LLOYDS TSB GROUP PLC
Form 6-K
October 21, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

21 October, 2008

LLOYDS TSB GROUP plc
(Translation of registrant's name into English)

5th Floor
25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F..X..Form 40-F.....

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes .....No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ________

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 21 October, 2008

re: Director/PDMR Shareholding

Secretary's Department

25 Gresham Street

London
EC2V 7HN

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mike.hatcher@lloydstsb.co.uk

21st October , 2008

The London Stock Exchange

RNS
10 Paternoster Square
London EC4M 7LS

Dear Sirs

Lloyds TSB Group plc
Notification of transaction by person discharging managerial responsibilities

On 1st October, 2008, 895 ordinary shares of 25p each in Lloyds TSB Group plc were purchased by Equiniti Financial Services Limited for Mrs. H.A. Weir at 253.36p per share under the dividend reinvestment plan.

This relates to a transaction notified to Lloyds TSB Group plc today by the director and is made to comply with paragraph 3.1.4 (1)(a) of the Financial Services Authority's disclosure and transparency rules. The director notified the company as soon as she received the relevant details from Equiniti Financial Services Limited. The transaction took place in the UK and the shares are listed on the London Stock Exchange.

Yours faithfully,

M.R. Hatcher
Deputy Secretary

Lloyds TSB Group plc is registered in Scotland no. 95000
Registered Office: Henry Duncan
House,
120 George Street
,
Edinburgh

EH2 4LH

Secretary's Department

25 Gresham Street

London
EC2V 7HN

Direct line: 020-7356 2108
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Switchboard: 020-7626 1500
Facsimile: 020-7356 1038
Network Fax: 7-400 1038
email:
mike.hatcher@lloydstsb.co.uk

21st October , 2008

The London Stock Exchange

RNS
10 Paternoster Square
London EC4M 7LS

Dear Sirs

Lloyds TSB Group plc
Notification of transaction by person discharging managerial responsibilities

On 1st October, 2008, 305 ordinary shares of 25p each in Lloyds TSB Group plc were purchased by Equiniti ISA Nominees Limited for Mrs. H.A. Weir's single company stocks and shares ISA at 253.36p per share.

This relates to a transaction notified to Lloyds TSB Group plc today by the director and is made to comply

with paragraph 3.1.4 (1)(a) of the Financial Services Authority's disclosure and transparency rules. The director notified the company as soon as he received the relevant details from Equiniti ISA Nominees Limited. The transaction took place in the
UK
and the shares are listed on the London Stock Exchange.

Yours faithfully,

M.R. Hatcher
Deputy Secretary

Lloyds TSB Group plc is registered in Scotland no. 95000
Registered Office: Henry Duncan

House,
120 George Street
,
Edinburgh

EH2 4LH

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LLOYDS TSB GROUP plc
(Registrant)

By: M D Oliver

Name: M D Oliver

Title: Director of Investor

Relations

Date: 21 October, 2008

6.00%

To be well capitalized

	39,797	8.00%	39,630	8.00%	35,424	8.00%
Common Equity Tier 1 capital to risk-weighted assets:						
Actual	$58,528	11.77%	$58,088	11.73%	$53,050	11.98%
For capital adequacy purposes	22,386	4.50%	22,292	4.50%	19,926	4.50%
To be well capitalized	32,335	6.50%	32,199	6.50%	28,782	6.50%
Tier 1 capital to average assets:						
Actual	$58,528	7.92%	$58,088	7.71%	$53,050	7.84%
For capital adequacy purposes	29,571	4.00%	30,117	4.00%	27,081	4.00%
To be well capitalized	36,964	5.00%	37,647	5.00%	33,852	5.00%

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Prompt Corrective Action and Other Enforcement Mechanisms. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At March 31, 2018, Farmers National exceeded the required ratios for classification as “well capitalized.”

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized — without the permission of the institution’s primary regulator.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Insurance of Accounts. Deposit accounts are currently insured by the DIF generally up to a maximum of $250,000 per separately insured depositor. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against insured institutions.

The Dodd Frank Act raises the minimum reserve ratio of the DIF from 1.15% to 1.35% and requires the FDIC to offset the effect of this increase on insured institutions with assets of less than $10 billion (small institutions). In March 2016, the FDIC adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15% and ending when it reaches 1.35%. The reserve ratio reached 1.15% effective as of June 30, 2016. The surcharge period began effective July 1, 2016 and is expected to end by December 31, 2018. Small institutions will receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The credits will apply to reduce regular assessments by 2.0 basis points for quarters when the reserve ratio is at least 1.38%.

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Effective July 1, 2016, the FDIC adopted changes that eliminated its risk-based premium system. Under the new premium system, the FDIC assesses deposit insurance premiums on the assessment base of a depository institution, which is its average total assets reduced by the amount of its average tangible equity. For a small institution (one with assets of less than $10 billion) that has been federally insured for at least five years, effective July 1, 2016, the initial base assessment rate ranges from 3 to 30 basis points, based on the institution's CAMELS composite and component ratings and certain financial ratios; its leverage ratio; its ratio of net income before taxes to total assets; its ratio of nonperforming loans and leases to gross assets; its ratio of other real estate owned to gross assets; its brokered deposits ratio (excluding reciprocal deposits if the institution is well capitalized and has a CAMELS composite rating of 1 or 2); its one year asset growth ratio (which penalizes growth adjusted for mergers in excess of 10%); and its loan mix index (which penalizes higher risk loans based on historical industry charge off rates). The initial base assessment rate is subject to downward adjustment (not below 1.5%) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment (which can cause the rate to exceed 30 basis points) based on its holdings of unsecured debt issued by other insured institutions. Institutions with assets of $10 billion or more are assessed using a scorecard method.

In addition, all FDIC insured institutions are required to pay assessments to the FDIC at an annual rate of approximately six tenths of a basis point of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Under the Federal Deposit Insurance Act, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule order or condition imposed by the FDIC.

Interstate Banking and Branching. Banks have the ability, subject to certain state restrictions, to acquire, by acquisition or merger, branches outside its home state. In addition, federal legislation permits a bank headquartered in Pennsylvania to enter another state through de novo branching (as compared to an acquisition) if under the state law in the state which the proposed branch is to be located a state-chartered institution would be permitted to establish the branch. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Consumer Protection Laws and Regulations. Farmers National regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to carefully monitor compliance with such laws and regulations. Farmers National is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act, or CRA, is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with safe and sound banking practices. CRA regulations (i) establish the definition of "Intermediate Small Bank" as an institution with total assets of $250 million to $1 billion, without regard to any holding company; and (ii) take into account abusive lending practices by a bank or its affiliates in determining a bank's CRA rating. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of "outstanding" to a low of "substantial noncompliance." In its last examination for CRA compliance, as of September 10, 2015, Farmers National was rated "satisfactory."

The Fair Credit Reporting Act, or FCRA, as amended by the Fair and Accurate Credit Transactions Act of 2003, or FACTA, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and give consumers more control of their credit data. It also

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reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with the FACTA, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer's election to opt out would be applicable for at least five years.

The Federal Trade Commission, or FTC, the federal bank regulatory agencies and the National Credit Union Administration, or NCUA, have issued regulations (the Red Flag Rules) requiring financial institutions and creditors to develop and implement written identity theft prevention programs as part of the FACTA. The programs must provide for the identification, detection and response to patterns, practices or specific activities — known as red flags — tha could indicate identity theft. These red flags may include unusual account activity, fraud alerts on a consumer report or attempted use of suspicious account application documents. The program must also describe appropriate responses that would prevent and mitigate the crime and detail a plan to update the program. The program must be managed by the Board of Directors or senior employees of the institution or creditor, include appropriate staff training and provide oversight of any service providers.

The Check Clearing for the 21st Century Act, or Check 21, facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a "substitute check," which is the legal equivalent of an original check. Check 21 does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original.

The Equal Credit Opportunity Act, or ECOA, generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act, or TILA, is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act, or FHA, regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FHA, including some that are not specifically mentioned in the FHA itself.

The Home Mortgage Disclosure Act, or HMDA, grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. Generally speaking, predatory lending involves at least one, and perhaps all three, of the following elements (i) making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation ("asset-based lending"); (ii) inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping"); and (iii) engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

FRB regulations aimed at curbing such lending significantly widened the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

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OCC guidelines require national banks and their operating subsidiaries to comply with certain standards when making or purchasing loans to avoid predatory or abusive residential mortgage lending practices. Failure to comply with the guidelines could be deemed an unsafe and unsound or unfair or deceptive practice, subjecting Farmers National to supervisory enforcement actions.
Finally, the Real Estate Settlement Procedures Act, or RESPA, requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the CRA, FACTA, TILA, FHA, ECOA, HMDA and RESPA generally, Farmers National may incur additional compliance costs or be required to expend additional funds for investments in its local community.
Federal Home Loan Bank System.   Farmers National is a member of the FHLB. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. As an FHLB member, Farmers National is required to own a certain amount of capital stock in the FHLB. At March 31, 2018, Farmers National was in compliance with the stock requirements.
Federal Reserve System.   The FRB requires all depository institutions to maintain noninterest bearing reserves at specified levels against their transaction accounts (primarily checking) and non-personal time deposits. At March 31, 2018, Farmers National was in compliance with these requirements.
Properties
Emclaire owns no real property but utilizes the main office of Farmers National, which is owned by Farmers National. Emclaire’s and Farmers National’s executive offices are located at 612 Main Street, Emlenton, Pennsylvania. Emclaire pays no rent or other form of consideration for the use of this facility.
Farmers National owns and leases numerous other premises for use in conducting business activities. Farmers National considers these facilities owned or occupied under lease to be adequate. For additional information regarding the bank’s properties, see “Note 7 — Premises and Equipment” to Emclaire’s consolidated financial statements included elsewhere in this proxy statement/information statement/prospectus.
Legal Proceedings
Neither Emclaire nor Farmers National is involved in any material legal proceedings. Farmers National, from time to time, is party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the bank. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial position, results of operation, or liquidity of Farmers National or Emclaire.

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EMCLAIRE'S MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis represents a review of Emclaire's consolidated financial condition and results of operations for the three months ended March 31, 2018 and 2017 and years ended December 31, 2017 and 2016. This review should be read in conjunction with the consolidated financial statements included elsewhere in this proxy statement/information statement/prospectus.

Overview

Emclaire reported consolidated net income of $1.4 million, or $0.60 per common share, for the three months ended March 31, 2018, an increase of $406,000 or 42.5%, from $956,000, or $0.44 per common share, for the three months ended March 31, 2017. Net income for the three months ended March 31, 2018 was impacted by the following:

- Net interest income increased $689,000, or 13.4%, to $5.8 million for the three months ended March 31, 2018 from $5.2 million for the same period in 2017. The increase in net interest income resulted from an increase in interest income of $822,000, or 13.3%, as Emclaire experienced a $50.0 million increase in the average balance of loans, which was partially offset by an increase in interest expense of $133,000, or 13.1%, as Emclaire's average balance of interest-bearing deposits increased $67.0 million, partially offset by a $20.1 million decrease in the average balance of borrowed funds.

- Noninterest income increased $43,000, or 5.0%, to $899,000 for the three months ended March 31, 2018. Fees and service charges increased $29,000 as overdraft charges outpaced the prior year period and other income increased $29,000 due to increased interchange fee income.

- Noninterest expense increased $115,000, or 2.5%, to $4.7 million for the three months ended March 31, 2018 from $4.6 million for the same period in 2017. The increase primarily related to increases in compensation and benefits expense and federal deposit insurance of $130,000 and $29,000, respectively.

- The provision for loan losses increased $218,000, or 134.6%, to $380,000 for the three months ended March 31, 2018 from $162,000 for the same period in 2017 due to a general increase in Emclaire's loan portfolio and higher than normal loan charge-offs experienced in the first quarter of 2018.

Emclaire reported consolidated net income of $4.3 million, or $1.93 per diluted common share for 2017, compared to $4.0 million, or $1.85 per diluted common share for 2016. Net income for 2017 was impacted by the following:

- Net interest income increased $2.4 million, or 12.5%, in 2017. This increase primarily related to an increase in interest income of $3.0 million, or 12.7%, partially offset by an increase in interest expense of $548,000, or 13.9%. Driving the increase in interest income was a $69.7 million increase in the average balance of loans. The increase in interest expense was driven by increases in Emclaire's average balances of interest-bearing deposits and borrowed funds of $53.2 million and $3.1 million, respectively. The increases in Emclaire's interest-earning assets and interest-bearing liabilities includes the impact of the acquisition of Northern Hancock in September 2017, which added $18.5 million in loans and $19.7 million in deposits at the time of the acquisition.

- Noninterest income increased $1.4 million, or 37.4%, in 2017. This increase was primarily from a $1.3 million bargain purchase gain related to the acquisition of Northern Hancock. Also during 2017, Emclaire recorded a $508,000 other-than-temporary impairment charge on a subordinated debt investment, partially offset by securities gains of $346,000 realized during the same period.

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Noninterest expense increased $2.2 million, or 12.6%, to $19.6 million for the year ended December 31, 2017 from $17.4 million for 2016. The increase primarily related to increases in acquisition costs, other noninterest expense, compensation and benefits and premises and equipment of $718,000, $714,000, $628,000 and $126,000, respectively. Acquisition costs related to

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the Northern Hancock acquisition totaled $1.1 million in 2017. Also contributing to the increases in noninterest expense were operating costs associated with this new office from the Northern Hancock acquisition as well as the full-year operation of two banking offices added during 2016.

- Provision for income taxes increased $866,000, or 69.4%, to $2.1 million for the year ended December 31, 2017 from $1.2 million for 2016. This increase was primarily from an $827,000 write down of net deferred tax assets resulting from the enactment of the Tax Cuts and Jobs Act in December 2017.

Changes in Financial Condition

December 31, 2017 to March 31, 2018

Total assets increased $5.7 million to $755.8 million at March 31, 2018 from $750.1 million at December 31, 2017. Asset growth was driven by increases in net loans receivable and cash and equivalents of $7.0 million and $2.8 million, respectively, partially offset by a decrease in investment securities of $4.3 million. Total liabilities increased $5.9 million to $696.9 million at March 31, 2018 from $691.0 million at December 31, 2017, resulting primarily from a $12.1 million, or 1.9%, increase in customer deposits, partially offset by a $5.7 million decrease in borrowed funds. Deposit growth consisted of a $9.2 million, or 1.7%, increase in interest bearing deposits and a $2.9 million, or 2.3%, increase in non-interest bearing deposits.

Stockholders’ equity decreased $214,000 to $58.9 million at March 31, 2018 from $59.1 million at December 31, 2017 primarily due to a $1.2 million decrease in accumulated other comprehensive income, partially offset by a $913,000 increase in retained earnings as a result of $1.4 million of net income, partially offset by $636,000 of common dividends paid. Emclaire remains well capitalized and is positioned for continued growth with total stockholders’ equity at 7.8% of total assets. Tangible book value per common share was $21.21 at March 31, 2018, compared to $21.28 at December 31, 2017.

At March 31, 2018, Farmer National was considered “well-capitalized” with a Tier 1 leverage ratio, Common Equity Tier 1 ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio of 7.92%, 11.77%, 11.77% and 12.96%, respectively. Farmers National was also considered “well-capitalized” at December 31, 2017 with a Tier 1 leverage ratio, Common Equity Tier 1 ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio of 7.71%, 11.73%, 11.73% and 12.96%, respectively.

December 31, 2016 to December 31, 2017

Total assets increased $57.9 million, or 8.4%, to $750.1 million at December 31, 2017 from $692.1 million at December 31, 2016. This increase primarily related to an increase in net loans receivable of $61.8 million, partially offset by a decrease in cash and cash equivalents of $3.2 million. Liabilities increased $52.9 million, or 8.3%, to $691.0 million at December 31, 2017 from $638.1 million at December 31, 2016 due to an increase in customer deposits of $69.7 million, partially offset by an $18.0 million decrease in borrowed funds. Loans and deposits acquired from Northern Hancock totaled $18.5 million and $19.7 million, respectively, at the time of the acquisition in September 2017.

Cash and cash equivalents. Cash and cash equivalents decreased $3.2 million, or 18.2%, to $14.4 million at December 31, 2017 from $17.6 million at December 31, 2016. This decrease primarily resulted from the funding of loans and the repayment of borrowed funds, partially offset by an increase in customer deposits.

Securities. Securities decreased $393,000 to $101.2 million at December 31, 2017 from $101.6 million at December 31, 2016. This decrease primarily resulted from investment security sales, maturities, calls and repayments totaling $29.8 million, partially offset by purchases totaling $29.5 million during the year.

Loans receivable. Net loans receivable increased $61.8 million, or 12.1%, to $577.2 million at December 31, 2017 from $515.4 million at December 31, 2016. The increase was driven by growth in Emclaire’s commercial mortgage, residential mortgage, home equity, consumer and commercial business portfolios of $26.1 million, $23.7 million, $8.6 million, $2.9 million and $1.2 million, respectively. Loans acquired from Northern Hancock totaled $18.5 million at the time of the acquisition in September 2017 and $17.4 million at December 31, 2017.

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Nonperforming assets. Nonperforming assets include nonaccrual loans, loans 90 days past due and still accruing, repossessions and real estate owned. Nonperforming assets were $4.2 million, or 0.56% of total assets, at December 31, 2017 compared to $3.6 million, or 0.52% of total assets, at December 31, 2016. Nonperforming assets consisted of nonperforming loans and real estate owned of $3.6 million and $492,000, respectively, at December 31, 2017 and $3.3 million and $291,000, respectively, at December 31, 2016. At December 31, 2017, nonperforming loans consisted primarily of residential mortgage, commercial mortgage and commercial business loans.

Federal bank stocks. Federal bank stocks were comprised of FHLB stock and FRB stock of $3.3 million and $1.4 million, respectively, at December 31, 2017. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships between Emclaire and the federal banks.

Bank-owned life insurance (BOLI). Emclaire maintains single premium life insurance policies on certain current and former officers and employees of Farmers National. In addition to providing life insurance coverage, whereby Farmers National as well as the officers and employees receive life insurance benefits, the appreciation of the cash surrender value of the BOLI will serve to offset and finance existing and future employee benefit costs. Increases in this account are typically associated with an increase in the cash surrender value of the policies, partially offset by certain administrative expenses. BOLI increased $334,000, or 2.9%, to $11.7 million at December 31, 2017 from $11.4 million at December 31, 2016.

Premises and equipment. Premises and equipment decreased $272,000, or 1.5%, to $18.0 million at December 31, 2017 from $18.3 million at December 31, 2016. The overall decrease in premises and equipment during the year was due to depreciation and amortization of $1.2 million, partially offset by capital expenditures of $204,000. Additions for 2017 also included $708,000 of fixed assets acquired from Northern Hancock.

Goodwill. Goodwill remained unchanged from $10.3 million at December 31, 2017 and December 31, 2016. Goodwill represents the excess of the total purchase price paid for the acquisition over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is evaluated for impairment at least annually and more frequently if events and circumstances indicate that the asset might be impaired. Management evaluated goodwill and concluded that no impairment existed at December 31, 2017.

Core deposit intangible. The core deposit intangible was $481,000 at December 31, 2017, compared to $560,000 at December 31, 2016. During 2017, Emclaire recorded a core deposit intangible of $167,000 related to the Northern Hancock acquisition. The core deposit intangible also includes amounts associated with the assumption of deposits in the acquisition of United American Savings bank, which we refer to as United American, in 2016 and the 2009 Titusville branch acquisition. This asset represents the long-term value of the core deposits acquired. In each instance, the fair value was determined using a third-party valuation expert specializing in estimating fair values of core deposit intangibles. The fair value was derived using an industry standard present value methodology. All-in costs and runoff balances by year were discounted by comparable term FHLB advance rates, used as an alternative cost of funds measure. This intangible asset amortizes utilizing the double declining balance method of amortization over a weighted average estimated life of the related deposits. The core deposit intangible asset is not estimated to have a significant residual value. Emclaire recorded $246,000 and $226,000 of intangible amortization in 2017 and 2016, respectively.

Deposits. Total deposits increased $69.7 million, or 11.9%, to $654.6 million at December 31, 2017 from $584.9 million at December 31, 2016. Noninterest bearing deposits increased $2.5 million, or 2.1%, during the year while interest bearing deposits increased $67.2 million, or 14.6%. Deposits assumed from Northern Hancock totaled $19.7 million at the time of the acquisition in September 2017 and $17.2 million at December 31, 2017.

Borrowed funds. Borrowed funds decreased $18.0 million, or 40.9%, to $26.0 million at December 31, 2017 from $44.0 million at December 31, 2016 primarily as Emclaire repaid $15.0 million of FHLB borrowings which matured in November 2017. Borrowed funds at December 31, 2017 consisted of short-term borrowings of $2.5 million and long-term borrowings of $23.5 million. Long-term advances are utilized primarily to fund loan growth and short-term advances are utilized primarily to compensate for the normal deposit fluctuations.

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Stockholders' equity. Stockholders' equity increased $5.0 million, or 9.3%, to $59.1 million at December 31, 2017 from $54.1 million at December 31, 2016. The increase was primarily due to proceeds from the exercise of stock options of $1.4 million, $1.7 million of common stock issued in connection with the acquisition of Northern Hancock and net income of $4.3 million for 2017, offset by common stock dividends paid of $2.4 million.

Changes in Results of Operations

Emclaire reported net income of $1.4 million and $956,000 for the three months ended March 31, 2018 and 2017 and $4.3 million and $4.0 million in 2017 and 2016, respectively. The following "Average Balance Sheet and Yield/Rate Analysis" and "Analysis of Changes in Net Interest Income" tables should be utilized in conjunction with the discussion of the interest income and interest expense components of net interest income.

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Average Balance Sheet and Yield/Rate Analysis. The following tables sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include nonaccrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

	Three months ended March 31,					
	2018			2017		
(Dollar amounts in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Loans, taxable	$ 562,925	$ 6,173	4.45%	$ 510,752	$ 5,374	4.27%
Loans, tax exempt	21,656	194	3.64%	23,782	272	4.64%
Total loans receivable	584,581	6,367	4.42%	534,534	5,646	4.28%
Securities, taxable	72,118	408	2.29%	73,288	395	2.19%
Securities, tax exempt	27,376	175	2.60%	26,585	197	3.00%
Total securities	99,494	583	2.38%	99,873	592	2.40%
Interest-earning deposits with banks	12,172	33	1.10%	9,085	16	0.71%
Federal bank stocks	4,554	64	5.70%	4,936	53	4.35%
Total interest-earning cash equivalents	16,726	97	2.35%	14,021	69	2.00%
Total interest-earning assets	700,801	7,047	4.08%	648,428	6,307	3.94%
Cash and due from banks	2,652			2,646		
Other noninterest-earning assets	45,690			46,599		
Total Assets	$ 749,143			$ 697,673		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 361,712	$ 402	0.45%	$ 305,637	$ 171	0.23%
Time deposits	170,691	589	1.40%	159,778	532	1.35%
Total interest-bearing deposits	532,403	991	0.75%	465,415	703	0.61%
Borrowed funds, short-term	4,362	37	3.45%	10,423	42	1.63%
Borrowed funds, long-term	20,219	121	2.43%	34,256	272	3.21%
Total borrowed funds	24,581	158	2.61%	44,679	314	2.85%
Total interest-bearing liabilities	556,984	1,149	0.84%	510,094	1,017	0.81%
Noninterest-bearing demand deposits	122,859	—	—	123,814	—	—
Funding and cost of funds	679,843	1,149	0.69%	633,908	1,017	0.65%

Other noninterest-bearing liabilities	10,420			9,323		
Total Liabilities	690,263			643,231		
Stockholders’ Equity	58,880			54,442		
Total Liabilities and Stockholders’ Equity	$ 749,143			$ 697,673		
Net interest income		$ 5,898			$ 5,290	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.24%			3.13%
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.41%			3.31%

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	For the year ended December 31,					
	2017			2016		
(Dollar amounts in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Loans, taxable	$ 531,228	$ 22,973	4.32%	$ 459,253	$ 19,966	4.35%
Loans, tax-exempt	23,637	1,088	4.60%	25,893	1,206	4.66%
Total loans receivable	554,865	24,061	4.34%	485,146	21,172	4.36%
Securities, taxable	73,914	1,615	2.18%	78,767	1,662	2.11%
Securities, tax-exempt	26,338	784	2.98%	28,453	865	3.04%
Total securities	100,252	2,399	2.39%	107,220	2,527	2.36%
Federal bank stocks	4,848	242	4.99%	3,758	186	4.95%
Interest-earning deposits with banks	22,321	235	1.05%	25,563	135	0.53%
Total interest-earning cash equivalents	27,169	477	1.76%	29,321	321	1.09%
Total interest-earning assets	682,286	26,937	3.95%	621,687	24,020	3.86%
Cash and due from banks	2,741			2,577		
Other noninterest-earning assets	45,968			42,490		
Total Assets	$ 730,995			$ 666,754		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 331,157	1,075	0.32%	$ 290,559	607	0.21%
Time deposits	165,828	2,200	1.33%	153,268	2,184	1.42%
Total interest-bearing deposits	496,985	3,275	0.66%	443,827	2,791	0.63%
Borrowed funds, short-term	4,588	130	2.82%	2,341	78	3.34%
Borrowed funds, long-term	35,949	1,088	3.03%	35,141	1,076	3.06%
Total borrowed funds	40,537	1,218	3.00%	37,482	1,154	3.08%
Total interest-bearing liabilities	537,522	4,493	0.84%	481,309	3,945	0.82%
Noninterest-bearing demand deposits	126,808	—	—	122,181	—	—
Funding and cost of funds	664,330	4,493	0.68%	603,490	3,945	0.65%
Other noninterest-bearing liabilities	9,793			8,832		
Total Liabilities	674,123			612,322		
Stockholders' Equity	56,872			54,432		
Total Liabilities and Stockholders' Equity	$ 730,995			$ 666,754		
Net interest income		$ 22,444			$ 20,075	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.11%			3.04%
Net interest margin (net interest income as a percentage of average			3.29%			3.23%

interest-earning assets)
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Analysis of Changes in Net Interest Income. The following tables analyze the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in Emclaire's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Three months ended March 31, 2018 versus 2017 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 541	$ 180	$ 721
Securities	(2)	(7)	(9)
Interest-earning deposits with banks	6	11	17
Federal bank stocks	(4)	15	11
Total interest-earning assets	541	199	740
Interest expense:			
Interest-bearing deposits	110	178	288
Borrowed funds, short-term	(34)	29	(5)
Borrowed funds, long-term	(94)	(57)	(151)
Total interest-bearing liabilities	(18)	150	132
Net interest income	$ 559	$ 49	$ 608

(Dollar amounts in thousands)	2017 versus 2016 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 3,024	$ (135)	$ 2,889
Securities	(166)	38	(128)
Federal bank stocks	54	2	56
Interest-earning deposits with banks	(19)	119	100
Total interest-earning assets	2,893	24	2,917
Interest expense:			
Deposits	345	139	484
Borrowed funds, short term	65	(13)	52
Borrowed funds, long term	25	(13)	12
Total interest-bearing liabilities	435	113	548
Net interest income	$ 2,458	$ (89)	$ 2,369

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Comparison of the Results of Operations for the Three Months Ended March 31, 2018 and 2017

General. Net income increased $406,000, or 42.5%, to $1.4 million for the three months ended March 31, 2018 from $956,000 for the same period in 2017. This increase was the result of increases in net interest income and noninterest income $689,000 and $43,000, respectively, and a decrease of $7,000 in the provision for income taxes, partially offset by increases in the provision for loan losses and noninterest expense of $218,000 and $115,000, respectively.

Net interest income. Tax equivalent net interest income increased $608,000, or 11.50%, to $5.9 million for the three months ended March 31, 2018 from $5.3 million for the three months ended March 31, 2017. This increase was attributed to an increase in tax equivalent interest income of $740,000, partially offset by an increase in interest expense of $132,000.

Interest income. Tax equivalent interest income increased $740,000, or 11.7%, to $7.0 million for the three months ended March 31, 2018 from $6.3 million for the same period in 2017. This increase was attributed to increases in interest earned on loans and interest-earning deposits with banks and dividends on federal bank stocks of $721,000, $17,000 and $11,000, respectively, partially offset by a decrease in interest earned on securities of $9,000.

Tax equivalent interest earned on loans receivable increased $721,000, or 12.8%, to $6.4 million for the three months ended March 31, 2018 compared to $5.6 million for the same period in 2017. This increase resulted from a $50.0 million, or 9.4%, increase in average loans, accounting for an increase of $541,000 in interest income. The increase in loans receivable was related to the acquisition of Northern Hancock in September 2017 and strong loan growth achieved in late 2017 and the first three months of 2018. Adding to this favorable volume variance, the average yield on loans increased 14 basis points to 4.42% for the three months ended March 31, 2018, versus 4.28% for the same period in 2017. This favorable yield variance accounted for a $180,000 increase in interest income.

Tax equivalent interest earned on securities decreased $9,000, or 1.5%, to $583,000 for the three months ended March 31, 2018 compared to $592,000 for the three months ended March 31, 2017. This decrease resulted from a 2 basis point decrease in the average yield on securities to 2.38% for the three months ended March 31, 2018 versus 2.40% for the same period in 2017. This unfavorable yield variance accounted for a $7,000 decrease in interest income. Furthermore, the average balance of securities decreased $379,000, accounting for an additional $2,000 decrease in interest income.

Interest earned on deposits with banks increased $17,000 to $33,000 for the three months ended March 31, 2018 compared to $16,000 for the three months ended March 31, 2017. This increase resulted from a 39 basis point increase in the average yield on these accounts to 1.10% for the three months ended March 31, 2018, versus 0.71% for the same period in 2017, accounting for an $11,000 increase in interest income. Additionally, the average balance of interest-earning deposits increased $3.1 million, or 34.0%, accounting for an increase of $6,000 in interest income.

Dividends on federal bank stocks increased $11,000, or 20.8%, to $64,000 for the three months ended March 31, 2018 from $53,000 for the same period in 2017. This increase was primarily due to an increase of 135 basis points in the average yield on federal bank stocks to 5.70% for the three months ended March 31, 2018, versus 4.35% for the same period in 2017, accounting for a $15,000 increase in interest income. Partially offsetting the favorable yield variance, the average balance of federal bank stocks decreased $382,000, or 7.7%, accounting for a $4,000 decrease in interest income.

Interest expense. Interest expense increased $132,000, or 13.0%, to $1.1 million for the three months ended March 31, 2018 from $1.0 million for the same period in 2017. This increase in interest expense can be attributed to a $288,000 increase in interest incurred on deposits, partially offset by a decrease of $156,000 in interest incurred on borrowed funds.

Interest expense incurred on deposits increased $288,000, or 41.0%, to $991,000 for the three months ended March 31, 2018 compared to $703,000 for the same period in 2017. The average cost of interest-bearing deposits increased 14 basis points to 0.75% for the three months ended March 31, 2018, versus 0.61% for the same period in 2017, accounting for a $178,000 increase in interest expense. Additionally, the average balance of interest-bearing deposits increased $67.0 million, or 14.4%, to

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$532.4 million for the three months ended March 31, 2018, compared to $465.4 million for the same period in 2017 causing a $110,000 increase in interest expense. This increase was primarily due to the acquisition of Northern Hancock in September 2017 and strong deposit growth during late 2017 and the first three months of 2018.

Interest expense incurred on borrowed funds decreased $156,000, or 49.7%, to $158,000 for the three months ended March 31, 2018, compared to $314,000 for the same period in the prior year. The average balance of borrowed funds decreased $20.1 million, or 45.0%, to $24.6 million for the three months ended March 31, 2018, compared to $44.7 million for the same period in 2017 causing a $128,000 increase in interest expense. The reduction in the outstanding balance of borrowed funds resulted from the payoff of maturing FHLB long-term notes of $15.0 million in November 2017 and the early payoff of a $5.0 million FHLB long-term note in February 2018. Partially offsetting the volume variance, the average cost of borrowed funds decreased 24 basis points to 2.61% for the three months ended March 31, 2018 compared to 2.85% for the same period in 2017 causing a $28,000 decrease in interest expense.

Provision for loan losses. Emclaire records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all probable incurred losses estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where Emclaire originates loans), the status of nonperforming assets, the estimated underlying value of the collateral and other factors related to the collectability of the loan portfolio.

Nonperforming loans decreased $536,000, or 14.5%, to $3.2 million at March 31, 2018 from $3.7 million at December 31, 2017. This decrease was primarily due to a commercial mortgage loan in the amount of $559,000 which was transferred to OREO during the three months ended March 31, 2018. Of the $3.2 million in nonperforming loans, $1.3 million were not 30 days or more past due at March 31, 2018.

As of March 31, 2018, Emclaire's classified and criticized assets amounted to $15.6 million, or 2.1% of total assets, with $11.0 million classified as substandard and $4.6 million identified as special mention. This compares to classified and criticized assets of $14.8 million, or 2.0% of total assets, with $11.6 million classified as substandard and $3.2 million identified as special mention at December 31, 2017. This increase was primarily related to the risk rating downgrades of two commercial loan relationships totaling $3.8 million to special mention, partially offset by the risk rating upgrade of one $1.9 million commercial loan relationship to pass and the aforementioned $559,000 loan transferred to OREO.

The provision for loan losses increased $218,000 to $380,000 for the three months ended March 31, 2018 from $162,000 for the same period in 2017 due primarily to general growth in the loan portfolio and portfolio charge-offs.

Noninterest income. Noninterest income increased $43,000, or 5.0%, to $899,000 for the three months ended March 31, 2018, compared to $856,000 for the same period in 2017. This increase resulted primarily from increases in interchange fees, overdraft fees and gains on sale of loans of $45,000, $29,000 and $16,000, respectively, for the first quarter of 2018 compared to that of the same quarter in 2017. Partially offsetting these increases, Emclaire incurred $29,000 in losses on the sale of securities during the first quarter of 2018.

Noninterest expense. Noninterest expense increased $115,000, or 2.5%, to $4.7 million for the three months ended March 31, 2018 compared to $4.6 million for the same period in 2017. This increase in noninterest expense can be attributed to increases in compensation and benefits, federal deposit insurance, professional fees, premises and equipment and intangible asset amortization of $130,000, $29,000, $14,000, $12,000 and $9,000, respectively, partially offset by a $79,000 decrease in other expenses.

Compensation and employee benefits increased $130,000, or 5.6%, to $2.5 million for the three months ended March 31, 2018 compared to $2.3 million for the same period in 2017. This increase was primarily the result of increases in insurance benefits, salaries, stock compensation expense and incentive expense of $47,000, $34,000, $20,000 and $16,000, respectively. These increases are primarily related to costs associated with the operation of the new full-service banking office in Chester, West Virginia which was acquired from Northern Hancock, increased health insurance costs and normal salary and benefit increases.

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Other noninterest expense decreased $79,000, or 6.8%, to $1.1 million for the three months ended March 31, 2018 compared to $1.2 million for the same period in the prior year. This decrease was primarily the result of a $50,000 reversal of expense related to an accrual for a previously anticipated loss which will not be incurred and a $30,000 vendor refund for overcharged telecommunication services.

Provision for income taxes. The provision for income taxes decreased $7,000, or 2.6%, to $266,000 for the three months ended March 31, 2018 compared to $273,000 for the same period in the prior year. This related to a decrease in Emclaire's effective tax rate to 16.3% for the three months ended March 31, 2018 compared to 22.2% for the same period in 2017, partially offset by an increase in net income before income taxes. The decrease in Emclaire's effective tax rate was due to the enactment of the Tax Cuts and Job Act in December 2017 and the reduction of the corporate income tax rate from a maximum of 35% to a flat 21%.

Comparison of the Results of Operations for the Years Ended December 31, 2017 and 2016

Emclaire reported net income of $4.3 million and $4.0 million for 2017 and 2016, respectively. The $291,000, or 7.3%, increase in net income was attributed to increases in net interest income and noninterest income of $2.4 million and $1.4 million, respectively, partially offset by increases in noninterest expense, the provision for income taxes and the provision for loan losses of $2.2 million, $866,000 and $439,000, respectively. Returns on average equity and assets were 7.52% and 0.59%, respectively, for 2017, compared to 7.32% and 0.60%, respectively, for 2016.

Net interest income. The primary source of Emclaire's revenue is net interest income. Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income increased $2.4 million to $22.4 million for 2017, compared to $20.1 million for 2016. This increase in net interest income can be attributed to an increase in tax equivalent interest income of $2.9 million, partially offset by an increase in interest expense of $548,000.

Interest income. Tax equivalent interest income increased $2.9 million, or 12.1%, to $26.9 million for 2017, compared to $24.0 million for 2016. This increase can be attributed to increases in interest earned on loans, deposits with banks and dividends received on federal bank stocks of $2.9 million, $100,000 and $56,000, respectively, partially offset by a decrease in interest earned on securities of $128,000.

Tax equivalent interest earned on loans receivable increased $2.9 million, or 13.6%, to $24.1 million for 2017, compared to $21.2 million for 2016. The average balance of loans increased $69.7 million, or 14.4%, generating $3.0 million of additional interest income on loans. Offsetting this favorable variance, the average yield on loans decreased 2 basis points to 4.34% for 2017, versus 4.36% for 2016 causing a $135,000 decrease in interest income.

Tax equivalent interest earned on securities decreased $128,000, or 5.1%, to $2.4 million for 2017, compared to $2.5 million for 2016. The average balance of securities decreased $7.0 million, or 6.5%, causing a $166,000 decrease in interest income. Partially offsetting the unfavorable volume variance, the average yield on securities increased 3 basis points to 2.39% for 2017 versus 2.36% for 2016 causing a $38,000 increase in interest income.

Interest earned on interest-earning deposit accounts increased $100,000, or 74.1%, to $235,000 for 2017, compared to $135,000 for 2016. The average yield on these accounts increased 52 basis points to 1.05% for 2017 versus 0.53% for 2016 causing a $119,000 increase in interest income. Offsetting this favorable variance, the average balance of interest-earning deposits decreased $3.2 million causing a $19,000 decrease in interest income.

Interest earned on federal bank stocks increased $56,000, or 30.1%, to $242,000 for 2017, compared to $186,000 for 2016. The average balance of federal bank stocks increased $1.1 million, or 29.0%, generating a $54,000 increase in interest income. Enhancing this favorable variance, the average yield on these accounts increased 4 basis points to 4.99% for 2017 versus 4.95% for 2016 causing a $2,000 increase in interest income.

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Interest expense. Interest expense increased $548,000, or 13.9%, to $4.5 million for 2017, compared to $3.9 million for 2016. This increase can be attributed to increases in interest expense on interest-bearing deposits and borrowed funds of $484,000 and $64,000, respectively.
Interest expense on deposits increased $484,000, or 17.3%, to $3.3 million for 2017, compared to $2.8 million for 2016. The average balance of interest-bearing deposits increased $53.2 million, or 12.0%, causing a $345,000 increase in interest expense. The average rate on interest-bearing deposits increased by 3 basis points to 0.66% for 2017 versus 0.63% for 2016 causing a $139,000 increase in interest expense.
Interest expense on borrowed funds increased $64,000, or 5.5%, to $1.2 million for 2017, compared to $1.2 million for 2016. The average balance of borrowed funds increased $3.1 million, or 8.2%, to $40.5 million for 2017, compared to $37.5 million for 2016 causing a $90,000 increase in interest expense. Partially offsetting this unfavorable variance, the average cost of borrowed funds decreased 8 basis points to 3.00% for 2017 versus 3.08% for 2016 causing a $26,000 decrease in interest expense.
Provision for loan losses. Emclaire records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all probable incurred losses estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where Emclaire originates loans), the status of nonperforming assets, the estimated underlying value of the collateral and other factors related to the collectability of the loan portfolio.
Nonperforming loans increased $370,000, or 11.1%, to $3.7 million at December 31, 2017 from $3.3 million at December 31, 2016. The increase in nonperforming loans was primarily related to a $646,000 increase in loans past due more than 90 days, partially offset by the payoff of two residential mortgage loans which were previously on nonaccrual status totaling $391,000.
The provision for loan losses increased $439,000, or 94.6%, to $903,000 for 2017 from $464,000 for 2016. Emclaire's allowance for loan losses amounted to $6.1 million, or 1.05% of Emclaire's total loan portfolio at December 31, 2017 compared to $5.5 million or 1.06% of total loans at December 31, 2016. The allowance for loan losses, as a percentage of nonperforming loans at December 31, 2017 and 2016, was 165.9% and 166.9%, respectively. The allocation of the allowance for loan losses related to residential mortgage loans and commercial mortgage loans increased during the year as a result of growth in the loan portfolios, while the allocation related to commercial business loans decreased as the portfolio remained flat. At December 31, 2017, there was no provision for loan losses allocated to loans acquired from United American or Northern Hancock.
Noninterest income. Noninterest income includes revenue that is related to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, commissions on financial services, title premiums, security and loan sale gains and losses, and earnings on bank-owned life insurance (BOLI). Noninterest income increased $1.4 million, or 37.4%, to $5.0 million in 2017 from $3.7 million in 2016. The increase in noninterest income is primarily due to a $1.3 million bargain purchase gain related to the acquisition of Northern Hancock at September 30, 2017. Also during 2017, Emclaire recorded a $508,000 other-than-temporary impairment charge on a subordinated debt investment issued by First NBC Bank Holding Company. On April 28, 2017, the Louisiana Office of Financial Institutions closed First NBC Bank, the wholly owned banking subsidiary of First NBC Bank Holding Company, and named the FDIC as receiver for the bank. Partially offsetting this impairment charge, Emclaire realized securities gains of $346,000 during 2017, compared to $82,000 during the same period in 2016. Additionally, gains on the sale of loans totaled $248,000 for 2017 compared to $119,000 during the same period in 2016 and customer service fees increased $133,000 as overdraft charges during 2017 outpaced the same period last year.
Noninterest expense. Noninterest expense increased $2.2 million, or 12.6%, to $19.6 million for 2017, compared to $17.4 million for 2016. This increase was primarily related to increases in acquisition costs, other noninterest expense, compensation and employee benefits, premises and equipment expense and intangible asset amortization.
Acquisition costs increased $718,000 to $1.1 million for 2017, compared to $401,000 for 2016. Acquisition costs for 2017 were related to the acquisition of Northern Hancock and included system conversion costs, contract termination fees, legal fees, employee severance costs, accounting and auditing
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fees and other costs of $421,000, $279,000, $173,000, $108,000, $55,000 and $84,000. Acquisition costs for 2016 were related to the acquisition of United American and included legal fees, system conversion costs and other costs of $194,000, $132,000 and $75,000, respectively.

Other noninterest expense increased $714,000, or 17.7%, to $4.8 million for 2017, compared to $4.0 million for 2016. Contributing to the increase were increases in bad checks and other losses, Pennsylvania share tax, overdraft privilege program administration fees, debit card processing expenses, subscriptions, correspondent banking fees, travel and entertainment expenses and telecommunications expenses. These increases were due, in part, to full-year operating costs associated with two new branches opened in 2016 and a partial year of costs associated with the Northern Hancock office acquired on September 30, 2017.

Compensation and employee benefits expense increased $628,000, or 7.3%, to $9.3 million for 2017, compared to $8.6 million for 2016. This increase primarily related to normal wage and salary increases and an increase in retirement benefits expense as well as the addition of the new branch offices.

Premises and equipment expense increased $126,000, or 4.4%, to $3.0 million for 2017, compared to $2.8 million for 2016. This increase primarily related to expenses associated with Farmers National’s new branch offices.

Emclaire recognized $246,000 of intangible amortization in 2017, compared to $226,000 in 2016 associated with core deposit intangible assets that were recorded in connection with the 2009 Titusville branch acquisition, the 2016 United American acquisition and the 2017 Northern Hancock acquisition.

The provision for income taxes increased $866,000, or 69.4%, to $2.1 million for 2017, compared to $1.2 million for 2016 primarily due to an additional tax expense of $827,000 recorded for the revaluation of deferred tax assets as required by the Tax Cut and Jobs Act signed into law during December 2017. As a result of this additional tax expense, Emclaire’s effective tax rate for 2017 was 33.1%, compared to 23.8% for 2016.

Market Risk Management

Market risk for Emclaire consists primarily of interest rate risk exposure and liquidity risk. Emclaire is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, Emclaire does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets.

The primary objective of Emclaire’s asset liability management function is to maximize Emclaire’s net interest income while simultaneously maintaining an acceptable level of interest rate risk given Emclaire’s operating environment, capital and liquidity requirements, balance sheet mix, performance objectives and overall business focus. One of the primary measures of the exposure of Emclaire’s earnings to interest rate risk is the timing difference between the repricing or maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities.

Emclaire’s board of directors has established a finance committee, consisting of four outside directors, the president and chief executive officer (CEO), the treasurer and chief financial officer (CFO), the chief risk & strategy officer (CRSO) and the chief operating officer (COO), to monitor market risk, including primarily interest rate risk. This committee, which meets at least quarterly, generally establishes and monitors the investment, interest rate risk and asset liability management policies of Emclaire.

In order to minimize the potential for adverse affects of material and prolonged changes in interest rates on Emclaire’s results of operations, Emclaire’s management team has implemented and continues to monitor asset liability management policies to better match the maturities and repricing terms of Emclaire’s interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of (i) originating adjustable-rate mortgage loans; (ii) originating short-term secured commercial loans with the rate on the loan tied to the prime rate or reset features in which the rate changes at determined intervals; (iii) emphasizing investment in shorter-term (expected duration of five years or less) investment securities; (iv) selling longer-term (30-year) fixed-rate residential mortgage loans in the secondary market;

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(v) maintaining a high level of liquid assets (including securities classified as available for sale) that can be readily reinvested in higher yielding investments should interest rates rise; (vi) emphasizing the retention of lower-costing savings accounts and other core deposits; and (vii) lengthening liabilities and locking in lower borrowing rates with longer terms whenever possible.

Interest Rate Sensitivity Gap Analysis

The implementation of asset and liability initiatives and strategies and compliance with related policies, combined with other external factors such as demand for Emclaire s products and economic and interest rate environments in general, has resulted in Emclaire maintaining a one-year cumulative interest rate sensitivity gap within internal policy limits of between a positive and negative 15% of total assets. The one-year interest rate sensitivity gap is identified as the difference between Emclaire's interest-earning assets that are scheduled to mature or reprice within one year and its interest-bearing liabilities that are scheduled to mature or reprice within one year.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities, and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero, or more neutral, that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions derived from Emclaire's historical experience, at December 31, 2017, Emclaire's interest-earning assets maturing or repricing within one year totaled $194.1 million while Emclaire's interest-bearing liabilities maturing or repricing within one year totaled $166.8 million, providing an excess of interest-earning assets over interest-bearing liabilities of $27.2 million or 3.6% of total assets. At December 31, 2017, the percentage of Emclaire's assets to liabilities maturing or repricing within one year was 116.3%.

The following table presents the amounts of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2017 which are expected to mature, prepay or reprice in each of the future time periods presented:

(Dollar amounts in thousands)	Six months or less	Six months to one year	One to three years	Three to four years	Over four years	Total
Total interest-earning assets	$ 142,748	$ 51,325	$ 160,987	$ 72,420	$ 268,326	$ 695,806
Total interest-bearing liabilities	83,869	82,971	242,626	59,326	82,089	550,881
Interest rate sensitivity gap	$ 58,879	$ (31,646)	$ (81,639)	$ 13,094	$ 186,237	$ 144,925
Cumulative rate sensitivity gap	$ 58,879	$ 27,233	$ (54,406)	$ (41,312)	$ 144,925	
Ratio of gap during the period to total interest earning assets	8.46%	(4.55)%	(11.73)%	1.88%	26.77%	
Ratio of cumulative gap to total interest earning assets	8.46%	3.91%	(7.82)%	(5.94)%	20.83%	

Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

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Interest Rate Sensitivity Simulation Analysis

Emclaire also utilizes income simulation modeling in measuring its interest rate risk and managing its interest rate sensitivity. The finance committee of the board of directors believes that simulation modeling enables Emclaire to more accurately evaluate and manage the possible effects on net interest income due to the exposure to changing market interest rates and different loan and security prepayment and deposit decay assumptions under various interest rate scenarios.

As with gap analysis and earnings simulation modeling, assumptions about the timing and variability of cash flows are critical in net portfolio equity valuation analysis. Particularly important are the assumptions driving mortgage prepayments and the assumptions about expected attrition of the core deposit portfolios. These assumptions are based on Emclaire's historical experience.

Emclaire has established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point immediate increase or decrease in market interest rates, net interest income may not change by more than 15% for a one-year period.

Economic value of equity simulation. Economic value of equity is the present value of Emclaire's existing assets less the present value of Emclaire's existing liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, economic value of equity may not correspondingly decrease or increase by more than 20%.

These guidelines take into consideration the current interest rate environment, Emclaire's financial asset and financial liability product mix and characteristics and liquidity sources among other factors. Given the current rate environment, a drop in short-term market interest rates of 200 basis points immediately or over a one-year horizon would seem unlikely. This should be considered in evaluating modeling results outlined in the table below.

The following table presents the simulated impact of a 100 basis point or 200 basis point upward or downward shift of market interest rates on net interest income for the years ended December 31, 2017 and 2016, respectively. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at December 31, 2017 remained constant. The impact of the market rate movements on net interest income was developed by simulating the effects of rates changing immediately for a one-year period from the December 31, 2017 levels for net interest income.

	Increase		Decrease	
	+100 BP	+200 BP	-100 BP	-200 BP
2017 Net interest income – increase (decrease)	0.78%	0.90%	0.55%	(2.96)%
2016 Net interest income – increase (decrease)	(0.77)%	(1.90)%	(2.56)%	(6.48)%

The expected increase in 2017 net interest income in the rising rate scenarios shown in the table above resulted from Emclaire having an excess of immediately repricing interest-earning assets over immediately repricing interest-bearing liabilities. The expected decrease in 2016 net interest income in the rising rate scenarios resulted from Emclaire having overnight borrowings of $7.0 million at December 31, 2016. In a rising rate environment, these borrowings would be immediately repricing, therefore causing increased interest expense.

Impact of Inflation and Changing Prices

The consolidated financial statements of Emclaire and related notes presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which require the measurement of financial condition and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same

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direction or in the same magnitude as the prices of goods and services since such prices are affected by inflation to a larger degree than interest rates. In the current interest rate environment, liquidity and the maturity structure of Emclaire's assets and liabilities are critical to the maintenance of acceptable performance levels.

Capital Resources

Total stockholders' equity totaled $58.9 million at March 31, 2018 compared to $59.1 million at December 31, 2017 and $54.1 million at December 31, 2016. Net income was $1.4 million for three months ended March 31, 2018, $4.3 million in 2017 and $4.0 million in 2016.

Emclaire's capital to assets (leverage) ratio was 7.8% at March 31, 2018 compared to 7.9% at December 31, 2017 and 7.8% at December 31, 2016. While continuing to sustain a strong capital position, dividends paid on common stock was $636,000 during the three months ended March 31, 2018 and $2.4 million in 2017 and $2.2 million in 2016. In addition, stockholders have taken part in Emclaire's dividend reinvestment plan introduced during 2003 with 50% of registered shareholder accounts active in the plan at March 31, 2018. Dividend reinvestment is achieved through the purchase of common shares on the secondary market.

Capital adequacy is intended to enhance Emclaire's ability to support growth while protecting the interest of stockholders and depositors and to ensure that capital ratios are in compliance with regulatory minimum requirements. Regulatory agencies have developed certain capital ratio requirements that are used to assist them in monitoring the safety and soundness of financial institutions. At March 31, 2018, Farmers National was in excess of all regulatory capital requirements. See Note 10 Emclaire's consolidated financial statements included elsewhere in this proxy statement/information statement/prospectus.

Liquidity

Emclaire's primary sources of funds generally have been deposits obtained through the offices of Farmers National, borrowings from the FHLB, and amortization and prepayments of outstanding loans and maturing securities. During the three months ended March 31, 2018, Emclaire used its sources of funds primarily to fund loan advances and repay long-term borrowed funds. As of March 31, 2018, Emclaire had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $92.9 million, and standby letters of credit totaling $199,000, net of collateral maintained by Farmers National. During 2017, Emclaire used its sources of funds primarily to fund loan commitments and repay borrowed funds. As of December 31, 2017, Emclaire had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $89.7 million, and standby letters of credit totaling $156,000, net of cash collateral maintained by Farmers National. Farmers National is required by the OCC to establish policies to monitor and manage liquidity levels to ensure its ability to meet demands for customer withdrawals and the repayment of short-term borrowings, and at December 31, 2017, Farmers National was in compliance with all liquidity policy limits.

At March 31, 2018, time deposits amounted to $171.2 million, or 25.6% of Emclaire's total consolidated deposits, including approximately $46.4 million of which are scheduled to mature within the next year. At December 31, 2017, time deposits amounted to $170.7 million, or 26.1%, of Emclaire's total consolidated deposits, including approximately $46.9 million scheduled to mature within the next year. Management believes that Emclaire has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, Emclaire and Farmers National have alternative sources of funds. These sources include a line of credit for Emclaire with a correspondent bank, Farmers National's line of credit and term borrowing capacity from the FHLB and, to a more limited extent, through the sale of loans. At March 31, 2018, Emclaire had borrowed funds of $20.3 million consisting of $15.0 million of long-term FHLB advances, a $3.2 million long-term advance with a correspondent bank and $2.1 million outstanding on a line of credit with a correspondent bank. At March 31, 2018, Farmers National's borrowing capacity with the FHLB, net of

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funds borrowed and irrevocable standby letters of credit issue to secure certain deposit accounts, was $186.7 million. At December 31, 2017, Farmers National's borrowing capacity with the FHLB, net of funds borrowed and irrevocable standby letters of credit issued to secure certain deposit accounts, was $177.9 million.

Emclaire pays a regular quarterly cash dividend. Emclaire paid dividends of $0.27 and $0.26 per common share for each of the four quarters of 2017 and 2016, respectively. For the first two quarters of 2018, Emclaire declared a quarterly dividend of $0.28 per common share. The determination of future dividends on Emclaire's common stock will depend on conditions existing at that time with consideration given to Emclaire's earnings, capital and liquidity needs, among other factors.

Management of Emclaire is not aware of any conditions, including any regulatory recommendations or requirements, which would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

Critical Accounting Policies

Emclaire's consolidated financial statements are prepared in accordance with GAAP and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies followed by Emclaire are presented in Note 1 to the consolidated financial statements appearing elsewhere in this proxy statement/information statement/ prospectus. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management has identified the following as critical accounting policies:

Allowance for loan losses. Emclaire considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than other significant accounting policies. The balance in the allowance for loan losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions and other pertinent factors, including management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. Among the many factors affecting the allowance for loan losses, some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for loan losses may be required that would adversely impact Emclaire's financial condition or earnings in future periods.

Other-than-temporary impairment. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair

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value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether Emclaire has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery.

Goodwill and intangible assets. Goodwill represents the excess cost over fair value of assets acquired in a business combination. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values. Goodwill is subject to ongoing periodic impairment tests based on the fair value of the reporting unit compared to its carrying amount, including goodwill. Impairment exists when a reporting unit's carrying amount exceeds its fair value. At November 30, 2017, the required annual impairment test of goodwill was performed and no impairment existed as of the valuation date. If for any future period it is determined that there has been impairment in the carrying value of our goodwill balances, Emclaire will record a charge to earnings, which could have a material adverse effect on net income, but not risk based capital ratios.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT OF EMCLAIRE FINANCIAL CORP

Persons and groups owning in excess of 5% of the Emclaire common stock are required to file certain reports regarding such ownership pursuant to the Exchange Act. The following table sets forth, as of March 1, 2018, certain information as to the Emclaire common stock beneficially owned by (i) persons or groups who own more than 5% of the common stock, (ii) the directors of Emclaire, (iii) certain named executive officers of Emclaire, and (iv) all directors and executive officers of Emclaire as a group. Other than as noted below, management knows of no person or group that owns more than 5% of the outstanding shares of Emclaire common stock as of March 1, 2018.

Name and Address	Amount and Nature of Beneficial Ownership(1)	Percent of Outstanding Common Stock Beneficially Owned
The Banc Funds Company, L.L.C. 20 North Wacker Drive, Suite 3300 Chicago, IL 60606	117,207(2)	5.16%
Directors:		
Robert L. Hunter	89,792(3)	3.95%
Robert W. Freeman	43,661(4)	1.92%
William C. Marsh	40,646	1.79%
John B. Mason	39,042	1.72%
Nicholas D. Varischetti	34,143	1.50%
James M. Crooks	27,832(5)	1.23%
Milissa S. Bauer	25,375(6)	1.12%
David L. Cox	18,830(7)	*
Mark A. Freemer	17,100	*
Deanna K. McCarrier	16,544	*
Named Executive Officers:		
Matthew J. Lucco(8)	6,627	*
Jennifer A. Roxbury	1,805	*
All directors and executive officers as a group (13 persons)	362,922	15.98%

*
Represents less than 1% of the outstanding Emclaire common stock.

(1)
Based upon information provided by the respective beneficial owners and filings with the SEC made pursuant to the Exchange Act. For purposes of this table, pursuant to rules promulgated under the Exchange Act, a person or entity is considered to beneficially own shares of common stock if they directly or indirectly has or shares (1) voting power, which includes the power to vote or to direct the voting of the shares, or (2) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, a person or entity has sole voting power and sole investment power with respect to the indicated shares.

(2)

According to a Schedule 13G filed jointly by Banc Fund VI L.P. (“BF VI”), an Illinois Limited Partnership, Banc Fund VII L.P. (“BF VII”), an Illinois Limited Partnership, Banc Fund VIII L.P. (“BF VIII”), and Illinois Limited Partnership, Banc Fund IX L.P. (“BF IX”), an Illinois limited partnership. The general partner of BF VI is MidBanc VI L.P. (“MidBanc VI”), whose principal business is to be a general partner of BF VI. The general partner of BF VII is MidBanc VII L.P. (“MidBanc VII”), whose principal business is to be a general partner of BF VII. The general partner of BF VIII is MidBanc VIII L.P. (“MidBanc VIII”), whose principal business is to be a general partner of BF VIII. The general partner of BF IX is MidBanc IX L.P. (“MidBanc IX”), whose principal business is to be a general partner of BF IX. MidBanc VI, MidBanc VII, MidBanc VIII, and MidBanc IX are Illinois limited partnerships. The general partner of MidBanc VI, MidBanc VII, MidBanc VIII, and MidBanc IX is The Banc Funds Company, LLC, whose principal business is to be a general partner of MidBanc VI, MidBanc VII, MidBanc VIII, and MidBanc IX. The Banc Funds Company, LLC (“The

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Banc Funds") is an Illinois corporation whose principal shareholder is Charles J. Moore. Mr. Moore has been the manager of BF VI, BF VII, BF VIII, and BF IX, since their respective inceptions. As manager, Mr. Moore has voting and dispositive power over the securities held by each of those entities. As the controlling member of The Banc Funds, Mr. Moore controls The Banc Funds, and therefore each of the partnership entities directly and indirectly controlled by The Banc Funds.

(3)
Of the 89,792 shares beneficially owned by Mr. Hunter, 6,766 shares are owned individually by his spouse.

(4)
Of the 43,661 shares beneficially owned by Mr. Freeman, 1,085 shares are owned individually by his spouse.

(5)
Of the 27,832 shares beneficially owned by Mr. Crooks, 3,273 shares are owned jointly with his spouse and 635 shares are owned individually by his spouse.

(6)
Of the 25,4375 shares beneficially owned by Ms. Bauer, 5,399 shares are owned jointly with her spouse and 9,178 shares are owned individually by her spouse.

(7)
Of the 18,830 shares beneficially owned by Mr. Cox, 500 shares are owned individually by his spouse and 17,330 are owned jointly with his spouse.

(8)
Mr. Lucco has provided notice that he is resigning his positions with Emclaire and Farmers National effective August 23, 2018.

EMCLAIRE'S MARKET PRICE AND DIVIDENDS

Stock Prices

Emclaire's common stock is traded on the NASDAQ Capital Market under the symbol "EMCF". The listed market makers for Emclaire's common stock include:

Boenning and Scattergood, Inc. 4 Tower Bridge 200 Barr Harbor Drive, Suite 300 West Conshohocken, PA 19428 Telephone: (800) 883-1212	Janney Montgomery Scott LLC 1717 Arch Street Philadelphia, PA 19103 Telephone: (215) 665-6000	Raymond James & Associates, Inc. 222 South Riverside Plaza Suite 2680 Chicago, IL 60606 Telephone: (312) 471-5100

The following table sets forth the high and low sale and quarter-end closing market prices of the Emclaire common stock as reported by the NASDAQ Capital Market as well as cash dividends paid for the quarterly periods presented.

	Market Price			Cash Dividend
	High	Low	Close	
2018:				
Third quarter (through July 26, 2018)	$ 37.51	$ 34.01	$ 37.00	$ —
Second quarter	35.76	31.05	34.30	0.28
First quarter	33.98	29.70	33.41	0.28
2017:				
Fourth quarter	$ 31.75	$ 27.86	$ 30.35	$ 0.27
Third quarter	29.00	27.83	28.65	0.27

Second quarter	29.71	26.50	27.88	0.27
First quarter	31.50	26.13	29.25	0.27
2016:				
Fourth quarter	$ 30.00	$ 24.02	$ 29.25	$ 0.26
Third quarter	24.95	23.29	24.62	0.26
Second quarter	25.00	23.61	23.94	0.26
First quarter	25.00	22.73	25.00	0.26

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As of March 1, 2018, there were approximately 602 stockholders of record and 2,271,139 shares of Emclaire common stock entitled to vote, receive dividends and considered outstanding for financial reporting purposes. The number of stockholders of record does not include the number of persons or entities who hold their stock in nominee or “street” name.

Community First shareholders are advised to obtain current market quotations for Emclaire common stock. The market price of Emclaire common stock will fluctuate between the date of this proxy statement/information statement/prospectus and the completion of the merger. No assurance can be given concerning the market price of Emclaire common stock before or after the effective date of the merger.

On May 24, 2018, the last trading day prior to the public announcement of the merger, the closing sale price of a share of Emclaire common stock as reported on the NASDAQ Capital Market was $34.25. On July 26, 2018, the last practicable trading day before the distribution of this proxy statement/information statement/prospectus the closing sale price of a share of Emclaire common stock as reported on the NASDAQ Capital Market was $37.00.

Dividends

Emclaire has traditionally paid regular quarterly cash dividends. Future dividends will be determined by the board of directors after giving consideration to Emclaire’s financial condition, results of operations, tax status, industry standards, economic conditions, regulatory requirements and other factors.

Whenever a dividend or other distribution is declared by Emclaire on Emclaire common stock, the record date for which is at or after the effective time of the merger, the declaration will include dividends or other distributions on all shares of Emclaire common stock issuable pursuant to the merger agreement, but such dividends or other distributions will not be paid to the holder thereof until such holder has duly surrendered its Community First common stock certificates in accordance with the merger agreement.

DESCRIPTION OF Emclaire CAPITAL STOCK

As a result of the merger, Community First shareholders will receive shares of Emclaire common stock in the merger and become shareholders of Emclaire. Your rights as shareholders of Emclaire will be governed by Pennsylvania law and the articles of incorporation and bylaws of Emclaire. The following description of the material terms of Emclaire’s common stock to be issued in the merger, reflects the anticipated state of affairs upon completion of the merger. Emclaire and Community First urge you to read the applicable provisions of Pennsylvania law, Emclaire’s articles of incorporation and bylaws, and federal law governing bank holding companies carefully and in their entirety. Copies of Emclaire’s governing documents have been filed with the SEC. To find out where copies of these documents can be obtained, see “Where You Can Find More Information.”

General

Emclaire is authorized to issue 12,000,000 shares of common stock, $1.25 par value per share, and 3,000,000 shares of serial preferred stock, $1.00 par value per share. Each share of Emclaire common stock has the same relative rights and is identical in all respects to each other share of Emclaire common stock.

The common stock of Emclaire represents nonwithdrawable capital, is not a deposit account of any type, and is not insured by the FDIC or any other government agency.

Common Stock

Voting Rights. The holders of shares of Emclaire common stock have exclusive voting rights in Emclaire. They elect Emclaire’s board of directors and act on other matters as are required to be presented to them under Pennsylvania law or as are otherwise presented to them by the board of directors. Except as discussed in “Anti-Takeover Effects of Certain Provisions of Emclaire’s Documents and Law,” each holder of shares of Emclaire common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. If we issue any shares of preferred stock, holders of the preferred stock may also possess voting rights.

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Dividends. Emclaire may pay dividends if, as and when declared by its board of directors. The payment of dividends is limited by law and applicable regulation. See "Market for Common Stock and Dividend Policy — Dividend Policy." The holders of shares of Emclaire common stock will be entitled to receive and share equally in dividends declared by the board of directors. The holders of any preferred stock that Emclaire issues may have a priority over the holders of Emclaire common stock with respect to dividends.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of Farmers National, Emclaire, as the sole holder of Farmers National's capital stock, would be entitled to receive all of the assets of Farmers National available for distribution, after payment or provision for payment of all debts and liabilities of Farmers National, including all deposit accounts and accrued interest, and after distribution of the balance in the liquidation account to eligible account holders and supplemental eligible account holders.

In the event of any liquidation, dissolution or winding up of Emclaire, the holders of shares of common stock would be entitled to receive all of the assets of Emclaire available for distribution, after payment or provision for payment of all debts and liabilities. The holders of any preferred stock that Emclaire issues may have a priority over the holders of the common stock upon liquidation or dissolution.

Preemptive Rights. Holders of shares of common stock are not entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

Transfer Agent and Registrar. The transfer agent and registrar for the Emclaire common stock is American Stock Transfer & Trust Company, LLC, Brooklyn, New York.

Preferred Stock

Emclaire is authorized to issue up to 3,000,000 shares of serial preferred stock. Emclaire's board of directors has the authority to fix and determine the voting rights, designations, preferences and other special rights of the preferred stock. Emclaire's board of directors can, without shareholder approval, authorize shares of preferred stock to be issued with voting, dividend, liquidation and conversion rights that rank higher to the rights of the common stock. The issuance of preferred stock, therefore, could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

Pursuant to the merger and bank merger, all of the approximately $4.2 million of outstanding shares of Community First Bank's preferred stock will be exchanged on a one-for-one basis for shares of two newly created series of Emclaire preferred stock. Upon completion of merger (i) each share of Series A Non-Cumulative Perpetual Preferred Stock of Community First Bank, shall be converted into the right to receive one share of Series C Non-Cumulative Preferred Stock of Emclaire, liquidation preference $10 per share, which we refer to as the Series C Preferred Stock, and (ii) each share of Series B Non-Cumulative Perpetual Preferred Stock of Community First Bank, shall be converted into the right to receive one share of Series D Non-Cumulative Preferred Stock of Emclaire, which we refer to as the Series D Preferred Stock. The Series C Preferred Stock and the Series D Preferred Stock are referred to collectively as the Emclaire Preferred Stock.

Upon completion of the merger, Emclaire will issue up to 286,888 shares of Series C Preferred Stock and up to 133,705 shares of Series D Preferred Stock. The terms of the Series C Preferred Stock and the Series D Preferred Stock are the same except as described below.

Rank. The Emclaire Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up, rank:

- senior to Emclaire's common stock, and to all classes or series of equity securities issued by us which provide that the terms of the equity securities shall rank junior to the Emclaire Preferred Stock;

- junior to all classes or series of equity securities issued by us which provide that the terms of the equity securities shall rank senior to the Emclaire Preferred Stock;

- equally with all other classes or series of equity securities; and

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- junior to our subordinated debt, including capital notes and trust preferred securities.

The Series C Preferred Stock will rank senior to the Series D Preferred Stock. The rights of holders of the Emclaire Preferred Stock may be adversely affected by the rights of holders of any shares of preferred stock that may be issued in the future. Emclaire's board of directors may cause shares of preferred stock to be issued in public or private transactions for any proper corporate purpose. Any changes to the rights of the holders of the Emclaire Preferred Stock or the creation of a class or series of preferred stock senior to the Emclaire Preferred Stock requires the approval of at least two-thirds of the outstanding shares of Preferred Stock. The creation of a class or series of preferred stock ranking equal to the Emclaire Preferred Stock requires the approval of a majority of the outstanding shares of Preferred Stock.

Preemptive Rights.   Holders of Emclaire Preferred Stock will not have any preemptive or subscription rights to acquire any other shares of our capital stock.

Dividends.   Holders of the Emclaire Preferred Stock will be entitled to receive cash dividends, when and if declared by our Board of Directors out of funds legally available for dividends.

The Series C Preferred Stock provides for the payment of semi-annual dividends as follows: at a rate of 4.50% per annum until June 1, 2021 and variable thereafter at 2.00% above the five year Treasury yield, with a minimum interest rate of 5.00% and a maximum interest rate not to exceed 8.00%.

The Series D Preferred Stock provides for the payment of semi-annual dividends as follows: at a rate of 4.00% per annum until June 1, 2020, at a rate of 4.50% from June 1, 2020 until June 1, 2025 and variable thereafter at 2.00% above the five year Treasury yield, with a minimum interest rate of 5.00% and a maximum interest rate not to exceed 8.00%.

Dividends on any shares of Emclaire Preferred Stock are non-cumulative and will be payable semi-annually. If the Emclaire board of directors does not declare a dividend during a semi-annual period, it never has to be paid. Emclaire may not declare, pay or set apart for payment, cash, stock or non-stock dividends or make other payments on its common stock or any of its other stock ranking junior to the Emclaire Preferred Stock unless full dividends on all shares of Emclaire Preferred Stock have been paid or set apart for payment for the immediately preceding five dividend periods and for the current dividend period. Dividends may only be paid from legally available funds. No interest will be paid for or on account of any unpaid dividends.

Voting Rights.   The Emclaire Preferred Stock has no voting rights except as set forth below or except as required by Pennsylvania law. Specifically, the following voting rights are afforded the shares of Emclaire Preferred Stock:

- If Emclaire fails to fully pay, or to declare and set apart for full payment, dividends on the shares of any series of Emclaire Preferred Stock for two dividend periods (whether consecutive or not), the holders of the series of Emclaire Preferred Stock will acquire the right, acting as a class together with the holders of any of our other shares of capital stock then having the right to vote for the election of directors due solely to our failure to pay dividends, to appoint 20% of the total number of directors (rounded to the next whole number) after giving effect to such appointment. In addition, directors appointed by the holders of Emclaire Preferred Stock will constitute 20% of the total number of members of each of the committees of the board of directors.

- These voting rights will continue until Emclaire has fully paid dividends on all outstanding shares of Emclaire Preferred Stock for at least two consecutive semi-annual dividend periods. Provided the voting rights of all other holders of any other shares of Emclaire's capital stock then having the right to vote for the election of directors due solely to Emclaire's failure to pay dividends have also terminated, the terms of any directors appointed by the holders of Emclaire Preferred Stock will immediately terminate, and the number of directors will be reduced by the number of such terminating directors. However, the holders of Emclaire Preferred Stock will regain these voting rights in the event of each and every time Emclaire subsequently fail to pay a semi-annual dividend.

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- At any time the Emclaire Preferred Stock has rights to appoint directors, as described above, the following actions can only be taken with the approval of that number of directors otherwise required for such action, plus at least one director appointed by the holders of Emclaire Preferred Stock whose vote is not included in determining the approval in accordance with the otherwise required standard:

- Any issuance of debt or equity securities by Emclaire, provided that such approval is not required for (i) the issuance for cash of non-voting securities subordinate as to dividends and distributions whether upon liquidation, dissolution, or otherwise, to the Emclaire Preferred Stock, or (ii) borrowings in the ordinary course of business, not involving capital instruments, by a bank subsidiary;

- Any merger, acquisition, or sale of all or substantially all of the assets involving us or any of our subsidiaries; or

- Any grant of options, warrants or other rights to acquire our equity securities.

- Emclaire will not, without the affirmative vote of the holders of at least two-thirds of the then outstanding shares of Emclaire Preferred Stock (i) create or increase the authorized number of shares of any class or series of stock having a preference as to dividends or distributions, whether upon liquidation, dissolution, or otherwise, that is senior to the shares of Emclaire Preferred Stock; or (ii) change the preferences, qualifications, privileges, limitations, restrictions or special or relative rights granted to or imposed upon the shares of Emclaire Preferred Stock in any respect.

Emclaire will not, without the affirmative vote of the holders of at least a majority of the then outstanding shares of Emclaire Preferred Stock, create or increase the authorized number of any shares of any class or series of stock having a preference as to dividends or distributions, whether upon liquidation, dissolution, or otherwise, that is equal to the shares of Emclaire Preferred Stock.

Redemption. Emclaire may redeem the shares of Emclaire Preferred Stock at any time. The holders of Emclaire Preferred Stock may not require Emclaire to redeem the Emclaire Preferred Stock.

The Emclaire Preferred Stock is not redeemable at the option of the holder. If, however, Emclaire receives an unsolicited written request for redemption of shares from any holder, Emclaire may, from time to time, in its sole discretion, consider redemption of these shares by tender, in privately negotiated transactions or otherwise.

Conversion Provisions. The Emclaire Preferred Stock is not convertible into or exchangeable for any of Emclaire's other property or securities.

Change in Control. In the event of a change in control of Emclaire, and the Emclaire Preferred Stock is still outstanding, then the terms of any such agreement with the acquirer for the merger or business combination shall govern the treatment of the Emclaire Preferred Stock with respect to the relevant change in control. However, if such agreement does not provide for the treatment of the Emclaire Preferred Stock in a change in control, the Emclaire Preferred Stock shall be converted into or exchanged for preference securities of the surviving or resulting entity on similar terms the outstanding Preferred Stock.

Liquidation Rights. If any voluntary or involuntary liquidation, dissolution or winding up of the Emclaire occurs, the holders of Emclaire Preferred Stock pursuant to the respective Statement of Rights will be entitled to receive liquidating distributions, in the amount of $10.00 per share, plus an amount equal to declared and unpaid dividends and dividends which would have been payable in prior semi-annual dividend periods had the full amount of dividends been declared.

The voluntary sale, lease or conveyance of all or substantially all of our property or assets to, or our consolidation or merger with, any other corporation will not be deemed to be a liquidation, dissolution or winding up. If the aggregate liquidation preference payable with respect to the Emclaire Preferred Stock, and any other shares of our capital stock ranking equally with the Emclaire Preferred Stock with respect to liquidation, are not paid in full upon any voluntary or involuntary liquidation, dissolution or winding up then the holders of Emclaire Preferred Stock and of these other shares will share ratably in any distribution

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of assets in proportion to the full respective preferential amounts they are entitled to receive. After payment of the full amount of the liquidating distribution they are entitled to receive, the holders of Emclaire Preferred Stock will not be entitled to any further participation in any distribution of our assets.

Exchange Listing. The Emclaire Preferred Stock will not be listed on any exchange.

Transfer Agent and Registrar. American Stock Transfer & Trust Company, LLC will act as the transfer agent and registrar for the Emclaire Preferred Stock.

Anti-Takeover Effects of Certain Provisions of Emclaire's Charter Documents and Law

The following discussion is a general summary of certain provisions of federal and Pennsylvania law and Emclaire's articles of incorporation and bylaws that may be deemed to have an "anti-takeover" effect. For a complete description, we refer you to the applicable federal and Pennsylvania law and Emclaire's amended and restated articles of incorporation and bylaws. For copies of Emclaire's amended and restated articles of incorporation, see "Where You Can Find Additional Information."

Emclaire's Amended and Restated Articles of Incorporation and Bylaws. Emclaire's amended and restated articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of shareholders that might be deemed to have a potential anti-takeover effect. In addition, these provisions will also render the removal of Emclaire's board of directors or management more difficult.

Directors. Emclaire's board of directors is classified into three classes. The members of each class are elected for a term of three years, and only one class of directors is elected annually. Therefore, it takes at least two annual elections to replace a majority of the board.

Shareholder Nominations. Shareholders who would like to nominate candidates for election to Emclaire's board of directors at an annual meeting of shareholders must give advance notice and provide certain information to Emclaire.

Special Meetings. Special meetings of our shareholders may only be called by the president of Emclaire, or the majority of the board of directors or the board's executive committee.

Cumulative Voting. Cumulative voting rights do not exist with respect to the election of directors.

Preferred Stock. Emclaire's board of directors has the authority to issue shares of preferred stock, without shareholder approval, with voting, dividend, liquidation and conversion rights that rank higher to the rights of Emclaire common stock and that could impede an attempt to gain control of Emclaire.

Merger, Consolidation, Liquidation or Dissolution. A merger, consolidation, liquidation or dissolution of Emclaire, or any action that would result in the sale or other disposition of all or substantially all of our assets, must be approved by the affirmative vote of the holders of at least two-thirds of the shares of common stock, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof. Provided, however, this two-thirds vote requirement shall not apply if the merger or other transaction is first approved by a majority of the board of directors then in office then the merger or consolidation will only require such affirmative vote as may be required by applicable law.

Amendment to Articles of Incorporation and Bylaws. Under Pennsylvania law, amendment of Emclaire's amended and restated articles of incorporation, except for certain provisions, requires the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter.

Amendment of Emclaire's bylaws requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock or a majority vote of the members of the board of directors. Any amendment of the bylaws by a majority vote of the board may be changed by the affirmative vote of the holders of two-thirds of the outstanding shares of common stock.

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Pennsylvania Business Corporation Law. The Pennsylvania Business Corporation Law (the "PBCL") also contains certain applicable provisions that may have the effect of deterring or discouraging an attempt to take control of Emclaire. These provisions, among other things:

- Require that, following any acquisition by any person or group of 20% of a public corporation's voting power, the remaining shareholders have the right to receive payment for their shares, in cash, from such person or group in an amount equal to the "fair value" of the shares, including an increment representing a proportion of any value payable for control of the corporation;

- Prohibit for five years, subject to certain exceptions, a "business combination," which includes a merger or consolidation of the corporation or a sale, lease or exchange of assets with a person or group beneficially owning 20% or more of a public corporation's voting power;

- Prevent a person or group acquiring different levels of voting power (20%, 33% and 50%) from voting any shares over the applicable threshold, unless "disinterested shareholders" approve such voting rights;

- Require any person or group that publicly announces that it may acquire control of a corporation, or that acquires or publicly discloses an intent to acquire 20% or more of the voting power of a corporation, to disgorge to the corporation any profits that it receives from sales of the corporation's equity securities purchased over the prior 18 months;

- Expand the factors and groups, including shareholders, which a corporation's board of directors can consider in determining whether an action is in the best interests of the corporation;

- Provide that a corporation's board of directors need not consider the interests of any particular group as dominant or controlling;

- Provide that a corporation's directors, in order to satisfy the presumption that they have acted in the best interests of the corporation, need not satisfy any greater obligation or higher burden of proof with respect to actions relating to an acquisition or potential acquisition of control;

- Provide that actions relating to acquisitions of control that are approved by a majority of "disinterested directors" are presumed to satisfy the directors' fiduciary duty, unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation; and

- Provide that the fiduciary duty of a corporation's directors is solely to the corporation and may be enforced by the corporation or by a shareholder in a derivative action, but not by a shareholder directly.

Pennsylvania-chartered corporations may exempt themselves from these anti-takeover provisions. Emclaire's articles of incorporation do not provide for an exemption from any of these provisions.

Change in Control Regulations. Under applicable regulations of the Federal Reserve Board, any person, which includes an individual or an entity, acting directly or indirectly, or through or in concert with one or more persons, must give the Federal Reserve Board at least 60 days prior written notice before acquiring control of a bank or bank holding company. Control is considered to exist when a person, among other things, acquires ownership, control, or power to vote 25 percent or more of the outstanding shares of any class of voting securities of the financial institution or the ability to control the election of a majority of the directors of an institution. Moreover, control is presumed to have occurred, subject to rebuttal, upon the acquisition of more than 10 percent of any class of voting stock, or of more than 25 percent of any class of stock, of a bank or bank holding company, where certain enumerated control factors are also present in the acquisition.

Pennsylvania law has a similar statute except that control is considered to have been acquired when a person, among other things, has acquired more than 10 percent (or 5 percent in certain circumstances) of any class of the outstanding shares of an institution or corporation or the ability to control the election of a majority of the directors of an institution or corporation.

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COMPARISON OF SHAREHOLDER RIGHTS OF EMCLAIRE
AND COMMUNITY FIRST COMMON STOCK

The rights of Emclaire's shareholders are currently governed by the PBCL and Emclaire's articles of incorporation and bylaws, and will continue to be governed by the PBCL and Emclaire's articles of incorporation and bylaws following completion of the merger. The rights of Community First's shareholders are currently governed by the PBCL and Community First's articles of incorporation and bylaws. Following completion of the merger, the rights of Community First's shareholders who receive shares of Emclaire common stock as merger consideration will be governed by the PBCL and Emclaire's articles of incorporation and bylaws.

The following discussion summarizes the material differences between the rights of Community First's shareholders and the rights of Emclaire's shareholders. This summary is not intended to be a complete statement of all of such differences or a complete description of the specific provisions referred to therein, and is qualified in its entirety by reference to the PBCL, Emclaire's articles of incorporation and bylaws and Community First's articles of incorporation and bylaws and the applicable provisions of federal law governing bank holding companies. Emclaire and Community First urge you to read those documents carefully and in their entirety.

Authorized Capital Stock

Emclaire.   Emclaire's authorized capital stock consists of 12,000,000 shares of common stock, par value $1.25 per share, and 3,000,000 shares of preferred stock, par value $1.00 per share. The number of Emclaire's authorized shares of common stock is greater than what is currently outstanding and what it will issue in the merger. This provides Emclaire's board of directors with greater flexibility to effect, among other things, financings, acquisitions, stock dividends, stock splits and employee stock options.

Emclaire's articles of incorporation authorize the board of directors to establish one or more series of preferred stock and, for any series of preferred stock, to determine the terms and rights of the series, including voting rights, dividend rights, conversion and redemption rates and liquidation preferences

Community First.   The authorized capital stock of Community First consists of 2,000,000 shares of common stock, par value $0.50 per share.

Preemptive Rights

Neither the articles of incorporation nor the bylaws of both Emclaire and Community First provide for preemptive rights to shareholders in connection with the issuance of capital stock.

Dividends

The PBCL generally provides that, unless otherwise restricted in a corporation's bylaws, a corporation's board of directors may authorize and a corporation may pay dividends to shareholders. However, a distribution may not be made if, after giving effect thereto:

- the corporation would be unable to pay its debts as they become due in the usual course of its business; or
- the total assets of the corporation would be less than the sum of its total liabilities plus (unless otherwise provided in its articles of incorporation) the amount that would be needed to satisfy the preferential rights upon dissolution of the corporation of shareholders whose preferential rights are superior to those receiving the distribution.

Emclaire.   Under Emclaire's bylaws, the board of directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent in writing, declare and pay dividends upon the outstanding shares of capital stock of Emclaire in cash, property or shares of Emclaire, so long as any dividend shall not be in violation of laws and Emclaire's articles of incorporation.

The ability of Farmers National to pay dividends on its capital stock is restricted by federal banking laws and regulations. Although Emclaire is not subject to these restrictions as a Pennsylvania corporation, such restrictions indirectly affect it because dividends from Farmers National is a primary source of funds for the payment of dividends to shareholders.

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Community First. Under Community First's bylaws, the board of directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent in writing, declare and pay dividends upon the outstanding shares of capital stock of Community First in cash, property or shares of Community First, so long as any dividend shall not be in violation of laws and Community First's articles of incorporation.

The ability of Community First Bank to pay dividends on its capital stock is restricted by Pennsylvania and federal banking laws and regulations. Although Community First is not subject to these restrictions as a Pennsylvania corporation, such restrictions indirectly affect it because dividends from Community First Bank is a primary source of funds for the payment of dividends to shareholders.

Board of Directors

Emclaire. The bylaws of Emclaire require the board of directors to be divided into three classes as nearly equal in number as possible and that the members of each class will be elected for a term of three years and until their successors are elected and qualified, with one class being elected annually. Under Emclaire's bylaws, any vacancy occurring in the board of directors, including any vacancy created by reason of an increase in the number of directors, shall be filled by a majority vote of the remaining directors, whether or not a quorum is present, and any director so chosen shall hold office until the expiration of the class of directors to which he was appointed.

The bylaws of Emclaire provide that upon application of any shareholder or director, the court may remove from office any director in case of fraudulent or dishonest act, or gross abuse of authority or discretion with respect to Emclaire, or for any other proper cause, and may bar from office any director so removed for a period prescribed by the court.

Community First. Community First's bylaws provide that the number of directors that shall constitute the board of directors shall be not less than five nor more than 25. The board of directors shall be classified into three classes, each class to be elected for a term of three years. At each annual meeting of shareholders, successors to the class of directors whose term shall then expire shall be elected to hold office for a term of three years, so that the term of office of one class of directors shall expire in each year. The board of directors shall have the sole discretion to increase the number of directors that shall constitute the board of directors; provided however, that the total number of directors in each class remains relatively proportionate to the others.

The bylaws further provided that the board of directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or for any other proper cause or if, within sixty days or such other time after notice of his selection, he does not accept the office either in writing or by attending a meeting of the board of directors and fulfill such other requirements of qualification. Upon application of any shareholder or director, the court may remove from office any director in case of fraudulent or dishonest acts, or gross abuse of authority or discretion with reference to Community First, or for any other proper cause, and may bar from office any director so removed for a period prescribed by the court. Vacancies on the board of directors, including vacancies resulting from an increase in the number of directors, shall be filled by a majority of the remaining members of the board of directors, though less than a quorum, and each person so appointed shall be a director until the expiration of the term of office of the class of directors to which he was appointed.

Discharge of Duties.

The PBCL provides that in discharging the duties of their respective positions, the board of directors, committees of the board and individual directors of a business corporation may, in considering the best interests of the corporation, consider the following:

- the effects of any action upon any and all groups affected by such action, including shareholders, employees, suppliers, customers and creditors of the corporation and upon communities in which offices or other establishments of the corporation are located;

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- the short-term and long-term interests of the corporation, including benefits that may accrue to the corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the corporation;

- the resources, intent and conduct (past, stated and potential) or any person seeking to acquire control of the corporation; and

- all other pertinent factors.

The board of directors, committees of the board and individual directors shall not be required, in considering the best interests of the corporation or the effects of any such action, to regard any corporate interest or the interests of any particular group affected by such action as a dominant or controlling interest or factor.

Emclaire. The bylaws of Emclaire that the business and affairs of the corporation shall be managed by its board of directors, which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the articles of incorporation or bylaws directed or required to be exercised and done by the shareholders. Emclaire’s bylaws further provide that a director shall stand in a fiduciary relation to the corporation and shall perform his duties as a director, including his duties as a member of any committee of the board of directors upon which he may serve, in good faith, in a manner he reasonably believes to be in the best interests of the corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his duties, a director shall be entitled to rely in good faith on information, opinions, reports of statements, including financial statements and other financial data, in each case prepared or presented by any of the following: (a) one or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented, (b) counsel, public accountants or other persons as to matters which the director reasonable believes to be within the professional or expert competence of such persons, (c) a committee of the board of directors upon which he does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonably believes to merit confidence. Emclaire’s bylaws further provide that a director shall not be considered to be acting in good faith if he has knowledge concerning matter in question that would cause his reliance to be unwarranted. In discharging the duties of their respective positions, the board of directors, committees of the board of directors and individual directors may, in considering the best interests of the corporation, consider the effects of any action upon employees, upon suppliers and customers of the corporation and upon communities in which officers or other establishments of the corporation are located, and all other pertinent factors. Absent breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a director or any failure to take any action shall be presumed to be in the best interests of the corporation.

Community First. Community First’s bylaws provide that the business and affairs of the corporation shall be managed by its board of directors, which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the articles of incorporation or by bylaws directed or required to be exercised and done by the shareholders.

The bylaws further provide that a director shall stand in a fiduciary relation to the corporation and shall perform his duties as a director, including his duties as a member of any committee of the board of directors upon which he may serve, in good faith, in a manner he reasonably believes to be in the best interests of the corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his duties, a director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following: (a) one or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented; (b) counsel, public accountants or other persons as to matters which the director reasonably believes to be within the professional or expert competence of such persons; (c) a committee of the board of directors upon which he does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonably believes to merit confidence. A director shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

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The bylaws further provide that in discharging the duties of their respective positions, the board of Directors, committees of the board of directors and individual directors may, in considering the best interests of the corporation, consider the effects of any action upon shareholders, employees, upon suppliers, customers and creditors of the corporation and upon communities in which offices or other establishments of the corporation are located, and all other pertinent factors. Absent breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a director or any failure to take any action shall be presumed to be in the best interests of the corporation.

Cumulative Voting

Emclaire. The articles of incorporation of Emclaire prohibit cumulative voting by shareholders in elections of directors.

Community First. Neither the articles of incorporation nor the bylaws of Community First provide for cumulative voting in the election of directors.

Nomination of Director Candidates by Shareholders and Shareholder Proposals

Emclaire. The bylaws of Emclaire requires all nominations for election to the board of directors by a shareholder to be made pursuant to timely notice in writing to the secretary of Emclaire. To be timely, a shareholders' notice must be received by Emclaire not later than 60 days prior to the annual meeting called for the election of directors. Each written notice of a shareholder nomination must set forth certain information specified in the bylaws. Any nomination of any person not made in compliance with the procedures set forth in the bylaws shall be disregarded by the presiding officer of the meeting and any votes for such nominee shall be disregarded.

Emclaire's bylaws also provide that only such business as shall have been properly brought before an annual meeting of shareholders shall be conducted at the annual meeting. Business proposals and nominations for directors other than those to be included in Emclaire's proxy materials following the procedures described in Rule 14a-8 under the Exchange Act, may be made by shareholders entitled to vote at the meeting if notice is timely given and if the notice contains specified required information such as (a) the name and address of each proposed nominee; (b) the age of each proposed nominee; (c) the principal occupation of each proposed nominee; (d) the number of shares of the Corporation owned by each proposed nominee; (e) the total number of shares that to the knowledge of the notifying shareholder will be voted for each proposed nominee; (f) the name and residence address of the notifying shareholder; and (g) the number of shares of the Corporation owned by the notifying shareholder.

Community First. Community First's bylaws provide that any shareholder who intends to nominate or to cause to have nominated any candidate for election to the board of directors (other than any candidate proposed by the Corporation's then existing board of directors) shall so notify the Secretary of the Corporation in writing not less than sixty days prior to the date of any meeting of shareholders called for the election of directors. Such notification shall contain the following information to the extent known by the notifying shareholder: (a) the name and address of each proposed nominee; (b) the age of each proposed nominee; (c) the principal occupation of each proposed nominee; (d) the number of shares of the Corporation owned by each proposed nominee; (e) the total number of shares that to the knowledge of the notifying shareholder will be voted for each proposed nominee; (f) the name and residence address of the notifying shareholder; and (g) the number of shares of the Corporation owned by the notifying shareholder.

Calling Special Meetings of Shareholders

Emclaire. The bylaws of Emclaire provide that special meetings of shareholders only may be called by the president of Emclaire, a majority of the board of directors or its executive committee.

Community First. Under Community First's articles of incorporation and bylaws special meetings of the shareholders may be called at any time by the chairman of the board, the president, a majority of the board of directors or by its executive committee or by one or more shareholders entitled to cast at least forty percent of the votes which all shareholders are entitled to cast a particular meeting.

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Shareholder Action Without a Meeting

Emclaire. Emclaire's bylaws provide that any action permitted to be taken by the shareholders at a meeting may be taken without a meeting if a written consent setting forth the action so taken is signed by all of the shareholders entitled to vote at a meeting for such purpose.

Community First. Neither the articles of incorporation nor the bylaws of Community First provide for action by shareholders without a meeting. However, the PBCL provides that unless otherwise restricted in the bylaws, any action required or permitted to be taken at a meeting of the shareholders or of a class of shareholders of a business corporation may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the shareholders who would be entitled to vote at a meeting for such purpose shall be filed with the secretary of the corporation.

Indemnification of Directors and Officers and Limitation of Liability

Under the PBCL, unless otherwise restricted in its bylaws, a corporation has the power to indemnify any person who was or is a party or threatened to be made a party to any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the corporation), by reason of the fact that the person is or was a representative of the corporation, or is or was serving at the request of the corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with the action or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. Further, a corporation may pay expenses incurred in defending any action or proceeding in advance of the final disposition of action upon receipt of an undertaking by or on behalf of the representative to repay the amount if it is ultimately determined that the representative is not entitled to indemnification from the corporation.

Under the PBCL, the statutory provisions for indemnification and advancement of expenses are not deemed to be exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, or vote of shareholders or disinterested directors. A corporation may establish a fund to secure or insure in any manner its indemnification obligations. However, indemnification is prohibited in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

Under the PBCL, unless otherwise restricted in its bylaws, a corporation may purchase and maintain insurance on behalf of any person who is or was a representative of the corporation or is or was serving at the request of the corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust, or other enterprise against any liability asserted against him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against that liability.

Emclaire. Emclaire's bylaws provide that Emclaire will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, or proceeding, including actions by or in the right of Emclaire, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director, officer, employee or agent of Emclaire, or is or was serving at the request of Emclaire as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, excise taxes, and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. Emclaire's bylaws also provide that advances of expenses may be paid to a director, officer, or employee or agent of Emclaire in defending a civil or criminal action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay the advance if it is ultimately determined that the person is not entitled to be indemnified by Emclaire.

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Emclaire's bylaws provide that Emclaire may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Emclaire, or is or was serving at the request of Emclaire as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not Emclaire would have the power to indemnify such person against such liability.

The bylaws of Emclaire provide that a director shall not be personally liable for monetary damages for any action taken, or any failure to take action, unless: (a) the director has breached or failed to perform the duties of his office in accordance with the bylaws; and (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness

Community First.   Community First's bylaws provide that the corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a representative of the corporation, or is or was serving at the request of the corporation as a representative of another domestic or foreign corporation for profit or not-(or-profit, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action or proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person did not act in good faith and in a manner that he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal proceeding, had reasonable cause to believe that his conduct was unlawful.

The bylaws further provide that the corporation shall have power to indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a representative of the corporation or is or was serving at the request of the corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of the action if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation. Indemnification shall not be made in respect of any claim, issue or matter as to which the person has been adjudged to be liable to the corporation unless and only to the extent that the court of common pleas of the judicial district embracing the county in which the registered office of the corporation is located or the court in which the action was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for the expenses that the court of common pleas or other court deems proper.

To the extent that a representative of the corporation has been successful on the merits or otherwise in defense of any action or proceeding referred above (relating to third party actions relating to derivative actions) or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

The bylaws further provide that expenses (including attorneys' fees) incurred in defending any action or proceeding may be paid by the corporation in advance of the final disposition of the action or proceeding upon receipt of an undertaking by or on behalf of the person to repay the amount if it is ultimately determined that he is not entitled to be indemnified by the corporation. The corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a representative of the corporation or is or was serving at the request of the corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against that liability under the bylaws.

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The bylaws also provide that a director shall not be personally liable, as such, for monetary damages for any action taken, or any failure to take any action, unless: (a) the director has breached or failed to perform the duties of his office under bylaws; and (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The foregoing provisions shall not apply to: (a) the responsibility or liability of a director pursuant to any criminal statute; or (b) the liability of a director for the payment of taxes pursuant to local, state or federal law.

Amendments to Articles of Incorporation and Bylaws

Emclaire. The articles of incorporation of Emclaire may be amended in accordance with the PBCL which generally provides that and amendment of the articles of incorporation may be made if it is first approved by the board of directors and thereafter approved by the holders of a majority of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof.

The bylaws of Emclaire may be amended by the majority vote of the board of directors at a regular or special meeting of the board of directors or the affirmative vote of two-thirds of the outstanding shares of common stock at a regular or special meeting of shareholders convened for such purpose.

Community First. The articles of incorporation of Community First provide that articles 7 (related to the shareholder vote required to approve mergers, consolidations, liquidation or dissolution), 8 (related to lack of cumulative voting rights for the election of directors), 9 (related to opposition of tender offers), 10 (related to calling of special meeting of shareholders), 11 (related to opting out of the control transactions subchapter of the PBCL), 12 (related to opting out of the business combinations subchapter of the PBCL), 13 (related to opting out of the control share acquisitions subchapter of the PBCL), 14 (related to opting out of the disgorgement by certain controlling shareholders following attempts to acquire control), and 15 (related to vote of shareholders required to amended the specified articles) of the articles shall not be amended unless first approved by the affirmative vote of: (a) the holders of at least 80% of the outstanding shares of common stock of the corporation; or (b) the holders of at least 51% of the outstanding shares of common stock of the corporation, provided that such transaction has received the prior approval of at least five directors when the number of directors that constitutes the whole board of directors is seven or less, or such transaction has received the prior approval of at least seventy percent of all the members of the board of directors, rounded to the nearest whole number, when such number of directors that constitutes the board of directors is eight or more.

The bylaws of Community First may be altered, amended or repealed by the affirmative vote of the holders of at least 50% of the outstanding shares of common stock at any regular or special meeting duly convened after notice to the shareholders of that purpose, or by a majority vote of the members of the board of directors at any regular or special meeting thereof duly convened after notice to the directors of that purpose, subject always to the power of the shareholders to change such action of the board of directors by the affirmative vote of the holders of 50% of the outstanding shares of common stock.

Mergers, Consolidations and Sales of Assets

For a merger, consolidation, sale of assets or other similar transaction to occur, the PBCL generally requires the approval of the board of directors and the affirmative vote of the holders of a majority of the votes cast by all shareholders entitled to vote thereon. In addition, if any class or series of shares is entitled to vote thereon as a class, the PBCL requires the affirmative vote of a majority of the votes cast in each class for any plan of merger or consolidation. The PBCL also provides that unless otherwise required by a corporation's governing instruments, a plan of merger or consolidation shall not require the approval of the shareholders if:

- whether or not the constituent corporation, in this case, Emclaire, is the surviving corporation (a) the surviving or new corporation is a Pennsylvania business corporation and the articles of the surviving or new corporation are identical to the articles of the constituent corporation, except for specified changes which may be adopted by a board of directors without shareholder action, (b) each share of the constituent corporation outstanding immediately prior to the effective date of the merger or consolidation is to continue as or to be converted into, except as may be

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otherwise agreed by the holder thereof, an identical share of the surviving or new corporation after the effective date of the merger or consolidation, and (c) the plan provides that the shareholders of the constituent corporation are to hold in the aggregate shares of the surviving or new corporation to be outstanding immediately after the effectiveness of the plan entitled to cast at least a majority of the votes entitled to be cast generally for the election of directors;

- immediately prior to adoption of the plan and at all times prior to its effective date, another corporation that is a party to the merger or consolidation owns directly or indirectly 80% or more of the outstanding shares of each class of the constituent corporation; or

- no shares of the constituent corporation have been issued prior to the adoption of the plan of merger or consolidation by the board of directors.

Emclaire. Under Emclaire's articles of incorporation, a merger, consolidation, liquidation or dissolution of Emclaire, or any action that would result in the sale or other disposition of all or substantially all of our assets, must be approved by the affirmative vote of the holders of at least two-thirds of the shares of common stock, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof. Provided, however, this two-thirds vote requirement shall not apply if the merger or other transaction is first approved by a majority of the board of directors then in office then the merger or consolidation will only require such affirmative vote as may be required by applicable law

Community First. The articles of incorporation of Community First provide that a merger, consolidation, liquidation or dissolution of the corporation, or any action that would result in the sale or other disposition of all or substantially all of the assets of the corporation must first be approved by the affirmative vote of: (a) the holders of at least 80% of the outstanding shares of common stock of the corporation; or (b) the holders of at least 51% of the outstanding shares of common stock of the corporation, provided that such transaction has received the prior approval of at least five directors when the number of directors that constitutes the whole board of directors is seven or less, or such transaction has received the prior approval of at least seventy percent of all the members of the board of directors, rounded to the nearest number, when such number of directors that constitutes the whole board of directors is eight or more.

Anti-Takeover Provisions

Pennsylvania Law. Under the PBCL, certain anti-takeover provisions apply to Pennsylvania "registered corporations" (e.g., publicly traded companies), including those related to (i) control share acquisitions, (ii) disgorgement of profits by certain controlling persons, (iii) business combination transactions with interested shareholders and (iv) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law allows registered corporations to opt-out of any of these anti-takeover provisions. Emclaire is a registered corporation under the PBCL.

Please see "Description of Emclaire Common Stock — Anti-Takeover Effects of Certain Provisions of Emclaire's Charter Documents and Law" for a description of anti-takeover provisions applicable to Emclaire. Community First has opted out of each of these provisions of the PCBL.

comparison of shareholder rights of emclaire PREFERRED STOCK
AND community first bank preferred stock

The rights of preferred shareholders of Community First Bank are primarily governed by the terms of the preferred stock set forth in the Statement With Respect to Shares for each series of the preferred stock. Upon completion of the merger and bank merger, the rights of the shareholders who receive Emclaire Preferred Stock will be primarily governed by the terms of the Emclaire Preferred Stock set forth in the Statement with Respect to Shares for each series of Preferred Stock. which, except as described below, are substantially similar to the terms of the Community First Bank preferred stock.

The shares of each series of Emclaire Preferred Stock to be issued is substantially similar to the currently outstanding Community First Bank preferred stock except that (i) the Emclaire Preferred Stock will be redeemable by Emclaire at any time, while the Community First Bank preferred stock is non-redeemable, and (ii) the terms of the Emclaire

Preferred Stock clarifies the treatment of the Emclaire
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Preferred Stock in the event of a change in control of Emclaire, while the terms of the Community Bank preferred stock were silent in this regard. For a complete description of the rights and terms of the Emclaire Preferred Stock, see "Description of Emclaire Capital Stock — Preferred Stock."

The rights of Community First Bank preferred shareholders are governed to a lesser extent by the Pennsylvania banking code and Community First Bank's articles of incorporation and bylaws and following completion of the merger and bank merger, the rights of the Emclaire preferred shareholders will be also be governed by the PBCL and Emclaire's articles of incorporation and bylaws.

LEGAL MATTERS

The validity of the shares of Emclaire common and preferred stock to be issued in connection with the merger has been passed upon for Emclaire by Silver, Freedman, Taff & Tiernan LLP. Certain U.S. federal income tax consequences relating to the merger will be passed upon for Emclaire by Silver, Freedman, Taff & Tiernan LLP and for Community First by Bybel Rutledge LLP.

EXPERTS

The consolidated financial statements of Emclaire as of December 31, 2017 and 2016, and for each of the years ended December 31, 2017 and 2016, have been included in this proxy statement/information statement/prospectus in reliance upon the report of Crowe LLP, Independent Registered Public Accounting Firm, and upon the authority of said firm as experts in auditing and accounting.

OTHER MATTERS

As of the date of this proxy statement/information statement/prospectus, Community First's board of directors does not know of any matters that will be presented for consideration at its special meeting other than those described in this proxy statement/information statement/prospectus. As discussed elsewhere herein, Community First's shareholders may, however, be asked to vote on a proposal to adjourn or postpone its special meeting to allow more time to solicit votes for the approval and adoption of the merger agreement. If any other matters properly come before the Community First special meeting, or any adjournment or postponement of such meeting and such matters are voted upon, your returned proxy will be deemed to confer discretionary authority on the individuals named as proxies to vote the shares represented by these proxies as to any of these matters, in their discretion. The individuals named as proxies on the Community First proxy card intend to vote or not to vote on any such matters in accordance with the recommendation of Community First's board of directors.

SOLICITATION OF PROXIES

The cost of the solicitation of proxies for the Community First special meeting will be borne by Community First. Community First will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by it in sending the proxy materials to the beneficial owners of Community First's common stock, if any.

WHERE YOU CAN FIND MORE INFORMATION

Emclaire has filed a registration statement with the SEC under the Securities Act that registers the issuance of the shares of Emclaire common stock to be issued in the merger to Community First shareholders and the issuance of shares of Emclaire Preferred Stock in the bank merger. This proxy statement/information statement/prospectus is a part of that registration statement and constitutes the prospectus of Emclaire. The registration statement, including the proxy statement/information statement/prospectus and attached exhibits and schedules, contains additional relevant information about Emclaire, its common stock and preferred stock, Community First and the combined company.

In addition, Emclaire files reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at l-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at

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prescribed rates, or from commercial document retrieval services. The SEC also maintains an Internet site that contains reports, proxy statements and other information about issuers, like Emclaire, that file electronically with the SEC. The address of that site is http://www.sec.gov. Emclaire's internet address is http://www.emclairefinancial.com. The information on Emclaire's internet site is not a part of this proxy statement/information statement/prospectus.

You may also request copies of these documents at no cost by contacting Emclaire at the following address:

Emclaire Financial Corp
612 Main Street
Emlenton, Pennsylvania 16373
(844) 767-2311
Attention: Amanda L. Engles, Senior Vice President and Chief Financial Officer

You will not be charged for any of these documents that you request.

Except where the context otherwise indicates, Emclaire has supplied all information contained in this proxy statement/information statement/prospectus relating to Emclaire, and Community First has supplied all such information relating to Community First.

If you have any questions concerning the merger or this proxy statement/information statement/ prospectus, would like additional copies of this proxy statement/information statement/prospectus or need help voting your shares of Community First common stock, please contact Henry H. Deible, President and Chief Executive Officer, or Eugene E. Deible, III, Corporate Secretary, Community First Bancorp, Inc. at (814) 653-8232.

Neither Emclaire nor Community First has authorized anyone to give any information or make any representation about the merger or Emclaire or Community First that is different from, or in addition to, that contained in this proxy statement/information statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement/information statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement/information statement/prospectus does not extend to you. The information contained in this proxy statement/information statement/prospectus speaks only as of the date of this proxy statement/information statement/prospectus unless the information specifically indicates that another date applies.

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Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Emclaire Financial Corp
Emlenton, Pennsylvania

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Emclaire Financial Corp (the “Corporation”) as of December 31, 2017 and 2016, the related consolidated statements of net income, comprehensive income, changes in stockholders’ equity and cash flows for each of the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on the Corporation’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Corporation’s auditor since 2010.

Cleveland, Ohio
March 21, 2018

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Consolidated Balance Sheets
(Dollar amounts in thousands, except share and per share data)

	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 3,072	$ 2,758
Interest earning deposits with banks	11,302	14,810
Total cash and cash equivalents	14,374	17,568
Securities available for sale	101,167	101,560
Loans receivable, net of allowance for loan losses of $6,127 and $5,545	577,234	515,435
Loans held for sale	504	68
Federal bank stocks, at cost	4,662	4,861
Bank-owned life insurance	11,724	11,390
Accrued interest receivable	2,217	1,815
Premises and equipment, net	18,010	18,282
Goodwill	10,288	10,288
Core deposit intangible, net	481	560
Prepaid expenses and other assets	9,423	10,308
Total Assets	$ 750,084	$ 692,135
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 126,263	$ 123,717
Interest bearing	528,380	461,223
Total deposits	654,643	584,940
Borrowed funds	26,000	44,000
Accrued interest payable	413	239
Accrued expenses and other liabilities	9,937	8,883
Total Liabilities	690,993	638,062
Commitments and Contingent Liabilities (Note 13)		
Stockholders' Equity		
Common stock, $1.25 par value, 12,000,000 shares authorized; 2,373,156 and 2,254,375 shares issued; 2,271,139 and 2,152,358 shares outstanding	2,966	2,818
Additional paid-in capital	31,031	27,900
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	32,726	29,960
Accumulated other comprehensive loss	(5,518)	(4,491)
Total Stockholders' Equity	59,091	54,073
Total Liabilities and Stockholders' Equity	$ 750,084	$ 692,135

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Net Income
(Dollar amounts in thousands, except share and per share data)

	Year ended December 31,	
	2017	2016
Interest and dividend income		
Loans receivable, including fees	$ 23,738	$ 20,814
Securities:		
Taxable	1,615	1,662
Exempt from federal income tax	570	628
Federal bank stocks	242	186
Deposits with banks	235	135
Total interest and dividend income	26,400	23,425
Interest expense		
Deposits	3,275	2,791
Short-term borrowed funds	130	78
Long-term borrowed funds	1,088	1,076
Total interest expense	4,493	3,945
Net interest income	21,907	19,480
Provision for loan losses	903	464
Net interest income after provision for loan losses	21,004	19,016
Noninterest income		
Fees and service charges	1,749	1,616
Net gain on sales of available for sale securities	346	82
Net gain on sales of loans	248	119
Other than temporary impairment loss	(508)	—
Earnings on bank-owned life insurance	412	406
Gain on bargain purchase	1,316	—
Other	1,459	1,432
Total noninterest income	5,022	3,655
Noninterest expense		
Compensation and employee benefits	9,258	8,630
Premises and equipment	2,975	2,849
Intangible asset amortization	246	226
Professional fees	841	876
Federal deposit insurance	443	416
Acquisition costs	1,119	401
Other	4,753	4,039
Total noninterest expense	19,635	17,437
Income before provision for income taxes	6,391	5,234
Provision for income taxes	2,114	1,248

Net income	$ 4,277	$ 3,986
Earnings per common share		
Basic	$ 1.95	$ 1.86
Diluted	$ 1.93	$ 1.85

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income
(Dollar amounts in thousands)

	Year ended December 31,	
	2017	2016
Net income	$ 4,277	$ 3,986
Other comprehensive loss		
Unrealized gains/(losses) on securities:		
Unrealized holding gain (loss) arising during the period	6	(571)
Reclassification adjustment for other than temporary impairment included in net income	508	—
Reclassification adjustment for gains included in net income	(346)	(82)
	168	(653)
Tax effect	(56)	222
Net of tax	112	(431)
Defined benefit pension plans:		
Net loss arising during the period	(588)	(671)
Reclassification adjustment for amortization of prior service benefit and net loss included in net periodic pension cost	239	220
	(349)	(451)
Tax effect	73	153
Net of tax	(276)	(298)
Total other comprehensive loss	(164)	(729)
Comprehensive income	$ 4,113	$ 3,257

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands, except share and per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2016	$ 2,808	$ 27,701	$ (2,114)	$ 28,206	$ (3,762)	$ 52,839
Net income				3,986		3,986
Other comprehensive loss					(729)	(729)
Stock compensation expense		205				205
Issuance of common stock for restricted stock awards (7,550 shares), including tax benefit	10	(6)				4
Cash dividends declared on common stock ($1.04 per share)				(2,232)		(2,232)
Balance at December 31, 2016	2,818	27,900	(2,114)	29,960	(4,491)	54,073
Net income				4,277		4,277
Other comprehensive loss					(164)	(164)
Stock compensation expense		230				230
Exercise of stock options (53,586 shares)	67	1,308				1,375
Issuance of common stock (58,445 shares)	73	1,601				1,674
Issuance of common stock for restricted stock awards (6,750 shares)	8	(8)				—
Reclassification of disproportionate tax effects				863	(863)	—
Cash dividends declared on common stock ($1.08 per share)				(2,374)		(2,374)
Balance at December 31, 2017	$ 2,966	$ 31,031	$ (2,114)	$ 32,726	$ (5,518)	$ 59,091

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(Dollar amounts in thousands, except share and per share data)

	Year ended December 31,	
	2017	2016
Cash flows from operating activities		
Net income	$ 4,277	$ 3,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,163	1,133
Provision for loan losses	903	464
Amortization/accretion of premiums, discounts and deferred costs and fees, net	488	434
Amortization of intangible assets and mortgage servicing rights	295	246
Securities impairment loss recognized in earnings	508	—
Realized gains on sales of available for sale securities, net	(346)	(82)
Net gains on sales of loans	(248)	(119)
Net gains on foreclosed real estate	(32)	(22)
Net loss on sales of bank premises and equipment	16	10
Loans originated for sale	(5,783)	(2,224)
Proceeds from the sale of loans originated for sale	6,007	2,198
Gain on bargain purchase	(1,316)	—
Restricted stock and stock option compensation	230	205
Increase in bank-owned life insurance, net	(334)	(334)
Increase in accrued interest receivable	(299)	(127)
Decrease in deferred taxes	691	203
(Increase) decrease in prepaid expenses and other assets	1,055	(141)
Increase in accrued interest payable	168	31
Increase (decrease) in accrued expenses and other liabilities	771	(201)
Net cash provided by operating activities	8,214	5,660
Cash flows from investing activities		
Loan originations and principal collections, net	(47,231)	(15,466)
Purchase of residential mortgage loans	—	(6,911)
Proceeds from sales of loans held for sale previously classified as portfolio loans	1,790	1,739
Available for sale securities:		
Sales	18,360	6,618
Maturities, repayments and calls	11,453	22,790
Purchases	(29,474)	(18,522)
Net cash received (paid) for acquisition	2,517	(3,309)
Redemption of federal bank stocks, net	210	357
Proceeds from the sale of bank premises and equipment	5	—
Purchases of premises and equipment	(204)	(2,142)
Proceeds from the sale of foreclosed real estate	210	333
Net cash used in investing activities	(42,364)	(14,513)

Cash flows from financing activities		
Net increase in deposits	49,955	22,353
Proceeds from long-term debt	5,000	5,000
Repayments on long-term debt	(16,000)	(5,500)
Net change in short-term borrowings	(7,000)	(4,750)
Proceeds from issuance of common stock	—	4
Proceeds from exercise of stock options	1,375	—
Dividends paid	(2,374)	(2,232)
Net cash provided by financing activities	30,956	14,875
Net increase (decrease) in cash and cash equivalents	(3,194)	6,022
Cash and cash equivalents at beginning of period	17,568	11,546
Cash and cash equivalents at end of period	$ 14,374	$ 17,568
Supplemental information:		
Interest paid	$ 4,319	$ 3,885
Income taxes paid	1,325	600
Supplemental noncash disclosures:		
Transfers from loans to foreclosed real estate	379	442
Transfers from portfolio loans to loans held for sale	2,202	1,662

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation. The consolidated financial statements include the accounts of Emclaire Financial Corp (the Corporation) and its wholly owned subsidiaries, The Farmers National Bank of Emlenton (the Bank) and Emclaire Settlement Services, LLC (the Title Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations. The Corporation provides a variety of financial services to individuals and businesses through its offices in Western Pennsylvania. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

Use of Estimates and Classifications. In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts previously reported may have been reclassified to conform to the current year financial statement presentation. Such reclassifications did not affect net income or stockholders’ equity.

Significant Group Concentrations of Credit Risk. Most of the Corporation’s activities are with customers located within the Western Pennsylvania region of the country. Note 2 discusses the type of securities that the Corporation invests in. Note 3 discusses the types of lending the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items, interest-earning deposits with other financial institutions and federal funds sold and due from correspondent banks. Interest-earning deposits are generally short-term in nature and are carried at cost. Federal funds are generally sold or purchased for one day periods. Net cash flows are reported for loan and deposit transactions, short term borrowings and purchases and redemptions of federal bank stocks.

Dividend Restrictions. Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to stockholders.

Securities Available for Sale. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income from securities includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized using the level yield method over the term of the securities. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before the recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost through earnings. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. For equity securities determined to be other-than-temporarily impaired, the entire amount of impairment is recognized through earnings.

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Loans Receivable. The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans collateralized by real estate located throughout Western Pennsylvania. The ability of the Corporation's debtors to honor their contracts is dependent upon 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 are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans or premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, and premiums and discounts are deferred and recognized in interest income as an adjustment of the related loan yield using the interest method.

The accrual of interest on all classes of loans is typically discontinued at the time the loan is 90 days past due unless the credit is well secured and in the process of collection. At 120 days past due, all loans are considered nonaccrual. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified as impaired loans. All interest accrued but not collected for loans that are placed on nonaccrual status 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 a return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established for probable incurred credit losses 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 typically 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 collectability of loans in light of historic 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, prevailing economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired. Factors considered by management in determining impairment on all loan classes include demonstrated ability to repay, 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 loans by either the present value of expected future cash flows discounted at the loans effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of small balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

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TDR's are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of collateral. For TDR's that subsequently default, the Corporation determines the amount of reserves in accordance with accounting policies for the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the prior 12 quarters. Qualitative factors considered by management include national and local economic and business conditions, changes in the nature and volume of the loan portfolio, quality of loan review systems, and changes in trends, volume and severity of past due, nonaccrual and classified loans, and loss and recovery trends. The Corporation's portfolio segments are as follows:

Residential mortgages: Residential mortgage loans are loans to consumers utilized for the purchase, refinance or construction of a residence. Changes in interest rates or market conditions may impact a borrower's ability to meet contractual principal and interest payments.

Home equity loans and lines of credit: Home equity loans and lines of credit are credit facilities extended to homeowners who wish to utilize the equity in their property in order to borrow funds for almost any consumer purpose. Property values may fluctuate due to economic and other factors.

Commercial real estate: Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to real estate markets such as geographic location and property type.

Commercial business: Commercial credit is extended to business customers for use in normal operations to finance working capital needs, equipment purchases or other projects. The majority of these borrowers are customers doing business within our geographic region. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors.

Consumer: Consumer loans are loans to an individual for non-business purposes such as automobile purchases or debt consolidation. These loans are originated based primarily on credit scores and debt-to-income ratios which may be adversely affected by economic or individual performance factors.

Loans Held for Sale. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related loan sold.

Federal Bank Stocks. The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and the Federal Reserve Bank of Cleveland (FRB). As a member of these federal banking systems, the Bank maintains an investment in the capital stock of the respective regional banks. These stocks are held at cost and classified as restricted stock. These stocks are purchased and redeemed at par as directed by the

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1. Summary of Significant Accounting Policies – (continued)

federal banks and levels maintained are based primarily on borrowing and other correspondent relationships. These stocks are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.
Bank-Owned Life Insurance (BOLI). The Bank purchased life insurance policies on certain key officers and employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.
Premises and Equipment. Land is carried at cost. Premises, furniture and equipment, and leasehold improvements are carried at cost less accumulated depreciation or amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, which are twenty-five years to forty years for buildings and three to ten years for furniture and equipment. Amortization of leasehold improvements is computed using the straight-line method over the shorter of their estimated useful life or the expected term of the leases. Expected terms include lease option periods to the extent that the exercise of such option is reasonably assured. Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, assets are recorded at fair value.
Goodwill and Intangible Assets. Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired assets and liabilities. Core deposit intangible assets arise from whole bank or branch acquisitions and are measured at fair value and then are amortized over their estimated useful lives. Customer relationship intangible assets arise from the purchase of a customer list from another company or individual and then are amortized on a straight-line basis over two years. Goodwill is not amortized but is assessed at least annually for impairment. Any such impairment will be recognized in the period identified. The Corporation has selected November 30 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on the Corporation's balance sheet.
Servicing Assets. Servicing assets represent the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.
Other Real Estate Acquired Through Foreclosure (OREO). Real estate properties acquired through foreclosure are initially recorded at fair value less cost to sell when acquired, thereby establishing a new cost basis for the asset. These assets are subsequently accounted for at the lower of carrying amount or fair value less cost to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Revenue and expenses from operations of the properties, gains and losses on sales and additions to the valuation allowance are included in operating results. Real estate acquired through foreclosure is classified in prepaid expenses and other assets and totaled $492,000 and $291,000 at December 31, 2017 and 2016, respectively. Loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $948,000 and $1.5 million at December 31, 2017 and 2016, respectively.
Treasury Stock. Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.
Income Taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the

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1. Summary of Significant Accounting Policies – (continued)

amount expected to be realized. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share (EPS). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options and restricted stock awards.

Comprehensive Income. Comprehensive income includes net income and other comprehensive income. Other comprehensive income (loss) is comprised of unrealized holding gains and losses on securities available for sale and changes in the funded status of pension which are also recognized as separate components of equity.

Operating Segments. Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial services operations are considered by management to be aggregated in one reportable operating segment.

Retirement Plans. The Corporation maintains a noncontributory defined benefit plan covering eligible employees and officers. Effective January 1, 2009 the plan was closed to new participants. The Corporation provided the requisite notice to plan participants on March 12, 2013 of the determination to freeze the plan (curtailment). While the freeze was not effective until April 30, 2013, the Corporation determined that participants would not satisfy, within the provisions of the plan, 2013 eligibility requirements based on minimum hours worked for 2013. Therefore, employees ceased to earn benefits as of January 1, 2013. This amendment to the plan will not affect benefits earned by the participant prior to the date of the freeze. The Corporation also maintains a 401(k) plan, which covers substantially all employees, and a supplemental executive retirement plan for key executive officers.

Stock Compensation Plans. Compensation expense is recognized for stock options and restricted stock awards issued based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period. It is the Corporation's policy to issue shares on the vesting date for restricted stock awards. Unvested restricted stock awards do not receive dividends declared by the Corporation.

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

Off-Balance Sheet Financial Instruments. In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under line of credit lending arrangements and letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

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1. Summary of Significant Accounting Policies – (continued)

Loss Contingencies. Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there currently are such matters that will have a material effect on the financial statements.

Newly Issued Not Yet Effective Accounting Standards. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-9 “Revenue from Contracts with Customers”. ASU 2014-9 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance does not apply to revenue associated with financial instruments, including loans and securities. Management has evaluated revenue streams within noninterest income, specifically service charges on deposits and other fees, to assess the applicability of this guidance. The adoption of this guidance on January 1, 2018 did not have a material impact on the Corporation’s financial statements; however, the adoption of this standard will result in additional disclosures beginning with the first quarter 2018 Form 10-Q.

In January 2016, the FASB issued ASU 2016-1 “Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-1 revises the accounting for the classification and measurement of investments in equity securities and revises the presentation of certain fair value changes for financial liabilities measured at fair value. For equity securities, the guidance in ASU 2016-1 requires equity investments to be measured at fair value with changes in fair value recognized in net income. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires presenting in other comprehensive income the change in fair value that relates to a change in instrument-specific credit risk. ASU 2016-1 also eliminates the disclosure assumptions used to estimate fair value for financial instruments measured at amortized cost and requires disclosure of an exit price notion in determining the fair value of financial instruments measured at amortized cost. ASU 2016-1 is effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 did not have a material impact on the Corporation’s financial statements; however, the adoption of this standard will impact fair value disclosures beginning with the first quarter 2018 Form 10-Q.

In February 2016, the FASB issued ASU 2016-02 “Leases”. This ASU requires lessees to record most leases on their balance sheet but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods therein. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Corporation is currently evaluating the impact of ASU 2016-02 on its financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of the financial instruments. The main provisions of the guidance include (1) replacing the “incurred loss” approach under current GAAP with an “expected loss” model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as is required by the other-than-temporary impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. Management is currently in the developmental stages of collecting available historical information in order to assess the expected credit losses and determine the impact of the adoption of ASU 2016-13 on the Corporation’s financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force”.

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1. Summary of Significant Accounting Policies – (continued)

ASU 2016-15 clarifies the presentation of specific types of cash flow receipts and payments, including the payment of debt prepayment or debt extinguishment costs, contingent consideration cash payments paid subsequent to the acquisition date and proceeds from settlement of BOLI policies. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied under a retrospective approach, if practicable. The Corporation is evaluating the impact of ASU 2016-15 on its financial statements and disclosures.

In January 2017, FASB ASU 2017-04, "Simplifying the Test for Goodwill Impairment". This ASU simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more likely than not reduce the fair value of the reporting unit below its carrying value. The Corporation's most recent annual impairment assessment determined that the Corporation's goodwill was not impaired. Although the Corporation cannot anticipate future goodwill impairment assessments, based on the most recent assessment it is unlikely that an impairment amount would need to be calculated and, therefore, does not anticipate a material impact from these amendments to the Corporation's financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis.

In March 2017, the FASB issued ASU 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this update improve the consistency, transparency, and usefulness of financial information to users that have communicated that the service cost component generally is analyzed differently from the other components of net benefit cost. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Corporation is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In March 2017, the FASB issued ASU 2017-08, "Receivable — Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 amends guidance on the amortization period of premiums on certain purchased callable debt securities to shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. The Corporation is currently evaluating the potential impact of ASU 2016-02 on its financial statements and disclosures.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this Update are to better reflect the economic results of hedging in the financial statements along with simplification of certain hedge accounting requirements. Specifically, the entire change in the fair value of the hedging instrument is required to be presented in the same income statement line as and in the same period that the earnings effect of the hedged item is recognized. Therefore, hedge ineffectiveness will not be reported separately or in

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1. Summary of Significant Accounting Policies – (continued)

a different period. In addition, hedge effectiveness can be determined qualitatively in periods following inception. The amendments permit an entity to measure the change in fair value of the hedged item on the basis of the benchmark rate component. They also permit an entity to measure the hedged item in a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged. For a closed portfolio of prepayable financial assets, an entity is permitted to designate the amount that is not expected to be affected by prepayments or defaults as the hedged item. For public business entities, the new guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

Adoption of New Accounting Policies. In the first quarter of 2017, the Corporation adopted ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”. ASU 2016-09 simplifies certain aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classifications of awards either as equity or liabilities, and classifications on the statement of cash flows. This ASU did not have a material impact on the Corporation’s financial statements and disclosures.

In February 2018, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income.” ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the Act). Consequently, the amendments eliminated the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. The amendments only relate to the reclassification of the income tax effects of the 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 effected. The amendments in this update also require certain disclosures about stranded tax effects. The guidance in this ASU will become effective for reporting periods beginning after December 15, 2018, with early adoption permitted, and will be applied either in the period of the adoption or retrospectively to each period in which the effect of the tax change in the U.S. federal corporate income tax rate in the Act is recognized. The Corporation early adopted this ASU and, as a result, reclassified $863,000 from accumulated other comprehensive income to retained earnings as of December 31, 2017.

2. Securities

The following table summarizes the Corporation’s securities as of December 31:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
December 31, 2017:				
U.S. Treasury	$ 4,541	$ —	$ (69)	$ 4,472
U.S. government sponsored entities and agencies	14,136	2	(212)	13,926
U.S. agency mortgage-backed securities: residential	20,904	7	(153)	20,758
U.S. agency collateralized mortgage obligations: residential	22,607	25	(708)	21,924
State and political subdivision	29,249	87	(96)	29,240
Corporate debt securities	9,009	38	(17)	9,030
Equity securities	1,580	255	(18)	1,817
	$ 102,026	$ 414	$ (1,273)	$ 101,167

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2. Securities – (continued)

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
U.S. Treasury	$ 4,550	$ —	$ (50)	$ 4,500
U.S. government sponsored entities and agencies	9,186	—	(188)	8,998
U.S. agency mortgage-backed securities: residential	25,790	32	(196)	25,626
U.S. agency collateralized mortgage obligations: residential	25,367	23	(684)	24,706
State and political subdivision	27,853	17	(262)	27,608
Corporate debt securities	8,012	5	(85)	7,932
Equity securities	1,829	373	(12)	2,190
	$ 102,587	$ 450	$ (1,477)	$ 101,560

Securities with carrying values of $21.8 million and $24.6 million as of December 31, 2017 and 2016, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Gains on sales of available for sale securities for the years ended December 31 were as follows:

(Dollar amounts in thousands)	2017	2016
Proceeds	$ 18,360	$ 6,618
Gains	350	108
Losses	(4)	(26)
Tax provision related to gains	118	28

During 2017, management determined that an other than temporary impairment existed on a corporate debt security due to deterioration in the credit quality of the issuer that would likely result in the non-collection of contractual principal and interest. This security was written down to its fair market value and the resulting impairment loss of $508,000 was recognized in earnings.

The following table summarizes scheduled maturities of the Corporation’s debt securities as of December 31, 2017. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

	Available for sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 1,851	$ 1,849
Due after one year through five years	32,578	32,291
Due after five through ten years	18,512	18,526
Due after ten years	3,994	4,002
U.S. agency mortgage-backed securities: residential	20,904	20,758
U.S. agency collateralized mortgage obligations: residential	22,607	21,924
	$ 100,446	$ 99,350

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2. Securities – (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016 aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2017:						
U.S. Treasury	$ —	$ —	$ 4,472	$ (69)	$ 4,472	$ (69)
U.S. government sponsored entities and agencies	3,447	(42)	8,975	(170)	12,422	(212)
U.S. agency mortgage-backed securities: residential	9,659	(48)	6,581	(105)	16,240	(153)
U.S. agency collateralized mortgage obligations: residential	954	(16)	19,147	(692)	20,101	(708)
State and political subdivision	10,510	(60)	3,487	(36)	13,997	(96)
Corporate debt securities	2,992	(16)	999	(1)	3,991	(17)
Equity securities	—	—	231	(18)	231	(18)
	$ 27,562	$ (182)	$ 43,892	$ (1,091)	$ 71,454	$ (1,273)
December 31, 2016:						
U.S. Treasury	$ 4,500	$ (50)	$ —	$ —	$ 4,500	$ (50)
U.S. government sponsored entities and agencies	8,998	(188)	—	—	8,998	(188)
U.S. agency mortgage-backed securities: residential	23,279	(196)	—	—	23,279	(196)
U.S. agency collateralized mortgage obligations: residential	13,568	(438)	9,317	(246)	22,885	(684)
State and political subdivision	21,924	(262)	—	—	21,924	(262)
Corporate debt securities	3,927	(85)	—	—	3,927	(85)
Equity securities	—	—	237	(12)	237	(12)
	$ 76,196	$ (1,219)	$ 9,554	$ (258)	$ 85,750	$ (1,477)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the

Corporation has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. For equity securities determined to be other-than-temporarily impaired, the entire amount of impairment is recognized through earnings.

There was one equity security in an unrealized loss position for more than 12 months as of December 31, 2017. Equity securities owned by the Corporation consist of common stock of various financial service providers. This investment security is in unrealized loss positions as a result of the illiquid

2. Securities – (continued)

nature of the stock. The Corporation does not invest in these securities with the intent to sell them for a profit in the near term. For investments in equity securities, in addition to the general factors mentioned above for determining whether the decline in market value is other-than-temporary, the analysis of whether an equity security is other-than-temporarily impaired includes a review of the profitability, capital adequacy and other relevant information available to determine the financial position and near term prospects of each issuer. The results of analyzing the aforementioned metrics and financial fundamentals suggest recovery of amortized cost in the near future. Based on that evaluation, and given that the Corporation's current intention is not to sell any impaired security and it is more likely than not it will not be required to sell this security before the recovery of its amortized cost basis, the Corporation does not consider the equity security with an unrealized loss as of December 31, 2017 to be other-than-temporarily impaired.

There were 101 debt securities in an unrealized loss position as of December 31, 2017, of which 55 were in an unrealized loss position for more than 12 months. Of these 101 securities, 41 were state and political subdivisions securities, 25 were collateralized mortgage obligations (issued by U.S. government sponsored entities), 12 were U.S. government sponsored entities and agencies securities, 10 were mortgage-backed securities, 8 were corporate securities and 5 were U.S. Treasury securities. The unrealized losses associated with these securities were not due to the deterioration in the credit quality of the issuer that is likely to result in the non-collection of contractual principal and interest, but rather have been caused by a rise in interest rates from the time the securities were purchased. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider the debt securities with unrealized losses as of December 31, 2017 to be other-than-temporarily impaired.

3. Loans Receivable and Related Allowance for Loan Losses

The following table summarizes the Corporation's loans receivable as of December 31:

(Dollar amounts in thousands)	2017	2016
Mortgage loans on real estate:		
Residential first mortgages	$ 221,823	$ 198,167
Home equity loans and lines of credit	99,940	91,359
Commercial real estate	193,068	166,994
	514,831	456,520
Other loans:		
Commercial business	58,941	57,788
Consumer	9,589	6,672
	68,530	64,460
Total loans, gross	583,361	520,980
Less allowance for loan losses	6,127	5,545
Total loans, net	$ 577,234	$ 515,435

During 2016, the Corporation purchased a pool of residential mortgage loans totaling $6.9 million.

Included in total loans above are net deferred costs of $1.5 million and $1.3 million at December 31, 2017 and 2016, respectively.

An allowance for loan losses (ALL) is maintained to absorb probable incurred losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience and the amount of nonperforming loans.

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3. Loans Receivable and Related Allowance for Loan Losses – (continued)

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.
Following is an analysis of the changes in the ALL for the years ended December 31:

(Dollar amounts in thousands)	2017	2016
Balance at the beginning of the year	$ 5,545	$ 5,205
Provision for loan losses	903	464
Charge-offs	(366)	(296)
Recoveries	45	172
Balance at the end of the year	$ 6,127	$ 5,545

The following table details activity in the ALL and the recorded investment by portfolio segment based on impairment method at December 31, 2017 and 2016:

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
December 31, 2017:						
Beginning Balance	$ 1,846	$ 633	$ 2,314	$ 700	$ 52	$ 5,545
Charge-offs	(40)	(114)	(127)	(14)	(71)	(366)
Recoveries	—	23	8	2	12	45
Provision	284	104	558	(103)	60	903
Ending Balance	$ 2,090	$ 646	$ 2,753	$ 585	$ 53	$ 6,127
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 7	$ —	$ —	$ —	$ —	$ 7
Acquired loans	—	—	—	—	—	—
Collectively evaluated for impairment	2,083	646	2,753	585	53	6,120
Total	$ 2,090	$ 646	$ 2,753	$ 585	$ 53	$ 6,127
Total loans:						
Individually evaluated for impairment	$ 425	$ 8	$ 914	$ 569	$ —	$ 1,916
Acquired loans	20,300	10,873	27,404	1,451	2,893	62,921
Collectively evaluated for impairment	201,098	89,059	164,750	56,921	6,696	518,524
Total	$ 221,823	$ 99,940	$ 193,068	$ 58,941	$ 9,589	$ 583,361
December 31, 2016:						
Beginning Balance	$ 1,429	$ 586	$ 2,185	$ 960	$ 45	$ 5,205

Charge-offs	(101)	(118)	(18)	(11)	(48)	(296)
Recoveries	—	3	158	—	11	172
Provision	518	162	(11)	(249)	44	464
Ending Balance	$ 1,846	$ 633	$ 2,314	$ 700	$ 52	$ 5,545

Notes to Consolidated Financial Statements

3. Loans Receivable and Related Allowance for Loan Losses – (continued)

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 19	$ —	$ 95	$ 6	$ —	$ 120
Acquired loans	—	—	—	—	—	—
Collectively evaluated for impairment	1,827	633	2,219	694	52	5,425
Total	$ 1,846	$ 633	$ 2,314	$ 700	$ 52	$ 5,545
Total loans:						
Individually evaluated for impairment	$ 135	$ —	$ 1,014	$ 684	$ —	$ 1,833
Acquired loans	25,024	5,225	27,492	1,182	13	58,936
Collectively evaluated for impairment	173,008	86,134	138,488	55,922	6,659	460,211
Total	$ 198,167	$ 91,359	$ 166,994	$ 57,788	$ 6,672	$ 520,980

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

At December 31, 2017 and 2016, there was no allowance for loan losses allocated to loans acquired in the acquisition of Northern Hancock Bank and Trust Co. in September 2017 or United American Savings Bank in April 2016 (see Note 20).

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31:

	Impaired Loans with Specific Allowance					
	As of December 31, 2017			For the year ended December 31, 2017		
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 75	$ 75	$ 7	$ 88	$ 3	$ 3
Home equity and lines of credit	8	8	—	2	—	—
Commercial real estate	—	—	—	111	—	—
Commercial business	—	—	—	118	—	—
Consumer	—	—	—	—	—	—
Total	$ 83	$ 83	$ 7	$ 319	$ 3	$ 3

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3. Loans Receivable and Related Allowance for Loan Losses – (continued)

	Impaired Loans with No Specific Allowance				
	As of December 31, 2017			For the year ended December 31, 2017	
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 461	$ 350	$ 289	$ 8	$ 8
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	1,089	914	855	3	3
Commercial business	569	569	498	3	3
Consumer	—	—	—	—	—
Total	$ 2,119	$ 1,833	$ 1,642	$ 14	$ 14

	Impaired Loans with Specific Allowance					
	As of December 31, 2016			For the year ended December 31, 2016		
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 168	$ 135	$ 19	$ 119	$ 6	$ 6
Home equity and lines of credit	—	—	—	—	—	—
Commercial real estate	557	557	95	130	23	—
Commercial business	588	588	6	428	—	—
Consumer	—	—	—	—	—	—
Total	$ 1,313	$ 1,280	$ 120	$ 677	$ 29	$ 6

	Impaired Loans with No Specific Allowance				
	As of December 31, 2016			For the year ended December 31, 2016	
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ —	$ —	$ 23	$ —	$ —
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	631	457	735	3	3

Commercial business	96	96	322	2	2
Consumer	—	—	—	—	—
Total	$ 727	$ 553	$ 1,080	$ 5	$ 5

Unpaid principal balance includes any loans that have been partially charged off but not forgiven. Accrued interest is not included in the recorded investment in loans presented above or in the tables that follow based on the amounts not being material.

Troubled debt restructurings (TDR). The Corporation has certain loans that have been modified in order to maximize collection of loan balances. If, for economic or legal reasons related to the customer's financial difficulties, management grants a concession compared to the original terms and conditions of the loan that it would not have otherwise considered, the modified loan is classified as a TDR. Concessions related to TDRs generally do not include forgiveness of principal balances. The Corporation has no legal obligation to extend additional credit to borrowers with loans classified as TDRs.

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3. Loans Receivable and Related Allowance for Loan Losses – (continued)

At December 31, 2017 and 2016, the Corporation had $433,000 and $239,000, respectively, of loans classified as TDRs, which are included in impaired loans above. At December 31, 2017 and 2016, the Corporation had $7,000 and $19,000, respectively, of the allowance for loan losses allocated to these specific loans.

During the year ended December 31, 2017, the Corporation modified one residential mortgage loan with a recorded investment of $323,000 due to a bankruptcy order. At December 31, 2017, the Corporation did not have any allowance for loan losses allocated to this specific loan. The modification did not have a material impact on the Corporation's income statement during the period.

During the year ended December 31, 2016, the Corporation modified one home equity loan with a recorded investment of $10,000 due to a bankruptcy order. At December 31, 2016, the Corporation did not have any allowance for loan losses allocated to this specific loan. The modification did not have a material impact on the Corporation's income statement during the period.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the year ended December 31, 2017, there were no loans classified as TDRs which defaulted within twelve months of their modification. During the year ended December 31, 2016, there was a default on one $10,000 residential mortgage loan within 12 months following modification. The default did not have a material impact on the Corporation's income statement during the period.

Credit Quality Indicators. Management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors.

Commercial real estate and commercial business loans not identified as impaired are evaluated as risk rated pools of loans utilizing a risk rating practice that is supported by a quarterly special asset review. In this review process, strengths and weaknesses are identified, evaluated and documented for each criticized and classified loan and borrower, strategic action plans are developed, risk ratings are confirmed and the loan's performance status reviewed.

Management has determined certain portions of the loan portfolio to be homogeneous in nature and assigns like reserve factors for the following loan pool types: residential real estate, home equity loans and lines of credit, and consumer installment and personal lines of credit. These homogeneous loans are not rated unless identified as impaired.

Management uses the following definitions for risk ratings:

Pass: Loans classified as pass typically exhibit good payment performance and have underlying borrowers with acceptable financial trends where repayment capacity is evident. These borrowers typically would have sufficient cash flow that would allow them to weather an economic downturn and the value of any underlying collateral could withstand a moderate degree of depreciation due to economic conditions.

Special Mention: Loans classified as special mention are characterized by potential weaknesses that could jeopardize repayment as contractually agreed. These loans may exhibit adverse trends such as increasing leverage, shrinking profit margins and/or deteriorating cash flows. These borrowers would inherently be more vulnerable to the application of economic pressures.

Substandard: Loans classified as substandard exhibit weaknesses that are well-defined to the point that repayment is jeopardized. Typically, the Corporation is no longer adequately protected by both the apparent net worth and repayment capacity of the borrower.

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3. Loans Receivable and Related Allowance for Loan Losses – (continued)

Doubtful: Loans classified as doubtful have advanced to the point that collection or liquidation in full, on the basis of currently ascertainable facts, conditions and value, is highly questionable or improbable.
The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2017 and 2016:

(Dollar amounts in thousands)	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2017:						
Residential first mortgages	$ 220,730	$ —	$ —	$ 1,093	$ —	$ 221,823
Home equity and lines of credit	98,946	—	—	994	—	99,940
Commercial real estate	—	182,460	2,744	7,864	—	193,068
Commercial business	—	56,960	477	1,504	—	58,941
Consumer	9,443	—	—	146	—	9,589
Total	$ 329,119	$ 239,420	$ 3,221	$ 11,601	$ —	$ 583,361
December 31, 2016:						
Residential first mortgages	$ 197,041	$ —	$ —	$ 1,126	$ —	$ 198,167
Home equity and lines of credit	91,017	—	—	342	—	91,359
Commercial real estate	—	161,312	1,077	4,605	—	166,994
Commercial business	—	52,125	4,926	737	—	57,788
Consumer	6,659	—	—	13	—	6,672
Total	$ 294,717	$ 213,437	$ 6,003	$ 6,823	$ —	$ 520,980

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a required payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonperforming loans as of December 31, 2017 and 2016:

	Performing			Nonperforming		
(Dollar amounts in thousands)	Accruing Loans Not Past Due	Accruing 30 – 59 Days Past Due	Accruing 60 – 89 Days Past Due	Accruing 90 Days + Past Due	Nonaccrual	Total Loans
December 31, 2017:						
Residential first mortgages	$ 218,515	$ 1,936	$ 357	$ 159	$ 856	$ 221,823
Home equity and lines of credit	98,112	598	370	334	526	99,940
Commercial real estate	190,451	1,026	430	197	964	193,068
Commercial business	58,058	74	225	—	584	58,941
Consumer	9,162	273	81	—	73	9,589

Total loans	$ 574,298	$ 3,907	$ 1,463	$ 690	$ 3,003	$ 583,361
December 31, 2016:						
Residential first mortgages	$ 194,830	$ 1,916	$ 295	$ —	$ 1,126	$ 198,167
Home equity and lines of credit	90,557	460	—	2	340	91,359
Commercial real estate	165,318	561	—	42	1,073	166,994
Commercial business	56,972	56	34	—	726	57,788
Consumer	6,602	28	29	—	13	6,672
Total loans	$ 514,279	$ 3,021	$ 358	$ 44	$ 3,278	$ 520,980

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3. Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents the Corporation's nonaccrual loans by aging category as of December 31, 2017 and 2016:

(Dollar amounts in thousands)	Not Past Due	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days + Past Due	Total Loans
December 31, 2017:					
Residential first mortgages	$ 366	$ —	$ 75	$ 415	$ 856
Home equity and lines of credit	8	—	—	518	526
Commercial real estate	341	—	—	623	964
Commercial business	569	—	—	15	584
Consumer	—	—	—	73	73
Total loans	$ 1,284	$ —	$ 75	$ 1,644	$ 3,003
December 31, 2016:					
Residential first mortgages	$ 72	$ 77	$ —	$ 977	$ 1,126
Home equity and lines of credit	—	—	—	340	340
Commercial real estate	397	—	557	119	1,073
Commercial business	631	—	—	95	726
Consumer	—	—	—	13	13
Total loans	$ 1,100	$ 77	$ 557	$ 1,544	$ 3,278

4. Federal Bank Stocks

The Bank is a member of the FHLB and the FRB. As a member of these federal banking systems, the Bank maintains an investment in the capital stock of the respective regional banks, which are carried at cost. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships. The Bank's investment in FHLB and FRB stocks was $3.3 million and $1.3 million, respectively, at December 31, 2017, and $3.6 million and $1.3 million, respectively, at December 31, 2016.

5. Premises and Equipment

Premises and equipment at December 31 are summarized by major classification as follows:

(Dollar amounts in thousands)	2017	2016
Land	$ 4,986	$ 4,731
Buildings and improvements	14,328	14,122
Leasehold improvements	1,056	1,226
Furniture, fixtures and equipment	8,506	8,332
Software	3,272	3,232
Construction in progress	517	520
	32,665	32,163
Less: accumulated depreciation and amortization	14,655	13,881
	$ 18,010	$ 18,282

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 were $1.2 million and $1.1 million, respectively.

Rent expense under non-cancelable operating lease agreements for the years ended December 31, 2017 and 2016 was $234,000 and $281,000, respectively. Rent commitments under non-cancelable operating lease

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5. Premises and Equipment – (continued)

agreements for certain branch offices for the years ended December 31, are as follows, before considering renewal options that are generally present:

(Dollar amounts in thousands)	Amount
2018	$ 200
2019	201
2020	185
2021	153
2022	124
Thereafter	391
	$ 1,254

6. Goodwill and Intangible Assets

The following table summarizes the Corporation's acquired goodwill and intangible assets as of December 31:

	2017		2016	
(Dollar amounts in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 10,288	$ —	$ 10,288	$ —
Core deposit intangibles	4,426	3,945	4,259	3,699
Total	$ 14,714	$ 3,945	$ 14,547	$ 3,699

Goodwill resulted from four acquisitions. During 2016, the Corporation recorded $6.6 million of goodwill related to the acquisition of United American Savings Bank (see Note 20). Goodwill represents the excess of the total purchase price paid for the acquisitions over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is not amortized but is evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Impairment exists when a reporting unit's carrying amount exceeds its fair value. The Corporation has selected November 30 as the date to perform the annual impairment test. No goodwill impairment charges were recorded in 2017 or 2016. Goodwill is the only intangible asset with an indefinite life on the Corporation's balance sheet.

The core deposit intangible asset, resulting from three acquisitions, is amortized using the double declining balance method over a weighted average estimated life of the related deposits and is not estimated to have a significant residual value. The Corporation recorded intangible amortization expense totaling $246,000 and $226,000 in 2017 and 2016, respectively.

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6. Goodwill and Intangible Assets – (continued)

The estimated amortization expense of the core deposit intangible for the years ending December 31, are as follows:

(Dollar amounts in thousands)	Amortization Expense
2018	$ 236
2019	55
2020	43
2021	33
2022	29
Thereafter	85
	$ 481

7. Related Party Balances and Transactions

In the ordinary course of business, the Bank maintains loan and deposit relationships with employees, principal officers and directors and their affiliates. The Bank has granted loans to principal officers and directors and their affiliates amounting to $5.1 million and $5.3 million at December 31, 2017 and 2016, respectively. During 2017, there were no principal additions while total principal reductions associated with these loans were $200,000. Deposits from principal officers and directors and their affiliates held by the Bank at December 31, 2017 and 2016 totaled $3.6 million and $8.3 million, respectively.

In addition, directors and their affiliates may provide certain professional and other services to the Corporation and the Bank in the ordinary course of business. During 2017 and 2016, the Corporation did not pay directors or their affiliates for any such services.

8. Deposits

The following table summarizes the Corporation's deposits as of December 31:

(Dollar amounts in thousands) Type of accounts	2017 Weighted average rate	Amount	%	2016 Weighted average rate	Amount	%
Non-interest bearing deposits	—	$ 126,263	19.3%	—	$ 123,717	21.2%
Interest bearing demand deposits	0.44%	357,693	54.6%	0.21%	304,265	52.0%
Time deposits	1.58%	170,687	26.1%	1.44%	156,958	26.8%
	0.65%	$ 654,643	100.0%	0.50%	$ 584,940	100.0%

Scheduled maturities of time deposits for the next five years and thereafter are as follows:

(Dollar amounts in thousands)	Amount	%
2018	$ 46,907	27.5%
2019	39,576	23.2%
2020	25,214	14.8%
2021	31,122	18.2%
2022	9,616	5.6%
Thereafter	18,252	10.7%

$ 170,687	100.0%

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8. Deposits – (continued)

The Corporation had a total of $39.0 million and $29.4 million in time deposits of $250,000 or more at December 31, 2017 and 2016, respectively. Scheduled maturities of time deposits of $250,000 or more at December 31, 2017 are as follows:

(Dollar amounts in thousands)	Amount
Three months or less	$ 1,876
Over three months to six months	652
Over six months to twelve months	2,439
Over twelve months	34,022
	$ 38,989

9. Borrowed Funds

The following table summarizes the Corporation’s borrowed funds as of and for the year ended December 31:

(Dollar amounts in thousands)	2017			2016		
	Balance	Average Balance	Average Rate	Balance	Average Balance	Average Rate
Short-term borrowed funds	$ 2,500	$ 4,588	2.82%	$ 9,500	$ 2,341	3.34%
Long-term borrowed funds	23,500	35,949	3.03%	34,500	35,141	3.06%
	$ 26,000	$ 40,537		$ 44,000	$ 37,482	

Short-term borrowed funds at December 31, 2017 consisted of $2.5 million outstanding on a $6.0 million unsecured line of credit with a correspondent bank with a rate of 4.75%, compared to $7.0 million in FHLB overnight advances with a rate of 0.74% and $2.5 million outstanding on a $5.0 million unsecured line of credit with a correspondent bank with a rate of 4.25% at December 31, 2016.

Long-term borrowed funds at December 31, 2017 consisted of four $5.0 million FHLB term advances totaling $20.0 million, maturing between 2018 and 2021 and having fixed interest rates between 1.69% and 2.06%. This compares to six $5.0 million FHLB advances totaling $30.0 million at December 31, 2016. All borrowings from the FHLB are secured by a blanket lien of qualified collateral. Qualified collateral at December 31, 2017 totaled $318.6 million. In addition, during the second quarter of 2016, the Corporation borrowed a $5.0 million, five year unsecured term advance with a correspondent bank. The term advance has a fixed rate of 4.75% and principal payments of $250,000 are due on the first day of each quarter until maturity. At December 31, 2017 and 2016, the outstanding balance on this term advance was $3.5 million and $4.5 million, respectively.

Scheduled maturities of borrowed funds for the next five years are as follows:

(Dollar amounts in thousands)	Amount
2018	$ 8,500
2019	6,000
2020	6,000
2021	5,500
2022	—
Thereafter	—
	$ 26,000

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9. Borrowed Funds – (continued)

The Bank maintains a credit arrangement with the FHLB as a source of additional liquidity. The total maximum borrowing capacity with the FHLB, excluding loans outstanding of $20.0 million and irrevocable standby letters of credit issued to secure certain deposit accounts of $120.7 million at December 31, 2017 was $177.9 million. In addition, the Corporation has $3.5 million of funds available on a line of credit through a correspondent bank.

10. Regulatory Matters

Restrictions on Dividends, Loans and Advances

The Bank is subject to a regulatory dividend restriction that generally limits the amount of dividends that can be paid by the Bank to the Corporation. Prior regulatory approval is required if the total of all dividends declared in any calendar year exceeds net profits (as defined in the regulations) for the year combined with net retained earnings (as defined) for the two preceding calendar years. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. As of December 31, 2017, $4.4 million of undistributed earnings of the Bank was available for distribution of dividends without prior regulatory approval.

Loans or advances from the Bank to the Corporation are limited to 10% of the Bank's capital stock and surplus on a secured basis. Funds available for loans or advances by the Bank to the Corporation amounted to approximately $4.5 million. The Corporation has a $2.2 million commercial line of credit available at the Bank for the primary purpose of purchasing qualified equity investments. At December 31, 2017, the Corporation had an outstanding balance on this line of $1.0 million.

Minimum Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

In 2015, the Board of Governors of the Federal Reserve System amended its Small Bank Holding Company Policy Statement by increasing the policy's consolidated assets threshold from $500 million to $1 billion. The primary benefit of being deemed a "small bank holding company" is the exemption from the requirement to maintain consolidated regulatory capital ratios; instead, regulatory capital ratios only apply at the subsidiary bank level.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (BASEL III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the BASEL III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2017 is 1.25% and was 0.625% for 2016. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth

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10. Regulatory Matters – (continued)

and expansion, and capital restoration plans are required. At year-end 2017 and 2016, the most recent regulatory notifications 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 institution's category.

The following table sets forth certain information concerning the Bank's regulatory capital as of the dates presented. The capital adequacy ratios disclosed below are exclusive of the capital conservation buffer.

(Dollar amounts in thousands)	December 31, 2017		December 31, 2016	
	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:				
Actual	$ 64,221	12.96%	$ 58,605	13.23%
For capital adequacy purposes	39,630	8.00%	35,424	8.00%
To be well capitalized	49,537	10.00%	44,280	10.00%
Tier 1 capital to risk-weighted assets:				
Actual	$ 58,088	11.73%	$ 53,050	11.98%
For capital adequacy purposes	29,722	6.00%	26,568	6.00%
To be well capitalized	39,630	8.00%	35,424	8.00%
Common Equity Tier 1 capital to risk-weighted assets:				
Actual	$ 58,088	11.73%	$ 53,050	11.98%
For capital adequacy purposes	22,292	4.50%	19,926	4.50%
To be well capitalized	32,199	6.50%	28,782	6.50%
Tier 1 capital to average assets:				
Actual	$ 58,088	7.71%	$ 53,050	7.84%
For capital adequacy purposes	30,117	4.00%	27,081	4.00%
To be well capitalized	37,647	5.00%	33,852	5.00%

11. Commitments and Legal Contingencies

In the ordinary course of business, the Corporation has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Corporation is involved in certain claims and legal actions arising in the ordinary course of business. The outcome of these claims and actions are not presently determinable; however, in the opinion of the Corporation's management, after consulting legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial statements.

12. Income Taxes

The Corporation and the Bank file a consolidated federal income tax return. The provision for income taxes for the years ended December 31 is comprised of the following:

(Dollar amounts in thousands)	2017	2016
Current	$ 1,423	$ 1,045
Deferred	691	203
	$ 2,114	$ 1,248

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12. Income Taxes – (continued)

A reconciliation between the provision for income taxes and the amount computed by multiplying operating results before income taxes by the statutory federal income tax rate of 34% for the years ended December 31 is as follows:

(Dollar amounts in thousands)	2017 Amount	2017 % Pre-tax Income	2016 Amount	2016 % Pre-tax Income
Provision at statutory tax rate	$ 2,173	34.0%	$ 1,779	34.0%
Increase (decrease) resulting from:				
Tax free gain on bargain purchase	(447)	(7.0)%	—	—%
Tax free interest, net of disallowance	(446)	(7.0)%	(472)	(9.0)%
Earnings on bank-owned life insurance	(113)	(1.8)%	(113)	(2.2)%
Federal tax rate change	827	12.9%	—	—%
Other, net	120	2.0%	54	1.0%
Provision	$ 2,114	33.1%	$ 1,248	23.8%

The tax effects of temporary differences between the financial reporting basis and income tax basis of assets and liabilities that are included in the net deferred tax asset as of December 31 relate to the following:

(Dollar amounts in thousands)	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 1,287	$ 1,885
Funded status of pension plan	1,286	1,964
Deferred compensation	272	414
Securities impairment	199	149
Net unrealized loss on securities	180	349
Accrued incentive compensation	136	158
Stock compensation	77	160
Nonaccrual loan interest income	53	73
Business combination adjustments	38	89
Net operating loss carryforward	—	106
Other	35	29
Gross deferred tax assets	3,563	5,376
Deferred tax liabilities:		
Accrued pension liability	939	1,525
Depreciation	652	1,006
Deferred loan fees and costs	307	431
Intangible assets	204	324
Other	52	60
Gross deferred tax liabilities	2,154	3,346
Net deferred tax asset	$ 1,409	$ 2,030

In accordance with relevant accounting guidance, the Corporation determined that it was not required to establish a valuation allowance for deferred tax assets since it is more likely than not that the deferred tax asset will be realized through future taxable income, future reversals of existing taxable temporary

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12. Income Taxes – (continued)

differences and tax strategies. The Corporation's net deferred tax asset or liability is recorded in the consolidated financial statements as a component of other assets or other liabilities.

On December 22, 2017, H.R. 1, commonly known as the Tax Cuts and Jobs Act (the Act) was signed into law. The Act reduced the corporate federal income tax rate from a maximum of 35% to a flat 21% effective January 1, 2018. As a result, the Corporation was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement of the Corporation's net deferred tax asset resulted in additional income tax expense of $827,000.

Also on December 22, 2017, the SEC released Staff Accounting Bulletin No. 118 (SAB 118) to address any uncertainty or diversity in practice in accounting for the income tax effects of the Act in situations where a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allows for a measurement period not to extend beyond one year from the Act's enactment date to complete the necessary accounting.

The Corporation recorded provisional amounts of deferred income taxes using reasonable estimates in one area where the information necessary to complete reasonable accounting was not available, prepared or analyzed. The one area is the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets principally due to the accelerated depreciation under the Act which allows for full expensing of qualified property purchased and placed in service after September 27, 2017.

The Corporation will complete and record the income tax effects of these provisional items during the period the necessary information becomes available. The measurement period will not extend beyond December 22, 2018.

At December 31, 2017 and December 31, 2016, the Corporation had no unrecognized tax benefits. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. The Corporation recognizes interest and penalties on unrecognized tax benefits in income taxes expense in its Consolidated Statements of Income.

The Corporation and the Bank are subject to U.S. federal income tax as well as a capital-based franchise tax in the Commonwealth of Pennsylvania. The Corporation and the Bank are no longer subject to examination by taxing authorities for years before 2014.

13. Employee Benefit Plans

Defined Benefit Plan

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all employees participate in the retirement plan on a non-contributing basis, and are fully vested after three years of service. Effective January 1, 2009, the plan was closed to new participants. The Corporation provided the requisite notice to plan participants on March 12, 2013 of the determination to freeze the plan (curtailment). While the freeze was not effective until April 30, 2013, management determined that participants would not satisfy, within the provisions of the plan, 2013 eligibility requirements based on minimum hours worked for 2013. Therefore, employees ceased to earn benefits as of January 1, 2013. This amendment to the plan will not affect benefits earned by the participant prior to the date of the freeze. The Corporation measures the funded status of the plan as of December 31.

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13. Employee Benefit Plans – (continued)

Information pertaining to changes in obligations and funded status of the defined benefit pension plan for the years ended December 31 is as follows:

(Dollar amounts in thousands)	2017	2016
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 9,331	$ 9,368
Actual return on plan assets	1,218	612
Employer contribution	—	—
Benefits paid	(390)	(649)
Fair value of plan assets at end of year	10,159	9,331
Change in benefit obligation:		
Benefit obligation at beginning of year	10,609	10,174
Interest cost	438	465
Actuarial loss	71	483
Effect of change in assumptions	1,073	136
Benefits paid	(390)	(649)
Benefit obligation at end of year	11,801	10,609
Funded status (plan assets less benefit obligation)	$ (1,642)	$ (1,278)
Amounts recognized in accumulated other comprehensive loss, net of tax, consists of:		
Accumulated net actuarial loss	$ 4,838	$ 3,812
Accumulated prior service benefit	—	—
Amount recognized, end of year	$ 4,838	$ 3,812

The following table presents the Corporation's pension plan assets measured and recorded at estimated fair value on a recurring basis and their level within the estimated fair value hierarchy as described in Note 15:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2017:				
Money markets	$ 720	$ 720	$ —	$ —
Mutual funds – debt	3,368	3,368	—	—
Mutual funds – equity	5,221	5,221	—	—
Emclaire Financial Corp stock	850	850	—	—
	$ 10,159	$ 10,159	$ —	$ —

December 31, 2016:				
Money markets	$ 870	$ 870	$ —	$ —
Mutual funds – debt	3,247	3,247	—	—
Mutual funds – equity	4,458	4,458	—	—
Emclaire Financial Corp stock	756	756	—	—
	$ 9,331	$ 9,331	$ —	$ —

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13. Employee Benefit Plans – (continued)

There were no significant transfers between Level 1 and Level 2 during 2017.
The accumulated benefit obligation for the defined benefit pension plan was $11.8 million and $10.6 million at December 31, 2017 and 2016, respectively.
The components of the periodic pension costs and other amounts recognized in other comprehensive income for the years ended December 31 are as follows:

(Dollar amounts in thousands)	2017	2016
Interest cost	$ 438	$ 465
Expected return on plan assets	(661)	(665)
Amortization of prior service benefit and net loss	239	220
Net periodic pension benefit	16	20
Amortization of prior service benefit and net loss	(239)	(220)
Net loss	588	671
Total recognized in other comprehensive loss	349	451
Total recognized in net periodic benefit and other comprehensive loss	$ 365	$ 471

The estimated net loss and prior service benefit for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $247,000 as of December 31, 2017.
Weighted-average actuarial assumptions for the years ended December 31 include the following:

	2017	2016
Discount rate for net periodic benefit cost	4.19%	4.41%
Discount rate for benefit obligations	3.62%	4.19%
Expected rate of return on plan assets	7.25%	7.25%

The Corporation’s pension plan asset allocation at December 31, 2017 and 2016, target allocation for 2018, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2018	Percentage of Plan Assets at Year End 2017	2016	Weighted-Average Expected Long-Term Rate of Return 2017
Equity securities	55%	56%	54%	5.25%
Debt securities	37%	37%	37%	1.97%
Money markets	8%	7%	9%	0.03%
	100%	100%	100%	7.25%

Investment Strategy

The intent of the pension plan is to provide a range of investment options for building a diversified asset allocation strategy that will provide the highest likelihood of meeting the aggregate actuarial projections. In selecting the options and asset allocation strategy, the Corporation has determined that the benefits of reduced portfolio risk are best achieved through diversification. The following asset classes or investment categories are utilized to meet the Pension plan’s objectives: Small company stock, International stock, Mid-cap stock, Large company stock, Diversified bond,

Money Market/Stable Value and Cash. The pension plan does not prohibit any certain investments.
The Corporation does currently not expect to make a contribution to its pension plan in 2018.
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13. Employee Benefit Plans – (continued)

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

(Dollar amounts in thousands) For year ended December 31,	Pension Benefits
2018	$ 379
2019	386
2020	433
2021	436
2022	480
Following 5 years	2,610

Defined Contribution Plan

The Corporation maintains a defined contribution 401(k) Plan. Employees are eligible to participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary. For the years ended 2017 and 2016, matching contributions were $206,000 and $196,000, respectively. The Corporation may also make, at the sole discretion of its Board of Directors, a profit sharing contribution. For the years ended 2017 and 2016, the Corporation made profit sharing contributions of $109,000 and $105,000, respectively.

Supplemental Executive Retirement Plan

The Corporation maintains a Supplemental Executive Retirement Plan (SERP) to provide certain additional retirement benefits to participating officers. The SERP is subject to certain vesting provisions and provides that the officers shall receive a supplemental retirement benefit if the officer's employment is terminated after reaching the normal retirement age of 65, with benefits also payable upon death, disability, a change of control or a termination of employment prior to normal retirement age. As of December 31, 2017 and 2016, the Corporation's SERP liability was $1.2 million and $1.1 million, respectively. For the years ended December 31, 2017 and 2016, the Corporation recognized expense of $167,000 and $114,000, respectively, related to the SERP.

14. Stock Compensation Plans

In April 2014, the Corporation adopted the 2014 Stock Incentive Plan (the 2014 Plan), which is shareholder approved and permits the grant of restricted stock awards and options to its directors, officers and employees for up to 176,866 shares of common stock, of which 52,533 shares of restricted stock and 88,433 stock options remain available for issuance under the plan.

In addition, the Corporation's 2007 Stock Incentive Plan and Trust (the 2007 Plan), which is shareholder approved, permitted the grant of restricted stock awards and options to its directors, officers and employees for up to 177,496 shares of common stock. As of December 31, 2017, no additional shares of stock may be issued as the plan expired on April 25, 2017.

Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plans. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Compensation cost related to share-based payment transactions must be recognized in the financial statements with measurement based upon the fair value of the equity instruments issued.

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14. Stock Compensation Plans – (continued)

During 2017 and 2016, the Corporation granted restricted stock awards of 13,250 and 11,000 shares, respectively, with a face value of $416,000 and $294,000, respectively, based on the weighted-average grant date stock prices of $31.37 and $26.74, respectively. These restricted stock awards are 100% vested on the third anniversary of the date of grant, except in the event of death, disability or retirement. Nonvested restricted stock is not included in common shares outstanding on the consolidated balance sheets. It is the Corporation's policy to issue shares on the vesting date for restricted stock awards. Unvested restricted stock awards do not receive dividends declared by the Corporation. There were no stock options granted during 2017 or 2016. For the year ended December 31, 2017 and 2016 the Corporation recognized $230,000 and $205,000, respectively, in stock compensation expense.
A summary of the status of the Corporation's nonvested restricted stock awards as of December 31, 2017, and changes during the period then ended is presented below:

	Shares	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2017	26,900	$ 25.09
Granted	13,250	31.37
Vested	(6,750)	24.50
Forfeited	—	—
Nonvested as of December 31, 2017	33,400	$ 27.70

A summary of option activity under the plans as of December 31, 2017, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (in years)
Outstanding as of January 1, 2017	62,000	$ 25.71	$ 219	0.60
Granted	—	—	—	—
Exercised	(53,586)	25.67	180	—
Forfeited	(8,414)	26.00	—	—
Outstanding as of December 31, 2017	—	$ —	$ —	—
Exercisable as of December 31, 2017	—	$ —	$ —	—

As of December 31, 2017, there was $530,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plans. That expense is expected to be recognized over the next three years.
15. Fair Values of Financial Instruments
Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sale transaction or exit price on the date indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at year-end.

15. Fair Values of Financial Instruments – (continued)

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Corporation’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Cash and cash equivalents — The carrying value of cash, due from banks and interest bearing deposits approximates fair value and are classified as Level 1.

Securities available for sale — The fair value of all investment securities are based upon the assumptions market participants would use in pricing the security. If available, investment securities are determined by quoted market prices (Level 1). Level 1 includes U.S. Treasury, federal agency securities and certain equity securities. For investment securities where quoted market prices are not available, fair values are calculated based on market prices on similar securities (Level 2). Level 2 includes U.S. Government sponsored entities and agencies, mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities and certain corporate debt securities. For investment securities where quoted prices or market prices of similar securities are not available, fair values are calculated by using unobservable inputs (Level 3) and may include certain corporate debt and equity securities held by the Corporation. The Level 3 corporate debt securities consist of certain subordinated notes which are priced a par because management has determined that the par value approximates the fair value of these instruments. The Level 3 equity security valuations were supported by an analysis prepared by the Corporation which relies on inputs such as the security issuer’s publicly attainable financial information, multiples derived from prices in observed transactions involving comparable businesses and other market, financial and nonfinancial factors.

Loans — The fair value of loans receivable was estimated based on the discounted value of the future cash flows using the current rates being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. The methods used to estimate the fair value of loans do not necessarily represent an exit price.

Impaired loans — At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive a specific allowance for loan losses. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 classification. Impaired loans are evaluated on a quarterly basis for

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15. Fair Values of Financial Instruments – (continued)

additional impairment and adjusted accordingly. As of December 31, 2017, the Corporation did not have any impaired loans carried at fair value measured using the fair value of collateral, compared to loan balances of $1.2 million, net of a valuation allowance of $120,000 at December 31, 2016. There was no additional provision for loan losses recorded for impaired loans during 2017 and $95,000 additional provision for loan losses recorded for impaired loans during the year ended December 31, 2016.

Other real estate owned (OREO) — Assets acquired through or instead of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. Management's ongoing review of appraisal information may result in additional discounts or adjustments to the valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. As of December 31, 2017 and 2016, the Corporation did not have any OREO measured at fair value.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed by the Corporation. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation compares the actual selling price of OREO that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied.

Federal bank stock — It is not practical to determine the fair value of federal bank stocks due to restrictions place on its transferability.

Deposits — The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, checking with interest, savings and money market accounts, is equal to the amount payable on demand resulting in either a Level 1 or Level 2 classification. The fair values of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities resulting in a Level 2 classification.

Borrowings — The fair value of borrowings with the FHLB is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued interest receivable and payable — The carrying value of accrued interest receivable and payable approximates fair value. The fair value classification is consistent with the related financial instrument.

Estimates of the fair value of off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties. Also, unfunded loan commitments relate principally to variable rate commercial loans.

Notes to Consolidated Financial Statements

15. Fair Values of Financial Instruments – (continued)

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

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2017:				
U.S. Treasury	$ 4,472	$ 4,472	$ —	$ —
U.S. government sponsored entities and agencies	13,926	—	13,926	—
U.S. agency mortgage-backed securities: residential	20,758	—	20,758	—
U.S. agency collateralized mortgage obligations: residential	21,924	—	21,924	—
State and political subdivision	29,240	—	29,240	—
Corporate debt securities	9,030	—	1,032	7,998
Equity securities	1,817	1,683	—	134
	$ 101,167	$ 6,155	$ 86,880	$ 8,132
December 31, 2016:				
U.S. Treasury	$ 4,500	$ 4,500	$ —	$ —
U.S. government sponsored entities and agencies	8,998	—	8,998	—
U.S. agency mortgage-backed securities: residential	25,626	—	25,626	—
U.S. agency collateralized mortgage obligations: residential	24,706	—	24,706	—
State and political subdivision	27,608	—	27,608	—
Corporate debt securities	7,932	—	7,932	—
Equity securities	2,190	2,054	—	136
	$ 101,560	$ 6,554	$ 94,870	$ 136

The Corporation’s policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period. During 2017, certain corporate debt securities with a fair value of $8.0 million as of December 31, 2017 were transferred out of Level 2 and into Level 3 because of a lack of observable market data. During 2016, the Corporation had no transfers between levels. The following table presents changes in Level 3 assets measured on a recurring basis for the years ended December 31, 2017 and 2016:

(Dollar amounts in thousands)	2017	2016
Balance at the beginning of the period	$ 136	$ 74
Total gains or losses (realized/unrealized):		

Included in earnings	—	—
Included in other comprehensive income	(2)	2
Issuances	—	—
Sales	—	—
Acquired	—	60
Transfers in and/or out of Level 3	7,998	—
Balance at the end of the period	$ 8,132	$ 136

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15. Fair Values of Financial Instruments – (continued)

The Corporation had no assets measured at fair value on a non-recurring basis at December 31, 2017. For assets measured at fair value on a non-recurring basis at December 31, 2016, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2016:				
Impaired residential mortgage loan	$ 58	$ —	$ —	$ 58
Impaired commercial real estate loan	463	—	—	463
Impaired commercial business loan	582	—	—	582
	$ 1,103	$ —	$ —	$ 1,103

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis:

(Dollar amounts in thousands)		Valuation Technique(s)	Unobservable Input(s)	Range
December 31, 2016:				
Impaired residential mortgage loan	$ 58	Sales comparison approach	Adjustment for differences between comparable business assets	10%
Impaired commercial real estate loan	463	Sales comparison approach	Adjustment for differences between comparable sales	37%
Impaired commercial business loan	582	Liquidation value of business assets	Adjustment for differences between comparable business assets	64%

Excluded from the tables above at December 31, 2017 was an impaired residential mortgage loan totaling $68,000 and an impaired home equity loan totaling $8,000 which were classified as TDRs and measured using a discounted cash flow methodology. An impaired residential mortgage loan totaling $58,000 which was classified as a TDR and measured using a discounted cash flow methodology was excluded from the tables above at December 31, 2016.
The following table sets forth the carrying amount and fair value of the Corporation’s financial instruments included in the consolidated balance sheet as of December 31:

(Dollar amounts in thousands) Description	Carrying Amount	Fair Value Measurements Using: Total	Level 1	Level 2	Level 3
December 31, 2017:					
Financial Assets:					

Cash and cash equivalents	$ 14,374	$ 14,374	$ 14,374	$ —	$ —
Securities available for sale	101,167	101,167	6,155	86,880	8,132
Loans held for sale	504	504	—	504	—
Loans, net	577,234	577,616	—	—	577,616
Federal bank stock	4,662	N/A	N/A	N/A	N/A
Accrued interest receivable	2,217	2,217	59	338	1,820

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15. Fair Values of Financial Instruments – (continued)

(Dollar amounts in thousands) Description	Carrying Amount	Fair Value Measurements Using: Total	Level 1	Level 2	Level 3
Financial Liabilities:					
Deposits	654,643	657,414	483,956	173,458	—
FHLB advances	26,000	25,499	—	25,499	—
Accrued interest payable	413	413	23	390	—
December 31, 2016:					
Financial Assets:					
Cash and cash equivalents	$ 17,568	$ 17,568	$ 17,568	$ —	$ —
Securities available for sale	101,560	101,560	6,554	94,870	136
Loans held for sale	68	68	—	68	—
Loans, net	515,435	519,573	—	—	519,573
Federal bank stock	4,861	N/A	N/A	N/A	N/A
Accrued interest receivable	1,815	1,815	37	365	1,413
Financial Liabilities:					
Deposits	584,940	582,458	423,693	158,765	—
FHLB advances	44,000	44,027	—	44,027	—
Accrued interest payable	239	239	7	232	—

This information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation’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 Corporation’s disclosures and those of other companies may not be meaningful.

Off-Balance Sheet Financial Instruments

The Corporation is party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit involve, to a varying degree, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. The Corporation’s exposure to credit loss in the event of non-performance by the other party for commitments to extend credit is represented by the contractual amount of these commitments, less any collateral value obtained. The Corporation uses the same credit policies in making commitments as for on-balance sheet instruments. The Corporation’s distribution of commitments to extend credit approximates the distribution of loans receivable outstanding.

The following table presents the notional amount of the Corporation’s off-balance sheet commitment financial instruments as of December 31:

(Dollar amounts in thousands)	2017 Fixed Rate	Variable Rate	2016 Fixed Rate	Variable Rate
Commitments to make loans	$ 8,611	$ 1,022	$ 11,940	$ 12,785
Unused lines of credit	8,452	71,645	5,207	62,594
	$ 17,063	$ 72,667	$ 17,147	$ 75,379

Notes to Consolidated Financial Statements

15. Fair Values of Financial Instruments – (continued)

Commitments to make loans are generally made for periods of 30 days or less. Commitments to extend credit include agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments to extend credit also include unfunded commitments under commercial and consumer lines of credit, revolving credit lines and overdraft protection agreements. These lines of credit may be collateralized and usually do not contain a specified maturity date and may be drawn upon to the total extent to which the Corporation is committed.

Standby letters of credit are conditional commitments issued by the Corporation usually for commercial customers to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. Standby letters of credit, net of collateral maintained by the Bank, were $156,000 and $76,000 at December 31, 2017 and 2016, respectively. The current amount of the liability as of December 31, 2017 and 2016 for guarantees under standby letters of credit issued is not material.

16. Emclaire Financial Corp — Condensed Financial Statements, Parent Corporation Only

Following are condensed financial statements for the parent company as of and for the years ended December 31:

Condensed Balance Sheets (Dollar amounts in thousands)	2017	2016
Assets:		
Cash and cash equivalents	$ 53	$ 20
Securities available for sale	1,691	2,056
Equity in net assets of subsidiaries	63,194	59,078
Other assets	1,218	982
Total Assets	$ 66,156	$ 62,136
Liabilities and Stockholders' Equity:		
Short-term borrowed funds with affiliated subsidiary bank	$ 1,000	$ 1,000
Other short-term borrowed funds	2,500	2,500
Long-term borrowed funds	3,500	4,500
Accrued expenses and other liabilities	65	63
Stockholders' equity	59,091	54,073
Total Liabilities and Stockholders' Equity	$ 66,156	$ 62,136

Condensed Statements of Income (Dollar amounts in thousands)	2017	2016
Income:		
Dividends from subsidiaries	$ 3,138	$ 3,132
Investment income	62	66
Net gain on sales of available for sale securities	168	—
Total income	3,368	3,198

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Notes to Consolidated Financial Statements

16. Emclaire Financial Corp — Condensed Financial Statements, Parent Corporation Only – (continued)

Condensed Statements of Income (Dollar amounts in thousands)	2017	2016
Expense:		
Interest expense	340	265
Noninterest expense	463	392
Total expense	803	657
Income before income taxes and undistributed subsidiary income	2,565	2,541
Undistributed equity in net income of subsidiary	1,529	1,244
Net income before income taxes	4,094	3,785
Income tax benefit	183	201
Net income	$ 4,277	$ 3,986
Comprehensive income	$ 4,113	$ 3,257

Condensed Statements of Cash Flows (Dollar amounts in thousands)	2017	2016
Operating activities:		
Net income	$ 4,277	$ 3,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed equity in net income of subsidiary	(1,529)	(1,244)
Realized gains on sales of available for sale securities, net	(168)	—
Other, net	35	(101)
Net cash provided by operating activities	2,615	2,641
Investing activities:		
Sales of investment securities	417	—
Investment in subsidiaries	(1,000)	(7,500)
Net cash used in investing activities	(583)	(7,500)
Financing activities:		
Net change in borrowings	(1,000)	7,000
Proceeds from exercise of stock options	1,375	4
Dividends paid	(2,374)	(2,232)
Net cash provided by (used in) financing activities	(1,999)	4,772
Increase (decrease) in cash and cash equivalents	33	(87)
Cash and cash equivalents at beginning of period	20	107
Cash and cash equivalents at end of period	$ 53	$ 20

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Notes to Consolidated Financial Statements

17. Other Noninterest Income and Expense

Other noninterest income includes customer bank card processing fee income of $1.1 million and $1.1 million for 2017 and 2016, respectively.

The following summarizes the Corporation’s other noninterest expenses for the years ended December 31:

(Dollar amounts in thousands)	2017	2016
Customer bank card processing	$ 591	$ 516
Subscriptions	481	422
Telephone and data communications	476	465
Pennsylvania shares and use taxes	371	292
Internet banking and bill pay	365	346
Travel, entertainment and conferences	352	330
Correspondent bank and courier fees	339	265
Printing and supplies	291	362
Marketing and advertising	287	291
Charitable contributions	181	180
Regulatory examinations	185	177
Postage and freight	130	131
Memberships and dues	99	94
Penalty on prepayment of FHLB advance	—	71
Other	605	97
Total other noninterest expenses	$ 4,753	$ 4,039

18. Earnings Per Share

The factors used in the Corporation’s earnings per share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the year ended December 31,	
	2017	2016
Earnings per common share – basic		
Net income	$ 4,277	$ 3,986
Average common shares outstanding	2,197,440	2,146,130
Basic earnings per common share	$ 1.95	$ 1.86
Earnings per common share – diluted		
Net income	$ 4,277	$ 3,986
Average common shares outstanding	2,197,440	2,146,130
Add: Dilutive effects of assumed exercises of restricted stock and stock options	17,128	5,971
Average shares and dilutive potential common shares	2,214,568	2,152,101
Diluted earnings per common share	$ 1.93	$ 1.85
Stock options and restricted stock awards not considered in computing diluted earnings per share because they were antidilutive	—	57,000

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Notes to Consolidated Financial Statements

19. Accumulated Other Comprehensive Income (Loss)
The following is changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2017:

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Total
Accumulated Other Comprehensive Income at January 1, 2017	$ (679)	$ (3,812)	$ (4,491)
Other comprehensive income before reclassification	5	(388)	(383)
Amounts reclassified from accumulated other comprehensive income	107	112	219
Net current period other comprehensive income	112	(276)	(164)
Reclassification of disproportionate tax effects	(112)	(751)	(863)
Accumulated Other Comprehensive Income at December 31, 2017	$ (679)	$ (4,839)	$ (5,518)

The following is significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2017:

(Dollar amounts in thousands) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ (346)	Gain on sale of securities
Unrealized gains and losses on available-for-sale securities	508	Other than temporary impairment losses
	(55)	Tax effect
	107	Net of tax
Amortization of defined benefit pension items:		
Prior service costs	$ —	Compensation and employee benefits
Actuarial gains	239	Compensation and employee benefits
	239	Total before tax
	(127)	Tax effect
	112	Net of tax
Total reclassifications for the period	$ 219	

The following is changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2016:

(Dollar amounts in thousands)	Total

	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	
Accumulated Other Comprehensive Income at January 1, 2016	$ (248)	$ (3,514)	$ (3,762)
Other comprehensive income before reclassification	(377)	(443)	(820)
Amounts reclassified from accumulated other comprehensive income	(54)	145	91
Net current period other comprehensive income	(431)	(298)	(729)
Accumulated Other Comprehensive Income at December 31, 2016	$ (679)	$ (3,812)	$ (4,491)

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Notes to Consolidated Financial Statements

19. Accumulated Other Comprehensive Income (Loss) – (continued)

The following is significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2016:

(Dollar amounts in thousands) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$	82	Gain on sale of securities
		(28)	Tax effect
		54	Net of tax
Amortization of defined benefit pension items:			
Prior service costs	$	23	Compensation and employee benefits
Actuarial gains		(243)	Compensation and employee benefits
		(220)	Total before tax
		75	Tax effect
		(145)	Net of tax
Total reclassifications for the period	$	(91)	

20. Mergers and Acquisitions

Northern Hancock Bank & Trust Co.

On September 30, 2017, the Corporation completed the acquisition of Northern Hancock Bank & Trust Co. (Northern Hancock) in accordance with the terms of the Agreement and Plan of Merger, dated as of May 4, 2017, in exchange for 54,445 shares of common stock valued at $1.7 million and $22,000 in cash. The acquisition expanded the Corporation's franchise into a new market and increased the Corporation's consolidated total assets, loans and deposits. The assets and liabilities of Northern Hancock were recorded on the Corporation's consolidated balance sheet at their estimated fair value as of September 30, 2017.

The following table summarizes the estimated fair value of the assets acquired, liabilities assumed and consideration transferred in connection with the acquisition:

(Dollar amounts in thousands)	
Assets acquired:	
Cash and cash equivalents	$ 2,539
Loans receivable	18,480
Federal bank stocks	11
Accrued interest receivable	103

Premises and equipment	708
Core deposit intangible	167
Prepaid expenses and other assets	766
Total assets acquired	22,774

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Notes to Consolidated Financial Statements

20. Mergers and Acquisitions – (continued)

(Dollar amounts in thousands)	
Liabilities assumed:	
Deposits	19,748
Accrued interest payable	6
Accrued expenses and other liabilities	8
Total liabilities assumed	19,762
Identifiable net assets acquired	3,012
Consideration paid:	
Cash	22
Common stock	1,674
Total consideration	1,696
Gain on bargain purchase	$ 1,316

In connection with the acquisition, the Corporation recognized approximately $1.3 million of bargain purchase gain and a $167,000 core deposit intangible. The core deposit intangible will be amortized over a weighted average estimated life of eight years using the double declining balance method. Core deposit intangible expense was $11,000 for 2017 and is projected for the succeeding five years beginning 2018 to be $40,000, $30,000, $22,000, $17,000 and $13,000 per year, respectively, and $34,000 in total for years after 2022. The bargain purchase gain of $1.3 million, recorded at the date of acquisition, represents the amount by which the acquisition-date fair value of the net identifiable assets acquired exceeded the fair value of the consideration transferred.

While the Corporation believes that the accounting for the acquisition is complete, the fair value of the acquired assets and liabilities noted in the table may change during the provisional period, which may last up to twelve months subsequent to the acquisition date. The Corporation may obtain additional information to refine the valuation of the acquired assets and liabilities and adjust the recorded fair value, although such adjustments are not expected to be significant.

The fair value of loans was estimated using discounted contractual cash flows. The book balance of the loans at the time of the acquisition was $18.5 million before considering Northern Hancocks's allowance for loan losses, which was not carried over. The fair value disclosed above reflects a credit-related adjustment of $(566,000) and an adjustment for other factors of $537,000. Loans evidencing credit deterioration since origination (purchased credit impaired loans) included in loans receivable were immaterial.

Costs related to the acquisition for the year ended December 31, 2017 totaled $1.1 million including system conversion costs, contract termination fees, legal fees, employee severance costs, accounting and auditing fees and other costs of $421,000, $279,000, $173,000, $108,000, $55,000 and $84,000, respectively.

United American Savings Bank.

On April 30, 2016, the Corporation completed its acquisition of United American Savings Bank (United American) in accordance with the terms of the Agreement and Plan of Merger, dated as of December 30, 2015, by and among the Corporation, the Bank and United American (the Merger Agreement). Pursuant to the Merger Agreement, the Corporation acquired United American through a reverse merger of a newly created, wholly-owned subsidiary of the Bank into United American. Immediately after the merger, United American merged with and into The Farmers National Bank of Emlenton, with The Farmers National Bank of Emlenton being the surviving bank. The Corporation acquired all of the outstanding shares of common stock of United American for cash consideration of $13.2 million ($42.67 per share).

The acquisition expanded the Corporation's franchise into contiguous markets and increased the Corporation's consolidated total assets, loans and deposits.

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Notes to Consolidated Financial Statements

20. Mergers and Acquisitions – (continued)

The assets and liabilities of United American were recorded on the Corporation's consolidated balance sheet at their estimated fair value as of April 30, 2016, and their results of operations have been included in the consolidated income statement since such date.

Included in the purchase price was goodwill and a core deposit intangible of $6.6 million and $232,000, respectively. Goodwill is the excess of the purchase price over the fair value of the identifiable net assets acquired and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. The core deposit intangible will be amortized over an estimated life of ten years using the double declining balance method. Core deposit intangible expense was $40,000 for 2017 and is projected for the succeeding five years beginning 2018 to be $32,000, $26,000, $21,000, $17,000 and $15,000 per year, respectively, and $52,000 in total for years after 2020.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

(Dollar amounts in thousands)	
Assets acquired:	
Cash and cash equivalents	$ 9,899
Securities available for sale	60
Loans receivable	66,145
Federal bank stocks	978
Accrued interest receivable	187
Premises and equipment	1,169
Goodwill	6,624
Core deposit intangible	232
Prepaid expenses and other assets	989
Total assets acquired	86,283
Liabilities assumed:	
Deposits	72,700
Accrued interest payable	29
Accrued expenses and other liabilities	346
Total liabilities assumed	73,075
Consideration paid	$ 13,208

The fair value of loans was determined using discounted cash flows. The book balance of the loans at the time of the acquisition was $66.1 million before considering United American's allowance for loan losses, which was not carried over. The fair value disclosed above reflects a credit-related adjustment of ($927,000) and an adjustment for other factors of $982,000. Loans evidencing credit deterioration since origination (purchased credit impaired loans) included in loans receivable were immaterial.

Costs related to the acquisition for the year ended December 31, 2016, totaled $401,000 including legal fees, system conversion costs and other costs of $194,000, $132,000 and $75,000, respectively.

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Emclaire Financial Corp
Consolidated Balance Sheets (Unaudited)
As of March 31, 2018 and December 31, 2017
(Dollar amounts in thousands, except share and per share data)

	March 31, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 2,529	$ 3,072
Interest earning deposits with banks	14,648	11,302
Cash and cash equivalents	17,177	14,374
Securities – available for sale	96,216	99,350
Securities – equity investments	659	1,817
Loans held for sale	239	504
Loans receivable, net of allowance for loan losses of $5,935 and $6,127	584,242	577,234
Federal bank stocks, at cost	4,329	4,662
Bank-owned life insurance	11,808	11,724
Accrued interest receivable	2,236	2,217
Premises and equipment, net	17,911	18,010
Goodwill	10,288	10,288
Core deposit intangible, net	413	481
Prepaid expenses and other assets	10,290	9,423
Total Assets	$ 755,808	$ 750,084
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 129,159	$ 126,263
Interest bearing	537,576	528,380
Total deposits	666,735	654,643
Short-term borrowed funds	2,050	2,500
Long-term borrowed funds	18,250	23,500
Accrued interest payable	367	413
Accrued expenses and other liabilities	9,529	9,937
Total Liabilities	696,931	690,993
Commitments and Contingent Liabilities	—	—
Stockholders' Equity:		
Common stock, $1.25 par value, 12,000,000 shares authorized; 2,373,156 and 2,373,156 shares issued; 2,271,139 and 2,271,139 shares outstanding, respectively	2,966	2,966
Additional paid-in capital	31,106	31,031
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	33,639	32,726

Accumulated other comprehensive loss	(6,720)	(5,518)
Total Stockholders' Equity	58,877	59,091
Total Liabilities and Stockholders' Equity	$ 755,808	$ 750,084

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp
Consolidated Statements of Net Income (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands, except share and per share data)

	For the three months ended March 31,	
	2018	2017
Interest and dividend income:		
Loans receivable, including fees	$ 6,337	$ 5,565
Securities:		
Taxable	408	395
Exempt from federal income tax	152	143
Federal bank stocks	64	53
Interest earning deposits with banks	33	16
Total interest and dividend income	6,994	6,172
Interest expense:		
Deposits	991	703
Borrowed funds	158	313
Total interest expense	1,149	1,016
Net interest income	5,845	5,156
Provision for loan losses	380	162
Net interest income after provision for loan losses	5,465	4,994
Noninterest income:		
Fees and service charges	437	408
Net realized loss on sales of securities	(29)	—
Net gain on sales of loans	22	6
Earnings on bank-owned life insurance	104	101
Other	365	341
Total noninterest income	899	856
Noninterest expense:		
Compensation and employee benefits	2,453	2,323
Premises and equipment	770	758
Intangible asset amortization	69	60
Professional fees	216	202
Federal deposit insurance	137	108
Other	1,091	1,170
Total noninterest expense	4,736	4,621
Income before provision for income taxes	1,628	1,229
Provision for income taxes	266	273
Net income	$ 1,362	$ 956
Basic earnings per common share	$ 0.60	$ 0.44

Diluted earnings per common share	0.60	0.44
Average common shares outstanding – basic	2,271,139	2,152,358
Average common shares outstanding – diluted	2,285,315	2,168,014

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp
Consolidated Statements of Comprehensive Income (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands)

	For the three months ended March 31,	
	2018	2017
Net income	$ 1,362	$ 956
Other comprehensive income		
Unrealized gains/(losses) on securities available for sale:		
Unrealized holding gain (loss) arising during the period	(1,314)	391
Reclassification adjustment for losses included in net income	29	—
	(1,285)	391
Tax effect	270	(133)
Net of tax	(1,015)	258
Comprehensive income	$ 347	$ 1,214

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands)

	For the three months ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income	$ 1,362	$ 956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	294	292
Provision for loan losses	380	162
Amortization of premiums, net	120	158
Amortization of intangible assets and mortgage servicing rights	81	77
Realized losses on sales of securities, net	29	—
Net gains on sales of loans	(22)	(6)
Net loss on foreclosed real estate	41	—
Gain on sale of premises and equipment	(25)	—
Loans originated for sale	(1,237)	(1,791)
Proceeds from the sale of loans originated for sale	1,524	1,865
Stock compensation expense	75	55
Increase in bank-owned life insurance, net	(84)	(83)
Increase in accrued interest receivable	(19)	(120)
(Increase) decrease in prepaid expenses and other assets	(215)	168
Increase in accrued interest payable	(46)	14
Decrease in accrued expenses and other liabilities	(407)	(435)
Net cash provided by operating activities	1,851	1,312
Cash flows from investing activities		
Loan originations and principal collections, net	(7,992)	(20,102)
Securities:		
Sales	6,531	—
Maturities, repayments and calls	1,902	3,821
Purchases	(5,667)	(983)
Redemption of federal bank stocks	333	235
Proceeds from the sale of bank premises and equipment	155	—
Proceeds from the sale of foreclosed real estate	129	100
Purchases of premises and equipment	(195)	(86)
Net cash used in investing activities	(4,804)	(17,015)
Cash flows from financing activities		
Net increase in deposits	12,092	21,166

Repayments on long-term debt	(5,250)	—
Net change in short-term borrowings	(450)	(7,250)
Dividends paid	(636)	(581)
Net cash provided by financing activities	5,756	13,335
Increase (decrease) in cash and cash equivalents	2,803	(2,368)
Cash and cash equivalents at beginning of period	14,374	17,568
Cash and cash equivalents at end of period	$ 17,177	$ 15,200
Supplemental information:		
Interest paid	$ 1,195	$ 1,002
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	498	29

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the three months ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2017	$ 2,818	$ 27,900	$ (2,114)	$ 29,960	$ (4,491)	$ 54,073
Net income				956		956
Other comprehensive income					258	258
Stock compensation expense		55				55
Cash dividends declared on common stock ($0.27 per share)				(581)		(581)
Balance at March 31, 2017	$ 2,818	$ 27,955	$ (2,114)	$ 30,335	$ (4,233)	$ 54,761
Balance at January 1, 2018, as previously presented	$ 2,966	$ 31,031	$ (2,114)	$ 32,726	$ (5,518)	$ 59,091
Cumulative effect of change in accounting principle for marketable equity securities, net of tax				187	(187)	—
Balance at January 1, 2018, as adjusted	2,966	31,031	(2,114)	32,913	(5,705)	59,091
Net income				1,362		1,362
Other comprehensive loss					(1,015)	(1,015)
Stock compensation expense		75				75
Cash dividends declared on common stock ($0.28 per share)				(636)		(636)
Balance at March 31, 2018	$ 2,966	$ 31,106	$ (2,114)	$ 33,639	$ (6,720)	$ 58,877

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of Operations and Basis of Presentation

Emclaire Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The Farmers National Bank of Emlenton (the Bank) and Emclaire Settlement Services, LLC (the Title Company). The Corporation provides a variety of financial services to individuals and businesses through its offices in western Pennsylvania and northern West Virginia. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank and the Title Company. All significant intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's (SEC's) Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2017, as contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim quarterly or year-to-date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Earnings per Common Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares for assumed issuance of restricted stock and shares issued under stock options.

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Notes to Consolidated Financial Statements
(Unaudited)

2. Earnings per Common Share – (continued)

The factors used in the Corporation's earnings per common share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the three months ended March 31, 2018	2017
Earnings per common share – basic		
Net income	$ 1,362	$ 956
Average common shares outstanding	2,271,139	2,152,358
Basic earnings per common share	$ 0.60	$ 0.44
Earnings per common share – diluted		
Net income	$ 1,362	$ 956
Average common shares outstanding	2,271,139	2,152,358
Add: Dilutive effects of assumed issuance of restricted stock and exercise of stock options	14,176	15,656
Average shares and dilutive potential common shares	2,285,315	2,168,014
Diluted earnings per common share	$ 0.60	$ 0.44
Stock options not considered in computing earnings per share because they were antidilutive	—	—

3. Securities

Equity Securities

The Corporation held equity securities with fair values of $659,000 and $1.8 million at March 31, 2018 and December 31, 2017, respectively. Beginning January 1, 2018, with the adoption of ASU 2016-01, changes in the fair value are included in other income on the consolidated statements of net income as opposed in accumulated other comprehensive loss on the consolidated balance sheets. During the three months ended March 31, 2018, the Corporation recognized a loss of $5,000 on the equity securities held at March 31, 2018. The Corporation sold $961,000 of equity securities with a realized net loss of $23,000 in the three month period ending March 31, 2018.

Debt Securities — Available for Sale

The following table summarizes the Corporation's debt securities as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018:				
U.S. Treasury and federal agency	$ 4,538	$ —	$ (111)	$ 4,427
U.S. government sponsored entities and agencies	14,126	—	(387)	13,739
U.S. agency mortgage-backed securities: residential	23,957	4	(495)	23,466
U.S. agency collateralized mortgage obligations: residential	22,204	33	(904)	21,333
State and political subdivisions	25,265	10	(480)	24,795
Corporate debt securities	8,508	15	(67)	8,456
	$ 98,598	$ 62	$ (2,444)	$ 96,216

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3. Securities – (continued)

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017:				
U.S. Treasury and federal agency	4,541	—	(69)	4,472
U.S. government sponsored entities and agencies	14,136	2	(212)	13,926
U.S. agency mortgage-backed securities: residential	20,904	7	(153)	20,758
U.S. agency collateralized mortgage obligations: residential	22,607	25	(708)	21,924
State and political subdivisions	29,249	87	(96)	29,240
Corporate debt securities	9,009	38	(17)	9,030
	$ 100,446	$ 159	$ (1,255)	$ 99,350

The following table summarizes scheduled maturities of the Corporation's debt securities as of March 31, 2018. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available for sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 3,350	$ 3,336
Due after one year through five years	26,768	26,231
Due after five through ten years	18,825	18,454
Due after ten years	3,494	3,396
Mortgage-backed securities: residential	23,957	23,466
Collateralized mortgage obligations: residential	22,204	21,333
	$ 98,598	$ 96,216

Information pertaining to debt securities with gross unrealized losses at March 31, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

	Less than 12 Months		12 Months or More		Total	
(Dollar amounts in thousands) Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2018:						
U.S. Treasury and federal agency	$ —	$ —	$ 4,427	$ (111)	$ 4,427	$ (111)
U.S. government sponsored entities and agencies	4,866	(125)	8,873	(262)	13,739	(387)

U.S. agency mortgage-backed securities: residential	13,565	(289)	6,256	(206)	19,821	(495)
U.S. agency collateralized mortgage obligations: residential	1,935	(7)	17,567	(897)	19,502	(904)
State and political subdivisions	18,824	(412)	2,387	(68)	21,211	(480)
Corporate debt securities	2,942	(65)	500	(2)	3,442	(67)
	$ 42,132	$ (898)	$ 40,010	$ (1,546)	$ 82,142	$ (2,444)

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3. Securities – (continued)

	Less than 12 Months		12 Months or More		Total	
(Dollar amounts in thousands) Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2017:						
U.S. Treasury and federal agency	$ —	$ —	$ 4,472	$ (69)	$ 4,472	$ (69)
U.S. government sponsored entities and agencies	3,447	(42)	8,975	(170)	12,422	(212)
U.S. agency mortgage-backed securities: residential	9,659	(48)	6,581	(105)	16,240	(153)
U.S. agency collateralized mortgage obligations: residential	954	(16)	19,147	(692)	20,101	(708)
State and political subdivisions	10,510	(60)	3,487	(36)	13,997	(96)
Corporate debt securities	2,992	(16)	999	(1)	3,991	(17)
	$ 27,562	$ (182)	$ 43,661	$ (1,073)	$ 71,223	$ (1,255)

Losses on sales of securities for the three months ended March 31 were as follows:

(Dollar amounts in thousands)	For the three months ended March 31,	
	2018	2017
Proceeds	$ 6,531	$ —
Losses	(29)	—
Tax provision related to losses	(6)	—

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

There were 123 debt securities in an unrealized loss position as of March 31, 2018, of which 51 were in an unrealized loss position for more than 12 months. Of these 51 securities, 24 were government-backed collateralized mortgage obligations, 8 were U.S. government sponsored entity and agency securities, 7 were state and political subdivision securities, 6 were mortgage-backed securities, 5 were U.S. Treasury securities and 1 was a corporate security. The unrealized losses associated with these securities were not due to the deterioration in the credit quality of the issuer that would likely result in the non-collection of contractual principal and interest, but rather have been caused by a rise in interest rates from the time the securities were purchased. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider these debt securities with unrealized losses as of March 31, 2018 to be other-than-temporarily impaired.

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4. Loans Receivable and Related Allowance for Loan Losses

The Corporation's loans receivable as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	March 31, 2018	December 31, 2017
Mortgage loans on real estate:		
Residential first mortgages	$ 224,690	$ 221,823
Home equity loans and lines of credit	100,241	99,940
Commercial real estate	196,788	193,068
	521,719	514,831
Other loans:		
Commercial business	59,200	58,941
Consumer	9,258	9,589
	68,458	68,530
Total loans, gross	590,177	583,361
Less allowance for loan losses	5,935	6,127
Total loans, net	$ 584,242	$ 577,234

Included in total loans above are net deferred costs of $1.6 million and $1.5 million at March 31, 2018 and December 31, 2017, respectively.

An allowance for loan losses (ALL) is maintained to absorb probable incurred losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience and the amount of nonperforming loans.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

The allowance for loan losses is based on estimates and actual losses may vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

At March 31, 2018, there was no allowance for loan losses allocated to loans acquired in the April 2016 acquisition of United American Savings Bank or the September 2017 acquisition of Northern Hancock Bank and Trust Co.

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4. Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table details activity in the ALL and the recorded investment by portfolio segment based on impairment method:

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
Three months ended March 31, 2018:						
Allowance for loan losses:						
Beginning Balance	$ 2,090	$ 646	$ 2,753	$ 585	$ 53	$ 6,127
Charge-offs	(62)	(19)	(385)	—	(119)	(585)
Recoveries	3	1	2	1	6	13
Provision	(112)	23	381	(26)	114	380
Ending Balance	$ 1,919	$ 651	$ 2,751	$ 560	$ 54	$ 5,935
At March 31, 2018:						
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 6	$ —	$ —	$ —	$ —	$ 6
Acquired loans collectively evaluated for impairment	—	—	—	—	—	—
Originated loans collectively evaluated for impairment	1,913	651	2,751	560	54	5,929
Total	$ 1,919	$ 651	$ 2,751	$ 560	$ 54	$ 5,935
Total loans:						
Individually evaluated for impairment	$ 419	$ 8	$ 336	$ 555	$ —	$ 1,318
Acquired loans collectively evaluated for impairment	19,418	10,429	25,716	2,342	1,570	59,475
Originated loans collectively evaluated for impairment	204,853	89,804	170,736	56,303	7,688	529,384
Total	$ 224,690	$ 100,241	$ 196,788	$ 59,200	$ 9,258	$ 590,177
At December 31, 2017:						

Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 7	$ —	$ —	$ —	$ —	$ 7
Acquired loans collectively evaluated for impairment	—	—	—	—	—	—
Originated loans collectively evaluated for impairment	2,083	646	2,753	585	53	6,120
Total	$ 2,090	$ 646	$ 2,753	$ 585	$ 53	$ 6,127

Notes to Consolidated Financial Statements
(Unaudited)

4. Loans Receivable and Related Allowance for Loan Losses – (continued)

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
Total loans:						
Individually evaluated for impairment	$ 425	$ 8	$ 914	$ 569	$ —	$ 1,916
Acquired loans collectively evaluated for impairment	20,300	10,873	27,404	1,451	2,893	62,921
Originated loans collectively evaluated for impairment	201,098	89,059	164,750	56,921	6,696	518,524
Total	$ 221,823	$ 99,940	$ 193,068	$ 58,941	$ 9,589	$ 583,361
Three months ended March 31, 2017:						
Allowance for loan losses:						
Beginning Balance	$ 1,846	$ 633	$ 2,314	$ 700	$ 52	$ 5,545
Charge-offs	(26)	(1)	—	—	(19)	(46)
Recoveries	—	19	2	—	6	27
Provision	136	(3)	133	(117)	13	162
Ending Balance	$ 1,956	$ 648	$ 2,449	$ 583	$ 52	$ 5,688

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2018:

	Impaired Loans with Specific Allowance					
	As of March 31, 2018			For the three months ended March 31, 2018		
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 75	$ 75	$ 6	$ 75	$ 1	$ 1
Home equity and lines of credit	8	8	—	8	—	—
Commercial real estate	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$ 83	$ 83	$ 6	$ 83	$ 1	$ 1

	Impaired Loans with No Specific Allowance				
	As of March 31, 2018		For the three months ended March 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 456	$ 344	$ 347	$ 1	$ 1
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	336	336	625	—	—
Commercial business	555	555	562	1	1
Consumer	—	—	—	—	—
Total	$ 1,347	$ 1,235	$ 1,534	$ 2	$ 2

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4. Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2017:

	Impaired Loans with Specific Allowance					
	As of December 31, 2017			For the year ended December 31, 2017		
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 75	$ 75	$ 7	$ 88	$ 3	$ 3
Home equity and lines of credit	8	8	—	2	—	—
Commercial real estate	—	—	—	111	—	—
Commercial business	—	—	—	118	—	—
Consumer	—	—	—	—	—	—
Total	$ 83	$ 83	$ 7	$ 319	$ 3	$ 3

	Impaired Loans with No Specific Allowance				
	As of December 31, 2017		For the year ended December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 461	$ 350	$ 289	$ 8	$ 8
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	1,089	914	855	3	3
Commercial business	569	569	498	3	3
Consumer	—	—	—	—	—
Total	$ 2,119	$ 1,833	$ 1,642	$ 14	$ 14

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2017:

	Impaired Loans with Specific Allowance					
	As of March 31, 2017			For the three months ended March 31, 2017		
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 77	$ 77	$ 10	$ 106	$ 1	$ 1
Home equity and lines of credit	—	—	—	—	—	—

Commercial real estate	—	—	—	279	—	—
Commercial business	—	—	—	294	—	—
Consumer	—	—	—	—	—	—
Total	$ 77	$ 77	$ 10	$ 679	$ 1	$ 1

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4. Loans Receivable and Related Allowance for Loan Losses – (continued)

	Impaired Loans with No Specific Allowance				
	As of March 31, 2017		For the three months ended March 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 409	$ 372	$ 186	$ 7	$ 7
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	1,165	991	724	1	1
Commercial business	641	641	369	—	—
Consumer	—	—	—	—	—
Total	$ 2,215	$ 2,004	$ 1,279	$ 8	$ 8

Unpaid principal balance includes any loans that have been partially charged off but not forgiven. Accrued interest is not included in the recorded investment in loans presented above or in the tables that follow based on the amounts not being material.

Troubled debt restructurings (TDR). The Corporation has certain loans that have been modified in order to maximize collection of loan balances. If, for economic or legal reasons related to the customer's financial difficulties, management grants a concession compared to the original terms and conditions of the loan that it would not have otherwise considered, the modified loan is classified as a TDR. Concessions related to TDRs generally do not include forgiveness of principal balances. The Corporation generally does not extend additional credit to borrowers with loans classified as TDRs.

At March 31, 2018 and December 31, 2017, the Corporation had $427,000 and $433,000, respectively, of loans classified as TDRs, which are included in impaired loans above. The Corporation had allocated $6,000 and $7,000 of specific allowance for these loans at March 31, 2018 and December 31, 2017, respectively.

During the three month period ended March 31, 2018, the Corporation did not modify any loans as TDRs. During the three month period ended March 31, 2017, the Corporation modified one residential mortgage loan with a recorded investment of $323,000 due to a bankruptcy order. At March 31, 2017, the Corporation did not have any specific allowance for loan losses allocated to this specific loan.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the three month periods ended March 31, 2018 and 2017, the Corporation did not have any loans which were modified as TDRs for which there was a payment default within twelve months following the modification.

Credit Quality Indicators. Management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors.

Commercial real estate and commercial business loans not identified as impaired are evaluated as risk rated pools of loans utilizing a risk rating practice that is supported by a quarterly special asset review. In this review process, strengths and weaknesses are identified, evaluated and documented for each criticized and classified loan and borrower, strategic action plans are developed, risk ratings are confirmed and the loan's performance status is reviewed.

Management has determined certain portions of the loan portfolio to be homogeneous in nature and assigns like reserve factors for the following loan pool types: residential real estate, home equity loans and lines of credit, and consumer installment and personal lines of credit.

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4. Loans Receivable and Related Allowance for Loan Losses – (continued)

The reserve allocation for risk rated loan pools is developed by applying the following factors:
Historic: Management utilizes a computer model to develop the historical net charge-off experience which is used to formulate the assumptions employed in the migration analysis applied to estimate losses in the portfolio. Outstanding balance and charge-off information are input into the model and historical loss migration rate assumptions are developed to apply to pass, special mention, substandard and doubtful risk rated loans. A twelve-quarter rolling weighted-average is utilized to estimate probable incurred losses in the portfolios.
Qualitative: Qualitative adjustment factors for pass, special mention, substandard and doubtful ratings are developed and applied to risk rated loans to allow for: quality of lending policies and procedures; national and local economic and business conditions; changes in the nature and volume of the portfolio; experiences, ability and depth of lending management; changes in trends, volume and severity of past due, nonaccrual and classified loans and loss and recovery trends; quality of loan review systems; concentrations of credit and other external factors.
Management uses the following definitions for risk ratings:
Pass: Loans classified as pass typically exhibit good payment performance and have underlying borrowers with acceptable financial trends where repayment capacity is evident. These borrowers typically would have a sufficient cash flow that would allow them to weather an economic downturn and the value of any underlying collateral could withstand a moderate degree of depreciation due to economic conditions.
Special Mention: Loans classified as special mention are characterized by potential weaknesses that could jeopardize repayment as contractually agreed. These loans may exhibit adverse trends such as increasing leverage, shrinking profit margins and/or deteriorating cash flows. These borrowers would inherently be more vulnerable to the application of economic pressures.
Substandard: Loans classified as substandard exhibit weaknesses that are well-defined to the point that repayment is jeopardized. Typically, the Corporation is no longer adequately protected by both the apparent net worth and repayment capacity of the borrower.
Doubtful: Loans classified as doubtful have advanced to the point that collection or liquidation in full, on the basis of currently ascertainable facts, conditions and value, is highly questionable or improbable.
The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the Corporation's internal risk rating system as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2018:						
Residential first mortgages	$ 223,500	$ —	$ —	$ 1,190	$ —	$ 224,690
Home equity and lines of credit	99,447	—	—	794	—	100,241
Commercial real estate	—	185,187	4,193	7,408	—	196,788
Commercial business	—	57,240	394	1,566	—	59,200
Consumer	9,184	—	—	74	—	9,258
Total	$ 332,131	$ 242,427	$ 4,587	$ 11,032	$ —	$ 590,177
December 31, 2017:						
Residential first mortgages	$ 220,730	$ —	$ —	$ 1,093	$ —	$ 221,823
Home equity and lines of credit	98,946	—	—	994	—	99,940

Commercial real estate	—	182,460	2,744	7,864	—	193,068
Commercial business	—	56,960	477	1,504	—	58,941
Consumer	9,443	—	—	146	—	9,589
Total	$ 329,119	$ 239,420	$ 3,221	$ 11,601	$ —	$ 583,361

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4. Loans Receivable and Related Allowance for Loan Losses – (continued)

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio 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 aging categories of performing loans and nonperforming loans as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	Performing			Nonperforming		
	Accruing Loans Not Past Due	Accruing 30 – 59 Days Past Due	Accruing 60 – 89 Days Past Due	Accruing 90+ Days Past Due	Nonaccrual	Total
March 31, 2018:						
Residential first mortgages	$ 221,330	$ 1,979	$ 268	$ 231	$ 882	$ 224,690
Home equity and lines of credit	98,455	923	182	—	681	100,241
Commercial real estate	194,368	1,465	199	255	501	196,788
Commercial business	58,399	41	198	—	562	59,200
Consumer	8,959	182	72	—	45	9,258
Total loans	$ 581,511	$ 4,590	$ 919	$ 486	$ 2,671	$ 590,177
December 31, 2017:						
Residential first mortgages	$ 218,515	$ 1,936	$ 357	$ 159	$ 856	$ 221,823
Home equity and lines of credit	98,112	598	370	334	526	99,940
Commercial real estate	190,451	1,026	430	197	964	193,068
Commercial business	58,058	74	225	—	584	58,941
Consumer	9,162	273	81	—	73	9,589
Total loans	$ 574,298	$ 3,907	$ 1,463	$ 690	$ 3,003	$ 583,361

The following table presents the Corporation's nonaccrual loans by aging category as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	Not Past Due	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days + Past Due	Total
March 31, 2018:					
Residential first mortgages	$ 361	$ 75	$ —	$ 446	$ 882
Home equity and lines of credit	8	—	—	673	681
Commercial real estate	330	96	—	75	501
Commercial business	555	—	—	7	562
Consumer	—	—	—	45	45
Total loans	$ 1,254	$ 171	$ —	$ 1,246	$ 2,671
December 31, 2017:					

Residential first mortgages	366	—	75	415	856
Home equity and lines of credit	8	—	—	518	526
Commercial real estate	341	—	—	623	964
Commercial business	569	—	—	15	584
Consumer	—	—	—	73	73
Total loans	$ 1,284	$ —	$ 75	$ 1,644	$ 3,003

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5. Goodwill and Intangible Assets

The following table summarizes the Corporation's acquired goodwill and intangible assets as of March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
(Dollar amounts in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 10,288	$ —	$ 10,288	$ —
Core deposit intangibles	4,426	4,013	4,426	3,945
Total	$ 14,714	$ 4,013	$ 14,714	$ 3,945

Goodwill resulted from four acquisitions. Goodwill represents the excess of the total purchase price paid for the acquisitions over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is not amortized but is evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The Corporation has selected November 30 as the date to perform the annual impairment test. No goodwill impairment charges were recorded during 2017 or in the first three months of 2018.

The core deposit intangible asset, resulting from three acquisitions, is amortized using the double declining balance method over a weighted average estimated life of the related deposits and is not estimated to have a significant residual value. During the three month periods ending March 31, 2018 and 2017, the Corporation recorded intangible amortization expense totaling $69,000 and $60,000, respectively.

6. Stock Compensation Plan

In April 2014, the Corporation adopted the 2014 Stock Incentive Plan (the 2014 Plan), which is shareholder approved and permits the grant of restricted stock awards and options to its directors, officers and employees for up to 176,866 shares of common stock. As of March 31, 2018, 52,533 shares of restricted stock and 88,433 stock options remain available for issuance under the plan.

Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plan. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Compensation cost related to share-based payment transactions must be recognized in the financial statements with measurement based upon the fair value of the equity instruments issued.

At March 31, 2018 there are no options available to be exercised under the Plan.

A summary of the status of the Corporation's nonvested restricted stock awards as of March 31, 2018, and changes during the period then ended is presented below:

	Shares	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2018	33,400	$ 27.70
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested as of March 31, 2018	33,400	$ 27.70

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6. Stock Compensation Plan – (continued)

For the three month periods ended March 31, 2018 and 2017, the Corporation recognized stock compensation expense of $75,000 and $55,000, respectively. As of March 31, 2018, there was $590,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over the next three years. It is the Corporation's policy to issue shares on the vesting date for restricted stock awards. Unvested restricted stock awards do not receive dividends declared by the Corporation.

7. Fair Value

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

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities (debt-available for sale, equities) — The fair value of all investment securities are based upon the assumptions market participants would use in pricing the security. If available, investment securities are determined by quoted market prices (Level 1). Level 1 includes U.S. Treasury, federal agency securities and certain equity securities. For investment securities where quoted market prices are not available, fair values are calculated based on market prices on similar securities (Level 2). Level 2 includes U.S. Government sponsored entities and agencies, mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities and certain corporate debt securities. For investment securities where quoted prices or market prices of similar securities are not available, fair values are calculated by using unobservable inputs (Level 3) and may include certain corporate debt and equity securities held by the Corporation. The Level 3 corporate debt securities consist of certain subordinated notes which are priced at par because management has determined that the par value approximates the fair value of these instruments. The Level 3 equity security valuations were supported by an analysis prepared by the Corporation which relies on inputs such as the security issuer's publicly attainable financial information, multiples derived from prices in observed transactions involving comparable businesses and other market, financial and nonfinancial factors.

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7. Fair Value – (continued)

Impaired loans — At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive a specific allowance for loan losses. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. As of March 31, 2018 and December 31, 2017, the Corporation did not have any impaired loans carried at fair value measured using the fair value of collateral. There was no additional provision for loan losses recorded for impaired loans during the three month periods ended March 31, 2018 and 2017.

Other real estate owned (OREO) — Assets acquired through or instead of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. Management's ongoing review of appraisal information may result in additional discounts or adjustments to the valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. As of March 31, 2018 and December 31, 2017, the Corporation had no OREO measured at fair value. There was no expense recorded during the three month periods ended March 31, 2018 and 2017 associated with the write-down of OREO.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed by the Corporation. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation compares the actual selling price of OREO that has been sold to the most recent appraisal to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied.

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7. Fair Value – (continued)

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

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
March 31, 2018:				
Securities available for sale				
U.S. Treasury and federal agency	$ 4,427	$ 4,427	$ —	$ —
U.S. government sponsored entities and agencies	13,739	—	13,739	—
U.S. agency mortgage-backed securities: residential	23,466	—	23,466	—
U.S. agency collateralized mortgage obligations: residential	21,333	—	21,333	—
State and political subdivision	24,795	—	24,795	—
Corporate debt securities	8,456	—	4,956	3,500
	$ 96,216	$ 4,427	$ 88,289	$ 3,500
Equity securities	$ 659	$ 633	$ —	$ 25
December 31, 2017:				
Securities available for sale				
U.S. Treasury and federal agency	4,472	4,472	—	—
U.S. government sponsored entities and agencies	13,926	—	13,926	—
U.S. agency mortgage-backed securities: residential	20,758	—	20,758	—
U.S. agency collateralized mortgage obligations: residential	21,924	—	21,924	—
State and political subdivisions	29,240	—	29,240	—
Corporate debt securities	9,030	—	1,032	7,998
	$ 99,350	$ 4,472	$ 86,880	$ 7,998
Equity securities	$ 1,817	$ 1,683	$ —	$ 134

The Corporation’s policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period. During the three month period ended March 31, 2018 the Corporation reclassified a restricted bank stock from the equity security portfolio to other assets and certain corporate securities from Level 3 to Level 2. For the same period in 2017, the Corporation had no transfers between levels. The following table presents changes in Level 3 assets measured on a recurring basis for the three month periods ended March 31, 2018 and 2017:

(Dollar amounts in thousands)	Three months ended March 31,	
	2018	2017
Balance at the beginning of the period	$ 8,132	$ 136
Total gains or losses (realized/unrealized):		
Included in earnings	1	—
Included in other comprehensive income	—	—
Acquired	—	—
Transfers in and/or out of Level 3	(4,608)	—
Balance at the end of the period	$ 3,525	$ 136

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7. Fair Value – (continued)

The Corporation had no assets measured at fair value on a non-recurring basis at March 31, 2018 and December 31, 2017.
The Corporation had an impaired residential mortgage loan totaling $69,000 and an impaired home equity loan totaling $7,000 at March 31, 2018 which were classified as TDRs and measured using a discounted cash flow methodology. At December 31, 2017 these loans were valued at $68,000 and $8,000, respectively.
The following table sets forth the carrying amount and estimated fair values of the Corporation's financial instruments included in the consolidated balance sheet as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands) Description	Carrying Amount	Fair Value Measurements using:			
		Total	Level 1	Level 2	Level 3
March 31, 2018:					
Financial Assets:					
Cash and cash equivalents	$ 17,177	$ 17,177	$ 17,177	$ —	$ —
Securities – available for sale	96,216	96,216	4,427	88,290	3,500
Securities – equities	659	659	633	—	25
Loans held for sale	239	239	—	239	—
Loans, net	584,242	575,740	—	—	575,740
Federal bank stock	4,329	—	N/A	N/A	N/A
Accrued interest receivable	2,236	2,236	61	353	1,822
	$ 705,098	$ 692,267	$ 22,298	$ 88,882	$ 581,087
Financial Liabilities:					
Deposits	666,735	669,069	495,530	173,539	—
Borrowed funds	20,300	19,984	—	19,984	—
Accrued interest payable	367	367	24	343	—
	$ 687,402	$ 689,420	$ 495,554	$ 193,866	$ —

	Carrying Amount	Fair Value Measurements using:			
		Total	Level 1	Level 2	Level 3
December 31, 2017:					
Financial Assets:					
Cash and cash equivalents	$ 14,374	$ 14,374	$ 14,374	$ —	$ —
Securities – available for sale	99,350	99,350	4,472	86,880	7,998
Securities – equities	1,817	1,817	1,683	—	134
Loans held for sale	504	504	—	504	—
Loans, net	577,234	577,616	—	—	577,616
Federal bank stock	4,662	—	N/A	N/A	N/A
Accrued interest receivable	2,217	2,217	59	338	1,820
	$ 700,158	$ 695,878	$ 20,588	$ 87,722	$ 587,568
Financial Liabilities:					

Deposits	654,643	657,414	483,956	173,458	—
Borrowed funds	26,000	25,499	—	25,499	—
Accrued interest payable	413	413	23	390	—
	$ 681,056	$ 683,326	$ 483,979	$ 199,347	$ —

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8. Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

In 2015, the Board of Governors of the Federal Reserve System amended its Small Bank Holding Company Policy Statement by increasing the policy's consolidated assets threshold from $500 million to $1 billion. The primary benefit of being deemed a "small bank holding company" is the exemption from the requirement to maintain consolidated regulatory capital ratios; instead, regulatory capital ratios only apply at the subsidiary bank level.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (BASEL III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the BASEL III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2018 is 1.875% and was 1.25% for 2017 and 0.625% for 2016. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of March 31, 2018, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At March 31, 2018, the most recent regulatory notifications 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 institution's category.

The following table sets forth certain information concerning the Bank's regulatory capital as of the dates presented. The capital adequacy ratios disclosed below are exclusive of the capital conservation buffer.

(Dollar amounts in thousands)	March 31, 2018		December 31, 2017	
	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:				
Actual	$ 64,463	12.96%	$ 64,221	12.96%
For capital adequacy purposes	39,797	8.00%	39,630	8.00%
To be well capitalized	49,746	10.00%	49,537	10.00%
Tier 1 capital to risk-weighted assets:				
Actual	$ 58,528	11.77%	$ 58,088	11.73%
For capital adequacy purposes	29,848	6.00%	29,722	6.00%
To be well capitalized	39,797	8.00%	39,630	8.00%
Common Equity Tier 1 capital to risk-weighted assets:				
Actual	$ 58,528	11.77%	$ 58,088	11.73%
For capital adequacy purposes	22,386	4.50%	22,292	4.50%
To be well capitalized	32,335	6.50%	32,199	6.50%
Tier 1 capital to average assets:				
Actual	$ 58,528	7.92%	$ 58,088	7.71%

For capital adequacy purposes	29,571	4.00%	30,117	4.00%
To be well capitalized	36,964	5.00%	37,647	5.00%

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9. Accumulated Other Comprehensive Income (Loss)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2018 and 2017 and summarizes the significant amounts reclassified out of each component of accumulated other comprehensive income:

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Totals
Accumulated Other Comprehensive Income (Loss) at January 1, 2018, as previously presented	$ (679)	$ (4,839)	$ (5,518)
Cumulative effect of change in accounting principle for marketable equity securities, net of tax	$ (187)	$ —	$ (187)
Accumulated Other Comprehensive Income (Loss) at January 1, 2018, as adjusted	$ (866)	$ (4,839)	$ (5,705)
Other comprehensive income before reclassification	(1,038)	—	(1,038)
Amounts reclassified from accumulated other comprehensive income (loss)	23	—	23
Net current period other comprehensive income	(1,015)	—	(1,015)
Accumulated Other Comprehensive Income (Loss) at March 31, 2018	$ (1,881)	$ (4,839)	$ (6,720)

(Dollar amounts in thousands) Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Income For the three months ended March 31, 2018	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ (29)	Net gain on sale of securities
	6	Provision for income taxes
Total reclassifications for the period	$ (23)	Net of tax

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Totals
Accumulated Other Comprehensive Income (Loss) at January 1, 2017	$ (679)	$ (3,812)	$ (4,491)

Other comprehensive income before reclassification	258	—	258
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Net current period other comprehensive income	258	—	258
Accumulated Other Comprehensive Income (Loss) at March 31, 2017	$ (421)	$ (3,812)	$ (4,233)

There were no amounts reclassified out of accumulated other comprehensive income for the three months ended March 31, 2017.

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10. Revenue Recognition

On January 1, 2018, the Corporation adopted ASU 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. Interest income, net securities gains (losses) and bank-owned life insurance are not included within the scope of Topic 606. For the revenue streams in the scope of Topic 606, service charges on deposits and electronic banking fees, there are no significant judgments related to the amount and timing of revenue recognition. All of the Corporation’s revenue from contracts with customers is recognized within noninterest income.

Service charges on deposits: The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such stop payment charges, statement rendering and other fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer’s account balance.

Electronic banking fees: The Corporation earns interchange and other ATM related fees from cardholder transactions conducted through the various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The gross amount of these fees are processed through noninterest income. Other fees, such a transaction surcharges and card replacement fees are withdrawn from the customer’s account balance at the time of service.

The following table presents the Corporation’s sources of noninterest income for the three months ended March 31, 2018 and 2017.

	For the three months ended March 31,	
	2018	2017
Noninterest income		
In-scope of Topic 606:		
Service charges on deposits		
Maintenance fees	$ 39	$ 39
Overdraft fees	329	298
Other fees	69	71
Electronic banking fees	315	270
Noninterest income (in-scope of Topic 606)	752	678
Noninterest income (out-of-scope of Topic 606)(1)	147	178
Total noninterest income	$ 899	$ 856

(1)
Noninterest income items that are out-of-scope include net realized gains (losses) on sales of securities, net gains (losses) on sales of loans, earnings on bank-owned life insurance and certain other noninterest income items.

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11. Recent Accounting Pronouncements

Newly Issued Not Yet Effective Accounting Standards

In February 2016, the FASB issued ASU 2016-02 “Leases”. This ASU requires lessees to record most leases on their balance sheet but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods therein. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Corporation is currently analyzing data on leased assets. The adoption of this guidance is expected to increase both assets and liabilities, but is not expected to have a material impact on the consolidated statement of income.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of the financial instruments. The main provisions of the guidance include (1) replacing the “incurred loss” approach under current GAAP with an “expected loss” model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as is required by the other-than-temporary impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. Management is currently in the developmental stages of collecting available historical information in order to assess the expected credit losses and determine the impact of the adoption of ASU 2016-13 on the Corporation’s financial statements.

In January 2017, FASB ASU 2017-04, “Simplifying the Test for Goodwill Impairment”. This ASU simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more likely than not reduce the fair value of the reporting unit below its carrying value. The Corporation’s most recent annual impairment assessment determined that the Corporation’s goodwill was not impaired. Although the Corporation cannot anticipate future goodwill impairment assessments, based on the most recent assessment it is unlikely that an impairment amount would need to be calculated and, therefore, does not anticipate a material impact from these amendments to the Corporation’s financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis.

In March 2017, the FASB issued ASU 2017-08, “Receivable — Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities.” ASU 2017-08 amends guidance on the amortization period of premiums on certain purchased callable debt securities to shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. The Corporation is currently evaluating the potential impact of ASU 2016-02 on its financial statements and disclosures.

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11. Recent Accounting Pronouncements – (continued)

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this Update are to better reflect the economic results of hedging in the financial statements along with simplification of certain hedge accounting requirements. Specifically, the entire change in the fair value of the hedging instrument is required to be presented in the same income statement line as and in the same period that the earnings effect of the hedged item is recognized. Therefore, hedge ineffectiveness will not be reported separately or in a different period. In addition, hedge effectiveness can be determined qualitatively in periods following inception. The amendments permit an entity to measure the change in fair value of the hedged item on the basis of the benchmark rate component. They also permit an entity to measure the hedged item in a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged. For a closed portfolio of prepayable financial assets, an entity is permitted to designate the amount that is not expected to be affected by prepayments or defaults as the hedged item. For public business entities, the new guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

Adoption of New Accounting Policies

In March 2017, the FASB issued ASU 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this update improve the consistency, transparency, and usefulness of financial information to users that have communicated that the service cost component generally is analyzed differently from the other components of net benefit cost. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The adoption of the new guidance did not have a material impact on the consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-9 "Revenue from Contracts with Customers". ASU 2014-9 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance does not apply to revenue associated with financial instruments, including loans and securities. The Corporation has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. The Corporation has evaluated revenue streams within noninterest income to assess the applicability of this guidance and determined that service charges on deposits and electronic banking fees within the scope of this ASU. Because performance obligations are satisfied as services are rendered and the fees are fixed, there is little judgment involved in applying the guidance that significantly affects the determination of the amount and timing of revenue from contracts with customers. The adoption of this guidance on January 1, 2018 did not have a material impact on the Corporation's financial statements.

In January 2016, the FASB issued ASU 2016-1 "Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-1 revises the accounting for the classification and measurement of investments in equity securities and revises the presentation of certain fair value changes for financial liabilities measured at fair value. For equity securities, the guidance in ASU 2016-1 requires equity

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11. Recent Accounting Pronouncements – (continued)

investments to be measured at fair value with changes in fair value recognized in net income. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires presenting in other comprehensive income the change in fair value that relates to a change in instrument-specific credit risk. ASU 2016-1 also eliminates the disclosure assumptions used to estimate fair value for financial instruments measured at amortized cost and requires disclosure of an exit price notion in determining the fair value of financial instruments measured at amortized cost. ASU 2016-1 was effective for interim and annual periods beginning after December 15, 2017. The adoption of ASU 2016-1 did not have a significant impact on the Corporation’s financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force”. ASU 2016-15 clarifies the presentation of specific types of cash flow receipts and payments, including the payment of debt prepayment or debt extinguishment costs, contingent consideration cash payments paid subsequent to the acquisition date and proceeds from settlement of BOLI policies. This guidance was effective for fiscal years beginning after December 15, 2017. The adoption of ASU 2016-15 did not have an impact the Corporation’s financial statements and disclosures.

Annex A

AGREEMENT AND PLAN OF MERGER
BY AND BETWEEN
EMCLAIRE FINANCIAL CORP
AND
COMMUNITY FIRST BANCORP, INC.

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this "Agreement") is dated as of May 24, 2018, by and between Emclaire Financial Corp, a Pennsylvania corporation ("the "Company"), and Community First Bancorp, Inc, a Pennsylvania corporation ("CFB").

WHEREAS, the Board of Directors of each of the Company and CFB (a) has determined that this Agreement and the business combination and related transactions contemplated hereby are in the best interests of their respective institutions, (b) has determined that this Agreement and the transactions contemplated hereby are consistent with and in furtherance of their respective business strategies, and (c) has adopted a resolution approving this Agreement and declaring its advisability;

WHEREAS, in accordance with the terms of this Agreement, CFB will merge with and into the Company (the "Merger"), and immediately thereafter, Community First Bank, the bank subsidiary of CFB, will merge with and into The Farmers National Bank of Emlenton, a wholly owned subsidiary of the Company ("Farmers National") (the "Bank Merger"), pursuant to the terms hereof and the Agreement of Merger substantially in the form attached hereto as Exhibit A (which shall be executed by each of Farmers National and Community First Bank subsequent to the execution of this Agreement);

WHEREAS, as a condition to the willingness of the Company to enter into this Agreement, each of the directors and executive officers of CFB has entered into a Voting Agreement, substantially in the form of Exhibit B hereto, dated as of the date hereof, with the Company (the "CFB Voting Agreements"), pursuant to which each such director and executive officer has agreed, among other things, to vote all shares of common stock of CFB owned by such person in favor of the approval of this Agreement and the transactions contemplated hereby, upon the terms and subject to the conditions set forth in the CFB Voting Agreements;

WHEREAS, the parties intend the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement be and is hereby adopted as a "plan of reorganization" within the meaning of Sections 354 and 361 of the Code; and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the business transactions described in this Agreement and to prescribe certain conditions thereto.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements herein contained, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties hereto agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

1.1. Certain Definitions.

As used in this Agreement, the following terms have the following meanings (unless the context otherwise requires, references to Articles and Sections refer to Articles and Sections of this Agreement).

"ACA" shall have the meaning set forth in Section 4.12.2.

"Acquisition Proposal" shall have the meaning set forth in Section 6.10.1.

"Acquisition Transaction" shall have the meaning set forth in Section 6.10.1.

"Adjusted Company Ratio" shall have the meaning set forth in Section 11.1.9.

"Adjusted Per Share Stock Consideration" shall have the meaning set forth in Section 11.1.9.

"Affidavit of Loss" shall have the meaning set forth in Section 3.2.7.

"Affiliate" shall mean any Person who directly, or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person and, without limiting the generality of the foregoing, includes any executive officer or director of such Person and any Affiliate of such executive officer or director.

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"Agreement" shall mean this agreement, together with any amendment hereto.
"Applications" shall mean the applications and/or notices for regulatory approval and/or non-objection that are required by the transactions contemplated hereby.
"Average Closing Price" shall have the meaning set forth in Section 11.1.9.
"Bank Merger" shall have the meaning set forth in the recitals of this Agreement.
"Bank Merger Agreement" shall mean the Agreement of Merger substantially in the form of Exhibit A hereto.
"Bank Regulator" shall mean any federal or state banking regulator, including but not limited to the OCC, the FRB, the FDIC and the Pennsylvania Department, which regulates the Company, CFB, or any of their respective subsidiaries, as the case may be.
"Banking Code" shall mean the Pennsylvania Banking Code of 1965, as amended.
"BHCA" shall have the meaning set forth in Section 4.1.1.
"Business Day" shall mean any day other than (a) a Saturday or Sunday, or (b) a day on which banking and savings associations in the Commonwealth of Pennsylvania are authorized or obligated by law or executive order to be closed.
"Certificates" shall mean certificates evidencing shares of CFB Common Stock.
"CFB" shall mean Community First Bancorp, Inc., a Pennsylvania corporation, with its principal executive office located at 444 Main Street, Reynoldsville, Pennsylvania 15851.
"CFB 401(k) Plan" shall have the meaning set forth in Section 6.12.1.
"CFB Audit Committee" shall have the meaning set forth in Section 4.5.4.
"CFB Common Stock" shall mean the common stock, $0.50 par value per share, of CFB.
"CFB Compensation and Benefit Plans" shall mean all existing bonus, incentive, pension, retirement, supplemental retirement, split dollar, deferred compensation, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock, stock option, stock appreciation, phantom stock, severance, welfare benefit plans (including paid time off policies and other benefit policies and procedures), fringe benefit plans, employment, consulting, settlement and employment and change in control agreements and all other benefit practices, policies and arrangements maintained by CFB or any CFB Subsidiary in which any employee or former employee, consultant or former consultant or director or former director of CFB or any CFB Subsidiary participates or to which any such employee, consultant or director is a party or is otherwise entitled to receive benefits.
"CFB Disclosure Schedule" shall mean a written disclosure schedule delivered by CFB to the Company specifically referring to the appropriate section of this Agreement.
"CFB ERISA Affiliate" shall have the meaning set forth in Section 4.12.3.
"CFB Financial Statements" shall mean (a) the audited consolidated balance sheet of CFB and its Subsidiaries as of December 31, 2017 and 2016 and the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows (including related notes and schedules, if any) of CFB and the CFB Subsidiaries for each of the years ended December 31, 2017 and 2016, and (b) the unaudited interim consolidated financial statements of CFB and Subsidiaries as of the end of each calendar quarter following December 31, 2017 and for the periods then ended.
"CFB MAE Rep" shall mean each of the representations and warranties set forth in the following sections and subsections: 4.1.1 (other than the first sentence thereof), 4.2.3, 4.2.4, 4.3.2 (beginning at clause (c)(ii) thereof), 4.4, 4.6, 4.8, 4.9, 4.10, 4.11.1 (other than the first sentence thereof), 4.11.2, 4.12, 4.13, 4.14, 4.15, 4.17, 4.19, 4.20, 4.21, 4.23 and 4.25.
"CFB Recommendation" shall have the meaning set forth in Section 8.1.
"CFB Regulatory Agreement" shall have the meaning set forth in Section 4.11.3.

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"CFB Regulatory Reports" shall mean all reports and accompanying schedules of CFB and Community First Bank filed by CFB or Community First Bank with any Bank Regulator from December 31, 2015 through the Closing Date.
"CFB SERP" shall mean each of the supplemental executive retirement plan agreements between Community First Bank and its executive officers, as listed in CFB Disclosure Schedule 4.12.1.
"CFB Shareholders Meeting" shall have the meaning set forth in Section 8.1.
"CFB Subsequent Determination" shall have the meaning set forth in Section 6.10.5.
"CFB Subsidiary" shall mean a Subsidiary of CFB.
"CFB Voting Agreements" shall have the meaning set forth in the recitals to this Agreement;
"Claim" shall have the meaning set forth in Section 7.9.1.
"Closing" shall have the meaning set forth in Section 2.2.
"Closing Date" shall have the meaning set forth in Section 2.2.
"COBRA" shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.
"Code" shall have the meaning assigned in the recitals of this Agreement.
"Commonwealth Advisors" shall have the meaning set forth in Section 4.13.
"Community First Bank" shall mean Community First Bank, a Pennsylvania chartered commercial bank which is a Subsidiary of CFB.
"Community First Preferred Stock" shall have the meaning set forth in Section 2.9.
"Community First Recommendation" shall have the meaning set forth in Section 8.1.
"Community First Shareholders Meeting" shall have the meaning set forth in Section 8.1.
"Company" shall mean Emclaire Financial Corp, a Pennsylvania corporation, with its principal executive office located at 612 Main Street, Emlenton, Pennsylvania 16373.
"Company Audit Committee" shall have the meaning set forth in Section 5.5.3.
"Company Common Stock" shall mean the common stock, par value $1.25 per share, of the Company.
"Company Compensation and Benefit Plans" shall mean all existing bonus, incentive, pension, retirement, supplemental retirement, split dollar, deferred compensation, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock, stock option, stock appreciation, phantom stock, severance, welfare benefit plans (including paid time off policies and other benefit policies and procedures), fringe benefit plans, employment, consulting, settlement and employment and change in control agreements and all other benefit practices, policies and arrangements maintained by the Company or any Company Subsidiary in which any employee or former employee, consultant or former consultant or director or former director of the Company or any Company Subsidiary participates or to which any such employee, consultant or director is a party or is otherwise entitled to receive benefits.
"Company Disclosure Schedule" shall mean a written disclosure schedule delivered by the Company to CFB specifically referring to the appropriate section of this Agreement.
"Company ERISA Affiliate" shall have the meaning set forth in Section 5.11.3.
"Company Financial Statements" shall mean the (a) the audited consolidated balance sheets of the Company and its Subsidiaries as of December 31, 2017 and 2016 and the consolidated statements of net income, comprehensive income, changes in stockholders' equity and cash flows (including related notes and schedules, if any) of the Company and the Company Subsidiaries for each of the years ended December 31, 2017 and 2016, as set forth in the Company's Annual Report for the year ended December 31, 2017, and (b) the unaudited interim consolidated financial statements of the Company and its Subsidiaries as of the end of each calendar quarter following December 31, 2017, and for the periods then ended, as filed by the Company in the Company's Securities Documents.

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"Company MAE Rep" shall mean each of the representations and warranties set forth in the following sections and subsections: 5.1.1 (other than the first sentence thereof), 5.1.2 (other than the first sentence thereof), 5.3.2 (beginning at clause (c)(ii) thereof), 5.4, 5.6, 5.8, 5.9, 5.10.1 (other than the first sentence thereof), 5.11, 5.12, 5.13, 5.14, 5.17, 5.18, 5.20, 5.21 and 5.22.

"Company Preferred Stock" shall have the meaning set forth in Section 2.9.

"Company Ratio" shall have the meaning set forth in Section 11.1.9.

"Company Regulatory Agreement" shall have the meaning set forth in Section 5.10.3.

"Company Securities Documents" shall mean all reports, prospectuses, proxy or information statements, registration statements and all other documents filed, or required to be filed, by the Company with the SEC pursuant to the Securities Laws.

"Company Stock Benefit Plans" shall mean the Company (i) 2014 Stock Incentive Plan and (ii) 2007 Stock Incentive Plan and Trust.

"Company Subsidiary" shall mean a Subsidiary of the Company.

"Continuing Employees" shall have the meaning set forth in Section 7.8.1.

"Determination Date" shall have the meaning set forth in Section 11.1.9.

"Dissenting Shareholder" shall have the meaning set forth in Section 3.2.9.

"Dissenting Shares" shall have the meaning set forth in Section 3.2.9.

"Effective Time" shall mean the date and time specified pursuant to Section 2.2 hereof as the effective time of the Merger.

"Environmental Laws" shall mean any applicable federal, state or local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, judgment, decree, injunction or agreement with any governmental entity relating to (1) the protection, preservation or restoration of the environment (including, without limitation, air, water vapor, surface water, groundwater, drinking water supply, surface soil, subsurface soil, plant and animal life or any other natural resource), and/or (2) the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of Materials of Environmental Concern. The term Environmental Laws includes without limitation (a) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §9601, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901, et seq.; the Clean Air Act, as amended, 42 U.S.C. §7401, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. §1251, et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. §2601, et seq.; the Emergency Planning and Community Right to Know Act, 42 U.S.C. §11001, et seq.; the Safe Drinking Water Act, 42 U.S.C. §300f, et seq.; and all comparable state and local laws, and (b) any common law (including without limitation common law that may impose strict liability) that may impose liability or obligations for injuries or damages due to the presence of or exposure to any Materials of Environmental Concern.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ETL" means the Pennsylvania Entity Transactions Law.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Exchange Agent" shall mean American Stock Transfer & Trust Company, LLC, or such other bank or trust company or other agent designated by the Company and reasonably acceptable to CFB.

"Exchange Fund" shall have the meaning set forth in Section 3.2.1.

"Exchange Ratio" shall have the meaning set forth in Section 3.1.3.

"Farmers National" shall mean The Farmers National Bank of Emlenton, a national bank and wholly owned subsidiary of the Company.

"FDIA" shall mean the Federal Deposit Insurance Act, as amended.

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"FDIC" shall mean the Federal Deposit Insurance Corporation or any successor thereto.
"FHLB" shall mean the Federal Home Loan Bank of Pittsburgh.
"Fractional Share Payment" shall have the meaning set forth in Section 3.1.6.
"FRB" shall mean the Board of Governors of the Federal Reserve System.
"GAAP" shall mean accounting principles generally accepted in the United States of America, consistently applied with prior practice.
"Governmental Entity" shall mean any federal or state court, administrative agency or commission or other governmental authority or instrumentality.
"HIPAA" shall have the meaning set forth in Section 4.12.2.
"Indemnified Parties" shall have the meaning set forth in Section 7.9.1.
"Index Price" shall have the meaning set forth in Section 11.1.9.
"Index Ratio" shall have the meaning set forth in Section 11.1.9.
"IRS" shall mean the United States Internal Revenue Service.
"Knowledge" as used with respect to a Person (including references to such Person being aware of a particular matter), shall mean those facts that are known or should have been known after due inquiry by the executive officers (as defined in Rule 3b-7 under the Exchange Act) of such Person, and includes any facts, matters or circumstances set forth in any written notice from any Bank Regulator or any other written notice received by that Person.
"Material Adverse Effect" shall mean, with respect to the Company or CFB, respectively, any effect that (a) is material and adverse to the financial condition, results of operations or business of the Company and the Company Subsidiaries taken as a whole, or CFB and the CFB Subsidiaries taken as a whole, respectively, or (b) materially impairs the ability of either the Company, on the one hand, or CFB, on the other hand, to perform its obligations under this Agreement on a timely basis or otherwise materially threaten or materially impede the consummation of the transactions contemplated by this Agreement; provided, however, that "Material Adverse Effect" shall not be deemed to include the impact of (i) changes in laws and regulations affecting banks or their holding companies generally, or interpretations thereof by courts or Governmental Entities, (ii) changes in GAAP or regulatory accounting principles generally applicable to financial institutions and their holding companies, (iii) actions and omissions of a party hereto (or any of its Subsidiaries) taken with the prior written consent of the other party, (iv) the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of the parties and their respective subsidiaries, including the expenses incurred by the parties hereto in consummating the transactions contemplated by this Agreement, (v) changes in national or international political or social conditions including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon or within the United States, or any of its territories, possessions or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (vi) economic, financial market, or geographic conditions in general, including changes in economic or financial markets or changes in interest rates; (vii) any legal action asserted or other actions initiated by any holder of shares of CFB Common Stock or the holder of any shares of Company Common Stock arising out of or related to this Agreement; or (viii) any failure, in and of itself, by such party to meet any internal projections, forecasts or revenue or earnings projections (it being understood that the facts giving rise or contributing to such failure may be deemed to constitute, or be taken into account in determining whether there has been or would reasonably be expected to be, a Material Adverse Effect); except, with respect to clauses (i), (ii), (v) and (vi), to the extent that the effects of such changes or conditions disproportionately affect CFB and its Subsidiaries taken as a whole or the Company and its Subsidiaries taken as a whole, as the case may be, as compared to similarly situated community banks and their holding companies located in the United States.
"Material Contracts" shall have the meaning set forth in Section 4.8.3.

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"Materials of Environmental Concern" shall mean pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products, and any other hazardous or toxic materials regulated under Environmental Laws.

"Maximum Amount" shall have the meaning set forth in Section 7.9.3.

"Merger" shall have the meaning set forth in the recitals of this Agreement.

"Merger Consideration" shall mean the Per Share Stock Consideration together with the Per Share Cash Consideration to be paid pursuant to the provisions of Article III hereof, subject to adjustment as provided herein.

"Merger Registration Statement" shall mean the registration statement, together with all amendments, filed with the SEC under the Securities Act for the purpose of registering shares of (i) the Company Common Stock to be offered to holders of CFB Common Stock as the Per Share Stock Consideration in connection with the Merger and (ii) the Company Preferred Stock to be offered to holders of Community First Preferred Stock in the Bank Merger.

"Nasdaq" shall mean the NASDAQ Global Market of the NASDAQ Stock Market.

"NBA" shall mean the National Bank Act.

"Notice of Superior Proposal" shall have the meaning set forth in Section 6.10.5.

"OCC" shall mean the Office of the Comptroller of the Currency.

"Participation Facility" shall have the meaning set forth in Section 4.14.1.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor thereto.

"Pennsylvania Department" shall mean the Pennsylvania Department of Banking and Securities.

"Pension Plan" shall have the meaning set forth in Section 4.12.2.

"Per Share Stock Consideration" shall have the meaning set forth in Section 3.1.3.

"Per Share Cash Consideration" shall have the meaning set forth in Section 3.1.3.

"Per Share Merger Consideration" shall mean, collectively, the Per Share Cash Consideration together with the Per Share Stock Consideration.

"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, trust or "group" (as that term is defined under the Exchange Act).

"Plan Termination Date" shall have the meaning set forth in Section 6.12.1.

"Policies, Practices and Procedures" shall have the meaning set forth in Section 4.23.2.

"Pre-Closing" shall have the meaning set forth in Section 10.1.

"Proxy Statement-Prospectus" shall have the meaning set forth in Section 8.2.1.

"Raymond James" shall have the meaning set forth in Section 5.14.

"Regulatory Approvals" shall mean the approval of any Bank Regulator that is necessary in connection with the consummation of the Merger and the Bank Merger, and the related transactions contemplated by this Agreement and the Bank Merger Agreement.

"REO" shall mean real estate acquired through foreclosure or in lieu of foreclosure, including in-substance foreclosures.

"Rights" shall mean warrants, options, rights, convertible securities, stock appreciation rights and other arrangements or commitments (including rights to earned dividends or dividend equivalents thereon) which obligate an entity to issue or dispose of any of its capital stock or other ownership interests or which provide for compensation based on the equity appreciation of its capital stock.

"SEC" shall mean the United States Securities and Exchange Commission or any successor thereto.