Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Clarence E. Sigley, Sr.
Name of the Holding Company Director and Official

Chairman & President
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and *individual consent to public release of all details in the report concerning that individual.*

Clarence E Sigley Sr. President
Signature of Holding Company Director and Official

03/08/2017
Date of Signature

For holding companies not *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Tri-County Bancorp, Inc.
Legal Title of Holding Company

P.O. Box 305
(Mailing Address of the Holding Company) Street / P.O. Box

West Union	WV	26456
City	State	Zip Code

212 Main Street, West Union, WV 26456
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Joshua A. Weekley	SVP/CFO
Name	Title

304-873-2361
Area Code / Phone Number / Extension

304-873-2949
Area Code / FAX Number

jweekley@westunionbank.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. **a letter justifying this request is being provided along with the report** .... ☐
2. **a letter justifying this request has been provided separately** .... ☐

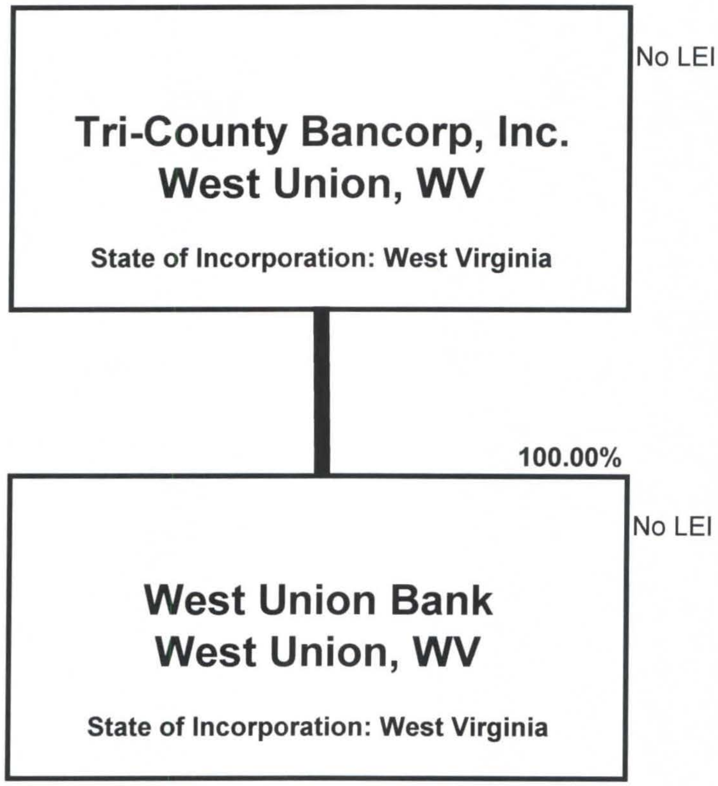
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Tri-County Bancorp, Inc.

Form FR Y-6

December 31, 2016

Report Item 2a: Organization Chart



FR Y-6 Report
12/31/2016
Tri-County Bancorp, Inc.
West Union, WV

Report Item 2b: Submitted via e-mail on 3/7/17.

Results: A list of branches for your depository institution: WEST UNION BANK (ID_RSSD: 22730).
This depository institution is held by TRI-COUNTY BANCORP, INC. (3068289) of WEST UNION, WV.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	22730	WEST UNION BANK	212 MAIN STREET	WEST UNION	WV	26456	DODDRIDGE	UNITED STATES	1607	0	WEST UNION BANK	22730	
OK		Full Service	3676394	NEWPOINTE PLAZA SHOPPING CENTER BRANCH	320 EMILY DR	CLARKSBURG	WV	26301	HARRISON	UNITED STATES	444327	4	WEST UNION BANK	22730	
OK		Full Service	3299225	HARRISVILLE BRANCH	201 E MAIN STREET	HARRISVILLE	WV	26362	RITCHIE	UNITED STATES	364398	3	WEST UNION BANK	22730	
OK		Full Service	2051668	PENNSBORO BRANCH	101 EAGLE DRIVE	PENNSBORO	WV	26415	RITCHIE	UNITED STATES	192669	1	WEST UNION BANK	22730	
OK		Full Service	2448790	SALEM BRANCH	WEST GATE CENTER	SALEM	WV	26426	DODDRIDGE	UNITED STATES	192670	2	WEST UNION BANK	22730	

Tri-County Bancorp Inc
Form FR Y-6
December 31, 2016

Report Item 3: **Shareholders**
(1)(a) (1)(b) (1)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of December 31, 2016

(1)(a) Name and Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	
Clarence E. Sigley, Sr. Bridgeport, WV	US	3,575 shares - 17.51%	
Barbara L. Sigley Bridgeport, WV	US	4 shares - 0.02%	
Amy R. Zannino Bridgeport, WV	US	3 shares - 0.01%	17.57%
Clarence E. Sigley, Jr. Bridgeport, WV	US	3 shares - 0.01%	
Pamela R. Sigley Bridgeport, WV	US	3 shares - 0.01%	
Jane M. Hardin Westfield, NJ	US	2,323 shares - 11.38%	
Sara Ann Casey Salem, WV	US	1,500 shares - 7.35%	
David D'Annunzio and Clarksburg, WV	US	636 shares - 3.11%	6.23%
Vincent F. D'Annunzio & Jeanette D'Annunzio Clarksburg, WV	US	636 shares - 3.11%	
L. Donald Cinci Boca Raton, FL	US	850 shares - 4.16%	6.12%
Nancy Cinci and Donald Cinci III Boca Raton, FL	US	400 shares - 1.96%	
The Sandra B. Ryan Family Trust Clarksburg, WV	US	1,102 shares - 5.40%	
John J. Droppleman West Union, WV	US	250 shares - 1.22%	
Nancy Droppleman West Union, WV	US	66 shares - 0.32%	
H.J. Matthew Droppleman Atlanta, GA	US	125 shares - 0.61%	
James Benjamin Droppelman Smyrna, GA	US	125 shares - 0.61%	5.02%
Margaret Ann Droppleman Morgantown, WV	US	125 shares - 0.61%	
William J. Droppleman Uniontown, OH	US	167 shares - 0.82%	
Joan F. Droppleman Goldstein Longwood, FL	US	167 shares - 0.82%	

Report Item 3: **Shareholders**
(2)(a) (2)(b) (2)(c)

Other Shareholders with ownership, control or holdings of 5% or more with power to vote during the fiscal year ended December 31, 2016

None

Tri-County Bancorp, Inc
Form FR Y-6
December 31, 2016

Report Item 4: Directors and Officers
(1) (2) (3) (a) (b) (c) and (4) (a) (b) (c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than withBank Holding Company	(3) (a) Title & Position with Bank Holding Company	(3) (b) Title & Position with Subsidiaries (include names of subsidiaries)	(3) (c) Title & Position with Other Businesses (include names of other businesses)	(4) (a) Percentage of Voting Shares in BHC	(4) (b) Percentage of Voting Shares in Subsidiaries	(4) (c) Percentage of Voting Shares in Other Co.	
Anita L. George Harrisville, WV, USA	N/A	Corporate Secretary	Administrative Assistant Human Resource Director Corporate Secretary West Union Bank	N/A	N/A	N/A	N/A	
Clarence E. Sigley Bridgeport, WV, USA	Trustee	Director, Chairman, & President	Director & Chairman West Union Bank	Trustee Carolyn Farr Trust	17.51%	N/A	100% Empire Oil	
Barbara L. Sigley Bridgeport, WV, USA	Secretary of Trust	N/A	N/A	N/A	0.02%	N/A	N/A	
Amy R. Zannino Bridgeport, WV, USA	Secretary of Trust	N/A	N/A	N/A	0.01%	N/A	N/A	17.57%
Clarence E. Sigley, Jr. Bridgeport, WV, USA	Waiter	N/A	N/A	N/A	0.01%	N/A	N/A	
Pamela R. Sigley Bridgeport, WV, USA	Secretary	N/A	N/A	N/A	0.01%	N/A	N/A	
Stephen H. Maxwell Clarksburg, WV, USA	Retired Financial Officer	Director	Director West Union Bank	Managing Member WBM Heirs Properties, LLC	0.38%	N/A	N/A	
				General Partner Franklin Maxwell Heirs LLP #1/#2			N/A	
John J. Droppleman West Union, WV, USA	Retired Attorney	Director, Vice Chairman, & Senior Vice President	Director & Vice Chairman West Union Bank	General Manager Dropco, LLC	1.22%	N/A	33.33% Dropco, LLC	
William A. Farr West Union, WV, USA	Oil & Gas	Director	Director West Union Bank	Employee Empire Oil	1.22%	N/A	N/A	
James V. Cann Bridgeport, WV, USA	Attorney	Director	Director West Union Bank	Partner Young, Morgan & Cann, PLLC	0.24%	N/A	48.39% Young, Morgan, & Cann	
				Partner Persian Properties, LLC			25% Persian Properties, LLC	
Darwin L. Stump Highlands Ranch, CO, USA	Oil & Gas	Director	Director West Union Bank	Vice President Accounting Operations PDE Energy, Inc.	0.24%	N/A	N/A	
Thomas A. McCullough Pennsboro, WV, USA	Retired Funeral Home Director	Director	Director West Union Bank	N/A	0.42%	N/A	N/A	
Edward R. Cokeley Harrisville, WV, USA	Accountant	Director	Director West Union Bank	Owner Cokeley & Associates, PLLC	0.26%	N/A	100% Cokeley & Associates, PLLC	
				Director W Va Insurance Co.			N/A WV Insurance Mutual Co.	
				Owner Briar Hill Energy Inc.			100% Briar Hill Energy Inc.	
				Owner Briar Hill Farms			100% Briar Hill Farms, LLC	
Jane M. Hardin Westfield, NJ, USA	Attorney	N/A	N/A	General Partner Franklin Maxwell Heirs LLP #1	11.38%	N/A	N/A	

Annual Report
2016

Tri-County Bancorp, Inc.

Tri-County Bancorp, Inc.

Dear Shareholders,

Tri-County Bancorp, Inc. and its wholly owned subsidiary, West Union Bank, remained strong, successful and profitable during 2016. The Company again experienced solid growth in total assets, which increased 2.82% during 2016 to $170,186,866 from $165,524,651 at the end of 2015.

The Company's growth in total assets was due to increases in deposits, which increased $2,903,039, or 1.97%, during 2016. During 2016, as with 2015, loan demand was weak, resulting in a decrease in the loan portfolio of $3,392,307, or 4.12%, to $79,033,380. During 2016, as in previous years, the composition of the Company's loan portfolio continued to change. The commercial related loans increased $2,301,030, or 6.63%. However, consumer loans decreased $2,885,598, or 13.36% and residential real estate loans continued to decline, falling by $2,807,739, or 10.75%. As the local economy in north-central West Virginia ebbs and flows, the Company stands ready to make loans to qualified borrowers for homes, personal purposes and commercial purposes in 2017 and beyond.

The on-going low interest rate environment continues to be a drag on the Company's earnings. Despite this continuing trend, Tri-County Bancorp, Inc. earnings increased by $156,570, or 19.90% in 2016. The Company's net income was $943,473 and $786,903 for the years ending 2016 and 2015, respectively. The increase in earnings was the result of an increase in net interest income, increases in non-interest income, maintaining non-interest expenses and increasing the loan loss provision. Net interest income was $4,705,075 for 2016, an increase of $183,544, or 4.06% compared to 2015. Additionally, non-interest income increased $159,886, or 19.44%, totaling $982,321 for 2016, compared to $822,435 for 2015. This was offset by an increase in Non-interest expense of $51,315, or 1.17%, and a loan loss provision of $165,000 for 2016 compared to $100,000 in 2015. Non-interest expenses were $4,434,523 and $4,383,208 for the years ending 2016 and 2015, respectively.

The past year was another solid year for Tri-County Bancorp, Inc. While the future business and regulatory environments remain uncertain, the Company is well capitalized and positioned to withstand the coming changes. Based on the Company's increased earnings, while considering the continuing uncertainties in the national and local economies, the Board of Directors decided to increase the Shareholder Dividend to $15.75 per share for 2016.

As with past years, 2017 and beyond will undoubtedly be filled with uncertainty and challenges, and the Company has the financial strength to meet these challenges. Tri-County Bancorp plans to continue to maintain healthy, profitable growth during the coming years. The Board of Directors, Bank Management, and all Employees thank you for your continued loyalty and support and recognize that our success depends on it.

Clarence E. Sigley, Sr.
President and Chairman of the Board

CONTENTS

Arnett
Carbis
Toothman llp
CPAs & Advisors

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Charleston, WV 25329
304.346.0441 office | 304.346.8333 fax
800.642.3601

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-County Bancorp, Inc. and subsidiary
West Union, West Virginia

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Tri-County Bancorp, Inc., and subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Bancorp, Inc., and subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with the accounting principles generally accepted in the United States of America.

Other Matter

The financial statements for the Company, as of and for the year ended December 31, 2014, were audited by other auditors who have ceased operations and whose report dated March 6, 2015 expressed an unmodified opinion on those statements.

Arnett Carbis Toothman LLP

Charleston, West Virginia
February 17, 2017

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and due from banks	$ 4,178,370	$ 4,231,011
Federal funds sold	-	685,000
Interest bearing deposits with other banks	7,846,810	11,663,979
Securities available for sale	70,559,997	59,762,425
Loans, less allowance for loan losses of $737,440 and $757,719, respectively	78,295,940	81,667,968
Bank premises and equipment, net	3,399,921	3,445,858
Accrued interest receivable	619,088	509,599
Other assets	5,286,740	3,558,811
Total assets	$ 170,186,866	$ 165,524,651
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non interest bearing	$ 48,369,670	$ 46,783,964
Interest bearing	101,638,565	100,321,232
Total deposits	150,008,235	147,105,196
Federal funds purchased	2,032,000	-
Securities sold under agreements to repurchase	3,454,730	3,751,211
Dividend payable	321,631	316,526
Other liabilities	632,323	484,143
Total liabilities	156,448,919	151,657,076
Shareholders' Equity		
Common stock, $10 par value, authorized and issued 25,000 shares outstanding 2016, 20,421; 2015, 20,421	250,000	250,000
Capital surplus	300,000	300,000
Retained earnings	15,172,727	14,550,885
Less cost of shares acquired for the treasury 2016, 4,579; 2015, 4,579	(1,392,700)	(1,392,700)
Accumulated other comprehensive income	(592,080)	159,390
Total shareholders' equity	13,737,947	13,867,575
Total liabilities and shareholders' equity	$ 170,186,866	$ 165,524,651

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Interest income:			
Interest and fees on loans	$ 3,801,460	$ 3,844,151	$ 3,876,180
Interest on interest bearing deposits with other banks	107,317	82,120	39,682
Interest and dividends on securities:			
Taxable	866,044	624,273	490,430
Tax-exempt	334,944	365,148	407,539
Interest on Federal funds sold	15,534	16,269	3,852
Total interest income	5,125,299	4,931,961	4,817,683
Interest expense:			
Interest on deposits and borrowed funds	420,224	410,430	424,255
Total interest expense	420,224	410,430	424,255
Net interest income	4,705,075	4,521,531	4,393,428
Provision for loan losses	165,000	100,000	115,000
Net interest income after provision for loan losses	4,540,075	4,421,531	4,278,428
Other income:			
Fees on deposit accounts	424,427	293,643	276,673
Fees on secondary market loans	35,761	31,566	24,182
Other service charges, commissions and fees	487,749	489,436	499,274
Securities gains	39,268	17,206	17,843
Loss on sale of foreclosed assets held for resale	(4,884)	(9,416)	(8,165)
	982,321	822,435	809,807
Other expenses:			
Salaries, wages, and employee benefits	2,370,737	2,352,363	2,250,146
Net occupancy expense of bank premises	491,505	481,048	491,821
Data processing	343,010	337,146	349,467
Postage and supplies	121,655	127,219	126,005
Advertising and promotion	74,437	61,196	61,545
Other operating expenses	1,033,179	1,024,236	1,002,673
	4,434,523	4,383,208	4,281,657
Income before income tax expense	1,087,873	860,758	806,578
Income tax expense	144,400	73,855	30,800
Net income	$ 943,473	$ 786,903	$ 775,778
Basic earnings per common share	$ 46.20	$ 38.53	$ 37.82
Average common shares outstanding	20,421	20,421	20,512

See Notes to Consolidated Financial Statements

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Net income	$ 943,473	$ 786,903	$ 775,778
Other comprehensive income (loss)			
Gross unrealized gains (losses) arising during the period	(1,213,272)	107,954	1,384,572
Adjustment for income tax (expense) benefit	485,363	(43,177)	(553,896)
	(727,909)	64,777	830,676
Less: Reclassification adjustment for (gains) losses included in net income	(39,268)	(17,206)	(17,843)
Adjustment for income tax expense	15,707	6,882	7,137
	(23,561)	(10,324)	(10,706)
Other comprehensive income (loss), net of tax	(751,470)	54,453	819,970
Comprehensive Income	$ 192,003	$ 841,356	$ 1,595,748

See Notes to Consolidated Financial Statements

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2016, 2015 and 2014

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2013	$ 250,000	$ 300,000	$ 13,621,255	$ (1,334,200)	$ (715,033)	$ 12,122,022
Net income	-	-	775,778	-	-	775,778
Other comprehensive income, net of tax	-	-	-	-	819,970	819,970
Purchase of 439 shares of treasury stock	-	-	-	(58,500)	-	(58,500)
Dividends - $15.50 per share	-	-	(316,525)	-	-	(316,525)
Balance, December 31, 2014	$ 250,000	$ 300,000	$ 14,080,508	$ (1,392,700)	$ 104,937	$ 13,342,745
Net income	-	-	786,903	-	-	786,903
Other comprehensive income, net of tax	-	-	-	-	54,453	54,453
Purchase of 180 shares of treasury stock	-	-	-		-	-
Dividends - $15.50 per share	-	-	(316,526)	-	-	(316,526)
Balance, December 31, 2015	$ 250,000	$ 300,000	$ 14,550,885	$ (1,392,700)	$ 159,390	$ 13,867,575
Net income	-	-	943,473	-	-	943,473
Other comprehensive income, net of tax	-	-	-	-	(751,470)	(751,470)
Dividends - $15.75 per share	-	-	(321,631)	-	-	(321,631)
Balance, December 31, 2016	$ 250,000	$ 300,000	$ 15,172,727	$ (1,392,700)	$ (592,080)	$ 13,737,947

See Notes to Consolidated Financial Statements

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
For the Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 943,473	$ 786,903	$ 775,778
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	179,772	163,792	159,268
Provision for loan losses	165,000	100,000	115,000
Provision for deferred income taxes (benefit)	(12,434)	37,515	(5,700)
Amortization of security premiums and (accretion) of discounts, net	288,732	222,352	206,467
Realized (gain) loss on securities	(39,268)	(17,206)	(17,843)
(Gain) loss on sale of other real estate and repossessed assets	4,884	9,416	8,165
Income from cash surrender value of life insurance	(86,125)	(86,401)	(86,887)
(Increase) decrease in accrued interest receivable	(109,489)	(58,786)	(44,554)
(Increase) decrease in other assets	(1,121,518)	5,631	61,737
Increase (decrease) in other liabilities	148,182	8,422	55,601
Net cash provided by operating activities	361,209	1,171,638	1,227,032
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of securities available for sale	2,229,220	1,413,517	1,917,396
Proceeds from maturities and calls of securities available for sale	14,785,000	17,070,000	6,419,999
Proceeds from principal payments of securities available for sale	4,716,030	2,186,591	1,243,973
Purchase of securities available for sale	(34,029,826)	(33,692,065)	(9,481,357)
Net (increase) decrease in Interest bearing deposits with other banks	3,817,169	(3,062,168)	(2,722,893)
(Increase) decrease in federal funds sold	685,000	6,240,000	(6,925,000)
Principal collected from (loans made to) customers, net	3,135,218	119,214	(4,395,827)
Purchases of bank premises and equipment	(133,835)	(410,038)	(617,502)
Proceeds from sale of other real estate	60,142	163,419	422,074
Net cash used in investing activities	(4,735,882)	(9,971,530)	(14,139,137)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW and savings accounts	4,705,466	11,620,937	16,862,276
Proceeds from sales of (payments for maturing) time deposits, net	(1,802,427)	(2,089,581)	(1,983,822)
Net increase (decrease) in federal funds purchased	2,032,000		
Net increase (decrease) in borrowings and repurchase agreements	(296,481)	108,319	325,361
Purchase of treasury stock	-	-	(58,500)
Dividends paid	(316,526)	(316,525)	(319,316)
Net cash provided by financing activities	4,322,032	9,323,150	14,825,999

See Notes to Consolidated Financial Statements

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
For the Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Increase (decrease) in cash and due from banks	(52,641)	523,258	1,913,894
Cash and due from banks:			
Beginning	4,231,011	3,707,753	1,793,859
Ending	$ 4,178,370	$ 4,231,011	$ 3,707,753
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest paid to depositors	$ 412,870	$ 405,325	$ 420,718
Interest paid on short-term borrowings	$ 8,454	$ 5,200	$ 5,306
Income taxes paid	$ 63,080	$ 32,000	$ 31,100
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Other real estate and asset repossessions acquired in settlement of loans	$ 71,810	$ 185,097	$ 217,712
Dividends declared, but not paid	$ 321,631	$ 316,526	$ 316,525

Note 1. Summary of Significant Accounting Policies

Nature of business: Tri-County Bancorp, Inc., (the Company) is a bank holding company incorporated in West Virginia. The wholly-owned subsidiary, West Union Bank (the Bank), provides consumer and commercial loans and deposit services principally to individuals and small businesses in Doddridge, Ritchie and Harrison Counties, West Virginia. The operations of the Company and its subsidiary bank, such as loan portfolio management and deposit growth, are directly affected by the market area economy. The economy is to a large extent dependent on the oil and gas and other natural resources industries and, thus, is affected by factors beyond the Bank's control.

Basis of financial statement presentation: The accounting and reporting policies of Tri-County Bancorp, Inc., and its wholly-owned subsidiary, conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Tri-County Bancorp, Inc., and its wholly-owned subsidiary, West Union Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For the year ended December 31, 2016, the Company evaluated subsequent events through February 17, 2017, the date the financial statements were available to be issued.

Presentation of cash flows: For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, NOW accounts and savings accounts are reported net since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported net.

Interest bearing deposits with other banks: Interest bearing deposits with other banks are carried at cost.

Securities: Securities are classified as "held to maturity", "available for sale" or "trading" at the time of purchase of each security according to management's intent. The appropriate classification is re-evaluated at each reporting date. The classification is determined as follows:

Securities held to maturity - Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. At December 31, 2016 and 2015, the Company does not hold any securities classified as held to maturity.

Securities available for sale - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders' equity.

Trading securities – Securities in which the Company has the intent to sell in the short term to earn a profit. There are no securities classified as "trading" in the accompanying financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using methods, which approximate the interest method.

Loans and allowance for loan losses: Loans are stated at the amount of unpaid principal and reduced by the allowance for loan losses.

Interest on loans is accrued daily and credited to operations on the outstanding balances, which is calculated using the simple interest and amortization methods. Accrual of interest is discontinued on an impaired loan when management believes, after considering economic and business conditions and collection efforts, the borrowers' financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are collected or interest is recognized on the cash basis. The method used is determined by the characteristics of the individual loans and management's assessment as to the ultimate collectability of the interest and principal on the loans.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The subsidiary bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes collectability to be unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of 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. Impaired loans, other than certain large groups of smaller-balance, homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

For purposes of ASC Topic 310-10-35, *Receivables – Subsequent Measurement*, the Bank considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property and installment loans to individuals. Accordingly management does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or are substantially different from the homogeneous loan pool.

Loans are placed on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, or part of the principal balance has been charged off and no restructuring has occurred. Generally, after management's evaluation, loans are placed on non-accrual status when principal or interest is greater than 90 days past due for commercial loans and 120 days past due for consumer loans based upon the loan's contractual terms. When a loan is placed on nonaccrual status, accrued unpaid interest receivable is reversed against interest income and future interest is recognized on the cash method until the loan qualifies for return to accrual status. Generally, a loan is returned to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer in doubt. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payment of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

Bank premises and equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using primarily the straight-line method for bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

Other real estate: Other real estate consists primarily of real estate held for resale which was acquired through foreclosure of loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or fair value less estimated cost to sell with any write-down being charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Expenses incurred in connection with operating these properties which are generally not significant are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

Restricted investment securities: The subsidiary bank is a member of the Federal Home Loan Bank (FHLB) system and the Community Banker's Bank (CBB) federal funds program. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. CBB program participants are required to own a certain amount of stock based on various factors tied to quarterly financial analysis. FHLB stock and CBB stock are equity securities which are included in other assets in the accompanying consolidated financial statements. Such securities are carried at cost since they may only be sold back to the respective issuer or another member at par value. These securities are classified as restricted securities and are periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Income taxes: The consolidated provision for income taxes includes Federal and State income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others may be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income. No interest or penalties were recorded for the years ended December 31, 2016, 2015 or 2014. No uncertain tax positions were recorded in 2016, 2015 or 2014.

Advertising: Advertising and promotion costs are expensed as incurred.

Basic earnings per share: Earnings per common share are computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 20,421, 20,421 and 20,512 for the years ended December 31, 2016, 2015 and 2014, respectively.

Reclassifications: Certain accounts in the consolidated financial statements for 2015 and 2014, as previously presented, have been reclassified to conform to current year classifications.

Significant Authoritative Guidance: ASU 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 was effective January 1, 2016, and did not have a significant impact on the financial statements.

ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs* specifies that debt issuance costs related to a recognized liability are to be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 was effective January 1, 2016 and did not have a significant impact on the financial statements.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 will be effective January 1, 2019 and is not expected to have a significant impact on the financial statements.

ASU 2016-02, *Leases (Topic 842)* will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2016-02 will be effective on January 1, 2020 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. This ASU is not expected to have a significant impact on the financial statements.

ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2021. The Company is currently evaluating the potential impact of ASU 2016-13 on the financial statements.

ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments* provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 will be effective January 1, 2019 and is not expected to have a significant impact on the financial statements.

Note 2. Restrictions on Cash and Due from Banks

The Bank is required to maintain minimum compensating balances with certain correspondent banks. The required compensating balances as of December 31, 2016 were $600,000. The subsidiary bank is required to maintain average reserve balances with the Federal Reserve Bank. At December 31, 2016, the reserve requirement approximated $688,000. The Bank does not earn interest on the reserve balance.

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at December 31, 2016 and 2015, respectively, are summarized as follows:

	2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for sale				
U.S. Agency Securities	$ 41,331,926	$ 23,592	$ 786,067	$ 40,569,451
Mortgage-backed securities -				
U.S. Government agencies	16,012,749	16,055	355,676	15,673,128
State and political subdivisions	14,169,059	161,576	128,707	14,201,928
Equity securities	75,974	39,516	-	115,490
Total	$ 71,589,708	$ 240,739	$ 1,270,450	$ 70,559,997

	2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for sale				
U.S. Agency Securities	$ 28,591,016	$ 58,028	$ 126,095	$ 28,522,949
Mortgage-backed securities -				
U.S. Government agencies	17,713,380	49,228	105,774	17,656,834
State and political subdivisions	13,162,567	338,351	8,789	13,492,129
Equity securities	72,633	17,880	-	90,513
Total	$ 59,539,596	$ 463,487	$ 240,658	$ 59,762,425

Mortgage backed obligations of U.S. Government agencies are included in securities at December 31, 2016 and 2015. These obligations, having contractual remaining maturities ranging from 1 to 20 years, are reflected in the following maturity distribution schedule based on their stated anticipated average life to maturity, which ranges from 1 to 9 years. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Accordingly, discounts are accreted over the anticipated average life to maturity of the specific obligation and premiums are amortized to the maturity of the specific obligation.

The maturities, amortized cost and estimated fair values of securities are summarized as follows:

	2016	
	Available for Sale	
	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	$ 1,712,849	$ 1,720,045
Due after 1 year but within 5 years	36,950,806	36,539,867
Due after 5 years but within 10 years	28,555,031	27,929,184
Due after 10 years	4,295,048	4,255,411
Equity securities	75,974	115,490
Total	$ 71,589,708	$ 70,559,997

The proceeds from sales, calls and maturities of securities, and principal payments received on mortgage backed obligations and the related gross gains and losses realized are as follows:

For the Years Ended December 31,	Proceeds From Sales	Calls and Maturities	Principal Payments	Gross Realized Gains	Losses
2016					
Securities available for sale	$ 2,229,220	$ 14,785,000	$ 4,716,030	$ 39,268	$ -
2015					
Securities available for sale	$ 1,413,517	$ 17,070,000	$ 2,186,591	$ 17,206	$ -
2014					
Securities available for sale	$ 1,917,396	$ 6,419,999	$ 1,243,973	$ 27,566	$ 9,723

Investment securities with amortized costs of $21,789,105 and $22,067,331, respectively, with estimated fair values of $21,884,056 and $22,310,316, respectively, at December 31, 2016 and 2015 were pledged to secure public deposits and for other purposes required or permitted by law.

Included in obligations of states and political subdivisions at December 31, 2016 are certain obligations to the following states and their political subdivisions:

	2016
West Virginia	$ 2,283,231
New York	$ 2,277,733
Texas	$ 1,683,566
Pennsylvania	$ 1,592,651

There were no significant concentrations to any one political subdivision within these states.

Impairment is evaluated considering numerous factors, and their relative significance varies case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings.

The Bank has 98 securities in an unrealized loss position as of December 31, 2016. These securities are predominately rated investment grade securities and the unrealized losses are due to overall increases in market interest rates and not due to any underlying credit concerns of the issuers. The Bank has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolios are other-than-temporarily impaired at December 31, 2016.

Provided below is a summary of securities available for sale which were in an unrealized loss position as of December 31, 2016 and 2015, respectively.

	2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
U.S. Agency Securities	$ 36,556,083	$ 786,067	$ -	$ -	$ 36,556,083	$ 786,067
Mortgage-backed securities -						
U.S. Government agencies	13,835,646	351,828	920,140	3,848	14,755,786	355,676
State and political subdivisions	5,801,183	128,492	214,785	215	6,015,968	128,707
Totals	$ 56,192,912	$ 1,266,387	$ 1,134,925	$ 4,063	$ 57,327,837	$ 1,270,450

	2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
U.S. Agency Securities	$ 15,551,006	$ 113,104	$ 1,486,120	$ 12,991	$ 17,037,126	$ 126,095
Mortgage-backed securities -						
U.S. Government agencies	12,066,261	92,332	811,082	13,442	12,877,343	105,774
State and political subdivisions	339,855	622	314,377	8,167	654,232	8,789
Totals	$ 27,957,122	$ 206,058	$ 2,611,579	$ 34,600	$ 30,568,701	$ 240,658

Note 4. Loans

Loans are summarized as follows:

	December 31,	
	2016	2015
Commerical	$ 7,931,263	$ 8,060,526
Commericial real estate	24,377,457	21,657,921
Consumer	18,708,360	21,593,958
Residential real estate	23,321,950	26,129,689
Lease financing receivables	4,694,350	4,983,593
Total loans	79,033,380	82,425,687
Less allowance for loan loss	(737,440)	(757,719)
Loans, net	$ 78,295,940	$ 81,667,968

The following presents loan maturities as of December 31, 2016:

	Within 1 Year	After 1 But Within 5 Years	After 5 Years
Commerical	$ 2,415,390	$ 15,237,254	$ 19,350,426
Consumer	442,817	10,874,284	7,391,259
Residential real estate	547,627	4,651,102	18,123,221
Total	$ 3,405,834	$ 30,762,640	$ 44,864,906

Loans due after one year with:	
Variable rates	$ 23,149,978
Fixed rates	52,477,568
Total	$ 75,627,546

In the past, the subsidiary bank has made loans, in the normal course of business, to its directors, officers and employees, and will continue to make such loans in the future. The following presents the activity with respect to related party loans aggregating $60,000 or more to any one related party during the years ended December 31, 2016 and 2015, respectively.

	2016	2015
Balance, beginning	$ 403,820	$ 381,704
Additions	10,000	307,854
Amounts collected	(25,790)	(285,738)
Balance, ending	$ 388,030	$ 403,820

The Bank has a collateral concentration in certain consumer loans. This collateral concentration includes farm and lawn equipment, ATV's and other recreational vehicles. Consumer loans in this concentration are approximately 84% of total consumer loans as of both years ended December 31, 2016 and 2015.

The following table presents the contractual aging of the recorded investment of past due loans, segregated by class of loans, as of December 31, 2016 and 2015. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (a) well secured and in the process of collection or (b) real estate loans.

	December 31, 2016						
	Past Due						Recorded Investment
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	≥ 90 days and Accruing
Commercial	$ 28,336	$ -	$ -	$ 28,336	$ 7,902,927	$ 7,931,263	$ -
Commercial real estate:							
Construction	-	-	-	-	1,208,115	1,208,115	-
Other	-	285,455	-	285,455	22,883,887	23,169,342	-
Consumer	434,287	279,503	39,955	753,745	17,954,615	18,708,360	39,955
Residential:							
Prime	179,840	119,377	76,219	375,436	22,946,514	23,321,950	76,219
Lease financing	-	-	-	-	4,694,350	4,694,350	-
Total	$ 642,463	$ 684,335	$ 116,174	$ 1,442,972	$ 77,590,408	$ 79,033,380	$ 116,174

	December 31, 2015						
	Past Due						Recorded Investment ≥ 90 days and Accruing
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	
Commercial	$ -	$ -	$ -	$ -	$ 8,060,526	$ 8,060,526	$ -
Commercial real estate:							
Construction	-	-	-	-	1,786,882	1,786,882	-
Other				-	19,871,039	19,871,039	
Consumer	467,199	101,987	46,920	616,106	20,977,852	21,593,958	46,920
Residential:							
Prime	111,729	-	14,213	125,942	26,003,747	26,129,689	14,213
Lease financing	-	-	-	-	4,983,593	4,983,593	-
Total	$ 578,928	$ 101,987	$ 61,133	$ 742,048	$ 81,683,639	$ 82,425,687	$ 61,133

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2016 and 2015, respectively.

	2016	2015
Commercial real estate	$ 675,262	$ -
Total	$ 675,262	$ -

If interest on non-accrual loans had been accrued, such income would have approximated $24,913, $0 and $4,591 for the years ended December 31, 2016, 2015 and 2014, respectively.

For purposes of evaluating impairment, the Company will deem a loan to be impaired when, based on current circumstances and events; it is probable that the bank will be unable to collect all amounts due, including principal and interest, according to the original contractual terms of the loan. Determination of impairment is treated the same across all classes of loan.

The following tables set forth impaired loans by class of loan, as of December 31, 2016 and 2015, respectively. The average balances are calculated based on month-end balances of the loans for the period reported.

	December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized while impaired
With no related allowance					
Commercial	$ 22,854	$ 22,744	$ -	$ 29,035	$ 1,534
Commercial real estate - other	1,283,199	1,276,274	-	1,501,509	70,480
Consumer	-	-	-	-	-
Residential real estate - prime	277,966	277,009	-	278,092	12,221
Total with no related allowance	**$ 1,584,019**	**$ 1,576,027**	**$ -**	**$ 1,808,636**	**$ 84,235**

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized while impaired
With a related allowance					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate - other	599,044	599,044	79,000	616,355	2,372
Consumer	19,709	19,662	1,500	20,976	1,315
Residential real estate - prime	-	-	-	-	-
Total with a related allowance	**$ 618,753**	**$ 618,706**	**$ 80,500**	**$ 637,331**	**$ 3,687**
Total					
Commercial	$ 22,854	$ 22,744	$ -	$ 29,035	$ 1,534
Commercial real estate - other	1,882,243	1,875,318	79,000	2,117,864	72,852
Consumer	19,709	19,662	1,500	20,976	1,315
Residential real estate - prime	277,966	277,009	-	278,092	12,221
Total	**$ 2,202,772**	**$ 2,194,733**	**$ 80,500**	**$ 2,445,967**	**$ 87,922**

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized while impaired
With no related allowance					
Commercial	$ 127,432	$ 127,184	$ -	$ 128,632	$ 6,850
Commercial real estate - other	494,321	492,600	-	550,765	20,654
Total with no related allowance	**$ 621,753**	**$ 619,784**	**$ -**	**$ 679,397**	**$ 27,504**
With a related allowance					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate - other	1,196,870	1,272,895	79,000	1,282,906	60,938
Commercial real estate - const	179,299	199,848	21,000	180,684	3,640
Total with a related allowance	**$ 1,376,169**	**$ 1,472,743**	**$ 100,000**	**$ 1,463,590**	**$ 64,578**
Total					
Commercial	$ 127,432	$ 127,184	$ -	$ 128,632	$ 6,850
Commercial real estate - other	$ 1,691,191	$ 1,765,495	$ 79,000	$ 1,833,671	$ 81,592
Commercial real estate - const	179,299	199,848	21,000	180,684	3,640
Total	**$ 1,997,922**	**$ 2,092,527**	**$ 100,000**	**$ 2,142,987**	**$ 92,082**

Included in impaired loans are troubled debt restructurings of $508,475 and $327,032 as of December 31, 2016 and 2015, respectively.

The following tables present, by class, the subsidiary bank's troubled debt restructurings (TDRs) for the years ended December 31, 2016 and 2015. Generally, the modifications were extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. All TDRs are evaluated individually for allowance for loan loss purposes.

	2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	2	$ 27,355	$ 22,854
Commercial real estate-other	2	287,969	288,812
Residential - prime	1	163,788	163,788
Total	5	$ 479,112	$ 475,454

	2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 127,871	$ 270,202
Residential - prime	1	163,788	163,788
Total	2	$ 291,659	$ 433,990

The following table presents, TDRs that subsequently defaulted during the year. A default is considered as either the loan was past due 30 days or more at any time during the period, or the loan was fully or partially charged off during the period.

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Commercial	1	$ 19,762
Commercial real estate - other	1	249,569
Total	2	$ 269,331

As of December 31, 2015, the Bank had no TDRs that subsequently defaulted.

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debts such as current financial information, historical payment experience, credit documentation and current economic trends, among other factors.

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The Company analyzes loans individually by classifying the loans as to credit risk. The use of creditworthiness categories to grade loans permits management to assess individual risk categories separately to estimate the respective portion of credit risk. The Bank's internal creditworthiness grading system is based on experience with similarly graded loans. Category ratings are reviewed each quarter, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track the migration from one loan risk rating to another. Loans that trend upward toward better ratings generally have a lower risk factor associated; whereas, loans that migrate toward a poorer rating generally will result in a higher risk factor being applied to those related loan balances. The Bank's internal risk ratings on commercial loans based on assessment of borrower creditworthiness are as follows:

Superior: Loans fully secured by cash deposits, investment grade stocks, borrowers with good net worth, liquidity and cash flow consistent with borrowing levels. Collateral value is well in excess of minimum.

Acceptable: Loans with borrowers who have medium or average financial condition, equity, and profitability levels. Cash flow is adequate but may show signs of vulnerability to changing economic or industry conditions. Collateral is adequate to preclude losses.

Special Mention: Loans with an early warning assessment which are currently protected, but portraying one or more deficiencies that may not be tolerable over the intermediate to long term.

Substandard: Loans with well-defined weaknesses, which could lead to impairment of the loan.

Doubtful: Loans with characteristics such that collection of principal is highly unlikely, while possibility of loss is high, sufficient contingencies exist to warrant deferral of charge-off pending the outcome of the contingency.

Loss: Loans judged to be uncollectible and of such value carrying the loan as an asset is not warranted.

The following tables present the recorded investment in loans that are graded based on the risk associated with the loan utilizing the Bank's internal risk rating as of December 31, 2016 and 2015, respectively. Loans classified as Pass below include loans rated as Acceptable or better.

Commercial Credit Exposure - By Internally Assigned Grade

	Commercial		Commercial Real Estate - Construction		Commercial Real Estate - Other	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Superior	$ 1,327,645	$ 1,268,113	$ 19,669	$ 21,484	$ 1,495,744	$ 1,227,121
Acceptable	6,580,874	6,665,229	1,188,446	1,765,398	19,798,280	15,811,351
Special Mention	22,744	127,184	-	-	284,941	2,339,967
Substandard	-	-	-	-	1,590,377	492,600
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 7,931,263	$ 8,060,526	$ 1,208,115	$ 1,786,882	$ 23,169,342	$ 19,871,039

Residential Real Estate Credit Exposure - By Internally Assigned Grade

	Prime	
	12/31/2016	12/31/2015
Pass	$ 23,044,941	$26,093,453
Special Mention	-	-
Substandard	277,009	36,236
Doubtful	-	-
Loss	-	-
Total	$ 23,321,950	$26,129,689

Consumer Credit Exposure - By Payment Activity

	Performing	
	12/31/2016	12/31/2015
Consumer	$ 18,668,406	$ 21,547,038
Lease Financing Receivables	4,694,350	4,983,593
Total	$ 23,362,756	$ 26,530,631

	Nonperforming	
	12/31/2016	12/31/2015
Consumer	$ 39,954	$ 46,920
Lease Financing Receivables	-	-
Total	$ 39,954	$ 46,920

Note 5. Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate to provide for the estimate of probable credit losses inherent in the loan portfolio. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Loans are charged against the allowance for loan losses when it is believed that collectability is unlikely. Future adjustments may be necessary if there are significant changes in conditions.

The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology the Bank employs on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of the allowance for loan losses is as follows.

Specific Reserve for Loans Individually Evaluated

Management maintains a Watch List for non-performing loans for which there is a possible current or future impairment. Also, on an annual basis the Bank identifies loan relationships having aggregate balances in excess of $300,000. These loans are identified primarily through the analysis of internal loan evaluations, past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events; it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. The Bank measures impairment based on the fair value of the loan's collateral, which is generally, determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell.

Quantitative Reserve for Loans Collectively Evaluated

Second, the Bank stratifies the loan portfolio into loan pools. Loans within each pool are then further segmented between (1) loans which were individually evaluated for impairment and not deemed to be impaired, (2) smaller-balance homogenous loans.

Quantitative reserves relative to each loan pool are established using an allocation equaling 100% of the respective pool's average 3 year historical net loan charge-off rate (determined based upon the most recent twelve quarters) which is applied to the aggregate recorded investment in the smaller-balance homogenous pool of loans.

Qualitative Reserve for Loans Collectively Evaluated

Third, the Bank considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions, and (8) effects of changes in credit concentrations.

An analysis of the allowance for loan losses for the years ended December 31, 2016, 2015 and 2014 is as follows:

	2016	2015	2014
Balance, beginning of year	$ 757,719	$ 751,842	$ 741,613
Losses:			
Consumer	287,745	126,680	98,873
Residential real estate - prime	-	14,175	15,331
Total	287,745	140,855	114,204
Recoveries:			
Consumer	102,257	46,679	9,433
Residential real estate - prime	209	53	-
Total	102,466	46,732	9,433
Net losses	(185,279)	(94,123)	(104,771)
Provision for loan losses	165,000	100,000	115,000
Balance, end of year	$ 737,440	$ 757,719	$ 751,842

Activity in the allowance for loan losses, by class, as of December 31, 2016 and 2015, respectively are presented as follows.

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2016	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Lease Financing Receivables	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 74,963	$ 268,581	$ 228,677	$ 122,127	$ 46,347	$ 17,024	$ 757,719
Charge-offs	-	-	(287,745)	-	-	-	(287,745)
Recoveries	-	-	102,257	209	-	-	102,466
Provision	4,122	35,440	138,391	(25,546)	597	11,996	165,000
Ending balance	$ 79,085	$ 304,021	$ 181,580	$ 96,790	$ 46,944	$ 29,020	$ 737,440
Allowance related to:							
Individually evaluated for impairment	$ -	$ 79,000	$ 1,500	$ -	$ -	$ -	$ 80,500
Collectively evaluated for impairment	79,085	225,021	180,080	96,790	46,944	29,020	656,940
Total	$ 79,085	$ 304,021	$ 181,580	$ 96,790	$ 46,944	$ 29,020	$ 737,440
Loans:							
Individually evaluated for impairment	$ 22,744	$ 1,875,318	$ 19,662	$ 277,009	$ -	$ -	$ 2,194,733
Collectively evaluated for impairment	7,908,519	22,502,139	18,688,698	23,044,941	4,694,350	-	76,838,647
Total	$ 7,931,263	$ 24,377,457	$ 18,708,360	$ 23,321,950	$ 4,694,350	$ -	$ 79,033,380

2015	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Lease Financing Receivables	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 46,131	$ 260,944	$ 277,162	$ 96,294	$ 27,195	$ 44,116	$ 751,842
Charge-offs	-	-	(126,680)	(14,175)	-	-	(140,855)
Recoveries	-	-	46,679	53	-	-	46,732
Provision	28,832	7,637	31,516	39,955	19,152	(27,092)	100,000
Ending balance	$ 74,963	$ 268,581	$ 228,677	$ 122,127	$ 46,347	$ 17,024	$ 757,719
Allowance related to:							
Individually evaluated for impairment	$ -	$ 79,000	$ -	$ 21,000	$ -	$ -	$ 100,000
Collectively evaluated for impairment	74,963	189,581	228,677	101,127	46,347	17,024	657,719
Total	$ 74,963	$ 268,581	$ 228,677	$ 122,127	$ 46,347	$ 17,024	$ 757,719
Loans:							
Individually evaluated for impairment	$ 127,184	$ 1,765,495	$ -	$ 199,848	$ -	$ -	$ 2,092,527
Collectively evaluated for impairment	7,933,342	19,892,426	21,593,958	25,929,841	4,983,593	-	80,333,160
Total	$ 8,060,526	$ 21,657,921	$ 21,593,958	$ 26,129,689	$ 4,983,593	$ -	$ 82,425,687

Note 6. Bank Premises, Furniture and Equipment

The major categories of bank premises, furniture and equipment and accumulated depreciation at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Land	$ 688,423	$ 688,423
Building and improvements	3,925,375	3,855,303
Furniture and equipment	1,968,924	2,090,609
	6,582,722	6,634,335
Less accumulated depreciation	3,182,801	3,188,477
Bank premises and equipment, net	$ 3,399,921	$ 3,445,858

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 included in occupancy expense on the consolidated statements of income is $179,772, $163,792 and $159,268, respectively.

Note 7. Bank Owned Life Insurance

The Bank invests in bank owned life insurance contracts. These contracts include split-dollar life insurance on key bank employees. Upon death of the employee, the life insurance proceeds are split between the Bank and the employee named beneficiary. If the individual is no longer employed at the date of death, the entire proceeds are paid to the Bank. The carrying amounts of the contracts of $3,059,153 and $2,973,028 are included in other assets as of December 31, 2016 and 2015, respectively. Income on the contracts for 2016, 2015 and 2014 of $86,125, $86,401 and $86,887 is included in other services charges, commissions and fees on the Statements of Income.

Note 8. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2016 and 2015, respectively.

	2016	2015
NOW accounts	$ 2,341,384	$ 2,225,596
Money market accounts	55,794,787	52,968,673
Savings accounts	24,039,637	23,861,779
Certificates of deposit	16,146,469	17,991,497
Individual retirement accounts	3,316,288	3,273,687
Total	$ 101,638,565	$ 100,321,232

Time deposits, which included certificates of deposit and individual retirement accounts, in denominations of $100,000 or more totaled $5,909,442 and $6,236,729 as of December 31, 2016 and 2015, respectively. Interest expense on such time deposit was $41,210, $48,188 and $55,212 for the years ended December 31, 2016, 2015 and 2014, respectively.

The following is a summary of the maturity distribution of certificates of deposit in amounts of $100,000 or more as of December 31, 2016:

	2016	
	Amount	Percent
Three months or less	$ 521,741	8.8%
Three through six months	1,023,343	17.3%
Six through twelve months	1,473,650	25.0%
Over twelve months	2,890,708	48.9%
Total	$ 5,909,442	100.0%

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

2017	$ 9,625,496
2018	5,114,174
2019	2,251,376
2020	1,127,698
2021 and thereafter	1,344,013
Total time deposits	$ 19,462,757

At December 31, 2016 and 2015, time deposits equal to or exceeding the federal depository (FDIC) insured limit of $250,000 totaled $1,647,534 and $1,497,161, respectively.

The subsidiary bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these deposits and transactions were on the same terms as those for comparable deposits and transactions with nonrelated parties. At December 31, 2016 and 2015, deposits of related parties, including directors, executive officers and their related interests, approximated $7,994,696 and $6,501,170, respectively.

Note 9. Other Borrowings

The Bank has certain borrowing arrangements with other financial institutions which allows for secured borrowings at the financial institution's current rates and terms. Under these arrangements, the Bank may borrow approximately $34,700,200 to meet liquidity and other needs. There were no borrowings under these agreements as of December 31, 2016 and 2015.

The Bank has instituted agreements with customers whereby the Bank will invest the excess cash of the customer in daily federal funds and pay the customer 70% of the rate the Bank receives on fed funds at a specific correspondent bank. The daily amount of investment is collateralized by repurchase agreements with the customer on a daily basis and with a pledge of approved investment securities of an amount approximately equal to the daily repurchase agreement balance. At December 31, 2016 and 2015, the outstanding balances under these agreements were $3,454,730 and $3,751,211, respectively.

Additional details regarding short-term borrowings during the years ended December 31, 2016 and 2015 are presented below.

	2016	2015
	Repurchase Agreements	Repurchase Agreements
Outstanding at year end	$ 3,454,730	$ 3,751,211
Average amount outstanding	3,728,340	3,685,897
Maximum amount outstanding at any month end	4,054,241	4,108,154
Weighted average interest rate	0.23%	0.14%

Included in borrowings is a repurchase agreement amount owed to a related party approximating $2,595,000 and $2,176,041 at December 31, 2016 and 2015, respectively.

	2016	2015
	Federal Funds Purchased	Federal Funds Purchased
Outstanding at year end	$ 2,032,000	$ -
Average amount outstanding	180,530	26,263
Maximum amount outstanding at any month end	2,032,000	693,000
Weighted average interest rate	0.81%	0.47%

Note 10. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Current:			
Federal	$ 118,425	$ 5,370	$ 5,500
State	38,409	30,970	31,000
	156,834	36,340	36,500
Deferred:			
Federal	(11,425)	46,813	(3,800)
State	(1,009)	(9,298)	(1,900)
	(12,434)	37,515	(5,700)
Total	$ 144,400	$ 73,855	$ 30,800

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2016, 2015 and 2014, is as follows:

	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	$ 369,877	34.0%	$ 292,658	34.0%	$ 273,400	34.0%
Increase (decrease) in taxes resulting from:						
State income taxes, net	24,684	2.3%	20,440	2.4%	27,400	3.4%
Tax-exempt interest	(206,289)	-19.0%	(213,647)	-24.9%	(269,200)	-33.5%
Other, net	(43,872)	-4.0%	(25,596)	-2.9%	(800)	0.0%
Applicable income taxes	$ 144,400	13.3%	$ 73,855	8.6%	$ 30,800	3.9%

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The tax effects of temporary differences, which give rise to the Bank's deferred tax assets and liabilities as of December 31, 2016 and 2015, are as follows:

	2016	2015
Deferred tax assets:		
Provision for loan loss	$ 228,024	$ 235,573
Net unrealized loss on securities available for sale	443,491	$ -
Other items	11,925	$ -
Gross deferred tax assets	683,440	235,573

	2016	2015
Deferred tax liabilities:		
Depreciation	$ 112,393	$ 120,000
Net unrealized gain on securities available for sale	-	89,200
Other items	437	868
Gross deferred tax liabilities	112,830	210,068
Net deferred tax asset	$ 570,610	$ 25,505

As of December 31, 2016 and 2015, the Company had no unrecognized tax benefits. Such benefits would impact the effective tax rate if recognized. The Company is subject to U.S. Federal income tax examinations for returns filed after December 31, 2013. State income tax returns are generally subject to a period of examinations for a period of three to five years.

Note 11. Mortgage Partnership Finance Program

During 2012, the Bank began participation in the Mortgage Partnership Finance Program with the Federal Home Loan Bank of Pittsburgh. Under this program, the Bank originates qualified residential mortgage loans as defined in the agreement, closes the loans in its own name and sells the loans to the Federal Home Loan Bank. The Bank retains no servicing rights on the loans but guarantees the loans to a maximum of 5% after the "first loss", as defined by the agreement, is recognized by the Federal Home Loan Bank.

During 2016, the Bank began participation in a mortgage loan purchase agreement with The First State Bank. Under this agreement, the Bank originates qualified residential mortgage loans as defined in the agreement, closes the loans in its own name, and sells the loans to The First State Bank. The Bank retains no servicing rights on the loans. The Bank is required to repay the First State Bank 100% of proceeds received if the loan pays within 90 days of the purchase and 75% of proceeds received if the loan pays within 120 days. The Bank does not have any recourse liability once the loan is sold.

During 2016 and 2015, the Bank sold residential mortgage loans with principal balances of $1,509,750 and $1,055,200, respectively. For the years ended December 31, 2016, 2015 and 2014, the Bank recognized gains of $26,093, $16,475 and $13,945, respectively. A recourse liability was recorded in 2016 and 2015 using the historical loss ratio applied to the outstanding balance of loans of approximately $4,319,000, and $4,033,000 at December 31, 2016 and 2015 respectively. Total recorded recourse liability included in interest, taxes and other liabilities as of December 31, 2016 and 2015 is approximately $15,000 and $13,068, respectively. Net gain on sale of these loans during 2016 and 2015 is included in secondary market fees on the consolidated income statement.

Note 12. Retirement Plan

The Bank has a contributory 401-K retirement plan, whereby eligible participants may make contributions, up to fifteen percent of compensation and catch-up limits if applicable, and the Bank will match up to two percent of this limit during the plan year. The Bank may make additional discretionary contributions to eligible participants unrelated to participant contributions. During 2016, 2015, and 2014, the Bank made matching contributions to eligible participants of $17,873, $18,997 and $20,140, respectively.

Note 13. Restrictions on Dividends and Capital

The primary source of funds for the dividends paid by Tri-County Bancorp, Inc. is dividends received from its subsidiary bank. Dividends paid by the subsidiary bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if the total of all dividends declared by the Bank in any calendar year exceeds the Bank's net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years. During 2017, the net retained profits of the subsidiary bank available for distribution to Tri-County Bancorp, Inc. as dividends without regulatory approval approximates $1,070,000 plus net retained profits, as defined, for the interim periods through the date of dividend declaration.

The Company and its affiliate Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total, common equity Tier 1 and Tier I capital to risk-weighted assets, and of Tier I capital to average assets, as defined. Management believes, as of December 31, 2016, the Company and its affiliate bank meets all capital adequacy requirements to which it is subject.

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

The Company and its subsidiary bank's actual capital amounts and ratios for the years ended December 31, 2016 and 2015, respectively, is presented in the following tables.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2016:						
Common Equity Tier I (to Risk-Weighted Assets)						
Tri-County Bancorp, Inc.	$ 14,335,000	15.5%	$ 4,166,000	4.5%	$ 6,018,000	6.5%
West Union Bank	$ 14,278,000	15.4%	$ 4,162,000	4.5%	$ 6,011,000	6.5%
Total Capital (to Risk-Weighted Assets)						
Tri-County Bancorp, Inc.	$ 15,088,000	16.3%	$ 7,407,000	8.0%	$ 9,258,000	10.0%
West Union Bank	$ 15,031,000	16.2%	$ 7,398,000	8.0%	$ 9,248,000	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Tri-County Bancorp, Inc.	$ 14,335,000	15.5%	$ 5,555,000	6.0%	$ 7,407,000	8.0%
West Union Bank	$ 14,278,000	15.4%	$ 5,549,000	6.0%	$ 7,398,000	8.0%
Tier I Capital (to Average Assets)						
Tri-County Bancorp, Inc.	$ 14,335,000	8.5%	$ 6,770,000	4.0%	$ 8,462,000	5.0%
West Union Bank	$ 14,278,000	8.4%	$ 6,766,000	4.0%	$ 8,457,000	5.0%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Common Equity Tier I (to Risk-Weighted Assets)						
Tri-County Bancorp, Inc.	$ 13,708,000	14.6%	$ 4,237,000	4.5%	$ 6,120,000	6.5%
West Union Bank	$ 13,659,000	14.5%	$ 4,233,000	4.5%	$ 6,115,000	6.5%
Total Capital (to Risk-Weighted Assets)						
Tri-County Bancorp, Inc.	$ 14,481,000	15.4%	$ 7,533,000	8.0%	$ 9,416,000	10.0%
West Union Bank	$ 14,432,000	15.3%	$ 7,526,000	8.0%	$ 9,407,000	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Tri-County Bancorp, Inc.	$ 13,708,000	8.2%	$ 6,651,000	4.0%	$ 8,314,000	6.0%
West Union Bank	$ 13,659,000	8.2%	$ 6,647,000	4.0%	$ 8,309,000	6.0%
Tier I Capital (to Average Assets)						
Tri-County Bancorp, Inc.	$ 12,837,000	9.4%	$ 5,450,000	4.0%	$ 6,812,000	6.0%
West Union Bank	$ 12,795,000	9.4%	$ 5,441,000	4.0%	$ 6,812,000	6.0%

Note 14. Commitments and Contingencies

Litigation: The Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, these matters will not have a material adverse effect on the consolidated financial statements.

Financial instruments with off-balance sheet risk:

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

Total contractual amounts of the commitments as of December 31, 2016 and 2015, were as follows:

	2016	2015
Undisbursed loan commitments and available on lines of credit	$ 9,534,021	$ 10,395,000
Standby letters of credit	543,800	589,000
	$ 10,077,821	$ 10,984,000

Note 15. Fair Value of Financial Instruments

The Bank also discloses fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate that value. The following summarizes the methods and significant assumptions used in estimating fair value for disclosures in the financial statements:

Cash and Due From Banks: The carrying values of cash and due from banks approximate their estimated fair values.

Interest Bearing Deposits in Banks: Estimated fair values of certificates of deposits in other banks are estimated using a discounted cash flow methodology at rates currently earned for the various certificates of deposit compared to the offered rates at year end for deposits with similar maturities. The carrying values of other interest bearing deposits in banks approximate their estimated fair values.

Federal Funds Sold: The carrying values of Federal funds sold approximate their estimated fair values.

Investment Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans: The estimated fair values for loans are computed based on the scheduled principal maturity, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued Interest Receivable and Payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing and interest bearing checking), money market, savings and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Securities Sold under Agreements to Repurchase: The carrying values of securities sold under agreements to repurchase approximate their estimated fair values.

Federal Funds Purchased: The carrying value of Federal funds purchased approximate their estimated fair values.

Off-Balance Sheet Instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

The carrying values and estimated fair values of the Bank's financial instruments as of December 31, 2016 and 2015 are summarized below:

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 4,178,370	$ 4,178,370	$ 4,231,011	$ 4,231,011
Federal funds sold	-	-	685,000	685,000
Interest bearing deposits with other banks	7,846,810	7,868,000	11,663,979	11,663,979
Securities available for sale	70,559,997	70,559,997	59,762,425	59,762,425
Loans, net	78,295,940	77,872,000	81,667,968	81,287,000
Accrued interest receivable	619,088	619,088	509,599	509,599
	$ 161,500,205	$ 161,097,455	$ 158,519,982	$ 158,139,014
Financial liabilites:				
Deposits	$ 150,008,235	$ 150,022,000	$ 147,105,196	$ 147,141,000
Securities sold under agreements to repurchase	3,454,730	3,454,730	3,751,211	3,751,211
Federal funds purchased	2,032,000	2,032,000	-	-
Accrued interest payable	10,099	10,099	12,682	12,682
	$ 155,505,064	$ 155,518,829	$ 150,869,089	$ 150,904,893

Note 16. Fair Value Measurement

ASC Topic 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an 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. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of 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, and other inputs that are observable or can be corroborated by observable market data.

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

Accordingly, securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, such as impaired loans. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities and municipal bonds.

Impaired Loans: Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans. As such, the Company classifies loans subject to nonrecurring fair value adjustments as Level 2 based on a current appraisal. If there is not a current appraisal these loans are classified as Level 3. The value of real estate collateral is determined utilizing an appraisal conducted by an independent, licensed appraiser outside of the Company using comparable property sales (Level 2). The appraisals are typically adjusted for cash to sell and liquidation factors for foreclosed properties resulting in Level 3 classification.

Other Real Estate Owned ("OREO"): OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). OREO valued by an original appraisal discounted for known deterioration is Level 3. Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest income in the consolidated statements of income.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

Available for Sale Securities	Total at December 31, 2016	Fair Value Measurements Using: Level 1	Level 2	Level 3
U.S. Agency Securities	$ 40,569,451	$ -	$ 40,569,451	$ -
Mortgage-backed securities - U.S. Government agencies	$ 15,673,128	$ -	$ 15,673,128	-
State and political subdivisions	14,201,928	-	14,201,928	-
Equity securities	115,490	115,490	-	-
Total available for sale securities	$ 70,559,997	$ 115,490	$ 70,444,507	$ -

Available for Sale Securities	Total at December 31, 2015	Fair Value Measurements Using: Level 1	Level 2	Level 3
U.S. Agency Securities	$ 28,522,949	$ -	$ 28,522,949	$ -
Mortgage-backed securities - U.S. Government agencies	17,656,834	-	17,656,834	-
State and political subdivisions	13,492,129	-	13,492,129	-
Equity securities	90,513	90,513	-	-
Total available for sale securities	$ 59,762,425	$ 90,513	$ 59,671,912	$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015, respectively, are included in the table below:

	Total at December 31, 2016	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Impaired loans	$ -	$ -	$ -	$ -

	Total at December 31, 2015	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Impaired loans	$ 1,376,169	$ -	$ -	$ 1,376,169

Note 17. Condensed Financial Statements of Parent Company

The investment of the Company in its wholly-owned subsidiary, West Union Bank, is presented on the equity method of accounting. The Company's balance sheets at December 31, 2016 and 2015, and the related statements of income and cash flows for the years ended December 31, 2016, 2015 and 2014, are presented below:

Balance Sheets	2016	2015
Assets		
Due from banks	$ 1,973	$ 359
Investment in subsidiary, eliminated in consolidation	13,636,284	13,781,903
Other investments	115,490	90,513
Dividends receivable	321,631	318,526
Total assets	$ 14,075,378	$ 14,191,301
Liabilities		
Dividends payable	321,631	316,526
Other liabilities	15,800	7,200
Total liabilities	337,431	323,726
Shareholders' equity		
Common stock, $10 par value, authorized and issued 25,000 shares, outstanding 2016, 20,421; 2015, 20,421	250,000	250,000
Capital surplus	300,000	300,000
Retained earnings	15,172,727	14,550,885
Less cost of shares acquired for the treasury 2016, 4,579; 2015, 4,579	(1,392,700)	(1,392,700)
Accumulated other comprehensive income	(592,080)	159,390
Total shareholders' equity	13,737,947	13,867,575
Total liabilities and shareholders' equity	$ 14,075,378	$ 14,191,301

Statements of Income	2016	2015	2014
Income			
Income - dividends from bank subsidiary	$ 321,631	$ 318,526	$ 375,025
Other income	3,341	2,358	3,015
Total income	324,972	320,884	378,040
Expense	385	334	321
Income before income taxes and equity in undistributed income	324,587	320,550	377,719
Applicable income tax expense (benefit)	-	-	-
Income before undistributed income	324,587	320,550	377,719
Equity in undistributed income of subsidiary	618,886	466,353	398,059
Net income	$ 943,473	$ 786,903	$ 775,778

TRI-COUNTY BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of Cash Flows	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITES			
Net income	$ 943,473	$ 786,903	$ 775,778
Adjustments to reconcile net income to net cash provided by operating activities: Equity in undistributed net income of subsidiary	(618,886)	(466,353)	(398,059)
Other items	(6,447)	(4,359)	(225)
Net cash provided by operating activities	318,140	316,191	377,494
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury stock	-	-	(58,500)
Dividends paid to shareholders	(316,526)	(316,526)	(319,316)
Net cash (used in) financing activities	(316,526)	(316,526)	(377,816)
Increase (decrease) in cash	1,614	(335)	(322)
Cash:			
Beginning	359	694	1,016
Ending	1,973	359	694

Tri-County Bancorp, Inc. accounts for its investment in its bank subsidiary under the equity method. During the years ended December 31, 2016, 2015 and 2014, changes were as follows.

	Number of Shares Owned	Percent of Shares Owned
West Union Bank	25,000	100%
Balance at December 31, 2013		$ 12,050,857
Add (deduct):		
Net income of subsidiary		773,084
Dividends declared by the bank subsidiary		(375,025)
Change in equity in net unrealized gain (loss) on securities of bank subsidiary		811,438
Balance at December 31, 2014		13,260,354
Add (deduct):		
Net income of subsidiary		784,879
Dividends declared by the bank subsidiary		(318,525)
Change in equity in net unrealized gain (loss) on securities of bank subsidiary		55,195
Balance at December 31, 2015		13,781,903
Add (deduct):		
Net income of subsidiary		940,518
Dividends declared by the bank subsidiary		(321,631)
Change in equity in net unrealized gain (loss) on securities of bank subsidiary		(764,506)
Balance at December 31, 2016		$ 13,636,284

Tri-County Bancorp, Inc

Directors

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John J. Droppleman, Vice-Chairman and Senior Vice-President

James V. Cann

William A. Farr

Stephen H. Maxwell

Thomas A. McCullough

Darwin L. Stump

Edward R. Cokeley

West Union Bank

Directors

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John J. Droppleman, Vice-Chairman

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Charlie Elliott
Anita George
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R. Michael Hall
Mari Keller

David Marra
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Ellen Sheets
Lisa Smith
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Joellen Trent
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Hanna Burch
Beth Davis
Chantel Davis
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Cindy Hnotkow
Deana Hudkins
Tanya Jacenkiw
Haley Jones
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