ORANGE COUNTY BANCORP, INC.
2017 ANNUAL REPORT

BOARD OF DIRECTORS

PICTURED FROM LEFT TO RIGHT.

FRONT ROW: David A. DeWilde, Louis Heimbach, Chairman, Terry R. Saturno

BACK ROW: Richard Rowley, Paul T. McDermott, Susan Metzger, Greg Holcombe, William D. Morrison, Michael Gilfeather, Virginia Rizzo, Jonathan Rouis, Gus Scacco

orange county BANCORP, inc.

MEMBER

Federal Reserve System
Federal Home Loan Bank
Federal Deposit Insurance Corporation
Financial Industry Regulatory Authority

SUBSIDIARIES

Orange Bank & Trust Company ("Bank")
Hudson Valley Investment Advisors, Inc. ("HVIA")

SHARES OF ORANGE COUNTY BANCORP, INC. STOCK ARE AVAILABLE UNDER STOCK SYMBOL OCBI

For information regarding stock transfers and other transactions, contact our Transfer Agent:

Computershare, Inc.
P.O. BOX 30170
College Station, TX 77842
1.800.368.5948
Web.queries@computershare.com

For more information about purchasing stock, contact either:

STIFEL NICOLAUS & CO. INC.
Andrew Lieb: 800.342.2325 Ext. 4128

RAYMOND JAMES EQUITY CAPITAL MARKETS
Douglas W. Deubel: 888.734.0540

HOVDE GROUP
James D. Nuber: 312.361.1810

NOTICE TO SHAREHOLDERS ANNUAL DISCLOSURE STATEMENT

Financial information about the Bank is available to our customers and the general public upon request. In accordance with the federal regulation to facilitate more informed decision-making by depositors, investors, and the general public, we will provide an ANNUAL DISCLOSURE STATEMENT containing financial information for the Bank for the previous two years. This information will be updated annually and available as of June 1, each year.

To obtain a copy of the ANNUAL DISCLOSURE STATEMENT, please contact:
Tracy Stein, VP/Controller • Orange Bank & Trust Company • 212 Dolson Avenue • Middletown, New York 10940


Michael Gilfeather, President & CEO (left) and Lou Heimbach, Chairman (right)

To Our Stockholders, Customers and Friends:

We are pleased to present you with the 2017 Annual Report of Orange County Bancorp, Inc. (the "Company"). The Company is the parent organization for Orange Bank & Trust Company (the "Bank") and Hudson Valley Investment Advisors, Inc. ("HVIA"). Together, the Bank and HVIA are the principal drivers of revenue for the Company and their results are fully consolidated into the Company's financials as reflected in the accompanying statements. Please accept our apology for providing you with our report this late in the year. As a result of both Federal and State tax law changes we were required to restate certain numbers. The complexity of these adjustments and time required for accounting reviews delayed the final production of the 2017 annual report.

2017 was both a financially successful year for the Company and marked a significant milestone in its history, as we celebrated the Bank's 125th anniversary last fall. In 1892 the Bank, then known as Orange County Trust and Safe Deposit Company, first opened its doors for business. From the beginning, our founders understood the Bank's success would be tied to that of the larger community, and that long-term value creation would require an unwavering commitment to quality service and the establishment of enduring customer relationships. That vision has served us well for many years, and today the Bank—**the largest headquartered in Orange County**—operates 13 branches in four counties and has more than 150 employees.

We obtained this dominant market position by recognizing long-term growth would require not only dedication to customer service, but also investment in the region, which can thrive only when businesses and entrepreneurs have access to the capital and services they need to create jobs and add economic vibrancy to our community. We, therefore, committed to establishing ourselves as a leading regional business bank, a goal we proudly delivered on in 2017. By increasing and broadening our suite of business services, from sophisticated cash management tools to enhanced commercial lending capabilities, and the hiring of key personnel to support them, the Bank is now positioned with the resources our clients need to operate efficiently and profitably. Word of our efforts is very much out in the local and regional business community. (Later in our report you will hear from two local business owners about their relationship with the Company and how we have helped them achieve their business objectives).

Delivering on a commitment first outlined in the President's Message in our 2014 Annual Report, we continued our expansionary efforts in 2017 with the opening of our Rockland County corporate office in New City and a fourth full-service Westchester County location in Mount Vernon. We indicated at the time we expected the investment of capital and other resources required to support these initiatives would begin to yield results in 2017, and are pleased to report that our expansion into Westchester and Rockland is already paying dividends. Additionally, to capitalize on yet another growing market for us, we established the role of Newburgh Market Manager in 2017 to support our goal of becoming the dominant business bank serving the area as its business community continues to expand.

Recognizing that the strength of our institution lies in service, we take great pride in providing tailored solutions that help individuals, families and businesses achieve their financial goals. In late 2017, after considerable research and planning, the Bank successfully launched a new and critically important initiative, Orange **Private Banking**. This concierge-level service leverages and connects the Bank's four core businesses—deposits, loans, asset management and trust & estate services—to provide dedicated, personalized attention to customers with larger, more complex banking needs who engage in significant business with us.

Prominently featured in our original name, which, interestingly, did not include the word bank, Trust Services is one of our original lines of business and remains a vibrant part of the Company to this day. Several years ago we hired dedicated personnel for oversight of this division with specific expertise in the Special Needs Trust sub-sector. Our commitment to and investment in the space has served us well, and was rewarded in 2017 with a nearly **22% increase in fee income** versus the prior year. We expect Trust Services to remain a foundational pillar of our business going forward.

The last of our core businesses, critical to both our Orange Private Bank initiative and larger approach to client service and product diversification, is our investment management company, Hudson Valley Investment Advisors, Inc. (HVIA). The group experienced significant growth in 2017, with assets under management **up 14%** to approximately $800 million at year-end. **Of note, the Equity Fund, HVEIX, launched in 2016, grew assets under management by 40%.**

As a result of these initiatives, our core businesses showed significantly improved financial results in 2017. The Company's adjusted net income was $4.8 million (excluding a one-time revaluation of deferred tax assets resulting from the new tax law change). In addition, we saw substantial increases in core deposits, assets under management at HVIA, in Trust Services, and loans.

While each of these businesses and initiatives are important in their own right, they collectively build upon a legacy of service which began in 1892, laying the foundation for the success we enjoy today. This legacy will continue to be our guide as we thoughtfully invest and pursue measured growth going forward. This strategy, which resulted in a successful 2017, best positions the Company to deliver consistent and sustainable future earnings growth to our shareholders and dependable and compelling value to our individual clients and businesses.

On behalf of the Directors of the Company and our fellow employees, we thank you, our stockholders and customers for your ongoing support.

Sincerely,

Lou Heimbach
Chairman

Michael Gilfeather
President & CEO

PRE-TAX INCOME

IMPROVED 49% TO $6.5 MILLION

CORE ACTIVITY IN ALL AREAS IMPROVED

TOTAL ASSETS:

INCREASED $51 MILLION TO $961 MILLION

$1 BILLION DOLLAR BANK IN 2018

orange county BANCORP, inc.

TOTAL LOANS IN PORTFOLIO:

IMPROVED $24 MILLION TO $566 MILLION

THE PERCENTAGE OF NON-ACCRUING LOANS IN PORTFOLIO IMPROVED FROM 1.7% IN 2016 TO 0.4% IN 2017

DEPOSIT GROWTH*:

INCREASED 17% ($121 MILLION)

MAJORITY COMING FROM NEW MARKETS IN WESTCHESTER & ROCKLAND

WESTCHESTER/ROCKLAND DEPOSITS DOUBLED TO $258MM

*Includes deposits held for sale

NON-INTEREST INCOME:

UP 8%

TRUST SERVICES DIVISION FEES

UP 22%

AND HVIA FEES

IMPROVED BY 6%

WE CONTINUED TO MARCH TOWARD OUR GOALS

CELEBRATING 125 YEARS

The Bank first opened for business on

MAY 2, 1892

NEWBURGH EXPANSION

Focused on a goal to become the

DOMINANT

business bank in Newburgh

NEW CITY

Established Orange Bank & Trust as the prominent

ROCKLAND COUNTY financial institution

PRIVATE BANKING

Successfully launched in August, the Bank has over

100 Private Banking clients

MOUNT VERNON

OPENED FOURTH

Westchester branch in August

TRUST SERVICES

HIGH LEVEL GROWTH

in Special Needs Trusts, Court Appointed Trusts and Guardianships in 2017. AUM for this segment of the business increased 75% over 2016.

HUDSON VALLEY INVESTMENT ADVISORS

Our asset management business continues to grow with AUM of $800 million

UP 14% at year end

Because small to medium sized businesses are key to our region's success, our focus is deeply local and we offer innovative solutions, lending leadership, and relationship banking to help them grow and prosper. Our Lending department includes a full, in-house loan operations team. General business banking services, including loans, deposits, and **Cash Management**, continue to be key components of our growth and expansion. We also offer specialty services such as **Esquire Banking** for lawyers, **Med-Banking** for healthcare professionals, and **Municipal Banking** for the public sector. The convenience and efficiencies our products and services bring to our business professionals afford them more time to focus on clients, and more importantly a better quality of life.

Photo taken in 2016

1892

The Bank **OPENED ITS DOORS FOR BUSINESS** May 2, 1892, on North Street in Middletown, New York, under the name of the Orange County Trust and Safe Deposit Company.

THE BANK'S FOUNDERS were 14 public-spirited citizens who recognized a need in the prospering industrial town for a banking institution which would specialize in estate and trust administration.

1905

In 1905, The Bank abbreviated its name to Orange County Trust Company. That year it inaugurated a system of **INTEREST PAYMENTS ON DEPOSITS** which afterward generally adopted, and was the first commercial bank in the city of Middletown to do so.

MORE THAN JUST A FINANCIAL PARTNER, A COMMUNITY PARTNER with Cornerstone Family Healthcare

In 1967, Cornerstone Family Healthcare started as a health center for migrant workers. Over the next half-century, it has grown into a multi-specialty, Federally Qualified Health Center assuring that all people have access to the highest level of healthcare, where no one is ever turned away. One site has become 16, serving five counties in two states. From 6,000 patients in their first year, Cornerstone now serves over 40,000 annually, with a staff of 560 professionals. President and CEO Linda Muller says that with all that growth, Cornerstone has never strayed from the mission—providing the best healthcare, regardless of circumstances, and everyone is welcome.

Cornerstone found a financial services partner with a shared commitment to community in Orange Bank & Trust's people and products. Muller calls Orange Bank & Trust's recently retired Mary Ellen Rogulski, "Our Guardian Angel," because she took the time to listen, understand Cornerstone's mission and plans, and advocate for them.

Since the early 2000s, we have helped Cornerstone grow into a $50 million a year business with enormous community impact.

Muller regards Orange Bank & Trust as a community partner, different from large, national banks, because we know the community and that banking is local in nature. She can call the president—and that allows Cornerstone to be agile and effective. She says that banks like ours, that understand their communities, look beyond—to the future—and know the possibilities of "Yes."

1909

The Morrison family, perennial benefactors of the City of Middletown since the turn of the century, has been affiliated with the Bank since 1909, **MR. JOHN H. MORRISON SR.** was an active Director of the Bank since 1909.

JOHN H. MORRISON SR.

1933

When President Franklin D. Roosevelt declared the **BANK HOLIDAY OF 1933**, the company's stockholders put up double the value of their stock to keep the bank operating. The Bank rewarded John H. Morrison Sr., — a longtime large depositor at the Bank, who helped the bank remain solvent during the Great Depression — with a controlling interest in stocks. In fact, Orange County Trust Company was the only commercial bank in Middletown to remain open throughout the Great Depression.

BUILDING A RESPONSIVE AND PROACTIVE RELATIONSHIP with Katonah Management Group

For 28 years, Katonah Management Group (KMG) has provided consultative and administrative real estate management services for condominiums, townhouses and homeowners associations in both Westchester and Putnam Counties. KMG supports Boards of Directors by managing contractors who provide services ranging from landscaping to roofing as well as operational services that support these communities.

KMG recently determined they needed a better financial service provider–one that was easy to work with, understood the needs of their clients, and was proactively responsive. They found all those attributes in Orange Bank & Trust. OBT now provides a customized cash management platform to KMG which includes lock box collections, treasury services, automated clearing house (ACH) capabilities, remote depositing functions, and wire capabilities.

When it was necessary to obtain these services, our dedicated staff made it happen seamlessly with a smooth transition and rollout for KMG and their clients.

> Stephen Brussels and Bryan Hao appreciated how quickly we integrated into their systems and the natural, non-transactional feel of the relationship–exactly what a service business rapport should be.

KMG is in the business of managing difficult situations for their clients and they see Orange Bank & Trust as an extension of their operation–going above and beyond, helping KMG to thrive.

1942

JOHN H. MORRISON JR.

EUGENE H. MORRISON JR.

JOHN H. MORRISON JR., (son of John H. Morrison Sr.) joined the Bank's Board circa 1942. His brother, **EUGENE H. MORRISON** started at the Bank as an Assistant Trust Officer in 1947 and became President of the Bank in 1962 and Chairman in 1970.

1950

CHRISTINE MORRISON

The Morrison Family is well-known for their philanthropic support throughout the community. A support which is still on-going to this day.

In early 1900, a 16-acre estate which included The Webb Horton Mansion (now called **MORRISON HALL** located on the SUNY Orange Middletown campus), was left to John H. Morrison Sr. and his wife, **CHRISTINE MORRISON** by John's cousin Eugene Horton. In 1950, Christine Morrison, donated the family mansion and surrounding land to create SUNY Orange.

JOHN MORRISON III

1989

The next generation of Morrisons continued to both work and lead the Bank as Officers and Board Members. **JOHN MORRISON III** started at the Bank as a Trust Investment Officer in 1989 and served as Chairman of the Board from 1992 through 2012. His wife, Evelyn Morrison was also a Director of the Bank until her passing in 2012.

John's brother, **EDWARD MORRISON** was a Director of the Bank from the early '60s until 2007.

2004

WILLIAM D. MORRISON

WILLIAM D. MORRISON joined the Bank's Board of Directors in 2004 and continues to serve today.


HUDSON VALLEY
INVESTMENT ADVISORS, INC.
A subsidiary of Orange County Bancorp, Inc.

MANAGING, PROTECTING AND GROWING WEALTH through Investment & Trust Services

The Bank continues to deliver outstanding value to our customers in the areas of Trust and Estate Management and Investment Advisory combining the professional talents of our in-house Trust Department with our Goshen, New York-based subsidiary, **Hudson Valley Investment Advisors**—a Registered Investment Advisor and affiliate of Orange Bank & Trust.

As in the prior year, HVIA again saw solid performance in 2017. Assets grew 14% to $800 million, while the Equity Fund, HVEIX, launched in 2016, grew assets under management by 40%. Notable, and a testament to HVIA's goal to create value for its clients, attrition of client assets was at a historical low in 2017.

HVIA continued its marketing outreach in 2017 hosting a September client investor meeting with leading economist John P. Piccard, Executive Director and U.S. Equity Strategist for J.P. Morgan Asset Management. Piccard provided insight on the economic landscape, industry sectors and equity market and interest rates. Additional outreach included updates to the firm's marketing material and the launch of social media presence.

Future brand awareness and growth plans for HVIA include expanding investment relationships through the Bank's Private Banking service and other strategic partnerships as well as opening an office in Westchester County.

The Trust Services Division experienced another strong year in 2017, adding $65 million through new client relationships, ending the year at $393 million, or a 32% increase over the prior year. The Westchester Division, which opened in 2016, was a strong contributor to our growth, ending the year at $78 million in client assets. We are pleased to report that the gross revenue of the Division increased by 22% in 2017, which exceeded our targeted goal and made a more significant contribution to the non-interest income of the Bank.

In 2017, the Division went high-tech, completing a conversion to a new core trust accounting system affording us the technological platform to support our future growth. Michael Abel, Esq. joined our team as a Trust Officer and Vice President, bringing with him over ten years of experience in trust and estate planning, administration and wealth management experience. Michael holds a J.D. from New York Law School and his LL.M, with a concentration in Estate Planning.

The successful launch of **Private Banking** in 2017 provided the Trust Services Division with tremendous opportunities to extend our trust services to the Bank's private banking clients. As a part of the core services, we intend to be the provider of trust and estate management as our clients seek to preserve and protect their wealth for future generations.

> Our outlook for 2018 and beyond is tremendously positive, as we continue to expand our outreach and capabilities as a provider of professional trust and estate administration services.

TAKING RELATIONSHIP BANKING TO THE NEXT LEVEL
with Private Banking

ORANGE Bank&Trust COMPANY | PRIVATE BANKING

In 2017, the Bank and Hudson Valley Investment Advisors (HVIA) partnered to create a Private Banking offering for their mutual client base. Operated as a division of the Bank, Orange Private Banking is a client-driven service model designed to recognize the organization's best clients by providing a high touch level of attention across four business lines:

- **DEPOSITS**
- **LOANS**
- **TRUST, ESTATE & CUSTODY SERVICES**
- **INVESTMENT ADVISORY (THROUGH HVIA)**

The build-out of Private Banking began early in 2017 with a thorough due diligence effort across all business lines as well as analysis by compliance, legal, operations, marketing and other affected departments. In addition, Private Banking is serving as the organization's forerunner for Salesforce, the powerful client relations management system utilized by some of the world's largest financial services companies. Through Salesforce, the Private Banking team—which includes the client's business line relationship officer—can easily manage appointments, tasks, account information and whatever else is important to the client. This pledge of resources is a testimony to the commitment being made to provide an extraordinary level of service to clients.

By focusing on service and bringing to the client's table all the capabilities of the Bank and HVIA, Private Banking differentiates the organization from its competitors by serving business owners, professionals, entrepreneurs, executives and HNW (high-net-worth) individuals in a manner which delights and is, ultimately, quite memorable.

Over 100 clients have become Private Banking relationships. This successful launch is an indication of the receptiveness clients have expressed by being recognized as Private Banking clients. We feel they deserve to be recognized and, by continuing to listen to our clients' needs, we will build Private Banking into a recognized leader in Orange County and beyond.

PICTURED LEFT TO RIGHT:
CARLA A. GIGI-ALFIERI, VICE PRESIDENT OF PRIVATE BANKING
TIMOTHY S. MCCAUSLAND, MANAGING DIRECTOR OF PRIVATE BANKING

THE ANNUAL BOUNTIFUL HARVEST CELEBRATION —CORNELL COOPERATIVE EXTENSION

PICTURED LEFT TO RIGHT: Maggie R. Smith, President & CEO First Federal Savings of Middletown; Derrik R. Wynkoop, President & CEO Walden Savings Bank; Michael Gilfeather; Michael J. Horodyski, President & CEO Wallkill Valley Federal Savings & Loan

PHOTO CREDIT: LYNN BARTOLOTTA, CORNELL COOPERATIVE EXTENSION ORANGE COUNTY

FOR THE GOOD OF THE COMMUNITY:
How We Give Back

As part of our commitment to our communities, Orange Bank & Trust is proud to support organizations and their programs that make the region a great place to work and do business.

For over 90 years, **Cornell Cooperative Extension** has provided programs for regional youth and family development, nutrition, health and food safety, community and economic vitality, and agricultural sustainability. In 2017, the Bank contributed to Cornell Cooperative Extension's Building a Dream Capital Campaign for the Education Center and 4-H Park. We also sponsored the Annual Bountiful Harvest Celebration.

The **Dispute Resolution Center** is a private, non-profit agency promoting the peaceful resolution of conflict. Orange Bank & Trust is gratified to provide support for DRC mediation services, educational programs, and consultation services throughout the Hudson Valley.

PICTURED LEFT TO RIGHT: Patrick Smith, VP OBTC Relationship Manager; Debra Stern, Executive Director of Amani Charter School; Christopher Hayden, SVP Chief Operating Officer

The **Amani Public Charter School** provides Mount Vernon 5th-8th graders with academic and critical thinking skills necessary for success in high schools, college and careers. The Bank was honored to provide a donation to the Louis Harris 21st Century Learning Center to house a library and technology center.

HONOR

HONOR: Helping Others Needing Our Resources provides a safe environment for those in need. By rebuilding self-esteem and dignity while providing housing, food and crisis intervention. HONOR builds self-sufficiency for individuals and their families. Orange Bank & Trust is honored to provide assistance to this non-profit, multifaceted service organization.

FINANCIAL HIGHLIGHTS

(dollars in thousands except for per share data)

	2017	2016 (As Restated - Note 2 of Consolidated Financial Statements)
YEAR		
Interest income	**$ 33,129**	$ 29,762
Interest expense	**2,865**	3,924
Net interest income after provision for loan losses	**28,484**	24,046
Other operating income	**9,235**	8,525
Other operating expenses	**31,216**	28,213
Net income	**2,351**	3,637
Cash dividends declared	**3,225**	3,219
Average net loans	**545,575**	503,454
Average assets	**935,229**	896,326
Average deposits	**760,410**	707,512
Average equity	**91,846**	95,155
YEAR END		
Net loans	**$ 557,023**	$ 534,127
Assets	**960,743**	909,714
Deposits	**808,790**	712,030
Equity	**91,308**	92,383
PER SHARE		
Earnings	**$ 0.60**	$ 0.93
Cash dividends declared	**0.824**	0.823
Equity	**23.33**	23.61
RATIOS		
Return on average assets	**0.25%**	0.41%
Return on average equity	**2.56%**	3.82%

Adjust Net income (Non-GAAP Reconciliation)	
Net income	**$ 2,351**
Add: Income tax expense related to Tax Act	**2,404**
Adjusted net income	**$ 4,755**
Core Ratios	
Adjusted net income per share	**$ 1.21**
Adjusted return on average assets	**0.51%**
Adjusted return on average equity	**5.18%**

The number of issued shares and outstanding shares, restricted stock, weighted average shares outstanding, weighted average earnings per share, dividends per share and equity per share for the periods presented herein were adjusted to reflect the effect of the two for one stock dividend. The Company transferred $998,000 from surplus to common stock, as of December 31, 2017, to reflect the effect of the increased number of outstanding shares of common stock since the par value per share remained unchanged at $0.50 per share. The stock dividend had no effect on shares of treasury stock as they do not have legal rights to dividends. (See Note 15)

See accompanying notes to consolidated financial statements

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945 E. Park Drive, Suite 103
Harrisburg, PA 17111

Independent Auditor's Report

Board of Directors and Shareholders
Orange County Bancorp, Inc.
Middletown, New York

We have audited the accompanying consolidated financial statements of Orange County Bancorp, Inc., which comprise the consolidated statements of condition as of December 31, 2017 and 2016 (restated), and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orange County Bancorp, Inc. as of December 31, 2017 and 2016 (restated), 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.

Emphasis of a Matter

As discussed in Note 2 to the consolidated financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BDO USA, LLP

Harrisburg, Pennsylvania
July 19, 2018

CONSOLIDATED STATEMENTS OF CONDITION
December 31, 2017 and 2016

(in thousands except for share and per share data)

		2017		2016 (As Restated - Note 2 of Consolidated Financial Statements)
ASSETS				
Cash and due from banks	$	30,220	$	27,338
Investment securities - available-for-sale		297,698		279,283
Restricted investment in bank stocks		1,817		4,774
Loans held for sale		11,614		-
Loans		565,549		541,866
Allowance for loan losses		(8,526)		(7,739)
Loans, net		557,023		534,127
Premises and equipment		13,686		14,292
Premises and equipment held for sale, net		783		-
Other real estate owned		-		1,585
Accrued interest receivable		2,793		2,580
Cash surrender value of bank-owned life insurance		26,438		25,731
Goodwill		5,359		5,359
Intangible assets		2,820		3,106
Other assets		10,492		11,539
TOTAL ASSETS	$	960,743	$	909,714
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest bearing	$	201,936	$	160,886
Interest bearing		606,854		551,144
Total deposits		808,790		712,030
Deposits held for sale				
Noninterest bearing		1,584		-
Interest bearing		22,171		-
Total deposits held for sale		23,755		-
Short-term borrowings		-		25,000
Long-term debt		23,113		63,165
Accrued expenses and other liabilities		13,777		17,136
TOTAL LIABILITIES		869,435		817,331
STOCKHOLDERS' EQUITY				
Common stock, $0.50 par value; 5,000,000 shares authorized; 3,949,567 and 3,950,208 issued; 3,916,088 and 3,913,540 outstanding at December 31, 2017 and 2016, respectively		1,996		998
Surplus		69,463		70,472
Undivided profits		26,668		26,591
Accumulated other comprehensive loss, net of taxes		(5,463)		(4,174)
Treasury stock, at cost; 33,479 and 36,668 shares at December 31, 2017 and 2016, respectively		(1,356)		(1,504)
TOTAL STOCKHOLDERS' EQUITY		91,308		92,383
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	960,743	$	909,714

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2017 and 2016

(in thousands except for share and per share data)

	2017	2016
INTEREST INCOME		
Interest and fees on loans	**$ 25,440**	$ 22,791
Interest on investment securities:		
Taxable	**5,347**	4,560
Tax exempt	**1,946**	2,311
Interest on Federal funds sold and other	**396**	100
TOTAL INTEREST INCOME	**33,129**	29,762
INTEREST EXPENSE		
Interest on savings and NOW accounts	**811**	486
Interest on time deposits	**679**	822
Interest on short-term borrowings	**-**	12
Interest on long-term debt	**1,375**	2,604
TOTAL INTEREST EXPENSE	**2,865**	3,924
NET INTEREST INCOME	**30,264**	25,838
Provision for loan losses	**1,780**	1,792
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**28,484**	24,046
OTHER OPERATING INCOME		
Service charges on deposit accounts	**966**	931
Trust income	**2,303**	1,892
Investment advisory income	**4,158**	3,934
Investment securities gains	**302**	309
Earnings on bank-owned life insurance	**706**	724
Gain on the sale of other real estate owned	**28**	-
Other	**772**	735
TOTAL OTHER OPERATING INCOME	**9,235**	8,525
OTHER OPERATING EXPENSES		
Salaries	**13,734**	12,359
Employee benefits	**3,784**	3,636
Occupancy expense	**2,893**	2,377
Furniture and equipment expense	**572**	593
Professional fees	**2,030**	1,943
Directors' fees and expenses	**808**	741
Computer software expense	**1,944**	1,326
FDIC assessment	**346**	533
Advertising expenses	**890**	937
Telephone expenses	**635**	412
Intangible amortization	**286**	286
Other	**3,294**	3,070
TOTAL OTHER OPERATING EXPENSES	**31,216**	28,213
Income before income taxes	**6,503**	4,358
Provision for income taxes	**4,152**	721
NET INCOME	**$ 2,351**	$ 3,637
Basic earnings per share	**$ 0.60**	$ 0.93
Cash dividends declared per share	**$ 0.824**	$ 0.823
Weighted average shares outstanding	**3,914,197**	3,912,612

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2017 and 2016

(in thousands)

	2017	2016
Net Income	**$ 2,351**	$ 3,637
Other Comprehensive (Loss), Net of Tax		
Securities available for sale:		
Unrealized holding losses arising during the year (net of tax of $(104) and $(1,240), respectively)	**(158)**	(1,697)
Adjustment for gains realized in net income (net of tax of ($121) and ($123), repectively)[(1)(3)]	**(182)**	(186)
Benefit plans:		
Amortization of pension net loss and prior service (credit net of tax of $64 and $98, repectively)[(2)(3)]	**97**	150
Unrecognized pension net loss (net of tax of $(98) and ($260), respectively)	**(149)**	(395)
Change in deferred compensation plan (net of tax of $36 and $(8), respectively)	**54**	(13)
Total other comprehensive loss	**(338)**	**(2,141)**
Total comprehensive income	**$ 2,013**	$ 1,496

(1) Gross amounts are included in investment securities gains on the consolidated statements of income in total other operating income.

(2) Gross amounts are included in the computation of net periodic benefit cost and are included in employee benefits on the consolidated statements of income in total other operating expenses.

(3) Income tax amounts are included in provision for income taxes on the consolidated statements of income.

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

(in thousands except for share and per share data)

	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2016 (As Restated - Note 2 of Consolidated Financial Statements)	$ 998	$ 70,534	$ 26,173	$ (2,033)	$ (1,679)	$ 93,993
Net income	-	-	3,637	-	-	3,637
Other comprehensive loss, net of taxes	-	-	-	(2,141)	-	(2,141)
Cash dividends declared ($0.823 per share)	-	-	(3,219)	-	-	(3,219)
Treasury stock retired (4,462 shares)	-	(212)	-	-	212	-
Treasury stock purchased (802 shares)	-	-	-	-	(37)	(37)
Vested restricted shares at $40 per share (1,962 shares),	-	-	-	-	-	-
including compensation expense of $150	-	150	-	-	-	150
Balance, December 31, 2016 (As Restated - Note 2 of Consolidated Financial Statements)	998	70,472	26,591	(4,174)	(1,504)	92,383
Net income	-	-	2,351	-	-	2,351
Other comprehensive loss, net of taxes	-	-	-	(338)	-	(338)
Cash dividends declared ($0.824 per share)	-	-	(3,225)	-	-	(3,225)
Tax Act adjustment impact	-	-	951	(951)	-	-
Treasury stock retired (4,354 shares)	-	(202)	-	-	202	-
Treasury stock purchased (265 shares)	-	-	-	-	(54)	(54)
Vested restricted shares at $44.84 per share (1,539 shares), including compensation expense of $191	-	191	-	-	-	191
Reclassification to reflect effect of stock dividend	998	(998)	-	-	-	-
Balance, December 31, 2017	$ 1,996	$ 69,463	$ 26,668	$ (5,463)	$ (1,356)	$ 91,308

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

(dollars in thousands)

	2017	2016 (As Restated - Note 2 of Consolidated Financial Statements)
OPERATING ACTIVITIES		
Net income	$ 2,351	$ 3,637
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Provision for loan losses	1,780	1,792
Depreciation and amortization	1,179	720
Accretion on loans	(380)	(413)
Amortization of intangibles	286	286
Deferred income tax provision (benefit)	3,216	(1,294)
Investment securities gains	(302)	(309)
Restricted stock expense	191	150
Impairment charge on premises and equipment held for sale	150	-
Net amortization of investment premiums	2,944	2,830
Net earnings on bank-owned life insurance	(706)	(724)
Gain on the sale of other real estate owned	(28)	-
Increase in accrued interest receivable	(213)	(108)
Decrease in other assets	1,241	1,786
(Decrease) increase in other liabilities	(3,299)	1,041
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,410	9,394
INVESTING ACTIVITIES		
Purchases of investment securities available-for-sale	(146,651)	(57,430)
Proceeds from sales, maturities and calls of investment securities available-for-sale	124,426	74,739
Decrease (increase) in restricted investment in bank stocks	2,957	(957)
Net increase in loans	(38,505)	(98,667)
Purchases of premises and equipment	(1,552)	(504)
Proceeds from sale of other real estate owned	1,613	-
NET CASH USED IN INVESTING ACTIVITIES	(57,712)	(82,819)
FINANCING ACTIVITIES		
Net increase in deposits	120,515	73,478
Short-term funds borrowed	-	25,000
Repayments of short-term borrowings	(25,000)	-
Repayments of long-term debt	(40,052)	(10,050)
Cash dividends paid	(3,225)	(3,219)
Net purchases of treasury stock	(54)	(37)
NET CASH PROVIDED BY FINANCING ACTIVITIES	52,184	85,172
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,882	11,747
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,338	15,591
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 30,220	$ 27,338
Supplementary Cash Flow Information		
Interest paid	$ 3,066	$ 4,190
Income taxes paid	-	665
Supplementary Schedule of Non Cash Investing Activities		
Loans transferred to held for sale	$ 11,614	$ -
Premises and equipment transferred to assets held for sale	933	-
Loans transferred to other real estate owned	-	1,585
Supplementary Schedule of Non Cash Financing Activities		
Deposits transferred to held for sale	$ 23,755	$ -

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Orange County Bancorp, Inc. (the Company) provides full-service commercial and consumer banking to individuals, small businesses and local municipal governments as well as trust and investment services through its wholly-owned subsidiary, Orange Bank & Trust Company (the Bank). On November 16, 2012, the Company purchased Hudson Valley Investment Advisors (HVIA), a Registered Investment Advisor, to compliment the trust and investment services offered through the Bank. Collectively, these entities are referred to herein as the "Company." The Company is headquartered in Middletown, New York with eight locations in Orange County, New York, five in Westchester County, New York and one in Rockland County, New York.

Basis of Financial Statements

The consolidated financial statements have been prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company, the Bank, and, HVIA. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the determination of other than temporary impairment on investment securities and the valuation of goodwill.

Assets held by the Company in an agency or fiduciary capacity for its customers are excluded from the consolidated financial statements since they do not constitute assets of the Company. Assets held by the Company amounted to $806,889,000 and $706,123,000 at December 31, 2017 and 2016, respectively. Income from fiduciary activities is recognized on the accrual method.

The Company has evaluated events and transactions occurring subsequent to the consolidated statement of condition date of December 31, 2017 for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through July 19, 2018 the date these consolidated financial statements were available to be issued.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in other comprehensive loss.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the securities, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) management does not expect to recover the entire amortized cost basis. GAAP specifies that (a) if an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive (loss) income. Gains and losses on the sale of individual securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks which represents required investments in the common stock of correspondent banks is carried at cost as of December 31, 2017 and 2016 and consists primarily of the common stock of the Federal Home Loan Bank of New York (FHLB) and the Federal Reserve Bank.

Management evaluates the restricted investment in bank stocks for impairment in accordance with Accounting Standard Codification (ASC) Topic 942, *Financial Services – Depository and Lending.* Management's determination of whether these investments are impaired is based on the assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the correspondent bank as compared to the capital stock amount for the correspondent bank and the length of time this situation has persisted; (2) commitments by the correspondent bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent bank, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the correspondent bank.

Management believes no impairment charge was necessary related to the restricted investment in bank stocks during 2017 or 2016. However, security impairment analysis is completed quarterly and the determination that no impairment has occurred during those years is no assurance that impairment may not occur in future periods.

Loans Held For Sale

Loan sales occur in limited circumstances as part of strategic business initiatives. Loans held for sale, including deferred fees and costs, are reported at the lower of cost or fair value as determined by expected bid price from the purchaser. Loans are sold without recourse. When a loan is transferred from the portfolio to held for sale, and the fair value is less than cost, a charge-off is recorded against the allowance for loan loss. Subsequent declines in fair value, if any, are recorded as a valuation allowance and charged against earnings.

Loans and Allowance for Loan Losses

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Orange County. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances net of an allowance for loan losses and any deferred cost or fees. Interest on loans is accrued as income based on outstanding principal balances. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Loan origination fees, net of certain direct loan origination costs totaled $3,255,000 and $1,612,000 at December 31, 2017 and 2016, respectively.

The loan portfolio is segmented into commercial, residential real estate, home equity, and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and commercial real estate construction.

Loans are placed on non-accrual status upon the earlier of (i) when payments are contractually past due 90 days or more; or (ii) when we have determined that the borrower is unlikely to meet contractual principal or interest obligations, unless the assets are well secured and in the process of collection. All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (allowance) represents management's estimate of losses inherent in the loan portfolio as of the consolidated statement of condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statement of condition. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements.

The allowance for loan losses is established as losses are estimated to have occurred in the loan portfolio. The allowance for loan losses is recorded through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when either the discounted cash flows, adjusted collateral value or observable market price, of the impaired loan is lower than the carrying value of the loan. The valuation approach is determined on a loan by loan basis. The general component covers non-classified loans and is based on historical loss rates, adjusted for qualitative factors. These qualitative factors include:

- changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- changes in international, national, regional and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments;
- changes in the nature and volume of the portfolio and in the terms of loans;
- changes in the experience, ability and depth of lending management and other relevant staff;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans;
- changes in the quality of the Bank's loan review system;
- changes in the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit, and changes in the level of such concentration; and,
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in a narrative accompanying the allowance for loan loss calculation.

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.

Commercial and Industrial Lending – The Bank originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Bank and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial and industrial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Bank's analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Lending – The Bank engages in commercial real estate lending in its primary market area and surrounding areas. The Bank's commercial loan portfolio is secured primarily by commercial retail space and office buildings. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property, and are typically secured by personal guarantees of the borrowers.

In underwriting these loans, the Bank performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Bank are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Construction Lending – The Bank engages in commercial real estate construction lending in its primary market area and surrounding areas. The Bank's commercial real estate construction lending consists of commercial and residential site development loans as well as commercial building construction and residential housing construction loans.

The Bank's commercial real estate construction loans are generally secured with the subject property. Terms of construction loans depend on the specifics of the project such as, estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Bank performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc.

Appraisals on properties securing commercial real estate construction loans originated by the Bank are performed by independent appraisers.

Commercial real estate construction loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and uncertainties of construction costs.

Residential Real Estate Lending – One- to four-family residential mortgage loan originations are generated by the Bank's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within the Bank's market area or with customers primarily from the market area.

The Bank offers fixed-rate loans with terms up to a maximum of 30 years for both permanent structures and those under construction. The Bank's one- to four-family residential real estate loan originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Bank's residential real estate loans originate with a loan-to-value of 80% or less. Loans in excess of 80% are required to have private mortgage insurance.

In underwriting one- to four-family residential real estate loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Bank are appraised by independent appraisers. The Bank generally requires borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Bank has not engaged in sub-prime residential mortgage originations.

Residential real estate loans generally present a lower level of risk than other types of loans because they are secured by the borrower's primary residence.

Home Equity Lending – The Bank originates home equity lines of credit and closed-end loans primarily within the Bank's market area or with customers primarily from the market area.

Home equity lines and loans are secured by the borrower's primary residence with a maximum loan-to-value of 85% and a maximum term of 15 years on home equity loans and a 10-year draw period followed by a 15-year repayment period for home equity lines.

In underwriting home equity lines and loans, a thorough analysis of the borrower's financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial conditions, and credit background. The analysis is based primarily on the customer's ability to repay and secondarily on the collateral or security.

Home equity lines and loans generally present a lower level of risk than other types of consumer loans because they are secured by the borrower's primary residence.

The subordinate nature of some home equity lines and loans may make these loans of higher risk than other residential real estate loans.

Consumer Lending – The Bank offers a variety of secured and unsecured consumer loans, including vehicle, loans secured by savings deposits as well as other types of consumer loans.

Consumer loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower's financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial conditions, and credit background.

Consumer loans may entail greater credit risk than do residential real estate loans particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

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 commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

A specific allocation within the allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral.

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

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging reports, equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans, including commercial and commercial real estate loans not considered individually impaired, are collectively evaluated for impairment.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions that it would not otherwise consider and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, continuance of a below market interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into credit quality rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are generally evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments.

Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal regulatory agencies and the New York State Department of Financial Services, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for losses is adequate at December 31, 2017 and 2016.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial lines of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Premises and equipment, including leasehold improvements, are carried at cost net of accumulated depreciation and amortization. Depreciation is computed on the straight-line and double declining balance methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the terms of the leases or the estimated useful lives of the assets, whichever is shorter. Occupancy expense includes repairs and maintenance and all other expenses related to the operation of the premises. The estimated useful lives for significant property and equipment categories are as follows:

Buildings and improvements	8 to 50 years
Furniture and equipment	3 to 10 years

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are adjusted to their fair value, less costs to sell as necessary, but shall not exceed their cost basis. Revenue and expenses from operations and changes in the valuation allowance are presented net as a component of either noninterest income or noninterest expense.

Cash Surrender Value of Bank-Owned Life Insurance

The Bank maintains nonqualified compensation plans for selected Directors and Officers. To fund the benefits under these plans, the Bank is the owner of single premium life insurance policies on participants in the nonqualified retirement plans. Investment in bank-owned life insurance policies was used to finance the nonqualified compensation plans and to provide tax-exempt income to the Company. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value is included in other operating income on the consolidated statement of income.

ASC Topic 715, *Compensation – Retirement Benefits,* requires a liability to be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability is based on either the post-employment benefit cost for continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. The Bank's liability is based on the post-employment benefit cost for continuing life insurance. The Bank incurred approximately $32,000 and $57,000 of expense in 2017 and 2016, respectively, related to this accounting pronouncement.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the underlying fair value of assets acquired less liabilities assumed. The Company assesses goodwill for impairment annually as of October 1 at the reporting unit level. If certain events occur which indicate goodwill might be impaired between annual tests, goodwill must be tested for impairment when such events occur. In making this assessment, the Company considers a number of factors including operating results, business plans, economic projections, anticipated futures cash flows, current market data, etc. There are inherent uncertainties related to these factors and judgment must be used in applying them to the analysis of goodwill impairment. Changes in economic and operating conditions could result in goodwill impairment in future periods. Management determined that the fair value of the reporting unit was greater than its carrying amount, thus, no impairment of goodwill exists, as of December 31, 2017 and 2016. Intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. Intangible assets are being amortized on a straight-line basis over fifteen years. Intangible amortization expense of $286,000 was recorded in 2017 and 2016, respectively. Intangible amortization expected for the succeeding five years beginning 2018 through 2022 is estimated to be $286,000 per year and $1,404,000 in total for years after 2022.

The following table details the components of intangible assets at December 31, 2017 and December 31, 2016, in thousands.

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
December 31, 2017			
Customer lists	**$ 3,101**	**$ (1,063)**	**$ 2,038**
Non-compete agreements	**951**	**(322)**	**629**
Trade name	**232**	**(79)**	**153**
	$ 4,284	**$ (1,464)**	**$ 2,820**
December 31, 2016			
Customer lists	$ 3,101	$ (856)	$ 2,245
Non-compete agreements	951	(259)	692
Trade name	232	(63)	169
	$ 4,284	$ (1,178)	$ 3,106

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance ASC Topic 740.

The 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 Company 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 basis 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.

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.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Years that remain open for potential review by taxing authorities are 2014 through 2017.

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 Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Revenue Recognition

With the exception of nonaccrual loans and leases, the Company recognizes all sources of income on the accrual method.

Additional information relating to trust revenue and advisory revenue recognition is as follows:

The Company earns trust revenue and advisory revenue from a variety of sources including fees from trust administration and other related fiduciary services, custody, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax service fees, shareholder service fees and brokerage. These fees are generally based on asset values and fluctuate with the market. Some revenue is not directly tied to asset value but is based on a flat fee for services provided. For many of our revenue sources, amounts are not received in the same accounting period in which they are earned. However, each source of wealth management fees is recorded on the accrual method of accounting.

Included in other assets on the balance sheet is a receivable for trust fees and advisory fees that have been earned but not yet collected.

Earnings per Share

Earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the year. The average number of shares outstanding during 2017 and 2016, adjusted for the effect of the stock dividend, was 3,914,197 and 3,912,612, respectively (See Note 15). The Company currently maintains a simple capital structure, which includes restricted stock with participation rights to dividends, thus there are no dilutive effects on earnings per share.

Accumulated Other Comprehensive Loss

The components of the accumulated other comprehensive loss, net of taxes, as of December 31, 2017 and 2016 are as follows (in thousands):

	Unrealized Loss on Securities	Pension Plan Liability	Deferred Compensation Liability	Accumulated Other Comprehensive Loss
Balance – December 31, 2017	$(1,062)	$(4,567)	$166	$(5,463)
Balance – December 31, 2016	$(525)	$(3,730)	$81	$(4,174)

Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes changes in unrealized gains and losses on securities available for sale arising during the period and reclassification adjustments for realized gains and losses on securities available for sale included in net income. The Company has unfunded noncontributory defined benefit Plans for directors and certain executive officers and other postretirement benefit Plans covering full-time employees. These Plans utilize assumptions and methods to calculate the fair value of Plan assets and recognizing the overfunded and underfunded status of the Plans on its consolidated balance sheet. Gains and losses, prior service costs and credits are recognized in other comprehensive income, net of tax, until they are amortized, or immediately upon curtailment.

Pension Plan

The Bank has a non-contributory defined-benefit pension plan covering substantially all employees meeting certain eligibility requirements which provides benefits upon reaching normal retirement age. Normal retirement age is 62 for employees hired prior to October 1, 2006 and 65 for employees hired subsequently. The Bank's funding policy is to contribute annually an amount sufficient to satisfy the minimum funding requirements of ERISA, but not greater than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only benefits attributed to service to-date, but also for benefits expected to be earned in the future.

The Bank follows ASC Topic 715, Compensation - Retirement Benefits, which requires an employer to recognize an asset or liability for the overfunded or underfunded status of its defined benefit plans. The overfunded or underfunded status is to be measured solely as the difference between the fair value of plan assets and the projected benefit obligation. In addition, any change in a plan's funded status must be recognized in comprehensive income in the year in which it occurs.

The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate life expectancy. The aggregate cost method is utilized for funding purposes.

Note 2. Correction of Error in Financial Statements

Subsequent to the issuance of the Company's Consolidated Financial Statements for the years ended December 31, 2016 and 2015, the Company corrected errors in its historical financial statements for the year ended December 31, 2016 related to the accounting for income taxes. During 2014, tax legislation was passed in the State of New York that the Company determined, upon enactment, should have resulted in a full valuation allowance on state deferred tax assets. Accordingly, the Company has restated the consolidated financial statements for the year ended December

31, 2016 to reflect the error corrections and establish a full valuation allowance at January 1, 2016 related to New York State deferred tax assets in existence at that time.

In addition to the restatement of the Company's consolidated financial statements, certain information within the following notes to the consolidated financial statements has been restated to reflect the corrections of errors discussed above as well as other related changes and/or to add disclosure language as appropriate:

Note 8. Income Taxes
Note 11. Regulatory Matters

Effects of the Restatement

The following tables summarize the effects of the restatement on certain key items of the previously reported financial statements (in thousands):

Financial Statement – Consolidated Statement of Condition

	As of December 31, 2016		
	As Previously Reported	Restated	Adjustment
Other assets	$ 12,513	$ 11,539	$ (974)
Total Assets	$ 910,688	$ 909,714	$ (974)
Liabilities and Stockholders' Equity			
Total Stockholders' Equity	$ 93,357	$ 92,383	$ (974)
Total Liabilities and Stockholders' Equity	$ 910,688	$ 909,714	$ (974)

Financial Statement – Consolidated Statement of Changes in Stockholders' Equity

	As of January 1, 2016		
	As Previously Reported	Restated	Adjustment
Undivided profits	$ 27,147	$ 26,173	$ (974)
Total Stockholders' Equity	$ 94,967	$ 93,993	$ (974)

	For the Year Ended December 31, 2016		
	As Previously Reported	Restated	Adjustment
Undivided profits	$ 27,565	$ 26,591	$ (974)
Total Stockholders' Equity	$ 93,357	$ 92,383	$ (974)

Financial Statement – Consolidated Statement of Cash Flows

	For the Year Ended December 31, 2016		
	As Previously Reported	Restated	Adjustment
Deferred income tax benefit	$ (1,370)	$ (1,294)	$ 76
Decrease in other assets	1,862	1,786	(76)
Net Cash Provided By Operating Activities	$ 9,807	$ 9,807	$ -

Note 3. Investment Securities
The amortized cost and fair value of investment securities at December 31, 2017 and 2016 were as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale December 31, 2017				
U.S. government agencies	**$ 93,345**	**$ 238**	**$ 578**	**$ 93,005**
Mortgage-backed securities	**141,721**	**192**	**1,701**	**140,212**
Obligations of states and political subdivisions	**64,067**	**623**	**209**	**64,481**
Total debt securities	**$ 299,133**	**$ 1,053**	**$ 2,488**	**$ 297,698**
Available-for-sale December 31, 2016				
U.S. government agencies	$ 89,413	$ 456	$ 909	$ 88,960
Mortgage-backed securities	117,098	272	1,550	115,820
Obligations of states and political subdivisions	73,642	1,211	350	74,503
Total debt securities	$ 280,153	$ 1,939	$ 2,809	$ 279,283

The following table shows gross unrealized losses on investment securities, segregated by category and length of time in continuous loss position, as of December 31, 2017and 2016:

	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale December 31, 2017						
U.S. government agencies	**$ 27,843**	**$ 127**	**$ 29,849**	**$ 451**	**$ 57,692**	**$ 578**
Mortgage-backed securities	**89,144**	**876**	**41,851**	**825**	**130,995**	**1,701**
Obligations of states and political subdivisions	**17,980**	**119**	**5,677**	**90**	**23,657**	**209**
Total debt securities	**$ 134,967**	**$ 1,122**	**$ 77,377**	**$ 1,366**	**$ 212,344**	**$ 2,488**
Available-for-sale December 31, 2016						
U.S. government agencies	$ 51,384	$ 752	$ 13,413	$ 158	$ 64,797	$ 910
Mortgage-backed securities	92,127	1,480	3,244	69	95,371	1,549
Obligations of states and political subdivisions	22,451	347	116	3	22,567	350
Total debt securities	$ 165,962	$ 2,579	$ 16,773	$ 230	$ 182,735	$ 2,809

Mortgage-backed securities are issued by FNMA, FHMC, and GNMA and consist of residential mortgages.

Obligations of states and political subdivisions consist of general obligations of municipalities in the state of New York.

There were 8 U.S. government agency securities with unrealized losses of less than 12 months at December 31, 2017 and 13 at December 31, 2016. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the securities. The securities in this category had unrealized losses of 0.5% and 1.4% of amortized cost at December 31, 2017, and 2016, respectively. There were 8 U.S. government agency securities with unrealized losses greater than 12 months at December 31, 2017 and 3 at December 31, 2016. The securities in this category had unrealized losses of 1.5% and 1.2% of amortized cost at December 31, 2017 and 2016, respectively. These losses relate principally to changes in interest rates subsequent to the acquisition of the securities.

The total number of mortgage-backed securities with unrealized losses of less than 12 months was 24 and 27 at December 31, 2017 and 2016, respectively. The securities in this category had unrealized losses of 1.0% and 1.6% of amortized cost at December 31, 2017 and 2016, respectively. There were 13 mortgage-backed securities with an unrealized loss greater than 12 months at December 31, 2017 and 2 at December 31, 2016. The securities in this category had unrealized losses of 1.9% and 2.1% of amortized cost at December 31, 2017 and 2016, respectively. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the securities.

There were 66 obligations of states and political subdivisions with an unrealized loss of less than 12 months at December 31, 2017 and 85 at December 31, 2016. The securities in this category had unrealized losses of 0.7% and 1.5% of amortized cost at December 31, 2017 and 2016, respectively. There were 19 obligations of states and political subdivisions with an unrealized loss greater than 12 months at December 31, 2017 and 1 at December 31, 2016. The securities in this category had an unrealized loss of 1.6% and 2.5% of amortized cost at December 31, 2017 and 2016, respectively. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of specific securities.

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At December 31, 2017, management had not identified any securities with an unrealized loss that it intended to sell, or would be required to sell. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the securities, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) management does not expect to recover the entire amortized cost basis. No securities were deemed to be other-than-temporarily impaired.

The amortized cost and fair value of debt securities as of December 31, 2017 by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Available-for-sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 5,305	$ 5,322
Due after one through five years	44,859	44,843
Due after five through ten years	26,912	27,203
Due after ten years	80,336	80,118
	157,412	157,486
Mortgage-backed securities	141,721	140,212
Total debt securities	$ 299,133	$ 297,698

Debt securities with a carrying value of $141,599,000 and $142,305,000 were pledged to secure public deposits at December 31, 2017 and 2016, respectively. Proceeds from sales of investments in debt securities during 2017 and 2016 were $46,665,000 and $15,794,000, respectively. Gross gains in those years were $302,000 and $309,000, respectively. Gross losses were $0 in 2017 and 2016 respectively.

Note 4. Loans

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful and loss within the Company's internal risk rating system as of December 31, 2017 and 2016:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2017						
Commercial and industrial	**$ 123,236**	**$ 818**	**$ 3,820**	**$ -**	**$ -**	**$ 127,874**
Commercial real estate	**337,920**	**6,302**	**13,512**	**-**	**-**	**357,734**
Commercial real estate - construction	**18,644**	**-**	**268**	**-**	**-**	**18,912**
Residential real estate	**51,002**	**-**	**174**	**-**	**-**	**51,176**
Home equity	**9,020**	**-**	**172**	**-**	**-**	**9,192**
Consumer	**513**	**148**	**-**	**-**	**-**	**661**
Total	**$ 540,335**	**$ 7,268**	**$ 17,946**	**$ -**	**$ -**	**$ 565,549**

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2016						
Commercial and industrial	$ 96,863	$ 4,134	$ 1,706	$ -	$ -	$ 102,703
Commercial real estate	341,759	4,333	12,906	-	-	358,998
Commercial real estate - construction	24,761	-	274	-	-	25,035
Residential real estate	44,309	-	521	-	-	44,830
Home equity	9,667	-	131	-	-	9,798
Consumer	502	-	-	-	-	502
Total	$ 517,861	$ 8,467	$ 15,538	$ -	$ -	$ 541,866

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2017 and 2016:

(in thousands)	Impaired loans with Allowance: Recorded Investment	Impaired loans with Allowance: Unpaid Principal Balance	Impaired loans with Allowance: Related Allowance	Impaired loans with No Allowance: Recorded Investment	Impaired loans with No Allowance: Unpaid Principal Balance
December 31, 2017					
Commercial and industrial	**$ 338**	**$ 338**	**$ 42**	**$ 108**	**$ 108**
Commercial real estate	**6,970**	**6,970**	**606**	**9,331**	**9,331**
Commercial construction	**268**	**268**	**70**	**-**	**-**
Residential real estate	**254**	**254**	**69**	**67**	**67**
Home equity	**-**	**-**	**-**	**172**	**172**
Consumer	**148**	**148**	**4**	**-**	**-**
Total	**$ 7,978**	**$ 7,978**	**$ 791**	**$ 9,678**	**$ 9,678**
December 31, 2016					
Commercial and industrial	$ 1,194	$ 1,194	$ 490	$ 95	$ 95
Commercial real estate	9,314	9,314	607	7,808	7,807
Commercial construction	275	275	55	-	-
Residential real estate	443	443	42	77	77
Home equity	57	57	8	74	74
Total	$ 11,283	$ 11,283	$ 1,202	$ 8,054	$ 8,053

The following table summarizes information relative to average impaired loans and related interest income by loan portfolio class for the years ended December 31, 2017 and 2016:

(in thousands)	Impaired loans with allowance: Average Recorded Investment	Impaired loans with allowance: Interest Income	Impaired loans with no allowance: Average Recorded Investment	Impaired loans with no allowance: Interest Income
December 31, 2017				
Commercial and industrial	**$ 766**	**$ 6**	**$ 102**	**$ 10**
Commercial real estate	**8,269**	**380**	**8,570**	**610**
Commercial construction	**272**	**9**	**-**	**-**
Residential real estate	**138**	**8**	**34**	**3**
Home equity	**222**	**-**	**125**	**-**
Consumer	**103**	**7**	**37**	**-**
Total	**$ 9,768**	**$ 410**	**$ 8,829**	**$ 623**
December 31, 2016				
Commercial and industrial	$ 1,194	$ 43	$ 95	$ 3
Commercial real estate	9,314	495	7,807	1,298
Commercial construction	275	9	-	-
Residential real estate	443	-	77	6
Home equity	57	1	74	3
Total	$ 11,283	$ 548	$ 8,053	$ 1,310

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2017 and 2016:

(in thousands)	2017	2016
Commercial and industrial	$ 40	$ 1,073
Commercial real estate	1,733	7,650
Residential real estate	175	521
Home equity	172	131
Total	$ 2,120	$ 9,375

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2017 and 2016:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
December 31, 2017							
Commercial and industrial	$ 167	$ 200	$ 277	$ 644	$ 127,230	$ 127,874	$ 237
Commercial real estate	-	-	2,930	$ 2,930	354,804	357,734	1,196
Commercial real estate-construction	-	442	-	$ 442	18,470	18,912	-
Residential real estate	156	26	186	$ 368	50,808	51,176	12
Home equity	137	-	172	$ 309	8,883	9,192	-
Consumer	1	-	-	$ 1	660	661	-
Total	$ 461	$ 668	$ 3,565	$ 4,694	$ 560,855	$ 565,549	$ 1,445
December 31, 2016							
Commercial and industrial	$ -	$ -	$ 1,073	$ 1,073	$ 101,630	$ 102,703	$ -
Commercial real estate	-	-	2,005	2,005	356,993	358,998	-
Commercial real estate-construction	-	-	-	-	25,035	25,035	-
Residential real estate	77	-	1,101	1,178	43,652	44,830	658
Home equity	168	74	117	359	9,439	9,798	-
Consumer	1	-	-	1	501	502	-
Total	$ 246	$ 74	$ 4,296	$ 4,616	$ 537,250	$ 541,866	$ 658

The following tables summarize the allowance for loan losses and recorded investment in loans receivables:

(in thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
As of December 31, 2017								
Allowance for loan losses								
Beginning balance - January 1, 2017	$ 2,115	$ 4,843	$ 512	$ 224	$ 44	$ 1	$ -	$ 7,739
Charge-offs	(986)	(36)	-	(129)	(9)	(20)	-	(1,180)
Recoveries	16	155	-	11	1	4	-	187
Provisions (benefits)	1,761	(321)	26	74	(9)	32	217	1,780
Ending balance	$ 2,906	$ 4,641	$ 538	$ 180	$ 27	$ 17	$ 217	$ 8,526
Ending balance: individually evaluated for impairment	$ 42	$ 606	$ 70	$ 69	$ -	$ 4	$ -	$ 791
Ending balance: collectively evaluated for impairment	$ 2,864	$ 4,035	$ 468	$ 111	$ 27	$ 13	$ 217	$ 7,735
Loans receivables								
Ending balance	$ 127,874	$ 357,734	$ 18,912	$ 51,176	$ 9,192	$ 661	$ -	$ 565,549
Ending balance: individually evaluated for impairment	$ 446	$ 16,300	$ 268	$ 322	$ 172	$ 148	$ -	$ 17,656
Ending balance: collectively evaluated for impairment	$ 127,428	$ 341,434	$ 18,644	$ 50,854	$ 9,020	$ 513	$ -	$ 547,893

(in thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
As of December 31, 2016								
Allowance for loan losses								
Beginning balance - January 1, 2016	$ 2,798	$ 3,466	$ 600	$ 206	$ 22	$ 14	$ 47	$ 7,153
Charge-offs	(1,251)	(146)	-	(82)	(21)	(39)	-	(1,539)
Recoveries	239	70	4	-	13	6	-	332
Provisions (benefits)	329	1,453	(92)	100	30	20	(47)	1,793
Ending balance	$ 2,115	$ 4,843	$ 512	$ 224	$ 44	$ 1	$ -	$ 7,739
Ending balance: individually evaluated for impairment	$ 490	$ 607	$ 55	$ 42	$ 8	$ -	$ -	$ 1,202
Ending balance: collectively evaluated for impairment	$ 1,625	$ 4,236	$ 457	$ 182	$ 36	$ 1	$ -	$ 6,537
Loans receivables								
Ending balance	$ 102,703	$ 358,998	$ 25,035	$ 44,830	$ 9,798	$ 502	$ -	$ 541,866
Ending balance: individually evaluated for impairment	$ 1,289	$ 17,121	$ 275	$ 521	$ 131	$ -	$ -	$ 19,337
Ending balance: collectively evaluated for impairment	$ 101,414	$ 341,877	$ 24,760	$ 44,309	$ 9,667	$ 502	$ -	$ 522,529

The recorded investments in troubled debt restructured loans at December 31, 2017 and 2016 are as follows (in thousands):

	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Recorded Investment
December 31, 2017			
Commercial and industrial	**$ 819**	**$ 819**	**$ 446**
Commercial real estate	**18,126**	**18,126**	**16,300**
Commercial construction	**293**	**293**	**268**
Residential real estate	**153**	**153**	**147**
Consumer	**155**	**155**	**148**
	$ 19,546	**$ 19,546**	**$ 17,309**
December 31, 2016			
Commercial and industrial	$ 580	$ 580	$ 256
Commercial real estate	$ 18,419	$ 18,419	$ 17,210
Home Equity	75	75	75
	$ 19,074	$ 19,074	$ 17,541

Troubled debt restructured loans at December 31, 2017 totaled $17,309,000. There are two commercial and industrial, eleven commercial real estate, one commercial construction, one residential mortgage and one consumer troubled debt restructured loans totaling $15,536,000, which are accruing and in compliance with the terms of the modification. There is one commercial and industrial loan and four commercial real estate troubled debt restricted loans totaling $1,773,000, which are non-accruing. There are forbearance agreements on all loans currently classified as troubled debt restructures. The terms of the forbearance agreements resulted in below-market interest rates. In 2017, three loans were modified to defer principal and interest payments, extend terms and provide payment relief.

Troubled debt restructured loans at December 31, 2016 totaled $17,541,000. There are two commercial and industrial and ten commercial real estate troubled debt restructured loans totaling $9,962,000, which are accruing and in compliance with the terms of the modification. There is one commercial and industrial, six commercial real estate and one home equity troubled debt restricted loans totaling $7,579,000, which are non-accruing. There are forbearance agreements on all loans currently classified as troubled debt restructures. The terms of the forbearance agreements resulted in below-market interest rates. In 2016, two loans were modified to defer principal and interest payments, extend terms and provide payment relief.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during the years ended December 31, 2017 and 2016 (in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Recorded Investment
2017				
Commercial and industrial	**1**	**$ 310**	**$ 310**	**$ 298**
Residential real estate	**1**	**153**	**153**	**147**
Consumer	**1**	**155**	**155**	**148**
	3	**$ 618**	**$ 618**	**$ 593**
2016				
Commercial real estate	2	$ 6,489	$ 6,489	$ 6,431
	2	$ 6,489	$ 6,489	$ 6,431

There were no loans that defaulted within twelve months of restructure during 2017 or 2016.

As of December 31, 2017, loans in the process of foreclosure were $1,947,000, of which $172,000 were secured by residential real estate.

Loans to certain directors and principal officers of the Company, including their immediate families and companies in which they are principal owners (more than 10%), amounted to $459,000 and $385,000 at December 31, 2017 and December 31, 2016. Activity for these loans for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Balance, beginning of year	**$ 385**	$ 520
Additions	**212**	-
Repayments	**(138)**	(135)
Balance, end of year	**$ 459**	$ 385

Note 5. Premises and Equipment
Premises and equipment at December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Land	**$ 3,152**	$ 3,152
Buildings and improvements	**10,647**	10,528
Furniture and equipment	**5,662**	5,080
Leasehold improvements	**4,799**	5,151
	24,260	23,911
Accumulated depreciation and amortization	**(10,574)**	(9,619)
Premises and equipment, net	**$ 13,686**	$ 14,292

Depreciation and amortization included in operating expenses amounted to $1,179,000 in 2017 and $720,000 in 2016.

Certain premises are leased under agreements which are renewable for varying periods and are subject to minimum lease payments as well as additional rent. Rent expense for all operating leases was $700,000 in 2017 and $587,000 in 2016.

As of December 31, 2017 future minimum lease payments are as follows (in thousands):

Years Ending December 31,		
2018	$	**555**
2019		**442**
2020		**386**
2021		**390**
2022		**374**
Thereafter		**1,832**
	$	**3,979**

As described in Note 14. Branch Sale, the Company transferred leasehold improvements and equipment in the amount of $933,000 from premises and equipment to premises and equipment held for sale.

Note 6. Deposits
A summarized analysis of the Bank's deposits at December 31, 2017 and 2016 follows (in thousands):

		2017		2016
Non-interest bearing demand accounts	**$**	**201,936**	$	160,886
Interest-bearing demand accounts		**124,833**		101,561
Money market accounts		**271,702**		259,279
Savings accounts		**101,602**		76,441
Certificates of Deposit		**108,717**		113,863
Total deposits	**$**	**808,790**	$	712,030

Overdrawn accounts, transferred to loans, amounted to $180,000 and $113,000 at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Bank had $32,199,000 and $31,753,000 respectively, of certificates of deposit of $250,000 or more.

Scheduled maturities of time certificates of deposit at December 31, 2017, were as follows (in thousands):

Years Ending December 31,		
2018	$	5,558
2019		87,188
2020		12,451
2021		3,520
2022		-
	$	108,717

Deposits of executive officers, directors and principal officers of the Company, including their immediate families and companies, in which they are principal owners (more than 10%), amounted to $7,000,000 and $7,804,000 at December 31, 2017 and December 31, 2016, respectively.

As described in Note 14. Branch Sale, the Company transferred deposits in the amount of $23,755,000 from deposits to deposits held for sale.

A summarized analysis of deposits held for sale at December 31, 2017 follows (in thousands):

		2017
Non-interest bearing demand accounts	$	1,584
Interest-bearing demand accounts		2,931
Money market accounts		18,430
Savings accounts		115
Certificates of Deposit		695
Total deposits	$	23,755

Note 7. Borrowings

A summary of short-term borrowings as of December 31, 2017 and 2016 is as follows (in thousands):

	2017		2016	
	Amount	**Rate**	Amount	Rate
Federal Home Loan Bank (FHLB) Overnight line of credit	**$ -**	**0.00%**	$ 10,000	0.74%
FHLB fixed-rate advances maturing:				
2017	**-**	**0.00%**	15,000	1.04%
Total short-term borrowings	**$ -**	**0.00%**	$ 25,000	0.92%

A summary of long-term debt as of December 31, 2017 and 2016 is as follows (in thousands):

	2017		2016	
FHLB fixed-rate advances maturing:	**Amount**	**Rate**	Amount	Rate
2017	**$ -**	**0.00%**	$ 30,000	4.03%
2018	**10,000**	**1.26%**	15,000	1.25%
2019	**10,000**	**1.43%**	15,000	1.40%
Note payable	**3,113**	**6.00%**	3,165	6.00%
Total long-term debt	**$ 23,113**	**1.97%**	$ 63,165	2.84%

Short-term borrowings are primarily in the form of federal funds purchased, an overnight line of credit, or FHLB fixed-rate borrowings that mature in less than one year. During 2017 and 2016 the average short-term borrowings balance was $10,233,000 and $6,734,000, respectively, and the average interest rate was 1.07% and 0.88%, respectively. As of December 31, 2017, all long-term advances from the FHLB are in the form of fixed-rate term borrowings.

The note payable is payable in monthly installments of $20,000 of principal and interest, is unsecured, and matures with a balloon payment in November 2019.

The Bank maintains a line of credit program with the FHLB with a maximum borrowing capacity of $68,731,000 as of December 31, 2017. To secure this line of credit, as well as other FHLB borrowings, the Bank is required to own stock in the FHLB and to pledge certain qualifying collateral, primarily in the form of securities and residential mortgages, under a security agreement and master repurchase agreement. The Bank owned $1,515,000 and $4,465,000 of FHLB stock as of December 31, 2017 and 2016, respectively. Loans with a carrying value of $30,880,000 and $29,798,000 and securities with a carrying value of $37,852,000 and $60,002,000 were pledged to secure FHLB advances at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Bank may also borrow up to $5,000,000 under a line of credit with another correspondent bank on an unsecured basis. There were no advances under this line of credit at December 31, 2017 or 2016.

Note 8. Income Taxes (As Restated)

The provision for income taxes was as follows for the years ended December 31, 2017 and 2016 (in thousands):

	2017	2016
		(As Restated - Note 2)
Current		
Federal	**$ 806**	$ 1,892
State	**130**	123
Total	**936**	2,015
Deferred expense (benefit)	**3,216**	**(1,294)**
Total provision for income taxes	**$ 4,152**	**$ 721**

The following is a reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate of 34% and 34% to income before income taxes (in thousands), for the years ended December 31, 2017 and 2016, respectively:

	2017	2016
		(As Restated - Note 2)
Tax expense at statutory rate	$ 2,211	$ 1,482
(Decrease) increase in taxes resulting from:		
Net earnings on bank-owned life insurance	(240)	(246)
Tax-exempt municipal bond income, net of disallowed interest expense	(647)	(758)
State income tax, net of federal tax benefit	(169)	(30)
Valuation allowance	475	287
Other	118	(14)
Impact of Tax Cuts and Jobs Act (“TCJA”)	2,404	-
Total provision for income tax	$ 4,152	$ 721

Components of deferred tax assets and liabilities at December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
		(As Restated - Note 2)
Deferred tax assets:		
Allowance for loan losses	$ 2,218	$ 2,806
Reserve for unfunded commitments and other real estate owned	170	227
Deferred loan fees	440	576
Deferred compensation	811	2,669
Contribution carryover	21	35
Alternative minimum tax credit	-	723
Available for sale securities	373	333
Defined benefit plan	1,530	2,324
State NOL, carryforward	892	462
Non-accrual interest	406	-
Other	-	58
	6,861	10,213
Deferred tax liabilities:		
Intangible amortization	(488)	(553)
Accumulated depreciation	(67)	(240)
Accretion	(22)	(81)
Other	(24)	-
	(601)	(874)
Net deferred tax asset before valuation allowance	6,260	9,339
Valuation allowance	1,954	1,356
	$ 4,306	$ 7,983

The Company has recorded a federal deferred tax asset that based upon an analysis of the evidence, it expects such federal deferred tax asset to be recoverable. The federal deferred tax asset is included in other assets on the balance sheet. However, due to the change in New York State tax legislation passed in March 2014, management has determined that a full valuation allowance, totaling $1,954,000, against the New York State portion of the deferred tax asset, which includes state net operating losses, at December 31, 2017 and 2016 is appropriate. At December 31, 2017, the Company has net operating loss carryforwards available for state income tax purposes of approximately $17.8 million; of which $4.8 million expires in 2025, $6.2 million expires in 2026, and $6.8 million expires in 2027.

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”) was enacted, which among other things, reduced the federal income tax rate for corporations from 35% to 21% effective January 1, 2018. Accounting guidance requires that the effect of income tax law changes on deferred taxes should be recognized as a component of income tax expense related to continuing operations, but also to items initially recognized in other comprehensive income. As a result of the reduction in the U. S. federal statutory income tax rate, the Company recognized an additional income tax expense of $2,404,000 for the year ended December 31, 2017. The Company has reclassified $117,000 related to the alternative minimum tax credit to a tax receivable account based on the passage of TCJA. The Company has completed its accounting for the effects of the TCJA and has made reasonable estimates of the effect of the change in federal statutory tax rate and remeasurement of deferred tax assets based on the rate at which they are expected to reverse in the future.

In February, 2018 the Financial Accounting Standards Board issued Accounting Standards Update ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Company elected to adopt this standard effective December 31, 2017 and reclassified $951,000 from accumulated other comprehensive loss to undivided profits.

The Company did not have any uncertain tax positions at December 31, 2017 and 2016. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

Note 9. Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company'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 Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period and have not been reevaluated or updated for purposes of these consolidated 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 period end.

Fair value measurement and disclosure guidance 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. Additional guidance is provided on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes direction on identifying circumstances when a transaction may not be considered orderly.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with fair value measurement and disclosure guidance.

This guidance further clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value measurement and disclosure guidance 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 are as follows:

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2016 and 2015 are as follows (in thousands):

	Fair Value Measurements at December 31, 2017			
	Total	Level 1	Level 2	Level 3
U.S. government agencies	$ 93,005	$ -	$ 93,005	$ -
Mortgage-backed securities	140,212	-	140,212	-
Obligations of states and political subdivisions	64,481	-	64,481	-
Total securities available for sale	$ 297,698	$ -	$ 297,698	$ -

	Fair Value Measurements at December 31, 2016			
	Total	Level 1	Level 2	Level 3
U.S. government agencies	$ 88,960	$ -	$ 88,960	$ -
Mortgage-backed securities	115,820	-	115,820	-
Obligations of states and political subdivisions	74,503	-	74,503	-
Total securities available for sale	$ 279,283	$ -	$ 279,283	$ -

For financial assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2017 and 2016 are as follows (in thousands):

	Fair Value Measurements at December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans	**$ 7,187**	**$ -**	**$ -**	**$ 7,187**

	Fair Value Measurements at December 31, 2016			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 10,081	$ -	$ -	$ 10,081

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

December 31, 2017	**Fair Value Estimate**	**Valuation Technique**	**Unobservable Input**	**Range (Average)**
Impaired loans	**$ 7,187**	**Appraisal of collateral (1)**	**Appraisal and liquidation adjustments (2)**	**5-20% (10%)**

December 31, 2016	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Average)
Impaired loans	$ 10,081	Appraisal of collateral (1)		5-20% **(13%)**

(1) Fair value is generally determined through independent appraisals of the underlying collateral that generally include various level 3 inputs which are not identifiable

(2) Appraisals may be adjusted downward 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 Company since a fair value calculation is only provided for a limited portion of the Company'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 Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments and pension plan assets at December 31, 2017 and 2016:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment Securities Available for Sale and Pension Plan Assets

The fair value of securities available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the security's relationship to other benchmark quoted prices. The Company uses an independent service provider to provide matrix pricing. The Company did not have any Level 3 investment securities or pension plan assets at December 31, 2017 and 2016.

Loans Held for Sale

Loans held for sale, including deferred fees and costs, are reported at the lower of cost or fair value as determined by the expected bid price from the purchaser. Subsequent declines in fair value, if any, are recorded as a valuation allowance and charged against earnings.

Loans (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayment, and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Loans for which the Company has measured impairment are 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 consists of the loan balances less the valuation allowance.

Restricted Investment in Bank Stocks (Carried at Cost)

The carrying amount of restricted investment in bank stocks approximates fair value and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposits (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (e.g., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Deposits Held For Sale

Deposits held for sale are reported at the lower of cost or fair value as determined by the expected bid price from the purchaser. Subsequent declines in fair value, if any, are recorded as a valuation allowance and charged against earnings.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Debt (Carried at Cost)

Fair values of Federal Home Loan Bank (FHLB) advances and other notes payable are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Credit-Related Instruments

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2017 (in thousands):

	December 31, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 30,220	$ 30,220	$ 30,220	$ -	$ -
Investment securities available for sale	297,698	297,698	-	297,698	-
Loans held for sale	11,614	11,614	-	-	11,164
Net loans	565,549	561,436	-	-	561,436
Accrued interest receivable	2,793	2,793	-	2,793	-
Restricted investment in bank stocks	1,817	1,817	-	1,817	-
Financial liabilities:					
Deposits	808,790	760,327	-	760,327	-
Deposits held for sale	23,755	23,755		23,755	
Long-term debt	23,113	23,179	-	23,179	-
Accrued interest payable	134	134	-	134	-
Off-balance sheet financial instruments	-	-	-	-	-

The following presents the carrying amount and fair value of the Company's financial instruments at December 31, 2016 (in thousands):

	December 31, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 27,338	$ 27,338	$ 27,338	$ -	$ -
Investment securities available for sale	279,283	279,283	-	279,283	-
Net loans	534,127	532,449	-	-	532,449
Accrued interest receivable	2,580	2,580	-	2,580	-
Restricted investment in bank stocks	4,774	4,774	-	4,774	-
Financial liabilities:					
Deposits	712,030	713,728	-	713,728	-
Long-term debt	88,165	88,452	-	88,452	-
Accrued interest payable	335	335	-	335	-
Off-balance sheet financial instruments	-	-	-	-	-

Note 10. Employee Benefit Plans

The following is a summary of changes in the projected benefit obligations and plan assets for the pension plan as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Change in projected benefit obligation:		
Beginning of year	**$ 24,772**	$ 23,848
Service cost	**158**	153
Interest cost	**1,058**	1,052
Benefits paid	**(1,326)**	(1,240)
Actuarial loss	**1,785**	959
End of year	**$ 26,447**	$ 24,772
Change in fair value of assets:		
Beginning of year	**$ 18,539**	$ 17,774
Contributions	**5,083**	593
Actual return on plan assets	**2,778**	1,418
Benefits paid and expenses	**(1,325)**	(1,246)
End of year	**$ 25,075**	$ 18,539

The funded status of the pension plan recognized in the Company's balance sheet was as follows (in thousands):

	2017	2016
Funded status at year end, included in other liabilities	**$ (1,372)**	$ (6,233)

Amounts recognized in accumulated other comprehensive loss (in thousands):

	2017	2016
Total net actuarial loss	**$ (6,321)**	$ (6,283)
Transition asset	**219**	267
Total included in accumulated other comprehensive loss (pretax)	**$ (6,102)**	$ (6,016)

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic pension cost during the next fiscal year are as follows (in thousands):

Amortization of net loss	**$ (134)**
Amortization of transition asset	**48**
	$ (86)

The components of the net periodic pension cost were as follows (in thousands):

	2017	2016
Service cost	$ 158	$ 153
Interest cost	1,058	1,052
Expected return on plan assets	(1,154)	(1,108)
Amortization of transition cost	(48)	(48)
Amortization of net loss	123	296
Net periodic benefit cost	$ 137	$ 345
Net loss	$ 161	$ 655
Amortization of transition asset	48	48
Amortization of net loss	(123)	(296)
Total amount recognized in other comprehensive loss	$ 86	407
Total recognized in net periodic benefit cost and other comprehensive loss	$ 223	$ 752

Assumptions used to determine the net periodic pension cost were as follows:

	2017	2016
Discount rate	4.41%	4.55%
Expected long-term rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	0.00%	0.00%

Assumptions used to determine the benefit obligations at December 31 were as follows:

	2017	2016
Discount rate	3.94%	4.41%
Rate of compensation increase	0.00%	0.00%

Pension benefits expected to be paid in each year from 2018 to 2022 are $1,321,000, $1,325,000, $1,324,000, $1,325,000, and $1,395,000, respectively. The aggregate pension benefits expected to be paid in the five years from 2023 to 2027 are $7,399,000. The accumulated benefit obligation for the pension plan was $26,447,000 as of December 31, 2017 and $24,772,000 as of December 31, 2016.

The investment strategy and investment policy for the retirement plan is to target the plan assets to contain 0-20% cash equivalents, 40-60% equity securities and 40-60% fixed income investments.

The pension plan weighted-average asset allocation at December 31, 2017 and 2016, by asset category were as follows:

	2017	2016
Asset category:		
Cash equivalents	6.40%	6.10%
Equity securities	50.20%	47.90%
Fixed income	40.20%	42.60%
Other financial instruments	3.20%	3.40%
Total	100.00%	100.00%

Fair value measurements at December 31, 2017 are as follows:
(in thousands)

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Including foreign currencies	$ 247	$ -	$ -	$ 247
Short term investment funds	-	68	-	68
	247	68	-	315
Equities:				
Common Stock	4,940	-	-	4,940
Depository Receipts	125	-	-	125
Exchange Traded Funds	109			109
Commingled pension trust funds	-	7,769	-	7,769
	5,174	7,769	-	12,943
Fixed income securities:				
Collateralized mortgage obligations	-	199	-	199
Commingled pension trust funds	-	6,158	-	6,158
Corporate Bonds	-	1,043	-	1,043
Federal National Mortgage Assoc	-	57	-	57
Government Securities	-	3,441	-	3,441
Mortgage Backed Securities	-	21	-	21
	-	10,919	-	10,919
Other investments				
Commingled pension trust funds-realty	-	-	898	898
	-	-	898	898
Total investments	$ 5,421	$ 18,756	$ 898	$ 25,075

Fair value measurements at December 31, 2016 are as follows:
(in thousands)

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Foreign currencies	$ 29	$ -	$ -	$ 29
Short term investment funds	-	92	-	92
	29	92	-	121
Equities:				
Common Stock	3,956	-	-	3,956
Depository Receipts	116	-	-	116
Commingled pension trust funds	-	4,647	-	4,647
	4,072	4,647	-	8,719
Fixed income securities:				
Collateralized mortgage obligations	-	188	-	188
Commingled pension trust funds	-	4,792	-	4,792
Corporate Bonds	-	850	-	850
Federal National Mortgage Assoc	-	172	-	172
Government Securities	-	2,904	-	2,904
Mortgage Backed Securities	-	10	-	10
	-	8,916	-	8,916
Other Investments				
Commingled pension trust funds-realty	-	-	783	783
	-	-	783	783
Total investments	$ 4,101	$ 13,655	$ 783	$ 18,539

The pension plan was closed to new participants and benefit accruals were frozen as of December 31, 2015.

The Company contributed $5,083,000 to the pension plan in 2017. The Company does not expect to make any contributions in 2018.

Supplemental Executive Retirement Plan

The Bank maintains a Supplemental Executive Retirement Plan for two former Chief Executive Officers to restore pension benefits that are limited due to Internal Revenue Service regulations. The benefits accrued under this plan, which are included in accrued expenses and other liabilities in the Consolidated Statements of Condition, were $772,000 and $792,000 as of December 31, 2017 and 2016. The Bank recorded expense of $59,000 and $59,000 in 2017 and 2016 in relation to this plan.

Supplemental benefits expected to be paid in each year from 2018 to 2022 are $79,000, $79,000, $79,000, $79,000, $79,000, respectively. The aggregate supplemental benefits expected to be paid in the five years from 2023 to 2027 are $396,000.

Deferred Directors' Fee Plan

The Bank and the Parent Company maintain unfunded Deferred Director's Fee Plans within which each director may defer the receipt of meeting fees. The benefits accrued under these plans totaled $4,572,000 and $4,001,000 at December 31, 2017 and 2016. The Bank and the Parent Company recorded an expense of $625,000 and $515,000 in 2017 and 2016 in relation to these plans.

Deferred Compensation Plan

The Bank and HVIA maintain unfunded Deferred Compensation Plans for certain officers. The benefits accrued under these plans totaled $836,000 and $1,001,000 at December 31, 2017 and 2016. The Bank and HVIA recorded an expense of $59,000 and $69,000 in 2017 and 2016, respectively.

Deferred Incentive Retirement Plan

The Bank maintains an unfunded Deferred Incentive Retirement Plan for certain executive officers. The benefits accrued under this plan totaled $890,000 and $957,000 at December 31, 2017 and 2016. The Bank recorded an expense of $46,000 and $48,000 in 2017 and 2016, respectively.

401(k) Savings Plan

The Company has a 401(k) Plan (Plan) to provide retirement and incidental benefits for its employees. Employees may contribute up to 100% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Effective for Plan Years beginning January 1, 2016, the Company makes a safe harbor nonelective contribution equal to 3% of annual compensation for each eligible employee whether or not the employee elects to defer compensation to the plan. All safe harbor nonelective contributions vest immediately. In addition, effective for Plan Years beginning January, 2016, for those employees hired before April 1, 2016, the Plan provides for discretionary contributions according to the following schedule:

Percentage of Compensation	Participant Age Range
1.0%	Under age 35
2.0%	35 years of age, but less than 45
5.0%	45 years of age, but less than age 55
8.5%	55 years of age or older

Employees are eligible for the discretionary contribution after completing one year of service. All discretionary contributions vest immediately.

Discretionary contributions were $528,000 and $443,000 for 2017 and 2016, respectively.

Restricted Stock Grants

The Company has a time based restricted stock plan. For the years ended December 31, 2017 and 2016 the Company's recognized stock-based compensation costs of $191,000, and $150,000, respectively. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. There were 4,354 and 4,462 restricted stock units granted for the years ended December 31, 2017 and 2016, respectively. The grants generally vest at the rate of 33% per year with full vesting on the third anniversary date of the grant. Unamortized expense at December 31, 2017 was $162,000.

A summary of the status of the Company's non-vested restricted stock awards as of December 31, 2017, and changes during the year ended December 31, 2017 are presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	6,562	$ 45.78
Granted	4,354	$ 46.37
Vested	(1,539)	$ 44.84
Forfeited	(900)	$ 45.87
Outstanding shares before stock dividend	8,477	$ 46.24
Additional shares issued - stock dividend	8,477	
Non-vested at December 31, 2017	16,954	$ 23.12

Note 11. Regulatory Matters (As Restated)

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. 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 Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. In July 2013, the federal banking agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on banking Supervision, commonly referred to as Basel Ill, that (i) introduced a new capital ratio pursuant to the prompt corrective action provisions, the common equity tier 1 capital to risk weighted assets ratio, (ii) increased the adequately capitalized and well capitalized thresholds for the Tier 1 risk based capital ratios to 6% and 8%, respectively, (iii) changed the treatment of certain capital components for determining Tier 1 and Tier 2 capital, and (iv) changed the risk weighting of certain assets and off balance sheet items in determining risk weighted assets. The new rules, which were effective January 1, 2015, also require that banks maintain a ··capital conservation buffer"' of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. 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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth below) of Tier 1 capital to average assets and of Tier 1 and total capital (as defined in the regulations) to risk weighted assets. Management believes, as of December 31, 2017, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, the most recent notification from the regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual and required capital amounts and ratios were as follows:

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company								
As of December 31, 2017								
Common equity tier 1 capital ratio	**$ 88,592**	**14.36%**	**$ 27,770**	**≥4.5%**	**$ 35,484**	**≥5.75%**	**N/A**	**N/A**
Tier 1 capital ratio	**88,592**	**14.36%**	**37,026**	**≥6.0%**	**44,864**	**≥7.25%**	**N/A**	**N/A**
Total capital ratio	**96,215**	**15.59%**	**49,368**	**≥8.0%**	**57,082**	**≥9.25%**	**N/A**	**N/A**
Tier 1 leverage ratio	**88,592**	**9.05%**	**39,166**	**≥4.0%**	**N/A**	**N/A**	**N/A**	**N/A**
As of December 31, 2016								
As Restated - Note 2								
Common equity tier 1 capital ratio	$ 88,092	15.16%	$ 27,770	≥4.5%	$ 31,627	≥5.125%	N/A	N/A
Tier 1 capital ratio	88,092	15.16%	37,026	≥6.0%	40,883	≥6.625%	N/A	N/A
Total capital ratio	95,253	16.39%	49,368	≥8.0%	53,225	≥8.625%	N/A	N/A
Tier 1 leverage ratio	88,092	9.58%	39,166	≥4.0%	N/A	N/A	N/A	N/A
Bank								
As of December 31, 2017								
Common equity tier 1 capital ratio	**$ 90,176**	**14.83%**	**$ 27,371**	**≥4.5%**	**$ 34,975**	**≥5.75%**	**$ 39,537**	**≥6.5%**
Tier 1 capital ratio	**90,176**	**14.83%**	**36,495**	**≥6.0%**	**44,220**	**≥7.25%**	**48,660**	**≥8.0%**
Total capital ratio	**97,799**	**16.08%**	**48,660**	**≥8.0%**	**56,263**	**≥9.25%**	**60,825**	**≥10.0%**
Tier 1 leverage ratio	**90,176**	**9.29%**	**38,812**	**≥4.0%**	**N/A**	**N/A**	**48,515**	**≥5.0%**
As of December 31, 2016								
As Restated - Note 2								
Common equity tier 1 capital ratio	$ 89,686	15.69%	$ 25,726	≥4.5%	$ 29,299	≥5.125%	$ 37,160	≥6.5%
Tier 1 capital ratio	89,686	15.69%	34,301	≥6.0%	37,874	≥6.625%	45,735	≥8.0%
Total capital ratio	96,847	16.94%	45,735	≥8.0%	49,308	≥8.625%	57,169	≥10.0%
Tier 1 leverage ratio	89,686	9.85%	36,426	≥4.0%	N/A	N/A	45,532	≥5.0%

Note 12. 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 need of its customers. These financial instruments consist primarily of commitments to extend credit (typically mortgages and commercial loans) and, to a lesser extent, standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated statement of condition.

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 and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligation as it does for on balance sheet instruments. The Bank does not anticipate any material losses from these commitments.

Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extensions of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. On loans secured by real estate, the Bank generally requires loan to value ratios of no greater than 80%.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in using letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees.

The Bank has not been required to perform on any financial guarantees, and has not incurred any losses on its commitments, during the past two years.

A summary of the Bank's Commitments at December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Commitments to extend credit	**$ 172,456**	$ 144,519
Standby letters of credit	**4,019**	4,377

The reserve for unfunded commitments was $654,000 and $594,000 at December 31, 2017 and 2016, respectively. The provision for unfunded commitment losses, which is included in other operating expenses was $60,000 and $450,000 for the years ended December 31, 2017 and 2016, respectively.

Note 13. Contingencies
The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material effect on the consolidated financial position, consolidated results or liquidity of the Company.

Note 14. Branch Sale
On December 13, 2017, the Company entered into Purchase and Assumption Agreement with Salisbury Bank and Trust Company (“Salisbury) whereby Salisbury agreed to purchase the assets and assume the liabilities of the Company’s Fishkill, NY branch. Under the terms of the agreement, Salisbury will purchase the branch assets, with the exception of leasehold improvements and equipment, and assume the liabilities at the Company’s carrying value at the date of the acquisition. In addition to assuming the deposits held by the branch, Salisbury will also assume the remaining obligations under the operating lease in existence at closing. Leasehold improvements and equipment will be purchased at the Company’s carrying value net of a $150,000 discount, at the acquisition date. At December 31, 2017, the Company reclassified loans in the amount of $11,614,000 from the loan portfolio to loans held for sale, leasehold improvements and equipment in the amount of $933,000 from premises and equipment to premises and equipment held for sale, and deposits in the amount of $23,755,000 to deposits held for sale. The Company recorded a $150,000 impairment charge on the premises and equipment held for sale, to reflect the contractual discount. The $150,000 impairment charge was recorded as other expense in the Company's consolidated statement of income. The purchase and assumption closed on April 13, 2018 in accordance with the terms of the agreement. At the time of the closing Salisbury acquired loans in the amount of $7,864,000, leasehold improvements and equipment in the amount of $761,000, other assets in the amount of approximately $102,000, and deposits in the amount of $8,540,000. The Company received a cash payment, from Salisbury, in the amount of approximately $187,000 at closing.

Note 15. Subsequent Event
On February 23, 2018, the Company paid a two-for-one stock dividend to shareholders of record as of February 9, 2018. Each shareholder received one additional share of the Company’s common stock, par value $0.50 per share, for every one share of common stock outstanding. Each of the non-vested restricted stock awards shares were allocated an additional share. The Company followed Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 505-20 "Stock Dividends and Stock Splits" and accounted for the stock dividend as a stock split. The number of issued shares and outstanding shares, weighted average shares outstanding, earnings per share and dividends per share, for all periods presented, were adjusted, to reflect the effect of the stock dividend. The non-vested restricted stock awards and weighted average grant date fair value, as of December 31, 2017 were also adjusted to reflect the effect of the stock dividend. The Company transferred $998,000 from surplus to common stock, as of December 31, 2017 to reflect the effect of the increased number of outstanding shares of common stock since the par value per share remained unchanged at $0.50 per share. The stock dividend had no effect on shares of treasury stock as they do not have legal rights to dividends.

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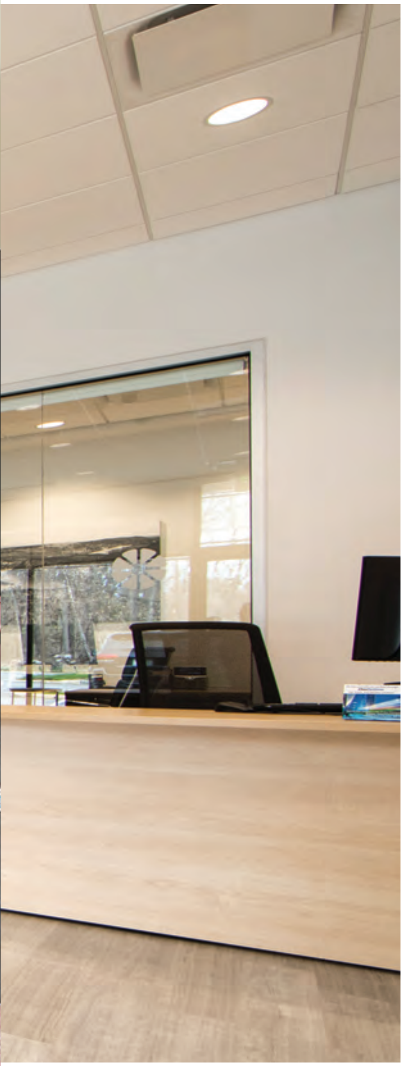
Corporate Secretary

NEW CORTLANDT MANOR BRANCH
OPENED IN SPRING 2018

CHESTER BRANCH, TRUST SERVICES DIVISION
& PRIVATE BANKING OFFICE



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