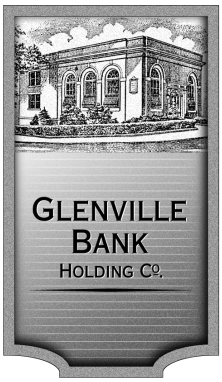
2017 Annual Report



Glenville Bank Holding Company, Inc. (GBHC) is a financial holding company whose principal activity is the ownership of its two wholly-owned subsidiaries, 1st National Bank of Scotia (the "Bank") and Scautub Agency, LLC (the "Agency"). The consolidated financial statements include accounts of the GBHC, the Bank and the Agency, after elimination of intercompany transactions.

We understand how important good service is to delivering customer satisfaction and are pleased to have been serving the local community since the 1920's. 1st National Bank of Scotia and Scautub Agency, LLC offer a wide range of banking and insurance services to meet all your financial needs. A friendly officer or customer service specialist will be happy to answer your questions or discuss your needs.

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Report of the Chairman and President

Dear Shareholder:

It is with great pleasure that we write to you after another successful year. It is a true privilege to work in a community bank, the industry that fuels the economic engine of our nation. For over 94 years your bank has provided sound advice and solid banking services to generations of families and businesses, and we look forward to many more years of doing the same.

Last year in our letter we talked about the "interesting" times experienced in 2016. Little did we know that 2017 would be even more interesting. So much has happened on a national and international scale that some days it is hard to keep track of all the news. The good news however is that in our nation's Capital, many good things are happening for small businesses and small banks. Recent tax cuts and extensive regulatory reform may not have helped our bottom line in 2017, but we expect great things out of 2018. Fewer regulations and less tax will allow your bank to accelerate the growth of capital, and to increase our investment in our community with expanded lending programs.

The year 2017 brought a renewed economy which drove business activity, resulting in an excellent year with $36 million of commercial lending and a $14 million increase (25%) in auto lending. Loan demand in the Capital Region is strong, as evidenced by the numerous banks opening lending offices and branches in the area. Although the added competition has put a real strain on rates, our volume remains strong due to the outstanding service provided by 1st National employees. This superior service has helped us boost our small business banking portfolio by 36% over the last two years. Old fashioned customer service never goes out of style, and will always win out over fads and gimmicks. A banking relationship is about service and trust, and we are proud to state that generations of businesses and families have trusted their banking to your bank. Many customers just want to be listened to and to know we will be there when they need us. 1st National Bank employees are experts in making that happen in the least complicated way.

With more banking services and communication taking place electronically, cyber security emerged as one of the most important issues of the year. With one massive breach after another, all businesses, government agencies, and individuals realized that no one is immune to a cyber intrusion. At 1st National we take the protection of your data seriously. We have therefore dedicated additional recourses over the past year to keeping our systems safe, but we need your help. Protect your passwords, protect your computer and phones from viruses and hackers by keeping updates current, and employ strong firewalls. But most of all be vigilant. If it seems fishy, it probably is. Don't click on it! We are always here to help and will continue to employ the latest technology to keep your information safe, but you are the first line of defense in protecting your data.

Report of the Chairman and President

The past year was a busy one with many changes to our offerings and improvements to existing products. On the technology side, consumer Mobile Deposit was added to our Mobile Banking offerings as well as enhancing the app for a more updated and upscale look with improved navigation. Functionality was added to manage Bill Pay payees through Mobile Banking. Most importantly was the launch of the SecurLOCK Equip App (debit/credit card fraud protection app) which allows our customers to manage their preferences and the security of their own cards from their phone. In our wealth management area we are proud to have added another investment manager, and in the lending area the addition of another experienced local lender will help to serve our communities even better.

Without the support of loyal shareholders like you, none of the good things our bank does would be possible! Thank you for supporting us as we carry on our founders' vision.

L.H. Buhrmaster
Chairman of the Board

John H. Buhrmaster
President & CEO

Financial Highlights - Bank Only

(all figures in thousands except per share, percentage & office figures)

As of December 31,		2017		2016
Net Income	$	2,188	$	2,061
Earnings per common share:				
Net income	$	11.73	$	11.05
Balance sheet:				
Loans, net of unearned income	$	399,470	$	394,481
Less: Allowance for loan losses	$	(4,049)	$	(3,914)
Total assets	$	463,354	$	448,676
Total deposits	$	421,902	$	403,811
Shareholders' equity	$	35,864	$	34,578
Ratios:				
Return on average assets		0.48%		0.46%
Return on average equity		6.22%		6.04%
Risk-based capital		11.14%		10.94%
Allowance for loan losses to loans		1.01%		0.99%
Number of banking offices		10		10

The subsequent financial statements represent the consolidated effects of the GBHC, the Bank, and the Agency.

Consolidated Balance Sheets

(in thousands)

At December 31,	2017	2016
Assets		
Cash and due from depository institutions:		
Non-interest bearing balances, currency and coin	$ 11,128	$ 10,200
Interest-bearing balances	9,743	2,626
Total cash and due from depository institutions	20,871	12,826
Securities:		
Held-to-maturity securities	2,813	1,942
Available-for-sale securities	24,399	26,930
Total securities	27,212	28,872
Loan receivables:		
Loans and leases, net of unearned income	399,470	394,481
Less: allowance for loan losses	(4,049)	(3,914)
Total loans, net of unearned income and allowance	395,421	390,567
Premises and equipment, net	5,839	5,421
Leased Property, net	1,648	1,711
Other real estate owned	176	200
Investments in associated companies	706	741
Intangible assets:		
Goodwill	178	178
Other intangible assets, net	934	1,016
Total intangible assets	1,112	1,194
Other assets	13,040	9,647
Total Assets	$ 466,025	$ 451,179
Liabilities		
Deposits:		
Non-interest bearing	$ 121,423	$ 111,429
Interest-bearing	298,891	290,751
Total deposits	420,314	402,180
Borrowings	3,637	8,455
Other liabilities	5,571	5,735
Total liabilities	429,522	416,370
Shareholders' Equity		
Common stock, total par value	2,049	2,049
Surplus	21,055	21,132
Retained earnings	15,934	14,061
Accumulated other comprehensive loss	(2,417)	(2,326)
Treasury stock	(118)	(107)
Total shareholders' equity	36,503	34,809
Total liabilities and shareholders' equity	$ 466,025	$ 451,179

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Income Statements

(in thousands), except per share data

Years ended December 31,		2017		2016
Interest Income:				
Interest and fee income on loans:				
Real estate loans	$	8,388	$	8,351
Installment loans		4,451		4,034
Credit cards		218		191
Commercial and other loans		1,848		1,614
Interest and dividend income on securities		435		354
Interest income on balances due from depository institutions		154		80
Other interest income		227		306
Total interest income		15,721		14,930
Interest Expense:				
Interest on deposits:				
Transaction (NOW) accounts		17		16
Non-transaction accounts:				
Savings deposits including MMDA's		180		158
Time Certificates of Deposit		116		101
Interest on borrowings		171		174
Total interest expense		484		449
Net interest income		15,237		14,481
Provision for loan losses		600		600
Net interest income after provision for loan losses		14,637		13,881
Non-Interest Income:				
Service charges on deposit accounts		695		706
Net gains on sales of loans		231		336
Net gains on sales of other real estate owned		24		—
Net losses on sales of securities		(4)		—
Fees and commissions		873		611
Other non-interest income		1,826		1,552
Total non-interest income		3,645		3,205
Non-Interest Expense:				
Salaries and employee benefits		9,210		8,663
Expenses of premises and fixed assets		2,031		1,910
Other non-interest expense		4,509		4,046
Total non-interest expense		15,750		14,619
Income before income taxes		2,532		2,467
Income tax expense		675		740
Net income	$	1,857	$	1,727
Earnings per common share:				
Net income	$	9.12	$	8.48

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands)

Years ended December 31,	2017	2016
Net income	$ 1,857	$ 1,727
Other comprehensive income (OCI), net of taxes		
Unrealized gains (losses) on securities, net of taxes:		
Unrealized holding gains (losses) arising during the period	85	(140)
Plus: reclassification adjustment for losses included in net income	4	-
Income tax (expense) benefit during the period	(33)	56
Net unrealized gains (losses) on securities, net of taxes	56	(84)
Defined benefit pension plan, net of taxes:		
Net gains arising during the period	238	72
Amortization of net loss	237	254
Income tax expense during the period	(190)	(131)
Defined benefit pension plan, net of taxes	285	195
Other comprehensive income (OCI), net of taxes	341	111
Total Comprehensive Income	$ 2,198	$ 1,838

Consolidated Statements of Changes in Shareholders' Equity

(in thousands)

	Common Stock par value	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (AOCI)	Treasury Stock	Total
Balance, January 1, 2016	$ 2,049	$ 21,132	$ 12,753	$ (2,437)	$ (34)	$ 33,463
Net income for year 2016	-	-	1,727	-	-	1,727
Cash dividends on common stock	-	-	(419)	-	-	(419)
Purchase of treasury stock, net	-	-	-	-	(73)	(73)
OCI, net of taxes	-	-	-	111	-	111
Balance, December 31, 2016	$ 2,049	$ 21,132	$ 14,061	$ (2,326)	$ (107)	$ 34,809
Associated Company adjustment (Note 1)		(77)	-	-	-	(77)
Reclassification adjustment (Note 2)	-	-	432	(432)	-	-
Net income for year 2017	-	-	1,857	-	-	1,857
Cash dividends on common stock	-	-	(416)	-	-	(416)
Purchase of treasury stock, net	-	-	-	-	(11)	(11)
OCI, net of taxes	-	-	-	341	-	341
Balance, December 31, 2017	$ 2,049	$ 21,055	$ 15,934	$ (2,417)	$ (118)	$36,503

The ending balance of AOCI includes the following (in thousands):	12/31/2016	12/31/2017
Available for sale securities	$ (46)	$ 10
Defined Pension Plan	(2,280)	(2,427)
Total AOCI	$ (2,326)	$ (2,417)

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

Years ended December 31,	2017	2016
Operating Activities:		
Net income	$ 1,857	$ 1,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	612	578
Provision for loan losses and off balance sheet contingencies	710	660
Amortization of intangible assets	176	189
Net premium amortization on securities	206	196
Amortization of deferred loan costs	189	214
Amortization of pension losses from AOCI	238	254
Deferred tax expense (benefit)	670	(101)
Earnings from associated companies	(62)	(44)
Loss on sale of securities	4	-
Gain on sale of loans	(231)	(336)
Proceeds from sales of loans	11,864	17,837
Loans originated and held for sale	(11,633)	(17,501)
Net change in other assets and liabilities	(907)	(465)
Net cash provided by operating activities	3,693	3,208
Investing Activities:		
Proceeds from maturities and pay downs of securities	38,055	76,363
Proceeds from sales of securities	19,496	-
Purchases of securities	(56,085)	(73,454)
Net Sales of FHLB stock	31	223
Purchase of Atlantic Community Bankers Bank Stock	(90)	-
Pension Plan Contributions	(3,000)	-
Proceeds from sales of Land Record Title Agency	20	-
Investment in NY Bankers Title Agency West	-	(16)
Net loans made to customers	(5,643)	(12,056)
Renovations of Leased Property	(354)	(14)
Purchases of premises and equipment	(967)	(806)
Net cash (used in) investing activities	(8,537)	(9,760)
Financing Activities:		
Net increase in deposits	18,134	7,993
Issuance of short-term borrowing	-	4,500
Repayment of borrowings	(4,818)	(5,307)
Dividends paid	(416)	(419)
Purchase of treasury stock	(11)	(73)
Net cash provided by financing activities	12,889	6,694
Net change in cash and cash equivalents	8,045	142
Cash and cash equivalents at beginning of year	12,826	12,684
Cash and cash equivalents at end of year	$ 20,871	$ 12,826
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	450	448
Income taxes	775	720
Non-cash Investing and Financing Activities:		
Purchase of leased property equipment in exchange of promissory note	-	330

Notes to Consolidated Financial Statements

(1) 2017 Nature of Operations and Summary of Significant Accounting Policies

Nature of Business: The Glenville Bank Holding Company (GBHC), and its subsidiaries (collectively referred to as the "Company"), is a financial holding company. Through its bank subsidiary, 1st National Bank of Scotia (the "Bank"), and its insurance subsidiary, Scautub Agency, LLC (the "Agency"), the Company provides a variety of banking and insuring services to individuals and corporate customers in Schenectady County, as well as parts of Saratoga, Fulton, Montgomery and Albany Counties. Our ten offices, and insurance office, serve these five adjacent counties. The Company's primary source of revenue is through loans, particularly commercial and auto loans (direct and indirect) and also through home equity and mortgage loans to consumers and small businesses.

Accounting Principles: Accounting and financial reporting of GBHC is unaudited and prepared in accordance with generally accepted accounting principles (GAAP).

Basis of Consolidation: The consolidated financial statements include the accounts of GBHC, the Bank and the Agency subsidiaries. The Bank also includes all activity of our First Scotia Wealth Management division. All intercompany accounts and transactions have been eliminated. Data in previous year's statements have been reclassified to conform to the current year's standard reporting requirements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, in addition to disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Actual results could differ from those estimates.

Investment Securities: Securities classified as held-to-maturity are debt securities that the Company has the positive intent to hold until maturity, and are reported at amortized cost. Securities classified as available-for-sale are debt and readily marketable equity securities that the Company has categorized for the purpose of maintaining flexibility with regard to the management of its asset/liability position. Available-for-sale debt and readily marketable equity securities are reported at fair value, with unrealized gains and losses reported (net of deferred taxes) in AOCI. Not-readily marketable equity securities are recorded in other assets and measured at cost because the ownership is lower than 20%. Trading Securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term and would be reported at fair value, with the unrealized gains and losses included in earnings. The Company does not have a trading securities portfolio.

Interest on Loans: Interest income on loans is credited to income based upon loan principal amounts outstanding.

Allowance for Loan Losses: As of the end of each quarter, or more frequently, if warranted, management of the Company evaluates the collectability of the loan financing receivable portfolios, including any accrued and unpaid interest, and makes appropriate entries to bring the balance of the allowance to a level adequate to absorb anticipated losses. Management maintains reasonable records in support of their evaluations and entries. Additions to or reduction of the allowance account resulting from such evaluations are made through charges or credits to the "Provision for Loan Losses" in the Income Statement. All charged-off loans are charged directly to the allowance, and any recoveries on loans previously charged off are credited to the allowance.

Changes to the allowance are as follows:
(in thousands)

As of December 31,		2017		2016
Balance, beginning of period	$	3,914	$	4,018
Recoveries credited to reserve		124		139
Provision for loan losses		600		600
Losses charged to reserve		(589)		(843)
Balance, end of period	$	4,049	$	3,914

Bank Premises and Equipment: The Company's premises and equipment are stated at cost net of accumulated depreciation, which is charged directly to expense. Depreciation expense is computed using the straight-line method over the estimated useful life. Maintenance and repair items are expensed, while capital improvements are capitalized. Gains or losses from dispositions are credited or charged to the current year's operation.

Associated Companies: Included in the Company's Investment in Associated Companies is the Mohglen Properties Corporation, located at 207 Mohawk Avenue. A portion of this property is also rented by the Company for bank office space. The carrying value of this stock is $688,983. The equity method of accounting is used as required by GAAP because our ownership is over 20%. During the year, due to Mohglen Shareholders Equity changes relating to prior periods, we decreased the carrying value by $77,000 offset in Capital Surplus. Also included in Associated Companies is our investment in NY Bankers Title Agency West which is recorded at cost of $16,000.

Per Share Amounts: Earnings per share for 2017 and 2016 are based on 203,523 and 203,646 shares outstanding, respectively.

Income Taxes: Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets, reserve for loan and lease losses, securities, pension assets and deferred compensation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Tax years ending December 31, 2015 through the present are subject to examination by major tax jurisdiction.

Statement of Cash Flows: The Company considers all cash and amounts due from depository institutions, interest-bearing deposits in other banks, and federal funds sold to be cash equivalents for purposes of the Statement of Cash Flows.

(2) AOCI Reclassification Adjustment

The Company has made an Accounting policy decision to exercise its option for early adoption of the provisions in Proposed Accounting Standards Update (ASU) – Reclassification of Certain tax effects from AOCI. The ASU early adoption provisions were approved by the Financial Accounting Standards Board (FASB) on February 7, 2018. This reclassification allows entities to permanently transfer deferred tax effects (directly related to AOCI components) between AOCI and Retained Earnings that were re-measured due to the new federal corporate tax rate change, per the provisions in the Tax Cuts and Jobs Act, enacted in December, 2017. When new income tax rates are signed into law, all related tax effects, including AOCI deferred tax components, are required to be reported in Income tax expense and Retained Earnings. The reclassification amount of $432,000 is measured by applying the change in federal tax rate (34%-21%) against our AOCI losses before taxes.

(3) Cash Dividends Declared

The Company declared a per share dividend of $2.05 in 2017 and 2016 to eligible shareholders.

(4) Securities

The Company is classifying several equity securities as not readily marketable carried at amortized cost which are reported in Other Assets in the Consolidated Balance Sheet. These investments include: 1) required membership stock in the Federal Reserve Bank (FRB) of $246,950, 2) required membership stock in the Federal Home Loan Bank (FHLB) of $223,400, 3) Senior Housing Crime Stopper Preferred (SHCSP) of $577,462, and 4) Atlantic Community Bankers Bank (ACBB) stock of $90,000. The FRB and FHLB stocks allow the Company to be members of both institutions. The SHCSP is used for Community Reinvestment Acts (CRA) credit and the ACBB investment was required to add an additional borrowing line of credit for the Company to use for liquidity needs.

Investment securities consist of the following at December 31, 2017:

(in thousands)	Amortized Cost Basis	Unrealized Gains (Losses)	Fair Value
Held-to-maturity:			
State and political obligations	$ 2,813	$ 80	$ 2,893
Total held-to-maturity	2,813	80	2,893
Available-for-sale:			
State and political obligations	24,369	(9)	24,360
Other equity securities	17	22	39
Total available-for-sale	24,386	13	24,399
Total securities	$ 27,199	$ 93	$ 27,292

Contractual maturities of debt securities are as follows at December 31, 2017:

(in thousands)	Amortized Cost Basis	Fair Value
Held-to-maturity:		
Due within one year	$ 985	$ 989
Due after one year, through five years	326	331
Due after five years, through ten years	1,502	1,573
Due after ten years	-	-
Total held-to-maturity	2,813	2,893
Available-for-sale:		
Due within one year	15,963	15,956
Due after one year, through five years	6,211	6,173
Due after five years, through ten years	1,050	1,067
Due after ten years	1,145	1,164
Total available-for-sale	24,369	24,360
Total debt securities	$ 27,182	$ 27,253

(5)Loan Portfolio

The loan portfolio consists of the following:
(in thousands)

At December 31,	2017	2016
Real estate loans	$ 190,322	$ 193,679
Commercial and industrial	53,515	51,702
Consumer loans	155,605	148,971
All other	28	129
Total loans	$ 399,470	$ 394,481

Past Due and Non-Accrual Loans:

The level of our non-performing loans (non-accrual loans and loans past due 90 days or more) reflects the general strength of our loan portfolio. Most of the loans are well secured and in the process of collection. Modest losses are expected. Delinquency ratios continue to remain well below industry standards and they reflect the high quality of our Company's loan portfolio.

The following table sets forth the volume of past due and non-accrual loans for each category:

	Past due 90 days or more and still accruing		Non-accrual	
At December 31,	2017	2016	2017	2016
Real estate loans	$ -	$ 763	$ 149	$ 262
Commercial and industrial	-	6	36	57
Installment loans	-	13	885	670
Credit cards & related plans	3	23	-	-
Total loans	$ 3	$ 805	$ 1,070	$ 989

(6) Other Real Estate Owned

The Company acquired one residential real estate property during the year and measured the property at Net Fair Value (NFV) of $150,000, based upon an independent property appraisal of $210,000 less estimated selling costs of $60,000. The related residential loan carrying value equaled $230,000 at the measurement date. Since the NFV of the property was lower than the carrying value of the original loan, this required an ORE write down of $80,000 ($230,000-$150,000) which was charged to the Allowance for Loan losses reserve during the period as required by GAAP.

(7) Premises and Equipment

Premises and equipment consists of the following:
(in thousands)

At December 31,	2017	2016
Land	$ 1,294	$ 1,294
Building and land improvements	7,550	7,324
Equipment and furniture	4,603	4,417
Total premises and equipment gross	13,447	13,035
Less: accumulated depreciation	(7,608)	(7,614)
Premises and equipment, net	$ 5,839	$ 5,421

(8) Leased Property

The Company owns two properties that it leases to others. One property, located at 132 Erie Boulevard, is used for general rental purposes. The original cost was $429,000 and annual rental income for 2017 is $46,000. The second property, located at 120 Erie Boulevard, was purchased in December, 2015 and is carried at cost for $1,325,000. A portion of the lobby level of the building, and related equipment, is being leased back to the Bank. The other vacant space will be leased to tenants after additional improvements are made.

The components of the Leased Property are as follows:
(in thousands)

At December 31,	2017	2016
Land	$ 274	$ 274
Building and land improvements	1,188	1,188
Equipment and furniture	330	330
Total premises and equipment	1,792	1,792
Less: accumulated depreciation	(144)	(81)
Premises and equipment, net	$ 1,648	$ 1,711

(9) Goodwill

Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. The reported amount of goodwill is the result of our acquisition of Scautub Agency, LLC in 2013. Management is required to perform an annual assessment of the Company's goodwill to determine if an impairment of fair value has occurred. Management has determined that as of December 31, 2017, the carrying value of goodwill in the amount of $178,000 is not impaired.

(10) Other Intangible Assets

These intangible assets were determined by management to meet the criterion for recognition separate from goodwill and have finite lives. We use judgment in assessing whether the carrying amounts are not expected to be recoverable over their estimated useful lives.

The change in carrying value of intangible assets is as follows (in thousands):

(in thousands)	Mortgage Servicing Rights	Customer Relationships	Other	Total
Carrying Value at 12/31/2015	701	159	206	1,066
Servicing retained from loan sales	139	-	-	139
Less: amortization expense	(96)	(13)	(80)	(189)
Carrying Value at 12/31/2016	744	146	126	1,016
Servicing retained from loan sales	94	-	-	94
Less: amortization expense	(83)	(13)	(80)	(176)
Carrying Value at 12/31/2017	755	133	46	934

(10) Other Intangible Assets (continued)

Mortgage servicing rights:
The Bank originates and sells residential loans but retains the servicing of these loans. As a result we have recorded a mortgage servicing asset.

The fair value of our mortgage servicing assets are determined by an independent valuation obtained through a third party, who uses a discounted cash flow model to calculate the present value of estimated net servicing income. At December 31, 2017, the estimated fair value of the servicing rights is $753,000, slightly under our book value of $755,000. We did not write down the asset due to the immaterial amount. The Bank has elected to re-measure the servicing asset using the amortization method, recognizing amortization in proportion to, and over the period of, the estimated servicing income. This asset is evaluated annually for impairment. At December 31, 2017, no servicing asset impairment occurred. The contractual servicing fee income from residential mortgages totaled $148,000 (net of amortization), which is reported in the Consolidated Statement of Income as "Other non-interest income".

Customer Relationships and Other:
The customer relationship and other intangibles were recognized as a result of the acquisition of the Scautub Agency, LLC in 2013. The customer relationship intangible is being amortized over a fifteen year period and must be tested for impairment at least annually. No impairment has occurred to date. The other intangibles are being amortized over a five year term. Amortization expense of both the customer relationships and other is reported in "Other non-interest expense" on the Consolidated Income Statements.

(11) Borrowings

(in thousands)

At December 31,	2017	2016
Short term:		
Key Bank Line of Credit	$ -	$ 4,500
Current portion of long-term	333	320
Total short-term borrowings	333	4,820
Long-term:		
Bank loan	2,915	3,150
Other	722	805
Total long-term borrowings	3,637	3,955
Less: current portion	(333)	(320)
Long-term portion	3,304	3,635
Total borrowings	$ 3,637	$ 8,455

At December 31, 2017, scheduled repayments of debt are as follows:

2018	$ 333
2019	346
2020	359
2021	374
2022	389
Thereafter	1,836
	$ 3,637

The Bank loan was issued on October 15, 2012 for $4,000,000 with a scheduled maturity date of October 15th, 2022. The interest rate is variable based upon the Wall Street Journal U.S. Prime Rate, subject to change annually on January 1st. Principal and interest are due quarterly in January, April, July and October.

(11) Borrowings (continued)

The other long term borrowings include: 1) a private note originally issued for $691,000 related to the purchase of Scautub insurance agency. The note rate is 4.25% with a scheduled maturity date of August 2023. 2) a promissory note issued for $330,000 related to the leased furniture at 120 Erie Blvd. scheduled to mature in December 2031. The interest rate is 3%.

(12) Income Taxes

Income taxes included in the Consolidated Income Statements are as follows: (in thousands)

As of December 31,	2017	2016
Current:		
Federal	$ -	$ 836
State	5	5
Total current	5	841
Deferred:		
Federal	577	(89)
State	93	(12)
Total deferred	670	(101)
Income tax expense	$ 675	$ 740

A reconciliation of the income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes and extraordinary items is shown as follows:

As of December 31,	2017	2016
Federal income tax at statutory rate (34.0% for 2017 and 2016)	$ 861	$ 839
State tax net of federal income tax effect (6.50% for 2017 and 2016)	96	(9)
Municipal bond interest	(123)	(100)
Deferred Tax Rate Reduction	19	-
Other	(178)	10
Total	$ 675	$ 740

The net deferred tax assets included in other assets in the accompanying Consolidated Balance Sheets includes:

At December 31,	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 965	$ 1,363
Pension	-	120
Deferred compensation	955	1,319
Securities	-	30
Net Operating Loss	129	-
Other	132	137
Deferred tax assets	2,181	2,969
Deferred tax liabilities:		
Pension	(858)	-
Depreciation	(109)	(159)
Servicing rights	(197)	(306)
Securities	(3)	-
Deferred tax liabilities	(1,167)	(465)
Net deferred tax assets	$ 1,014	$ 2,504

(13) Pension and Deferred Compensation Plans

The Bank sponsors a qualified pension plan for its employees. The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets.

(in thousands)

For periods ending	2017	2016
Reconciliation of pension benefit obligation		
Obligation at beginning of year	$ 16,686	$ 16,585
Service cost including expenses	138	137
Interest cost	713	730
Actuarial loss	1,197	153
Benefit payments and expected expenses	(938)	(919)
Obligation at end of year	17,796	16,686
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	16,542	16,216
Actual return on plan assets	2,472	1,246
Employer Contributions	3,000	-
Benefit payments and actual expenses	(936)	(920)
Fair value of plan assets at end of year	21,078	16,542
Funded status at end of year	$ 3,282	$ (144)
Amounts recognized in the Consolidated Balance Sheet		
Included in other assets	$ 3,282	$ -
Included in other liabilities	-	(144)
Amounts recognized in AOCI		
Accumulated Loss	(3,324)	(3,780)
Accumulated benefit obligation at December 31	$ 17,796	$ 16,686
Components of net periodic pension cost/(income) and other amounts recognized in other comprehensive income		
Service cost	$ 138	$ 137
Interest cost	714	731
Expected return on plan assets	(1,040)	(1,020)
Amortization of net loss	237	254
Net periodic pension expense	49	102

Other changes in plan assets and benefit obligations recognized in other comprehensive income	2017	2016
Net gain	238	72
Amortization of net loss	237	254
Total amount recognized in other comprehensive income	475	326
Total amount recognized in net periodic pension cost and other comprehensive income	$ 426	$ 224

(13) Pension and Deferred Compensation Plans (continued)

Weighted average assumptions used	Used for Net Pension cost in fiscal year 1/1/17 - 12/31/17	Used for Pension obligation as of 12/31/2017
Discount rate	4.42%	3.94%
Long-term rate of return	6.50%	N/A

The Bank expects to contribute (to be determined by 1st National Bank of Scotia) to its pension plan in fiscal year 2018. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2018	$ 850
2019	$ 867
2020	$ 913
2021	$ 941
2022	$ 965
2023-2027	$ 5,173

The plan asset allocations by asset category are as follows:

Fair value, December 31	2017	2016
Equity securities	50%	48%
Fixed income	40%	43%
Other	10%	9%
Total	100%	100%

The net loss for the plan that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year is $(139,357).

The Company also has unqualified deferred compensation agreements with its selected directors and executive officers. The agreements provide for the deferral of fees during years of active service and the payment of a benefit at death or retirement. The Company has recorded in other liabilities the present value of the benefits to be paid at retirement of $3,655,000, offset with the investments recorded in other assets.

The Company also has a retirement savings 401(k) plan in which all employees, who meet the plan requirements, may participate. The Company's expense for the plan was $319,000 for 2017 and $276,000 for 2016. The plan provisions include a 50% match contribution of up to 6% of employee contributions on eligible salaries. The Company also made an additional 3% discretionary contribution in 2017.

(14) Fair Values of Financial Instruments:

Commitments to extend credit

The following is the aggregate amount of financial instruments to extend credit, advance credit on previously approved credit lines, and letters of credit.

As of December 31,	2017 Carrying Amount	2016 Carrying Amount
Unrecognized Financial Instruments:		
Commitments to Extend Credit	$ 55,804	$ 55,669

Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2017 and 2016 are as follows (dollars in thousands):

		Fair Value Measurements Using		
	Fair Value	(level 1)	(level 2)	(level 3)
December 31, 2017				
Available-for-sale securities	$ 24,399	$ 24,399	$ -	$ -
December 31, 2016				
Available-for-sale securities	$ 26,930	$ 26,930	$ -	$ -

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable. The following is used to measure fair value:

Level 1-Quoted prices in active markets for identical assets or liabilities

Level 2-Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(15) Financial Instruments with Off-Balance Sheet Risk and Contingent Liabilities

Our Company, in its normal course of business, is party to financial instruments with off-balance sheet risk. The financial instruments are commitments to extend loans, advance credit on previously approved credit lines, and letters of credit. The instruments have varying degrees of credit and market risk in excess of the amount recognized on the Statement of Condition. To manage the credit risk, our Company uses the same credit management criteria for financial instruments with off-balance sheet risk as it does for financial risk reflected on the Statement of Condition. To manage the market risk, our Company has an Asset and Liability Management Program in place to minimize these risks.

The Company's loan policy considers collateral on a loan-by-loan basis for both on and off-balance sheet financial instruments to reduce credit risk. The types of collateral used are real estate, equipment, machinery, inventory, cash on deposit, stock, bonds and other marketable securities. The collateral is valued and inspected to confirm its adequacy, and additional collateral may be requested when appropriate. The Company's loan portfolio is widely diversified by borrower and commercial activity. The composition of the loan portfolio by major category is detailed in Note 5.

Financial instruments whose contract amounts represent credit risk at December 31, 2017 are as follows:

Commitments to Extend Credit (in thousands) ……...	$ 55,804

These are normal commitments, which are not reflected on the accompanying financial statements. Our Company's management does not anticipate any adverse effect on our financial position from disposition of the various commitments.

Notes to Consolidated Financial Statements

THIS STATEMENT HAS NOT BEEN REVIEWED OR CONFIRMED FOR ACCURACY
OR RELEVANCY BY THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

I, Robert J. Dieterich, Chief Financial Officer of 1st National Bank of Scotia, do hereby declare that these Consolidated Balance Sheets and Income Statements (including the supporting schedules) have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true to the best of my knowledge and belief.

Chief Financial Officer

February 12, 2018
Date of Signature

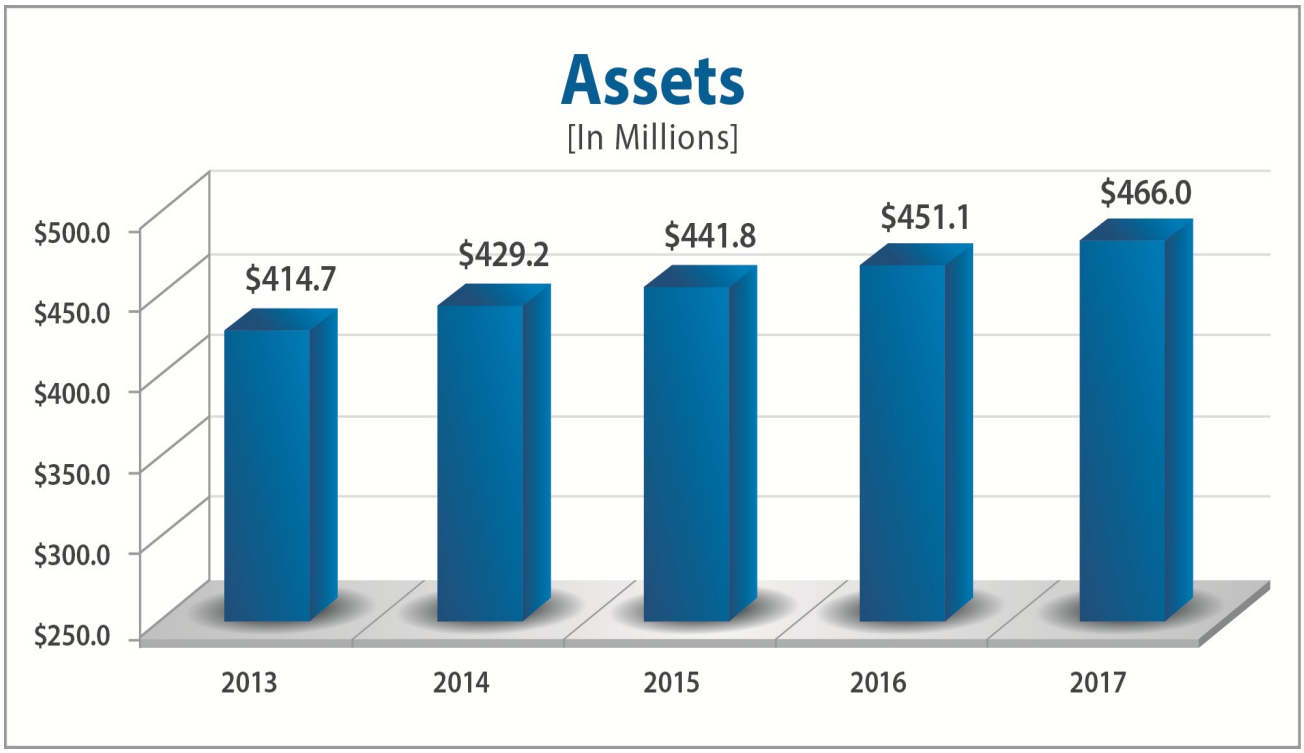
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

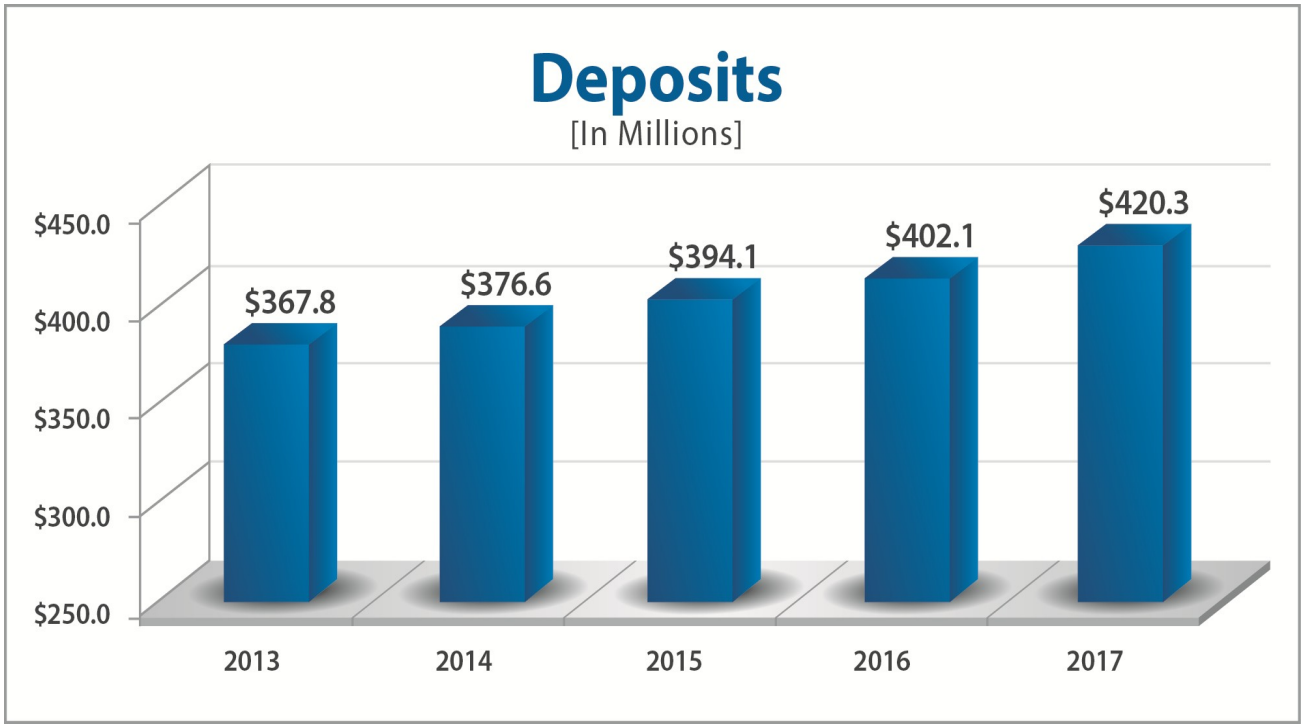
The purpose of the Audit Committee is to assist the Board of Directors in its general oversight of the Glenville Bank Holding Company's financial reporting, internal controls and audit function. Through our annual Directors' Examination and the internal auditors, the Audit Committee has reviewed the financial statements for which management is responsible for preparation, presentation and integrity. It is the Audit Committee's opinion that these statements conform to applicable standards.

The Board of Directors Audit Committee

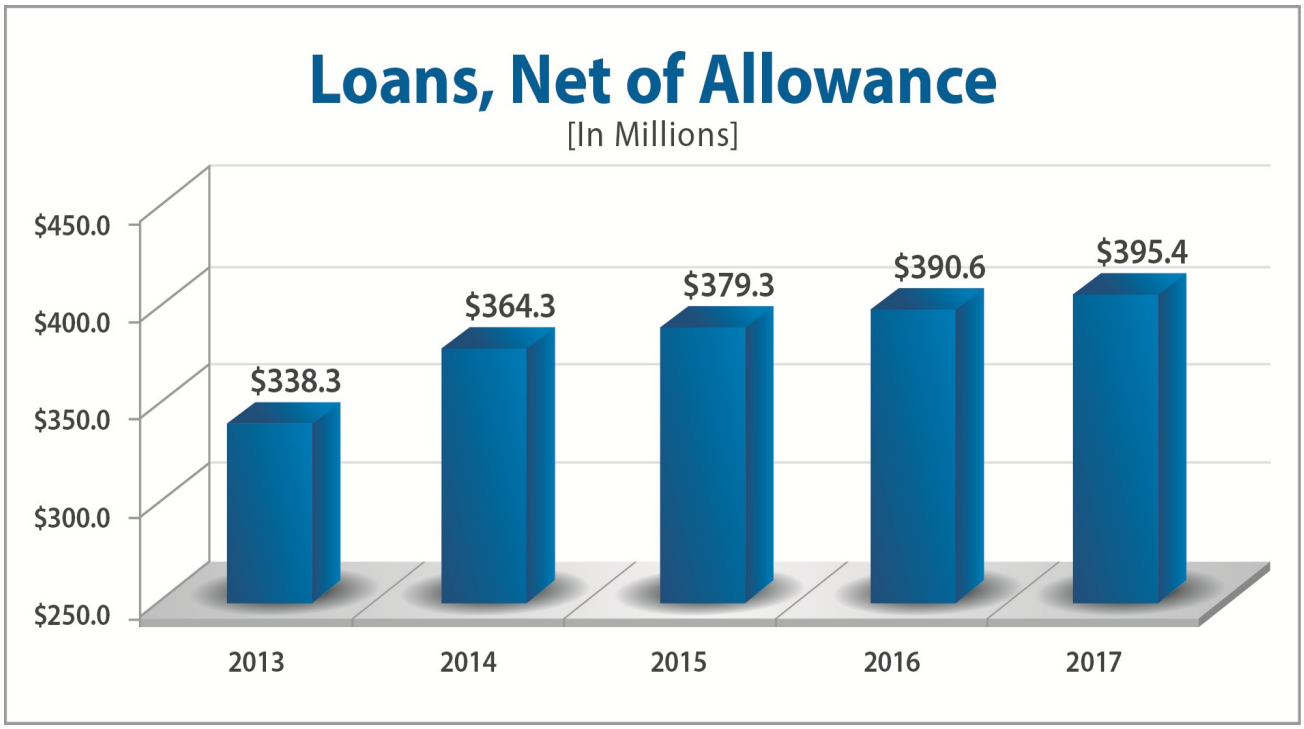
David L. Schweizer, Chairman
Bruce W. McConnelee
David D. Montana
Scott D. Stevens

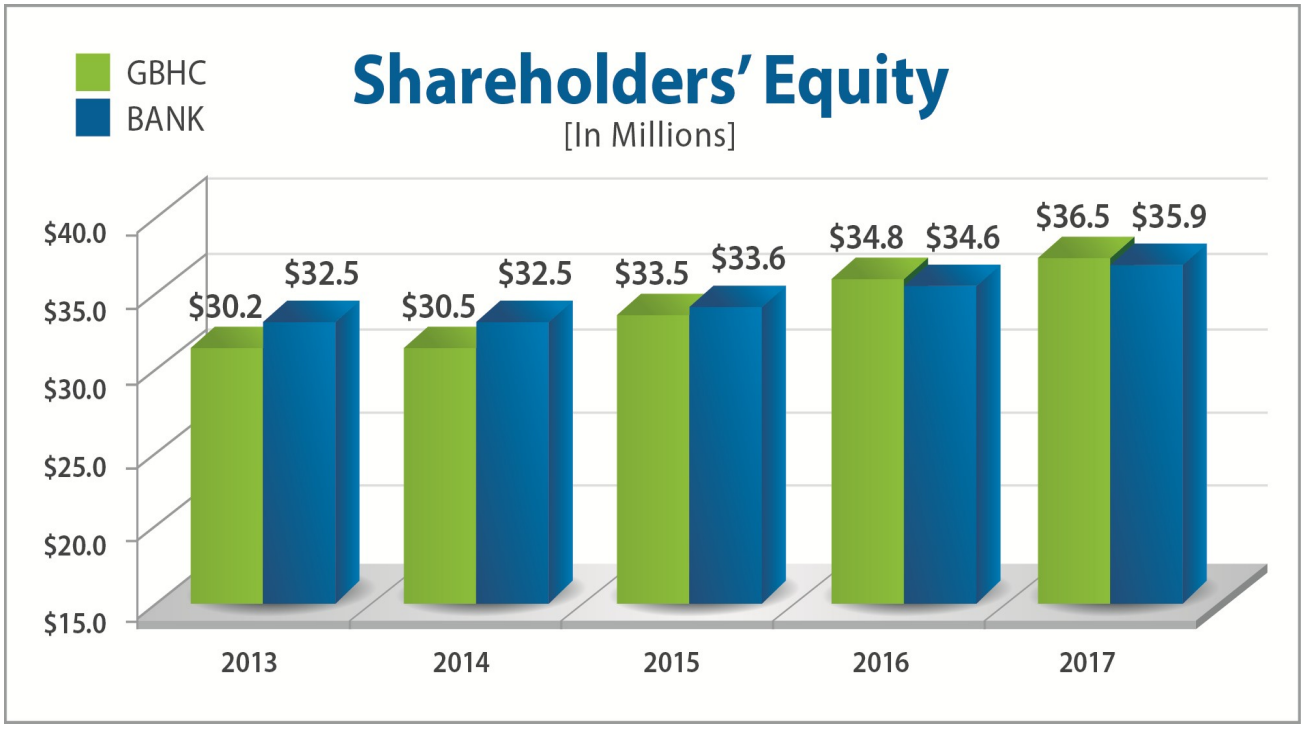
Financial Trends 2013-2017



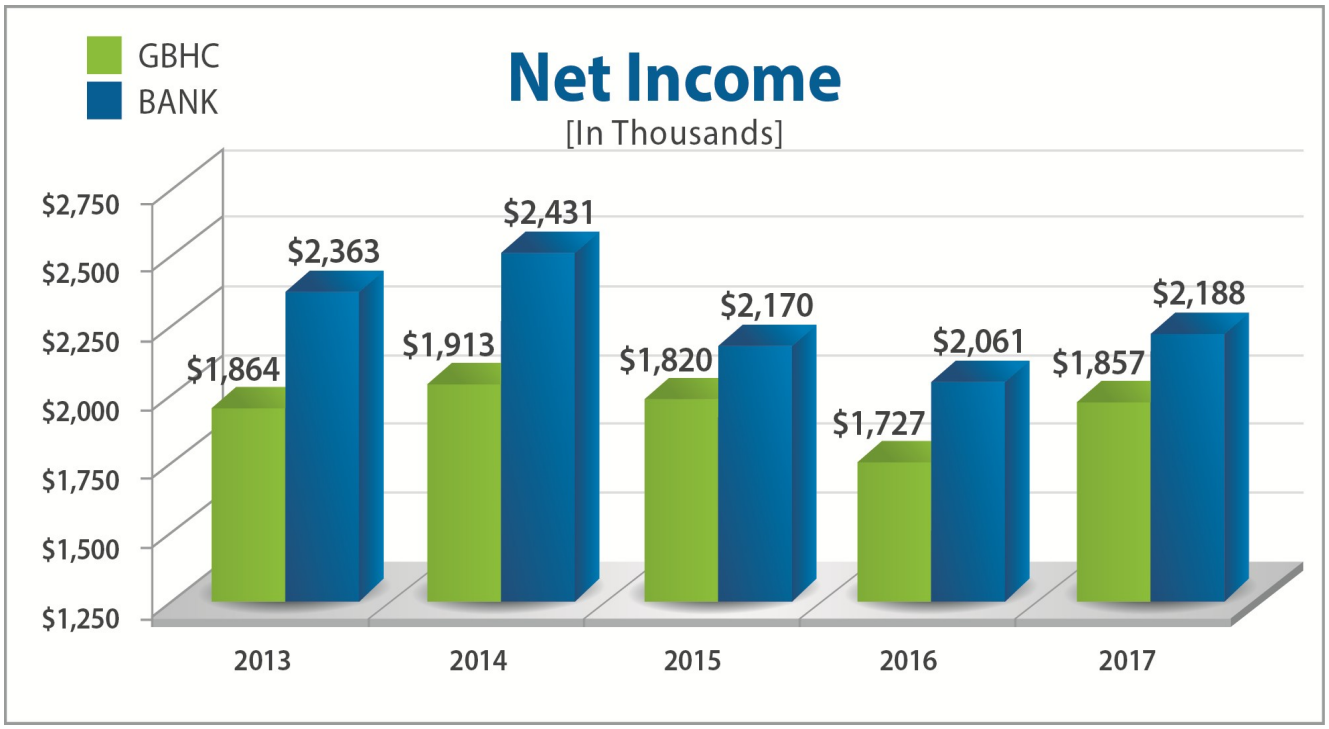


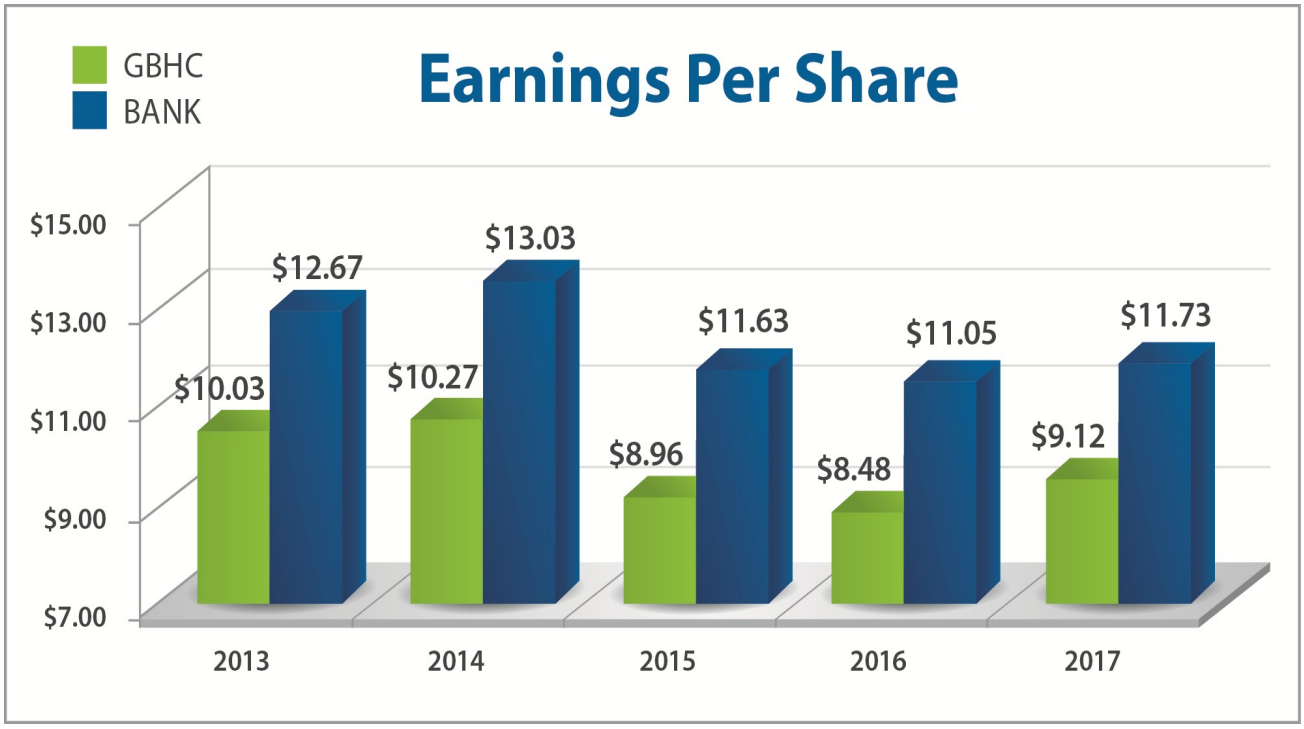
Financial Trends 2013-2017





Financial Trends 2013-2017





GBHC and 1st National Bank of Scotia Directors

L.H. Buhrmaster, *Chairman of the Board*

John H. Buhrmaster, *President & Chief Executive Officer*

Laura M. Dieterich, *Sr. Vice President & Corporate Secretary*

David D. Montana, *Lead Director*
President, Fortune Air, Inc.

David L. Schweizer, *Chairman Audit Committee*
Treasurer, Funston Wholesale Corp.
Licensed Real Estate Salesperson

Bruce W. McConnelee
Retired - Hydro Mobile

Scott D. Stevens
President, Dimension Fabricators

Honorary Director
Calvin P. Welch
Retired – Senior Vice President & Cashier, 1st National Bank of Scotia

1st National Bank of Scotia Officers

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John H. Buhrmaster, President & Chief Executive Officer

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Andrew T. Trainor, Sr. Vice President & Sr. Lending Officer

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Kelly A. Gibbons, Sr. Vice President of Retail Banking

James J. Smith, Chief Information Officer

Joan K. O'Brien, Auditor

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Gregory N. Phillips, Vice President

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Christopher R. Hebbard, Vice President

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Rebecca D. Dashnaw, Vice President

Joyce A. Poulin, Vice President

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Daniel A. Centi, Vice President

Dave Teta, Assistant Vice President

Debra A. Lindsay, Assistant Vice President

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Louis J. Giammatteo, Assistant Vice President

Cheryl F. Hiller, Assistant Vice President

Karen E. Ballester, Assistant Vice President & Marketing Officer

Johanna P. Roman, Assistant Vice President

Tracey J. Kearns, Training & Performance Officer

Cynthia A. Siatkowski, Compliance Officer

Lisa A. Case, Branch Operations Officer

Premnarine Jaddu, Branch Operations Officer

Eric W. Bode, Branch Operations Officer

Betsy Simek-Smith, Indirect Lending Officer

1st National Bank Retail Offices and Officers

Scotia Office
Nancy R. Harrigan, *Assistant Vice President*
Kevin R. Buhrmaster, *Vice President - Area Manager*
201 Mohawk Avenue, Scotia, New York 12302
(518) 370-7200

Niskayuna Office
Premnarine Jaddu, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
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Debra A. Lindsay, *Assistant Vice President*
Teresa A. Freeman, *Vice President - Area Manager*
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Teresa A. Freeman , *Vice President - Area Manager*
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(518) 370-7255

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Kevin R. Buhrmaster, *Vice President - Area Manager*
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(518) 370-7260

1st National Bank Retail Offices and Officers

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Teresa A. Freeman, *Vice President - Area Manager*
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Louis J. Giammatteo, *Assistant Vice President*
Kevin R. Buhrmaster, *Vice President - Area Manager*
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GE Global Research Center
Premnarine Jaddu, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
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Rotterdam Office
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Clifton Park Office
Johanna P. Roman, *Assistant Vice President*
Kevin R. Buhrmaster, *Vice President - Area Manager*
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(518) 370-7290

Banking Services and Facilities

Deposit Services

- Personal & Business Checking Accounts
- Remote Deposit
- Mobile Banking
- Real-Time Debit Card Alerts
- Savings Accounts
- Young Savers and Student Accounts
- Club Accounts
- Certificates of Deposit
- Money-Market Deposit Accounts
- Individual Retirement Accounts
- Health Savings Accounts
- VISA/MasterCard Merchant Accounts
- Online Banking/Online Bill Pay
- Cash Management

Loan Services

- Installment Loans
- Automobile Loans
- Commercial Loans
- Personal Loans
- Boat/RV Loans
- Student Loans
- Check Loans
- VISA/MasterCard Credit Cards
- Mortgage Loans
- Home Improvement Loans
- Real Estate Equity Loans
- Home Equity Lines of Credit
- Letters of Credit
- Commercial Lines of Credit

Other Services

- Wire Transfers
- Safe Deposit Boxes
- Authorized Overdraft Program

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Scautub Agency, LLC Directors and Officers

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Chairman of the Board

Robert J. Dieterich
Chief Executive Officer & Corporate Secretary

Steven H. Heider
Owner, Northway Residential Services

David D. Montana
President, Fortune Air, Inc.

Mark D. Massaroni
President and Treasurer

Scautub
AGENCY
SINCE 1926

Robert J. Dieterich, *Chief Executive Officer*

Mark D. Massaroni, *President*

Principal Office
108 North Ballston Avenue
Scotia, New York 12302
(518) 346-3427
www.scautub.com

Personal Insurance
- Automobiles
- Home
- Umbrella Policies
- Motorcycle, ATV, Recreational Vehicles
- Boats

Business Insurance
- Business Owner's Policies
- Workers' Compensation
- New York State Disability
- Commercial Auto
- Commercial Umbrella Policies
- Cyber Security Insurance

Life Insurance
- Mortgage Protection

First Scotia Wealth Management

Investment and insurance products and services are offered through INFINEX INVESTMENTS, INC. Member FINRA/SIPC. First Scotia Wealth Management is a trade name of the bank. Infinex and the bank are not affiliated.

Cynthia Powell, *Financial Advisor*
Located at the 1st National Bank of Scotia Niskayuna Office
1476 Balltown Road, Niskayuna, New York 12309
(518) 370-7249

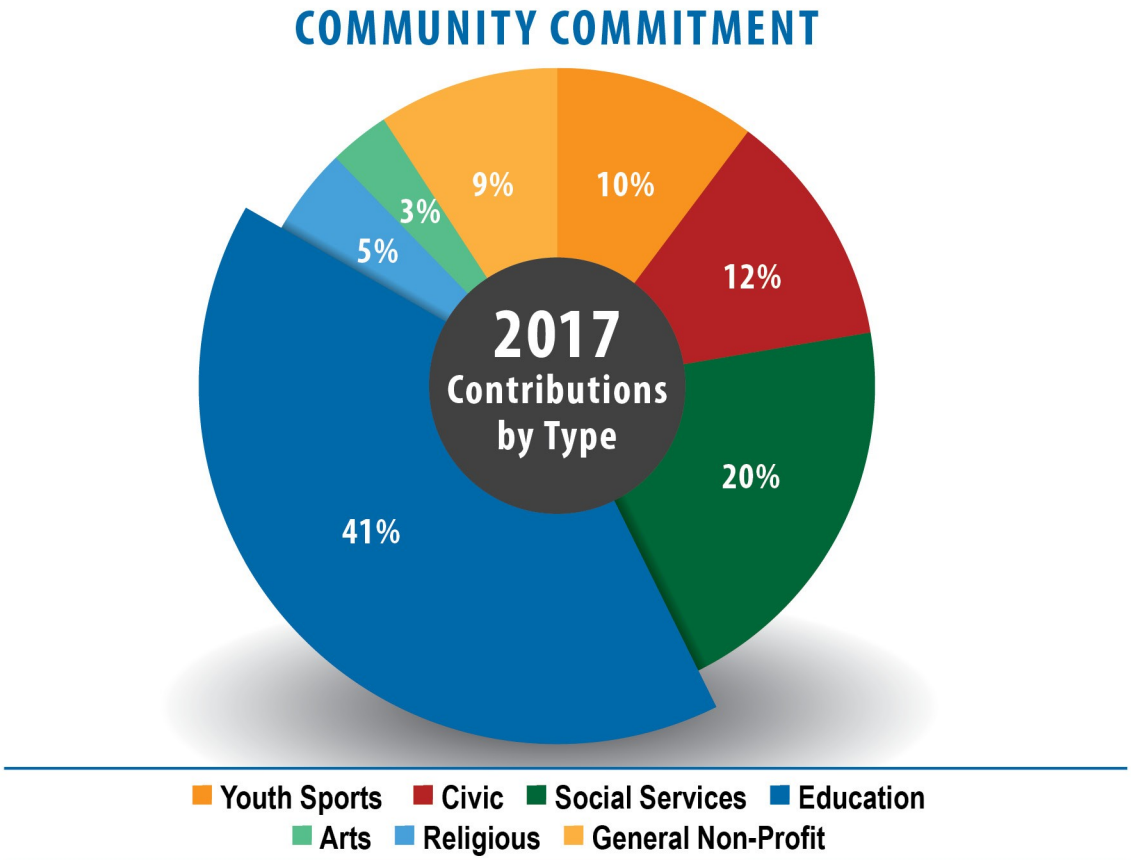
Paul Cardone, *Financial Advisor*
Located at the 1st National Bank of Scotia Colonie Office
1705 Central Avenue, Albany, New York 12205
(518) 869-3169

Products and services available:

- Brokered certificate of deposits
- Business owner solutions
- Cash Management
- Corporate and Municipal Bonds
- Disability Insurance
- Extended FDIC sweep account
- Fixed Annuities
- Individual Stocks
- Insurance
- Long-Term Care Insurance
- Mutual Funds
- Permanent Life Insurance
- REITs
- Retirement Plans
- Term Life Insurance
- Treasury Securities
- Unit Investment Trusts
- Variable Annuities

Community Commitment

As our products and services continue to evolve and change, our commitment to the communities we serve remains unwavering. Each year 1st National Bank of Scotia contributes thousands of dollars to area schools, local charitable fundraisers and community events. Outside of the bank our employees spend countless hours volunteering in the community, serving on boards, working with youth, or simply collecting donations for a worthy cause. It's what we do. It's why we all work for a community bank.



We're proud to have contributed to 186 organizations in 2017.