment, net	6,740	6,934
Accrued interest receivable	1,245	1,002
Foreclosed real estate	298	355
Other assets	9,205	9,056
<b>Total Assets</b>	<b>\$ 441,289</b>	<b>\$ 396,716</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Demand, non-interest bearing	\$ 55,964	\$ 38,697
Interest bearing	307,125	283,620
Total deposits	363,089	322,317
Short-term borrowings	1,391	8,877
Long-term borrowings	29,833	31,833
Other liabilities	1,657	1,466
<b>Total Liabilities</b>	<b>395,970</b>	<b>364,493</b>
<b>Shareholders' Equity</b>		
Common stock, par value \$1 per share; 9,996,684 shares authorized; issued and outstanding 2,807,002 shares in 2017 and 2,188,268 shares in 2016	2,807	2,188
Surplus	27,535	18,563
Retained earnings	15,201	11,770
Accumulated other comprehensive loss	(224)	(298)
<b>Total Shareholders' Equity</b>	<b>45,319</b>	<b>32,223</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 441,289</b>	<b>\$ 396,716</b>

See accompanying notes to financial statements.

**York Traditions Bank**  
**Statements of Income**  
(in thousands, except per share data)

<i>Years Ended December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Interest Income</b>		
Loans receivable, including fees	\$ 15,535	\$ 13,180
Securities:		
Taxable	647	697
Tax-exempt	450	458
Federal funds sold and other	174	137
<b>Total Interest Income</b>	<b>16,806</b>	<b>14,472</b>
<b>Interest Expense</b>		
Deposits	2,147	1,888
Federal funds purchased and short-term borrowings	174	78
Long-term borrowings	745	749
<b>Total Interest Expense</b>	<b>3,066</b>	<b>2,715</b>
Net interest income	13,740	11,757
<b>Provision for Loan Losses</b>	<b>473</b>	<b>994</b>
<b>Net Interest Income After Provision for Loan Losses</b>	<b>13,267</b>	<b>10,763</b>
<b>Noninterest Income</b>		
Service charges on deposits	317	266
Gain on sale/call of securities	1	72
Gain on sale of loans	4,110	4,249
Income from bank owned life insurance	165	173
Debit card interchange income	397	321
Merchant charge card income	62	419
Other	393	423
<b>Total Noninterest Income</b>	<b>5,445</b>	<b>5,923</b>
<b>Noninterest Expenses</b>		
Salaries and employee benefits	8,150	7,755
Occupancy and equipment	1,668	1,589
Advertising and marketing	295	256
Professional fees	585	522
Data processing	839	674
FDIC deposit insurance	256	245
Bank shares tax	165	204
Foreclosed real estate	5	26
Other	1,709	1,287
<b>Total Noninterest Expenses</b>	<b>13,672</b>	<b>12,558</b>
Income before income taxes	5,040	4,128
<b>Income Tax Expense</b>	<b>1,646</b>	<b>1,228</b>
<b>Net Income Available to Common Shareholders</b>	<b>\$ 3,394</b>	<b>\$ 2,900</b>
<b>Net Income per Common Share, Basic</b>	<b>\$ 1.44</b>	<b>\$ 1.33</b>
<b>Net Income per Common Share, Diluted</b>	<b>1.43</b>	<b>1.33</b>

*See accompanying notes to financial statements.*

# York Traditions Bank

## Statements of Comprehensive Income (in thousands)

<i>Years Ended December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Net Income</b>	<b>\$ 3,394</b>	<b>\$ 2,900</b>
<b>Other Comprehensive Income (Loss), Net of Income Tax</b>		
Unrealized gains (losses) arising on available-for-sale securities, net of income tax (benefit) of \$94 and \$(164), respectively	<b>75</b>	<b>(317)</b>
Reclassification adjustment for gains realized in net income, net of income tax expense of \$0 and \$24, respectively, and included in noninterest income on the statements of income	<b>(1)</b>	<b>(48)</b>
<b>Other comprehensive income (loss), net of income tax</b>	<b>74</b>	<b>(365)</b>
<b>Total Comprehensive Income</b>	<b>\$ 3,468</b>	<b>\$ 2,535</b>

*See accompanying notes to financial statements.*



**York Traditions Bank**  
**Statements of Shareholders' Equity**  
(in thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2016</b>	\$ 2,176	\$ 18,393	\$ 8,870	\$ 67	\$ 29,506
Net income	-	-	2,900	-	2,900
Other comprehensive loss, net of taxes	-	-	-	(365)	(365)
Common stock retired	(2)	(20)	-	-	(22)
Stock-based compensation awards	13	174	-	-	187
Exercise of stock options	1	16	-	-	17
<b>Balance, December 31, 2016</b>	2,188	18,563	11,770	(298)	32,223
Net income	-	-	3,394	-	3,394
Other comprehensive income, net of taxes	-	-	-	111	111
Reclassification of AOCI due to Tax Act	-	-	37	(37)	-
Common stock issued	606	8,811	-	-	9,417
Common stock retired	(4)	(55)	-	-	(59)
Stock-based compensation awards	10	139	-	-	149
Exercise of stock options	7	77	-	-	84
<b>Balance, December 31, 2017</b>	\$ 2,807	\$ 27,535	\$ 15,201	\$ (224)	\$ 45,319

*See accompanying notes to financial statements.*

**York Traditions Bank**  
**Statements of Cash Flows**  
(in thousands)

<i>Years Ended December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,394	\$ 2,900
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	473	994
Provision for depreciation and amortization	608	573
Amortization of debt issuance costs	20	20
Amortization of securities, net	398	512
Gain on sale of loans	(4,110)	(4,249)
Proceeds from sale of loans	154,904	155,607
Loans originated for sale	(146,228)	(157,689)
Deferred loan fees, net	95	75
Gain on sale/call of securities	(1)	(72)
Gain on sale of foreclosed real estate	-	(76)
Deferred income tax (benefit) expense	239	(257)
Stock-based compensation expense	149	187
Net increase in cash surrender value of bank-owned life insurance	(165)	(173)
Increase in accrued interest receivable and other assets	(393)	(166)
Increase in other liabilities	191	572
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>9,574</b>	<b>(1,242)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of available-for-sale securities	-	10,453
Proceeds from calls, paydowns and maturities of securities available-for-sale	7,585	8,746
Purchase of securities available-for-sale	(12,887)	(3,521)
Net sale (purchase) of investment in restricted bank stocks	441	(392)
Net increase in loans	(43,594)	(47,564)
Purchases of property and equipment	(415)	(321)
Proceeds from sale of foreclosed real estate	121	769
<b>Net Cash Used in Investing Activities</b>	<b>(48,749)</b>	<b>(31,830)</b>
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	40,772	27,825
Net (decrease) increase in short-term borrowings	(7,486)	8,877
Proceeds of long-term borrowings	5,500	2,083
Payments of long-term borrowings	(7,500)	(5,000)
Proceeds from issuance of common stock	9,501	17
Common stock retired	(59)	(22)
<b>Net Cash Provided by Financing Activities</b>	<b>40,728</b>	<b>33,780</b>
Net increase in cash and cash equivalents	1,553	708
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>5,891</b>	<b>5,183</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 7,444</b>	<b>\$ 5,891</b>
<b>Supplementary Cash Flows Information</b>		
Interest paid	\$ 3,021	\$ 2,708
Income taxes paid	1,465	1,155
Loans transferred to foreclosed real estate	213	801

*See accompanying notes to financial statements.*

# York Traditions Bank

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

The accounting policies discussed below are followed consistently by York Traditions Bank (the “Bank”). These policies are in accordance with accounting principles generally accepted in the United States of America and conform to common practices in the banking industry.

#### *Nature of Operations*

The Bank is a Pennsylvania-chartered commercial bank, regulated by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation that was incorporated on March 14, 2002 and commenced operations on October 28, 2002.

The Bank operates as a traditional community bank serving the Central Pennsylvania market with an emphasis on commercial and consumer banking. In June 2014, the Bank began trading its common stock on the OTC Markets under the trading symbol YRKB.

#### *Subsequent Events*

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 16, 2018, the date these financial statements were available to be issued.

#### *Reclassifications*

For comparative purposes, the prior years’ financial statements may be reclassified to conform to report classifications of the current year. These reclassifications, if any, had no impact on net income or shareholders’ equity.

#### *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 disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

#### *Significant Group Concentrations of Credit Risk*

Most of the Bank’s activities are with businesses and individuals located in Central Pennsylvania. Note 2 discusses the types of securities in the Bank’s investment portfolio. Note 3 discusses the types of loans the Bank makes to its customers. The Bank does not have any significant concentrations to any one industry or customer.

# York Traditions Bank

## Notes to Financial Statements

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### *Presentation of Cash Flows*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and short-term investments purchased with an original maturity date of three months or less. Generally, federal funds are purchased or sold for one-day periods.

### *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### *Loans Held-for-Sale*

Loans held-for-sale consist of residential mortgages. All residential mortgages held-for-sale are sold with servicing released.

### *Fair Value Option*

Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for items for which the fair value option is applied.

The Bank records mortgage loans held-for-sale at fair value. The Bank measures mortgage loans held-for-sale at fair value to more accurately reflect the performance of its entire mortgage banking activities in its financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as detailed in note 7, “Derivative Financial Instruments”. The Bank determines fair value for its mortgage loans held-for-sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of gain on sale of loans on the statements of income. Interest income earned on mortgage loans held-for-sale is classified within interest income on the statements of income.

The following table presents a summary of the Bank’s fair value elections and their impact on the Bank’s financial statements as of and for the years ended December 31, 2017 and 2016 (in thousands):

<i>December 31, 2017</i>	Cost	Fair Value	Balance Sheets Classification	Fair Value Adjustment Gain	Statements of Income Classifications
Mortgage loans held-for-sale	\$ 13,460	\$ 13,885	Loans held-for-sale	\$ 425	Gain on sale of loans
<hr/>					
<i>December 31, 2016</i>					
Mortgage loans held-for-sale	\$ 18,331	\$ 18,451	Loans held-for-sale	\$ 120	Gain on sale of loans

# York Traditions Bank

## Notes to Financial Statements

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### *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.

Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of 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, (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, and (4) whether it is likely the Bank intends to sell or will have to sell the security prior to recovery. Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

### *Loans Receivable*

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 and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility 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 collectibility 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 (generally six months) and the ultimate collectibility 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. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of

# York Traditions Bank

## Notes to Financial Statements

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the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired and 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. The general component covers non-classified loans and certain loans classified as substandard that are not designated as impaired and is based on historical loss experience adjusted for qualitative factors reflecting current conditions. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The allowance is subject to change based on the outcome of financial examinations by bank regulators.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 fair value of the collateral if the loan is collateral dependent.

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

In the normal course of business, the Bank modifies loan terms for various reasons. A modified loan is considered a troubled debt restructuring ("TDR") if the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the debtor that it would not otherwise consider. In evaluating whether a modification constitutes a TDR, the Bank concludes that the borrower is experiencing financial difficulty and the modification constitutes a concession.

When the Bank restructures a loan to a troubled borrower, the loan terms (i.e., interest rate, payment, amortization period and/or maturity date) are modified in such a way to enable the borrower to cover the modified payments based on current cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Bank obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Bank in the best possible position if the borrower is not able to meet the modified terms. To date, the Bank has not forgiven any principal as a restructuring concession.

# York Traditions Bank

## Notes to Financial Statements

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All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Bank's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

If a loan was considered to be impaired prior to modification as a TDR, then there is no impact on the allowance for loan losses as a result of the modification, because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a TDR, then there could be an impact on the allowance for loan losses, either positive or negative, as a result of the modification because of the movement of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment.

### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives and amortization of leasehold improvements is computed on the straight-line method over the shorter of the assets' estimated useful lives or lease term of the related assets, as follows:

	Years
Buildings and leasehold improvements	10 - 30
Furniture, fixture and equipment	3 - 7
Software	3 - 5

### *Investment in Restricted Bank Stocks*

Investment in restricted bank stocks, which represent required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") of \$2,192,000 and \$2,633,000 as of December 31, 2017 and 2016, respectively, and Atlantic Community Bancshares, Inc. of \$40,000 as of December 31, 2017 and 2016.

### *Foreclosed Real Estate*

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure less costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the fair value are included in net expenses from foreclosed real estate.

### *Bank Owned Life Insurance*

The Bank invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies and reported in other assets on the balance sheet. Income from the increase in the cash surrender value of the policies is included with noninterest income on the statements of income.

# York Traditions Bank

## Notes to Financial Statements

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### *Derivative Financial Instruments*

In connection with its mortgage banking activities, the Bank enters into commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Bank enters into forward commitments to sell individual mortgage loans at a fixed price at a future date to third-party investors to hedge the effect of changes in interest rates on the value of interest rate locks. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the reporting date. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the balance sheet, with changes in fair value during the period recorded within gain on sale of loans on the statements of income.

### *Advertising Costs*

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising costs totaled \$123,000 and \$124,000 for the years ended December 31, 2017 and 2016, respectively.

### *Per Common Share Data*

Basic net income per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding. Diluted net income per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding plus common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method.

The computation of net income per common share for the years ended December 31, 2017 and 2016 is provided in the table below (in thousands, except per share data):

	2017	2016
Net income available to common shareholders	\$ 3,394	\$ 2,900
Weighted average shares outstanding (basic)	2,355	2,183
Effect of dilutive stock options	18	3
Weighted average shares outstanding (diluted)	2,373	2,186
Basic earnings per common share	\$ 1.44	\$ 1.33
Diluted earnings per common share	\$ 1.43	\$ 1.33
Anti-dilutive stock options excluded from the computation of earnings per share	-	12



# York Traditions Bank

## Notes to Financial Statements

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### *Stock-Based Compensation*

The Bank follows the provisions of FASB ASC 718-10 to account for its stock compensation plans. This guidance requires an entity to recognize the expense of employee services received in share-based payment transactions and measure the expense based on the grant date fair value of the award. The expense is recognized over the period during which an employee is required to provide service in exchange for the award.

### *Income Taxes*

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects 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. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for income taxes in accordance with income tax accounting guidance in FASB ASC 740, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the term sustained upon examination also includes resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. At December 31, 2017 and 2016, the Bank did not have any uncertain tax positions.

The Bank recognizes interest and penalties on income taxes as a component of income tax expense. With limited exception, tax years prior to 2014 are no longer subject to examination by tax authorities.

### *Off-Balance Sheet Financial Instruments*

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheets when they are funded.

# York Traditions Bank

## Notes to Financial Statements

### *Comprehensive Income*

Accounting principles generally accepted in the United States of America 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 securities available-for-sale, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

### **2. Securities Available-for-Sale**

A summary of amortized cost and fair values of securities available-for-sale as of December 31, 2017 and 2016 is as follows (in thousands):

<i>December 31, 2017</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	\$ 1,250	\$ 5	\$ (10)	\$ 1,245
State and municipal securities	19,650	69	(91)	19,628
Mortgage-backed securities	26,246	87	(260)	26,073
Collateralized mortgage obligations	8,395	19	(102)	8,312
	<b>\$ 55,541</b>	<b>\$ 180</b>	<b>\$ (463)</b>	<b>\$ 55,258</b>

<i>December 31, 2016</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	\$ 250	\$ 10	\$ -	\$ 260
State and municipal securities	19,469	75	(358)	19,186
Mortgage-backed securities	25,665	140	(287)	25,518
Collateralized mortgage obligations	5,252	26	(57)	5,221
	<b>\$ 50,636</b>	<b>\$ 251</b>	<b>\$ (702)</b>	<b>\$ 50,185</b>

All state and municipal securities undergo an initial and ongoing credit analysis. The analysis includes the review of various financial and demographic information. All municipal securities have a minimum evaluation rating of investment grade. All mortgage-backed securities and collateralized mortgage obligations are issued by government-sponsored enterprises ("GSE") or by the Government National Mortgage Association ("GNMA"). GSE securities carry an implied U.S. Government guarantee and the GSE guarantees the timely payment of principal and interest. GNMA carries the full faith and credit guarantee of the U.S. Government.

Gross gains totaling \$1,000 and \$75,000 were realized on the sale or call of securities in 2017 and 2016, respectively. Gross losses were \$0 in 2017 and \$3,000 in 2016.

# York Traditions Bank

## Notes to Financial Statements

The amortized cost and fair value of securities as of December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalty (in thousands):

	Amortized Cost	Market Fair Value
Due in one year or less	\$ 1,229	\$ 1,228
Due after one year through five years	5,848	5,862
Due after five years through ten years	8,471	8,455
Due after ten years	5,352	5,328
Mortgage-backed securities	26,246	26,073
Collateralized mortgage obligations	8,395	8,312
	<b>\$ 55,541</b>	<b>\$ 55,258</b>

The following tables show the Bank's securities' 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, 2017 and 2016 (in thousands):

<i>December 31, 2017</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	\$ 990	\$ (10)	\$ -	\$ -	\$ 990	\$ (10)
State and municipal securities	7,699	(75)	1,530	(16)	9,229	(91)
Mortgage-backed securities	10,996	(103)	11,502	(157)	22,498	(260)
Collateralized mortgage obligations	4,577	(71)	1,815	(31)	6,392	(102)
	<b>\$ 24,262</b>	<b>\$ (259)</b>	<b>\$ 14,847</b>	<b>\$ (204)</b>	<b>\$ 39,109</b>	<b>\$ (463)</b>

<i>December 31, 2016</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal securities	\$ 14,819	\$ (349)	\$ 494	\$ (9)	\$ 15,313	\$ (358)
Mortgage-backed securities	17,033	(276)	2,345	(11)	19,378	(287)
Collateralized mortgage obligations	1,640	(32)	1,496	(25)	3,136	(57)
	<b>\$ 33,492</b>	<b>\$ (657)</b>	<b>\$ 4,335</b>	<b>\$ (45)</b>	<b>\$ 37,827</b>	<b>\$ (702)</b>

The 2017 unrealized losses relate principally to changes in interest rates and prepayment assumptions subsequent to the acquisition of specific securities. In management's opinion, credit risk for these securities is minimal. As management has the intent and ability to hold debt securities until recovery and does not believe it will have to sell the securities prior to recovery, no declines are deemed to be other-than-temporary. At December 31, 2017, the Bank had 17 securities in an unrealized loss position for 12 months or more and 39 securities in an unrealized loss position less than 12 months, none of which exceeded 2.80% of the security's carrying amount.

# York Traditions Bank

## Notes to Financial Statements

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### 3. Loans Receivable

The Bank's loan portfolio is segmented to an appropriate level of disaggregation to allow management to monitor the performance of the borrowers and measure credit risk. Segments are based on the underlying collateral types. For disclosure purposes, the Bank does not differentiate between segments and classes. Loans secured by real estate may be made for commercial or consumer purposes.

The loans receivable portfolio is segmented into the following:

Commercial loans may be secured or unsecured. Collateral often includes accounts receivable, inventory and equipment. Repayment is dependent on the successful operation of the borrower's business and is often susceptible to higher risk during an economic downturn. Commercial loans generally have greater credit risk compared to residential real estate and consumer loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers.

Consumer loans may be secured or unsecured. Collateral may include autos, cash or marketable securities. Such loans generally have smaller balances and are dependent on the credit worthiness of the borrower and their personal financial stability.

Construction and land development loans generally carry greater credit risk as payment expectations are dependent upon the successful and timely completion of the construction, sales of the subject property and the operation of the related business. As a result, such loans may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

Loans secured by farmland and 1-4 family residential properties have risks depending on the underlying purpose. Loans for consumer purposes are dependent on the credit worthiness of the individual borrower. Loans for a commercial purpose may be dependent on the borrower's ability to generate a sufficient level of occupancy to produce sufficient rental income or may be dependent on the successful operation of the borrower's business.

Commercial real estate loans secured by nonfarm nonresidential real estate can be owner or non-owner occupied. Commercial real estate loans generally have greater credit risk as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Multi-family and non-owner occupied share similar risk characteristics as repayment is based on occupancy levels and cash flows. Owner-occupied nonfarm, nonresidential real estate is dependent on the successful operation of the borrower's business.

# York Traditions Bank

## Notes to Financial Statements

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The composition of net loans receivable consists of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Commercial	\$ 73,376	\$ 68,397
Construction and land development	36,285	34,350
Farmland	3,207	4,386
Residential real estate	111,951	99,494
Commercial real estate	122,944	97,752
Consumer	770	898
Total loans	348,533	305,277
Allowance for loan losses	(3,551)	(3,108)
<b>Net Loans</b>	<b>\$ 344,982</b>	<b>\$ 302,169</b>

The above amounts are recorded net of unamortized deferred fees of \$239,000 at December 31, 2017 and \$145,000 at December 31, 2016.

The Bank monitors ongoing risk for loans with a commercial purpose using an eight point internal grading system. The first four rating categories, representing the lowest risk to the Bank, are combined and given a Pass rating. The Special Mention category includes loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Bank's position at some future date. These assets pose elevated risk, but their weakness does not justify a more severe, or criticized rating.

Management generally follows regulatory definitions in assigning criticized ratings to loans, including substandard, doubtful or loss. Substandard loans are classified as they have a well-defined weakness, or weaknesses that jeopardize liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans include loans that management has determined not to be impaired, as well as loans considered to be impaired. A doubtful loan has the same weaknesses as a substandard loan, however, collection or liquidation of principal in full is questionable and improbable. A doubtful loan is considered to be impaired; loss is present, but may not be determined until specific factors occur. Loss assets are considered uncollectible, as the underlying borrowers are often in bankruptcy, have suspended debt repayments, or ceased business operations. Once a loan is classified as Loss, there is little prospect of collecting the loan's principal or interest and it is generally written off.

Loans with a consumer purpose are not-rated and are monitored based on the length of time a loan is past due. Not-rated loans are categorized as either Performing or Non-performing. Non-performing loans would be those in non-accrual status, which generally occurs when a loan is maintained on a cash basis due to deterioration in the financial condition of the borrower, full payment of principal or interest is not expected or principal or interest has been in default for a period of 90 days or more.

# York Traditions Bank

## Notes to Financial Statements

The Bank's Senior Credit Committee, which meets weekly, monitors loan quality on an ongoing basis. The Credit Review Committee meets quarterly and reviews the ratings of all criticized loans. In addition, an independent third-party performs a semi-annual loan review. The review focuses on business purpose loans over a certain dollar threshold and all previously criticized loans over a certain dollar threshold.

The following tables summarize the Bank's disaggregated loan portfolio based on its internal risk rating system and not-rated loans as either Performing or Non-performing. All dollar amounts are as of December 31, 2017 and 2016 (in thousands):

<i>December 31, 2017</i>	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Total
Pass	\$ 71,334	\$ 11,826	\$ 2,464	\$ 35,374	\$ 119,221	\$ -	\$ 240,219
Special mention	567	1,950	-	-	347	-	2,864
Substandard	1,079	1,811	743	516	3,252	-	7,401
Doubtful	-	-	-	-	-	-	-
Not-rated	396	20,698	-	76,061	124	770	98,049
	<b>\$ 73,376</b>	<b>\$ 36,285</b>	<b>\$ 3,207</b>	<b>\$ 111,951</b>	<b>\$ 122,944</b>	<b>\$ 770</b>	<b>\$ 348,533</b>
Non-rated loans:							
Performing	\$ 396	\$ 20,698	\$ -	\$ 75,785	\$ 124	\$ 770	\$ 97,773
Non-performing	-	-	-	276	-	-	276
	<b>\$ 396</b>	<b>\$ 20,698</b>	<b>\$ -</b>	<b>\$ 76,061</b>	<b>\$ 124</b>	<b>\$ 770</b>	<b>\$ 98,049</b>

<i>December 31, 2016</i>	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Total
Pass	\$ 64,540	\$ 16,141	\$ 3,258	\$ 29,297	\$ 90,693	\$ -	\$ 203,929
Special mention	2,318	3,316	-	-	1,675	-	7,309
Substandard	1,539	-	861	1,733	5,255	-	9,388
Doubtful	-	-	-	-	-	-	-
Not-rated	-	14,893	267	68,464	129	898	84,651
	<b>\$ 68,397</b>	<b>\$ 34,350</b>	<b>\$ 4,386</b>	<b>\$ 99,494</b>	<b>\$ 97,752</b>	<b>\$ 898</b>	<b>\$ 305,277</b>
Non-rated loans:							
Performing	\$ -	\$ 14,816	\$ 267	\$ 68,159	\$ 129	\$ 898	\$ 84,269
Non-performing	-	77	-	305	-	-	382
	<b>\$ -</b>	<b>\$ 14,893</b>	<b>\$ 267</b>	<b>\$ 68,464</b>	<b>\$ 129</b>	<b>\$ 898</b>	<b>\$ 84,651</b>

Management further monitors the performance and credit quality of the loan portfolio by analyzing the length of time a recorded payment is past due, by aggregating loans based on their delinquencies.

# York Traditions Bank

## Notes to Financial Statements

The following tables present the segments of the loan portfolio summarized by aging categories of performing loans and nonaccrual loans as of December 31, 2017 and 2016 (in thousands):

<i>December 31, 2017</i>	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (Still Accruing)	Non- Accrual	Total
Commercial	\$ 72,917	\$ -	\$ -	\$ -	\$ 459	\$ 73,376
Construction and land development	35,552	-	-	-	733	36,285
Farmland	2,464	-	-	-	743	3,207
Residential real estate	111,265	410	-	-	276	111,951
Commercial real estate	122,634	-	-	-	310	122,944
Consumer	770	-	-	-	-	770
	<b>\$ 345,602</b>	<b>\$ 410</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,521</b>	<b>\$ 348,533</b>

<i>December 31, 2016</i>	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (Still Accruing)	Non- Accrual	Total
Commercial	\$ 67,429	\$ -	\$ -	\$ -	\$ 969	\$ 68,398
Construction and land development	34,273	-	-	-	77	34,350
Farmland	3,525	-	-	-	861	4,386
Residential real estate	99,188	-	-	-	305	99,493
Commercial real estate	96,818	299	-	-	635	97,752
Consumer	898	-	-	-	-	898
	<b>\$ 302,131</b>	<b>\$ 299</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,847</b>	<b>\$ 305,277</b>

The Bank maintains the allowance for loan losses at a level believed adequate by management to absorb losses inherent in the portfolio. It is established and maintained through a provision for loan losses charged to earnings. Quarterly, management assesses the adequacy of the allowance for loan losses utilizing a defined methodology, which considers specific credit evaluation of impaired loans, past loan loss historical experience, and qualitative factors.

For each loan segment, general allowances are provided for loans that are collectively evaluated for impairment, which is based on quantitative factors, principally historical loss trends for the respective segment, adjusted for qualitative factors. The historical loss factor is based on the average charge-offs for the last two calendar years of the Bank and a peer group of Pennsylvania banks of relative equal size.

In addition to the quantitative analysis, additional reserves are allocated on loans collectively evaluated for impairment based on additional qualitative factors. The qualitative factors used by management to adjust the historical loss factor to the total loss allocation, range from 0-40 basis points per factor. Factors include local unemployment, national gross domestic product, real estate collateral trends, changes in lending policies, percentage of classified loans, portfolio growth and composition, recent past due loan ratios and lending staff experience.

Loans with principal or interest payments 90 or more days past due are considered for potential charge-off. Commercial purpose loans are individually reviewed and a charge-off recognized when it is unlikely that the loan balance will be collected in full. Consumer purpose loans secured by

# York Traditions Bank

## Notes to Financial Statements

real estate are individually reviewed. An appropriate loss will be recognized when it is determined that the value of the real estate collateral is not sufficient to pay the loan in full.

Activity in the allowance for loan losses for the years ended December 31, 2017 and 2016 is as follows (in thousands):

<i>December 31, 2017</i>	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 645	\$ 251	\$ 25	\$ 711	\$ 811	\$ 6	\$ 659	\$ 3,108
Charge-offs	-	-	-	(30)	-	(4)	-	(34)
Recoveries	4	-	-	-	-	-	-	4
Provision	(72)	116	(6)	61	210	4	160	473
Ending balance	\$ 577	\$ 367	\$ 19	\$ 742	\$ 1,021	\$ 6	\$ 819	\$ 3,551
Ending balance:								
Individually evaluated for impairment	\$ 1	\$ -	\$ -	\$ 19	\$ 7	\$ -	\$ -	\$ 27
Collectively evaluated for impairment	\$ 576	\$ 367	\$ 19	\$ 723	\$ 1,014	\$ 6	\$ 819	\$ 3,524
Loan receivables:								
Ending balance	\$ 73,376	\$ 36,285	\$ 3,207	\$ 111,951	\$ 122,944	\$ 770	\$ -	\$ 348,533
Ending balance:								
Individually evaluated for impairment	\$ 732	\$ 1,811	\$ 743	\$ 792	\$ 925	\$ -	\$ -	\$ 5,003
Collectively evaluated for impairment	\$ 72,644	\$ 34,474	\$ 2,464	\$ 111,159	\$ 122,019	\$ 770	\$ -	\$ 343,530

  

<i>December 31, 2016</i>	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 523	\$ 115	\$ 12	\$ 496	\$ 760	\$ 6	\$ 470	\$ 2,382
Charge-offs	(270)	-	-	(41)	-	(3)	-	(314)
Recoveries	2	-	-	9	35	-	-	46
Provision	390	136	13	247	16	3	189	994
Ending balance	\$ 645	\$ 251	\$ 25	\$ 711	\$ 811	\$ 6	\$ 659	\$ 3,108
Ending balance:								
Individually evaluated for impairment	\$ 89	\$ -	\$ -	\$ 75	\$ -	\$ -	\$ -	\$ 164
Collectively evaluated for impairment	\$ 556	\$ 251	\$ 25	\$ 636	\$ 811	\$ 6	\$ 659	\$ 2,944
Loan receivables:								
Ending balance	\$ 68,397	\$ 34,350	\$ 4,386	\$ 99,494	\$ 97,752	\$ 898	\$ -	\$ 305,277
Ending balance:								
Individually evaluated for impairment	\$ 1,485	\$ 2,390	\$ 861	\$ 2,664	\$ 1,585	\$ -	\$ -	\$ 8,985
Collectively evaluated for impairment	\$ 66,912	\$ 31,960	\$ 3,525	\$ 96,830	\$ 96,167	\$ 898	\$ -	\$ 296,292



# York Traditions Bank

## Notes to Financial Statements

The following summarizes the information in regards to impaired loans by loan portfolio segment as of December 31, 2017 and 2016 (in thousands):

	2017			2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	\$ 523	\$ 907	\$ -	\$ 256	\$ 256	\$ -
Construction and land development	1,811	1,825	-	2,390	2,404	-
Farmland	743	743	-	861	861	-
Residential real estate	616	616	-	2,039	2,039	-
Commercial real estate	813	813	-	1,585	1,585	-
Consumer	-	-	-	-	-	-
With an allowance recorded:						
Commercial	\$ 209	\$ 209	\$ 1	\$ 1,229	\$ 1,612	\$ 89
Construction and land development	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Residential real estate	176	176	19	625	625	75
Commercial real estate	112	112	7	-	-	-
Consumer	-	-	-	-	-	-
Total:						
Commercial	\$ 732	\$ 1,116	\$ 1	\$ 1,485	\$ 1,868	\$ 89
Construction and land development	1,811	1,825	-	2,390	2,404	-
Farmland	743	743	-	861	861	-
Residential real estate	792	792	19	2,664	2,664	75
Commercial real estate	925	925	7	1,585	1,585	-
Consumer	-	-	-	-	-	-
	\$ 5,003	\$ 5,401	\$ 27	\$ 8,985	\$ 9,382	\$ 164

No additional funds are committed to be advanced in connection with impaired loans.

Residential real estate mortgages totaling \$231,000 were in the process of foreclosure as of December 31, 2017. Residential real estate mortgages totaling \$92,000 were in foreclosed real estate at December 31, 2017. There were no residential real estate mortgages in foreclosed real estate at December 31, 2016.

# York Traditions Bank

## Notes to Financial Statements

The following summarizes the average recorded investment of impaired loans and related interest income recognized by loan portfolio segment for the years ended December 31, 2017 and 2016 (in thousands):

	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	\$ 607	\$ 22	\$ 293	\$ 12
Construction and land development	2,133	129	196	-
Farmland	796	-	876	16
Residential real estate	1,875	60	470	-
Commercial real estate	915	33	1,720	45
Consumer	-	-	-	-
With an allowance recorded:				
Commercial	\$ 201	\$ 13	\$ 1,226	\$ -
Construction and land development	-	-	-	-
Farmland	-	-	-	-
Residential real estate	293	16	48	-
Commercial real estate	115	6	-	-
Consumer	-	-	-	-
Total:				
Commercial	\$ 808	\$ 35	\$ 1,519	\$ 12
Construction and land development	2,133	129	196	-
Farmland	796	-	876	16
Residential real estate	2,168	76	518	-
Commercial real estate	1,030	39	1,720	45
Consumer	-	-	-	-
	\$ 6,935	\$ 279	\$ 4,829	\$ 73

There were no troubled debt restructurings during the year ended December 31, 2017.

# York Traditions Bank

## Notes to Financial Statements

The following summarizes troubled debt restructurings, including the type of modifications, during the year ended December 31, 2016 (in thousands):

December 31, 2016	Number of Loans	Rate	Term	Payment	Combination	Total	Pre-Modification Balance	Post-Modification Balance
Commercial	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction and land development	-	-	-	-	-	-	-	-
Farmland	-	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-	-
Commercial real estate	1	-	-	-	118	118	103	103
Consumer	-	-	-	-	-	-	-	-
	1	\$ -	\$ -	\$ -	118	\$ 118	\$ 103	\$ 103

During 2017, there were no loans modified as a troubled debt restructuring that defaulted within 12 months of modification.

During 2016, three loans that were modified in 2015 as a troubled debt restructuring defaulted within 12 months of modification. One loan was closed upon repossession of OREO property. The remaining loans are in the amount of \$861,000.

#### 4. Property and Equipment

The components of property and equipment consist of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Land	\$ 985	\$ 985
Building and leasehold improvements	6,761	6,745
Furniture, fixtures and equipment	2,750	2,764
Software	1,199	1,089
Construction in process	124	66
	11,819	11,649
Accumulated depreciation	(5,079)	(4,715)
	\$ 6,740	\$ 6,934

**York Traditions Bank**  
**Notes to Financial Statements**

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**5. Deposits**

The components of deposits consist of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Demand, non-interest bearing	\$ 55,964	\$ 38,697
Demand, interest bearing	65,553	53,115
Savings and money market	130,289	126,609
Time, \$250,000 and over	9,609	9,514
Time, other	101,674	94,382
	<b>\$ 363,089</b>	<b>\$ 322,317</b>

As of December 31, 2017, the scheduled maturities of time deposits are as follows (in thousands):

*Year ending December 31,*

2018	\$ 38,909
2019	35,501
2020	12,727
2021	18,086
2022	6,060
Thereafter	-
	<b>\$ 111,283</b>

**6. Borrowings and Lease Commitments**

The Bank has a \$7,000,000 unsecured federal funds line of credit with Atlantic Community Bankers Bank. There were \$0 and \$55,000 federal funds purchased outstanding at December 31, 2017 and 2016, respectively.

Other available credit consists of access to the Federal Reserve Discount Window. In 2015, the Bank delivered securities to the Federal Reserve Bank of Philadelphia to collateralize borrowings at the Discount Window. The Bank had \$2,991,000 and \$2,989,000 of availability at December 31, 2017 and 2016, respectively. There were no borrowings outstanding at the Discount Window at December 31, 2017 and 2016.

The Bank has an agreement with the Federal Home Loan Bank of Pittsburgh (“FHLB”) which allows for borrowings up to a percentage of qualifying assets. All FHLB advances are collateralized by a security agreement covering qualifying loans and pledged agency and mortgage-backed securities. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Bank having a par value of \$2,192,000 at December 31, 2017 and \$2,633,000 at December 31, 2016. The Bank can borrow a maximum of \$182,045,000 from the FHLB of which \$26,224,000 was outstanding at December 31, 2017. Available-for-sale securities totaling \$39,407,000 are held in safekeeping at FHLB to collateralize the secured advances.

# York Traditions Bank

## Notes to Financial Statements

Short-term borrowings, with original maturities of three months or less, and weighted average interest rates at December 31, 2017 and 2016 are as follows (dollars in thousands):

	2017		2016	
	Amount	Rate	Amount	Rate
Federal Home Loan Bank (FHLB) advances	\$ 1,391	1.61 %	\$ 8,822	0.80 %

A summary of long-term debt as of December 31 is as follows (dollars in thousands):

	2017		2016	
	Amount	Rate	Amount	Rate
FHLB fixed-rate advances				
maturing:				
2017	\$ -	- %	\$ 6,000	1.06 %
2018	7,000	1.46	7,000	1.46
2019	8,750	1.76	8,750	1.76
2020	5,000	1.71	3,000	1.67
2021	2,083	1.40	2,083	1.40
2022	2,000	2.06	-	-
	\$ 24,833	1.66 %	\$ 26,833	1.49 %

On March 27, 2015, the Bank issued a \$5.0 million subordinated debenture, which matures on March 27, 2025 and carries a fixed rate of 6.25% and an effective rate of approximately 6.65% as a result of issuance costs. Interest is paid quarterly in March, June, September and December.

The subordinated debenture is callable at the Bank's option beginning in March 2020, which is five years from the date of issuance. These debentures do not have to be called in full and do not have required principal payments. Any amount that has not been called will be paid in full at maturity. The subordinated debenture qualifies as a component of Tier 2 risk-based capital for regulatory purposes.

As of December 31, 2017 and 2016, \$5.0 million was outstanding under the subordinated debenture.

The Bank leases two of its branch office facilities under ten-year renewable operating leases and one branch office facility under a five-year renewable operating lease. The rental expense under such leases amounted to \$358,000 in 2017 and \$360,000 in 2016.

The Bank has entered into a 15 year renewable operating lease for a branch site that will open in 2018 and a 12 month lease agreement for loan production office that will open in 2018. Lease payments for both facilities will begin in 2018 and are included in the schedule below.

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**Notes to Financial Statements**

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Future minimum lease payments by year on these non-cancellable leases are as follows (in thousands):

*Year ending December 31,*

2018	\$	414
2019		413
2020		419
2021		426
2022		420
Thereafter		1,055
	\$	3,147

### 7. Derivative Financial Instruments

The following table presents a summary of the notional amounts and fair values of derivative financial instruments as of December 31, 2017 and 2016 (dollars in thousands):

	2017		2016	
	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value	Notional Amount
Interest rate lock commitments:				
Assets	\$ 1,013	\$ 42,668	\$ 620	\$ 29,368
Liabilities	-	-	(25)	3,553
Net interest rate lock commitments asset	1,013	-	595	-
Forward commitments:				
Assets	15	9,479	500	26,930
Liabilities	(41)	19,677	(51)	8,782
Net forward commitments (liability) asset	(26)	-	449	-
<b>Net Derivative Instruments</b>				
Asset	\$ 987	-	\$ 1,044	-

Asset related derivatives are included in other assets on the balance sheets. Liability related derivatives are included in other liabilities on the balance sheets.

# York Traditions Bank

## Notes to Financial Statements

The following table presents a summary of the fair value gains and losses on derivative financial instruments for the year ended December 31, 2017 and 2016 (in thousands):

	Fair Value (Losses) Gains		Statements of Income Classification
	2017	2016	
Interest rate locks with customers	\$ 418	\$ (85)	Gains on sale of loans
Forward commitments	(475)	456	Gains on sale of loans
	\$ (57)	\$ 371	

### 8. Shareholders' Equity

In September 2017, the Bank issued 606,061 shares of common stock and raised \$9,417,000, net of issuance costs of \$583,000.

### 9. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Federal:		
Current	\$ 1,407	\$ 1,485
Deferred	239	(257)
	\$ 1,646	\$ 1,228

A reconciliation of the statutory income tax at a rate of 34% to the income tax expense included in the statements of income is as follows for 2017 and 2016:

	2017	2016
Federal income tax at statutory rate	34.0 %	34.0 %
Revaluation of net deferred tax assets due to change in statutory rate	2.7	-
Tax exempt income, net of disallowed interest expense	(3.3)	(3.6)
Bank owned life insurance	(1.1)	(1.4)
Other	0.4	0.7
<b>Effective Income Tax Rate</b>	<b>32.7 %</b>	<b>29.7 %</b>

The provision for income taxes differs from that computed by applying statutory rates to income before income taxes primarily due to the effects of tax-exempt income, non-deductible expenses and incentive stock options. On December 22, 2017, the Tax Cuts and Jobs Act was signed into law reducing the statutory tax rate to 21% beginning January 1, 2018. The revaluation of net deferred

# York Traditions Bank

## Notes to Financial Statements

tax assets as of December 22, 2017 resulted in \$137,000 of additional tax expense in the fourth quarter of 2017. The impact on the 2017 effective income tax rate is shown in the above table.

The components of the net deferred tax asset, included in other assets on the balance sheets, consist of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Deferred tax assets:		
Allowance for loan losses	\$ 661	\$ 926
Stock-based compensation	37	69
Accrued bonus	44	74
Non-accrual interest receivable	-	175
Salary continuation plan, unfunded	77	104
Unrealized holding losses on available-for-sale securities	60	153
Other	83	67
<b>Total deferred tax assets</b>	<b>962</b>	<b>1,568</b>
Deferred tax liabilities:		
Depreciation	(161)	(281)
Derivative and fair value adjustment	(297)	(396)
Loan origination costs	(144)	(250)
Prepaid expenses	(139)	(123)
<b>Total deferred tax liabilities</b>	<b>(741)</b>	<b>(1,050)</b>
<b>Net Deferred Tax Asset</b>	<b>\$ 221</b>	<b>\$ 518</b>

### 10. Transactions with Executive Officers, Directors and Affiliated Companies

The Bank has had, and is expected to have in the future, banking transactions with its executive officers, directors, their immediate families and affiliated companies (commonly referred to as related parties) on comparable terms with similar interest rates as those prevailing from time to time for other customers of the Bank. As of December 31, 2017 and 2016, related party loans totaled \$10,203,000 and \$8,291,000, respectively. During 2017, loan advances and repayments totaled \$4,028,000 and \$2,116,000, respectively.

As of December 31, 2017 and 2016, deposits from related parties totaled \$6,354,000 and \$5,410,000, respectively.

The Bank leases its Saint Charles Way office from a related party under a five-year renewable lease. During 2017 and 2016, \$178,000 and \$174,000, respectively, was paid to the related party for rent, taxes and maintenance charges.

The Bank receives network and computer support services from a related party. In addition, the Bank also purchases computer equipment and software. Total payments to this related party in 2017 and 2016 were \$13,000 and \$92,000, respectively.



# York Traditions Bank

## Notes to Financial Statements

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The Bank entered into an agreement with a related party to provide services for professional programming, fit-out expansion and renovation design for two existing locations (Traditions Center and Saint Charles Way). The work began in 2017, and total payments to this related party in 2017 were \$45,000.

### 11. Financial Instruments with Off-Balance Sheet Risk

The Bank 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on our credit evaluation of the counter-party. Collateral held varies but may include cash, accounts receivable, inventory, equipment and real estate.

The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Commitments to grant loans	\$ 6,343	\$ 1,000
Unfunded commitments under lines of credit	113,542	107,668
Letters of credit	5,938	5,912
	<b>\$ 125,823</b>	<b>\$ 114,580</b>

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. 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 Bank 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 loan facilities to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2017 and 2016 for guarantees under standby letters of credit is not material.

# York Traditions Bank

## Notes to Financial Statements

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### 12. Employee Benefit Plan

The Bank provides a defined contribution 401(k) retirement plan that covers eligible employees. The Bank's matching contribution is 100% of each participant's elective contribution up to 4% of employee compensation. The expense of this plan included in salaries and employee benefits was \$260,000 in 2017 and \$247,000 in 2016.

### 13. Stock-Based Compensation Plans

On June 21, 2012, the Board of Directors adopted the 2012 Non-Employee Directors Stock Incentive Plan ("2012 Directors Plan"). The 2012 Directors Plan provides for nonqualified stock options, stock appreciation rights, restricted stock and deferred stock units up to 50,000 shares. Each Non-Employee Director who first becomes a member of the Board after the effective date of the 2012 Directors Plan shall receive an automatic grant of a stock option to purchase 1,000 shares of stock. During the term of the 2012 Directors Plan, the annual grants to directors attending at least 75 percent of the meetings of the Board will receive a grant of restricted stock having an aggregate fair value of not less than \$5,000. An eligible Director may still elect to receive, in lieu of such restricted stock, \$5,000 in cash.

On June 19, 2014, the Board of Directors amended the 2012 Directors Plan increasing the annual grant or cash in lieu to eligible Directors to \$7,500. In addition, eligible Directors serving as chair of a standing committee receive an annual grant or cash in lieu of \$1,000. Eligible Directors serving as a member of a standing committee (including committee chairs) receive an annual grant or cash in lieu of \$500. The amendments were effective for the plan year following the 2014 annual meeting.

In April 2015, the 2012 Directors Plan was amended to set the annual compensation at \$3,500, plus \$350 per Board meeting attended and eliminated the 75 percent attendance requirement. In addition, the annual compensation for serving on the Loan Committee was increased to \$1,500. All compensation continues to be paid in restricted stock or cash at the discretion of the individual director.

In August 2016, the Board of Directors amended the 2012 Directors Plan to no longer require plan amendments when modifying annual compensation. A Non-Employee Director Compensation Program was established instead and put under the auspices of the Compensation Committee. For the automatic grants payable immediately following the 2017 Annual Meeting, the annual compensation was established as follows for all non-employee directors:

- Board Member - \$5,000 annual retainer and \$500 per board meeting attended;
- Committee Chair - \$3,000 annual retainer for Audit Committee chair and \$1,000 annual retainer for all other committee chairs; and
- Committee Members - \$3,000 annual retainer for Loan Committee members and \$1,000 annual retainer for all other committee members.

Under the 2016 Stock Incentive Plan, employees are eligible to receive options to purchase shares of common stock at the fair value on the date the option is granted. Each grant vests over a three-year period and will expire no later than ten years from the date of the grant.

The 2016 Stock Incentive Plan also provides for stock-based incentives in the form of stock appreciation rights, restricted stock and deferred stock awards up to 125,000 shares.

# York Traditions Bank

## Notes to Financial Statements

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In July 2017, the 2016 Stock Incentive Plan was amended to allow for the issuance of restricted stock units. No restricted stock units were issued in 2017.

No stock options were granted in 2017. The weighted average grant-date calculated value of options granted in 2016 was \$3.06. The calculated value of the options awarded under the option plans is estimated on the date of grant using the Black-Scholes valuation model, which is dependent upon certain assumptions as presented below:

<i>December 31,</i>	2016
Expected life (in years)	7
Risk-free interest rate	1.56 %
Expected volatility	20.59 %
Expected dividend yield	- %

The expected life of the options was estimated using the average vesting period of the options granted and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the grant date. Volatility of the Company's stock price in 2016 was based on historical volatility of the NASDAQ Bank Index.

Information regarding the Company's stock option plans for the year ended December 31, 2017 is as follows (dollars in thousands, except exercise prices):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding, January 1, 2017	66,870	\$ 11.54	4.2 years	\$ 198
Options granted	-	-		
Options exercised	(7,050)	11.96		
Options forfeited	(6,350)	11.96		
<b>Options Outstanding, December 31, 2017</b>	<b>53,470</b>	<b>\$ 11.43</b>	<b>3.6 years</b>	<b>\$ 365</b>
<b>Options Exercisable, December 31, 2017</b>	<b>46,470</b>	<b>\$ 11.42</b>	<b>3.0 years</b>	<b>\$ 318</b>

# York Traditions Bank

## Notes to Financial Statements

Information regarding the Company's stock option plans for the year ended December 31, 2016 is as follows (dollars in thousands, except exercise prices):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding, January 1, 2016	65,470	\$ 11.51	5.0 years	\$ 24
Options granted	5,050	11.79		
Options exercised	(1,504)	11.00		
Options forfeited	(2,146)	11.86		
<b>Options Outstanding, December 31, 2016</b>	<b>66,870</b>	<b>\$ 11.54</b>	<b>4.2 years</b>	<b>\$ 198</b>
<b>Options Exercisable, December 31, 2016</b>	<b>53,020</b>	<b>\$ 11.58</b>	<b>3.1 years</b>	<b>\$ 155</b>

Information pertaining to options outstanding at and for the year ended December 31, 2017 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$10.00 - \$11.49	31,670	4.4 years	\$ 11.01	28,820	\$ 11.00
\$11.50 - \$12.50	21,800	2.5 years	12.04	17,650	12.10
<b>Outstanding at End of Year</b>	<b>53,470</b>	<b>3.6 years</b>	<b>\$ 11.43</b>	<b>46,470</b>	<b>\$ 11.42</b>

	Shares	Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2017	13,850	\$ 3.26
Granted	-	-
Vested	(5,400)	3.38
Forfeited/expired	(1,450)	3.29
<b>Nonvested options, December 31, 2017</b>	<b>7,000</b>	<b>\$ 3.15</b>

# York Traditions Bank

## Notes to Financial Statements

Information pertaining to options outstanding at and for the year ended December 31, 2016 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$10.00 - \$11.49	33,620	5.6 years	\$ 11.01	25,520	\$ 11.00
\$11.50 - \$12.50	33,250	2.8 years	12.07	27,500	12.12
<b>Outstanding at End of Year</b>	<b>66,870</b>	<b>4.2 years</b>	<b>\$ 11.54</b>	<b>53,020</b>	<b>\$ 11.58</b>

	Shares	Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2016	17,250	\$ 3.23
Granted	5,050	3.06
Vested	(8,000)	3.06
Forfeited/expired	(450)	3.25
<b>Nonvested options, December 31, 2016</b>	<b>13,850</b>	<b>\$ 3.26</b>

Stock-based compensation expense related to the stock options for the years ended December 31, 2017 and 2016 totaled \$9,000 and \$19,000, respectively. The unamortized stock option expense was \$5,000 and \$17,000 at December 31, 2017 and 2016, respectively. Stock-based compensation awards are generally amortized over a period of 3 years from the date they are granted.

The following table provides information about nonvested restricted stock for the year ended December 31, 2017:

	Shares	Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2017	13,850	\$ 11.45
Granted	9,464	16.53
Vested	(8,164)	13.52
Forfeited	(250)	12.10
<b>Outstanding at December 31, 2017</b>	<b>14,900</b>	<b>\$ 13.53</b>

**York Traditions Bank**  
**Notes to Financial Statements**

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The following table provides information about nonvested restricted stock for the year ended December 31, 2016:

	Shares	Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2016	15,750	\$ 11.05
Granted	12,937	11.86
Vested	(14,837)	11.38
Forfeited	-	-
Outstanding at December 31, 2016	13,850	\$ 11.45

Stock-based compensation expense related to the non-vested restricted stock for the years ended December 31, 2017 and 2016 totaled \$140,000 and \$168,000, respectively. The unamortized compensation cost related to restricted stock at December 31, 2017 was \$73,000.

#### **14. Employment Agreements**

The Bank entered into a three-year employment agreement December 30, 2016 with Eugene J. Draganosky as President and Chief Executive Officer, which includes minimum annual salary commitments and change of control provisions. The agreement contains rolling-term options to renew for additional one-year periods. The Bank had entered into a similar agreement with Michael E. Kochenour until his retirement as Chief Executive Officer effective December 31, 2016. On January 1, 2018, Mr. Draganosky's agreement was amended to include an automobile allowance. Additionally, the Bank has entered into change of control agreements with its five other executive officers. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreements, subject to the Emergency Economic Stabilization Act of 2008.

#### **15. Salary Continuation Plan**

The Bank has salary continuation agreements with its former Chief Executive Officer and its Chief Operating Officer and Chief Financial Officer. This is an unfunded plan that provides for target retirement benefits beginning at age 65. The agreements also provide for benefits in the event of early retirement, disability, death during active service or change in control of the Bank. At December 31, 2017 and 2016, the Bank's total accrued liability under these agreements was \$366,000 and \$307,000, respectively. Total expense related to this plan as provided for in these agreements amounted to \$59,000 and \$71,000 for the years ended December 31, 2017 and 2016, respectively.

# York Traditions Bank

## Notes to Financial Statements

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### 16. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation. Failure to meet the 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 Bank's 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 Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

In July 2013, the Federal Reserve Board approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel Committee on Banking Supervision's December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions.

The new minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Bank on January 1, 2015, and will be fully phased in on January 1, 2019.

The U.S. Basel III Capital Rules requires the Bank to:

- Meet a new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a Tier 1 capital ratio of 6.00% of risk-weighted assets;
- Continue to require the current minimum total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio of 4.00% of average assets; and
- Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses. Certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities, are being phased out as a component of Tier 1 capital for institutions of the Bank's size.

The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expands the risk-weightings for assets and off balance sheet exposures from the previous 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures and resulting in higher risk weights for a variety of asset categories.

# York Traditions Bank

## Notes to Financial Statements

As of December 31, 2017, the Bank met the applicable minimum requirements of the U.S. Basel III Capital Rules, and each of the Bank's capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. As of December 31, 2017, the Bank's capital levels also met the fully-phased in minimum capital requirements.

A comparison of the Bank's actual capital amounts to the regulatory requirements as of December 31 is presented below (dollars in thousands):

<i>December 31, 2017</i>	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 54,104	15.42%	\$ 28,071 $\geq$	$\geq$ 8.00%	\$ 32,457 $\geq$	$\geq$ 9.25%	\$ 35,089 $\geq$	$\geq$ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 45,543	12.98%	\$ 21,053 $\geq$	$\geq$ 6.00%	\$ 25,439 $\geq$	$\geq$ 7.25%	\$ 28,071 $\geq$	$\geq$ 8.00%
Common equity tier 1 capital (to risk weighted assets)	\$ 45,543	12.98%	\$ 15,790 $\geq$	$\geq$ 4.50%	\$ 20,176 $\geq$	$\geq$ 5.75%	\$ 22,808 $\geq$	$\geq$ 6.50%
Tier 1 capital (to average assets)	\$ 45,543	10.38%	\$ 17,556 $\geq$	$\geq$ 4.00%	N/A	N/A	\$ 21,945 $\geq$	$\geq$ 5.00%

  

<i>December 31, 2016</i>	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 40,639	12.92%	\$ $\geq$ 25,165	$\geq$ 8.00%	\$ $\geq$ 27,131	$\geq$ 8.625%	\$ $\geq$ 31,456	$\geq$ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 32,521	10.34%	\$ $\geq$ 18,874	$\geq$ 6.00%	\$ $\geq$ 20,840	$\geq$ 6.625%	\$ $\geq$ 25,165	$\geq$ 8.00%
Common equity tier 1 capital (to risk weighted assets)	\$ 32,521	10.34%	\$ $\geq$ 14,155	$\geq$ 4.50%	\$ $\geq$ 16,122	$\geq$ 5.125%	\$ $\geq$ 20,447	$\geq$ 6.50%
Tier 1 capital (to average assets)	\$ 32,521	8.21%	\$ $\geq$ 15,849	$\geq$ 4.00%	N/A	N/A	\$ $\geq$ 19,812	$\geq$ 5.00%

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2017, the reserve balance amounted to \$1,862,000. At December 31, 2016, the reserve balance amounted to \$1,063,000.

### 17. Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank'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 Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates 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.

FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements.



# York Traditions Bank

## Notes to Financial Statements

FASB ASC 820-10 defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions.

FASB ASC 820-10 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 820-10 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's 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 financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

<i>December 31, 2017</i>	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ -	\$ 1,245	\$ -	\$ 1,245
State and municipal securities	-	19,628	-	19,628
Mortgage-backed securities	-	26,073	-	26,073
Collateralized mortgage obligations	-	8,312	-	8,312
Loans held-for-sale	-	13,885	-	13,885
Asset derivatives	-	1,028	-	1,028
	\$ -	\$ 70,171	\$ -	\$ 70,171
Liability derivatives	\$ -	\$ 41	\$ -	\$ 41
<i>December 31, 2016</i>	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ -	\$ 260	\$ -	\$ 260
State and municipal securities	-	19,186	-	19,186
Mortgage-backed securities	-	25,518	-	25,518
Collateralized mortgage obligations	-	5,221	-	5,221
Loans held-for-sale	-	18,451	-	18,451
Asset derivatives	-	1,120	-	1,120
	\$ -	\$ 69,756	\$ -	\$ 69,756
Liability derivatives	\$ -	\$ 76	\$ -	\$ 76

# York Traditions Bank

## Notes to Financial Statements

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

<i>December 31, 2017</i>	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 3,157	\$ 3,157

  

<i>December 31, 2016</i>	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 6,290	\$ 6,290

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Bank has utilized Level 3 inputs to determine the fair value (in thousands):

<i>December 31, 2017</i>	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 3,157	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	-11% to -56% (-24%)

  

<i>December 31, 2016</i>	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 6,290	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	-15% to -48% (-37%)

<sup>(1)</sup> Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not identifiable.

<sup>(2)</sup> Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of certain of the Bank's assets and liabilities at December 31, 2017 and 2016:

### *Cash and Short-Term Investments (Carried at Cost)*

The carrying amounts reported in the balance sheets for cash and short-term instruments approximate those assets' fair values.

# York Traditions Bank

## Notes to Financial Statements

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### *Securities Available-for-Sale (Carried at Fair Value)*

Fair values for securities available-for-sale were based upon a market approach. Securities that are debenture bonds and pass through mortgage-backed investments that are not quoted on an exchange, but are traded in active markets, were obtained through third-party data service providers who use matrix pricing on similar securities. The Bank compares evaluations provided by more than one service provider to judge the adequacy of the estimated fair value.

### *Loans Held-for-Sale (Carried at Fair Value)*

The fair value of loans held-for-sale is determined, when possible, using quoted secondary-market prices. If no such quotes exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

### *Loans Receivable (Generally Carried at Cost)*

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (e.g., residential real estate and consumer loans) are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Impaired loans are those that are accounted for under FASB AC 310-10-35, in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, 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. The fair value of impaired loans with an impairment allowance were \$3,157,000 and \$6,290,000, net of valuation allowances, of \$27,000 and \$164,000 as of December 31, 2017 and 2016, respectively.

### *Restricted Investment in Bank Stock (Carried at Cost)*

The carrying amount of restricted investment in bank stock approximates fair value.

### *Accrued Interest Receivable and Payable (Carried at Cost)*

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

### *Derivative Financial Instruments (Carried at Fair Value)*

Derivative financial instruments include interest rate locks and forward commitments to sell mortgage loans. Fair values are based on the underlying mortgage loans and the probability of commitments being exercised.

### *Deposit Liabilities (Carried at Cost)*

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of

# York Traditions Bank

## Notes to Financial Statements

deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

### *Federal Funds Purchased and Short-Term Borrowings (Carried at Cost)*

The carrying amounts of federal funds purchased and short-term borrowings approximate their fair values.

### *Long-Term Borrowings (Carried at Cost)*

Fair values of long-term borrowings are estimated using discounted cash flow analysis, based on rates currently available to the Bank for advances from the FHLB with similar terms and remaining maturities.

### *Off-Balance Sheet Financial Instruments (Disclosed at Cost)*

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The information presented is based on pertinent information available as of December 31, 2017 and 2016. Although the Bank is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that time and current estimated fair value of these financial instruments might have changed significantly (in thousands).

<i>December 31, 2017</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 7,444	\$ 7,444	\$ 7,444	\$ -	\$ -
Securities available-for-sale	55,258	55,258	-	55,258	-
Loans held-for-sale	13,885	13,885	-	13,885	-
Loans receivable, net	344,982	345,615	-	-	345,615
Restricted investment in bank stocks	2,232	2,232	-	2,232	-
Accrued interest receivable	1,245	1,245	-	1,245	-
Asset derivatives	1,028	1,028	-	1,028	-
<b>Financial liabilities:</b>					
Demand and savings deposits	251,806	251,806	-	251,806	-
Time deposits	111,283	111,455	-	111,455	-
Accrued interest payable	323	323	-	323	-
Short-term borrowings	1,391	1,391	-	1,391	-
Long-term borrowings	29,833	29,576	-	29,576	-
Liability derivatives	41	41	-	41	-
<b>Off-balance sheet financial instruments:</b>					
Commitments to extend credit and letters of credit	-	-	-	-	-

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## Notes to Financial Statements

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<i>December 31, 2016</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 5,891	\$ 5,891	\$ 5,891	\$ -	\$ -
Securities available-for-sale	50,185	50,185	-	50,185	-
Loans held-for-sale	18,451	18,451	-	18,451	-
Loans receivable, net	302,169	303,893	-	-	303,893
Restricted investment in bank stocks	2,673	2,673	-	2,673	-
Accrued interest receivable	1,002	1,002	-	1,002	-
Asset derivatives	1,120	1,120	-	1,120	-
<b>Financial liabilities:</b>					
Demand and savings deposits	218,421	218,421	-	218,421	-
Time deposits	103,896	104,741	-	104,741	-
Accrued interest payable	278	278	-	278	-
Short-term borrowings	8,877	8,877	-	8,877	-
Long-term borrowings	31,833	31,811	-	31,811	-
Liability derivatives	76	76	-	76	-
<b>Off-balance sheet financial instruments:</b>					
Commitments to extend credit and letters of credit	-	-	-	-	-

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