GLENVILLE BANK HOLDING COMPANY

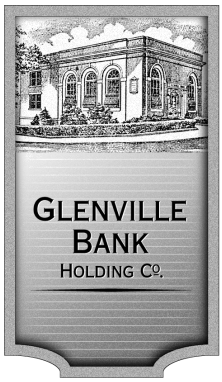
2018 ANNUAL REPORT

1st National Bank of Scotia

Scautub AGENCY SINCE 1926

First Scotia WEALTH MANAGEMENT

2018 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:

We are pleased to report that your bank has had another successful year. Bank assets are at an all-time high of $474 million, even breaching the half-billion mark for a few days in September. Bank profits are also at a record level of $2,804,058 and subsequently, after only 3 years, we have been able to restore our regular dividend payments to a record level of $2.25 per share. Despite the tax and regulatory advantaged competition from Credit Unions and Too-Big-To-Fail institutions we have been able to achieve these tremendous results. Meeting the needs of our wide customer base with professionalism and a smile is the key to our success.

Many factors are responsible for the record profits we have achieved this year. Our Commercial Real Estate and Residential Real Estate loan portfolios have increased to all-time highs due to both increased demand and invigorated marketing and networking efforts by our dedicated staff. In order to fund these increases in loans we achieved a strong increase in Small Business and Commercial deposit accounts. Our retail staff has done an excellent job getting the word out about what a tremendous value it is to bank with 1st National Bank of Scotia. The combination of higher rates from an increased loan portfolio and a low cost of funds from increased core deposits has allowed our Net Interest Margin to grow and boost profits.

Throughout the history of the bank we have worked to become more efficient through the use of technology. With technological advances moving at lightning speed, each year it becomes more challenging to stay current. Despite this, your bank works tirelessly to keep our electronic systems up to date and safe. In 2018 we upgraded our Mobile Banking, Online Banking, and Debit Card functionality to the latest and safest versions to ensure our customers a good banking experience. Inside the operations of the bank we upgraded numerous systems to allow us to process your transactions safely and efficiently. This focus on technological efficiency on both the customer and employee facing sides, has allowed us to be a bigger bank and to function with nearly the same number of employees we had over fifteen years ago.

The tax and regulatory environment changed drastically in 2018. Tax relief legislation lowered the corporate tax rate for small businesses like your bank, and with that, more funds became available for allocation to Capital. Our risk based capital ratio of 11.37% puts us in line to be compliant with the new Basel Capital Rules which become fully effective in 2019. With our capital ratios improved, partly due to the tax legislation, we felt comfortable raising the special dividend at the end of the year. We expect to maintain a strong capital position and to continue to share an increased dividend in the New Year. Regarding the regulatory environment, contrary to what you might read in the press, regulations have not been relaxed - it's just that the pace of new regulations has been slowed dramatically. This has allowed us to use our staff to serve customers instead of taking thousands of work hours away from them to implement the hundreds of new rules and regulations that came about since 2008.

Report of the Chairman and President

With the strong results posted in 2018 we thought it might be informative to look back ten years ago to the beginning of the Great Recession. In our 2008 annual letter to you we talked about the unprecedented events that were occurring in our economy and the banking industry. Little did we know that it would take ten years to see our Net Interest Margin increase again, nine years to see the Federal Reserve increase rates, and that the number of banks in the country would drop by 43%. It was a rough 10 years, yet your bank was well prepared to weather the storm. We now see the storm clouds dissipating as we look forward to a sunny 2019.

We are proud to remain as one of this area's few independent and locally owned community banks, and plan on remaining independent despite the national trends. For the last 95 years the support given the bank by our shareholders, directors, officers, employees, customers, and especially the community has made it all possible.

L.H. Buhrmaster
Chairman of the Board

John H. Buhrmaster
President & CEO

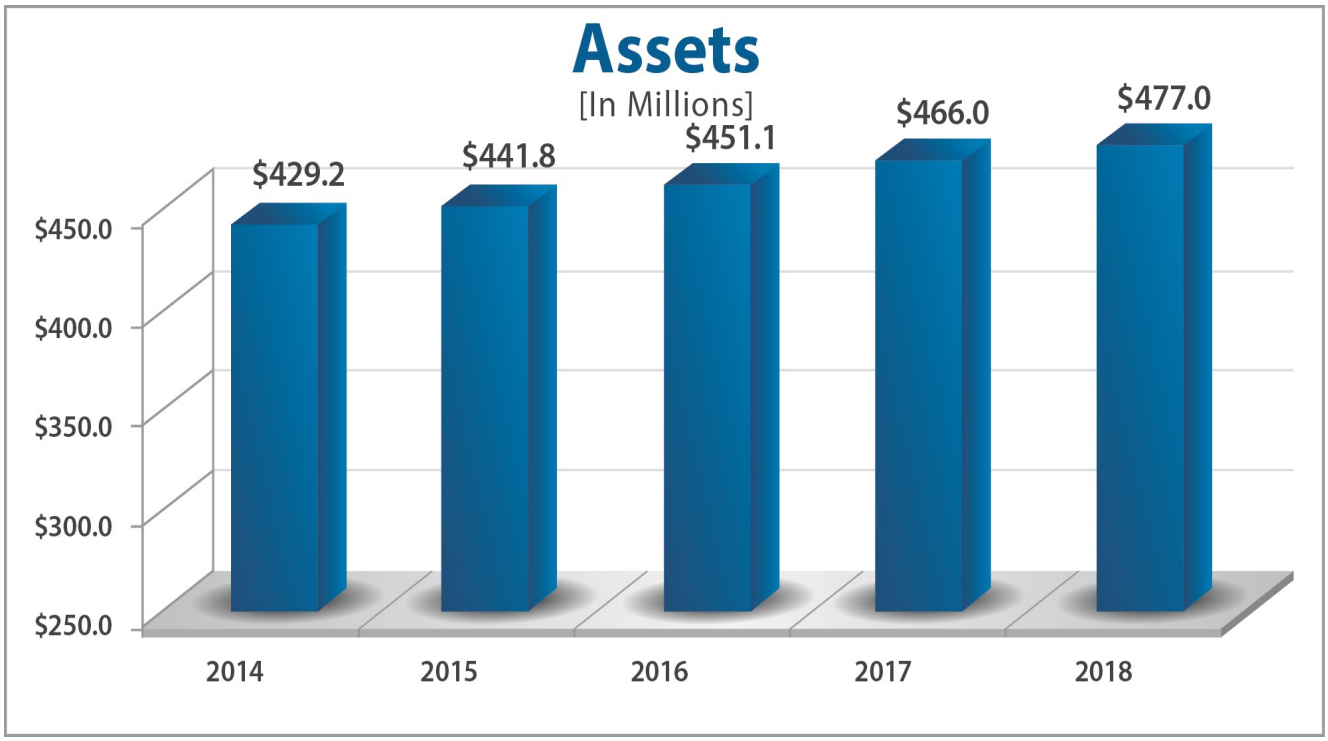
Financial Highlights - Bank Only

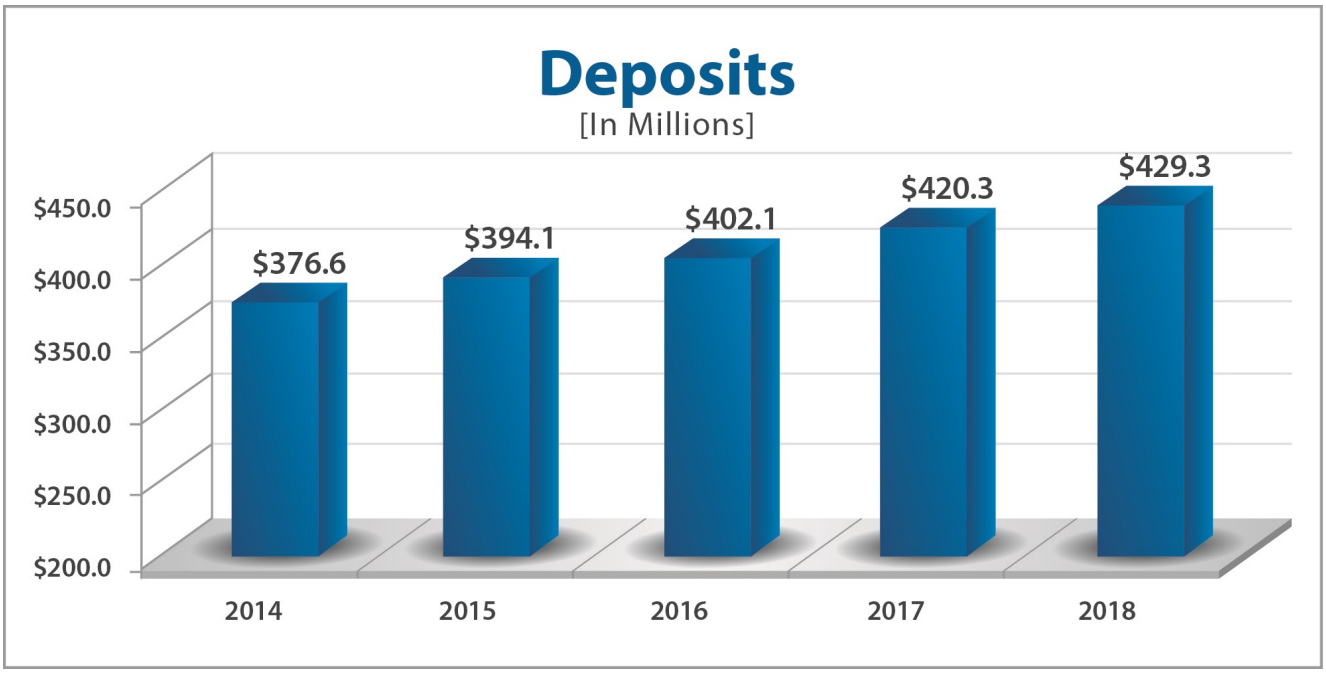
(all figures in thousands except per share, percentage & office figures)

As of December 31,		2018		2017
Net Income	$	2,804	$	2,188
Basic earnings per share	$	15.03	$	11.73
Balance sheet:				
Loans, net of unearned income	$	415,505	$	399,470
Less: Allowance for loan losses	$	(4,367)	$	(4,049)
Total assets	$	474,407	$	463,354
Total deposits	$	431,035	$	421,902
Shareholders' equity	$	36,027	$	35,864
Ratios:				
Return on average assets		0.59%		0.48%
Return on average equity		7.66%		6.22%
Net interest margin		3.58%		3.35%
Loans to deposits		96.36%		94.68%
Tier I leverage		8.22%		8.20%
Risk-based capital		11.37%		11.14%
Allowance for loan losses to loans		1.05%		1.01%
Number of banking offices		10		10

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

GBHC Consolidated Financial Highlights 2014-2018





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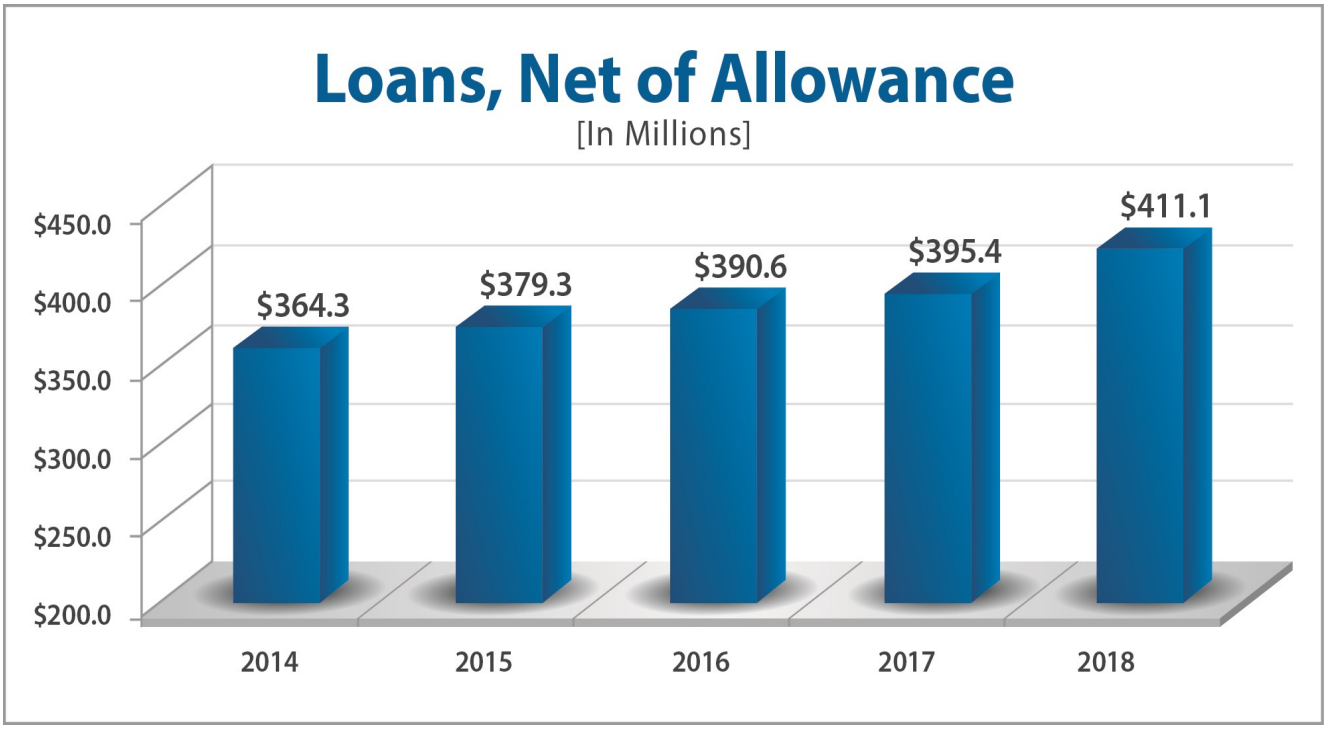

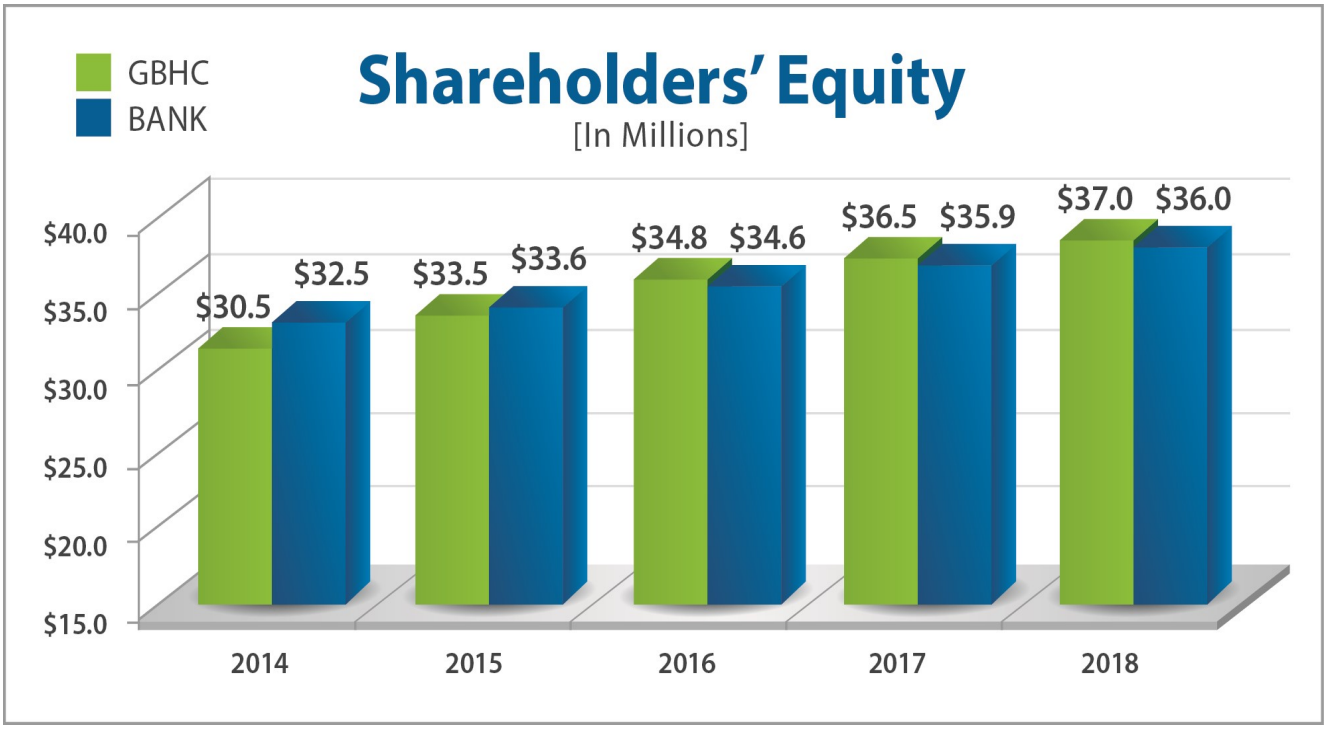

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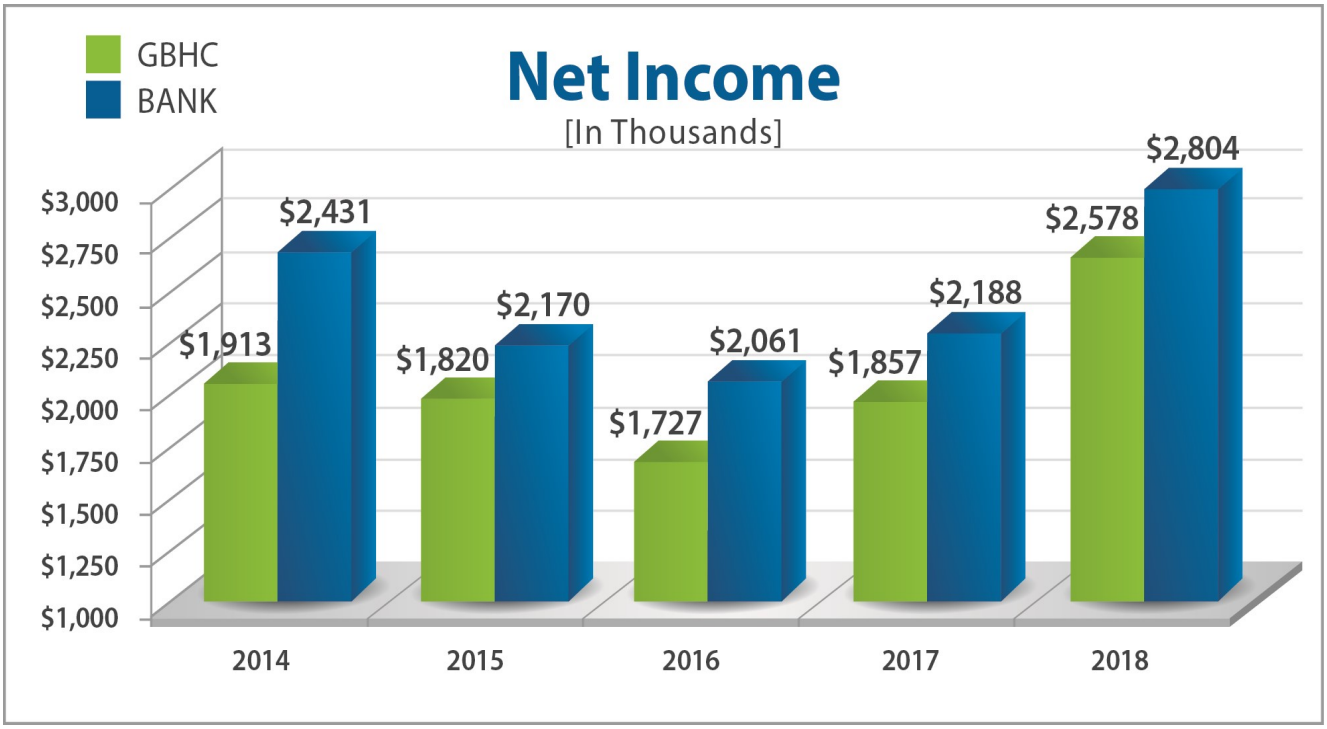

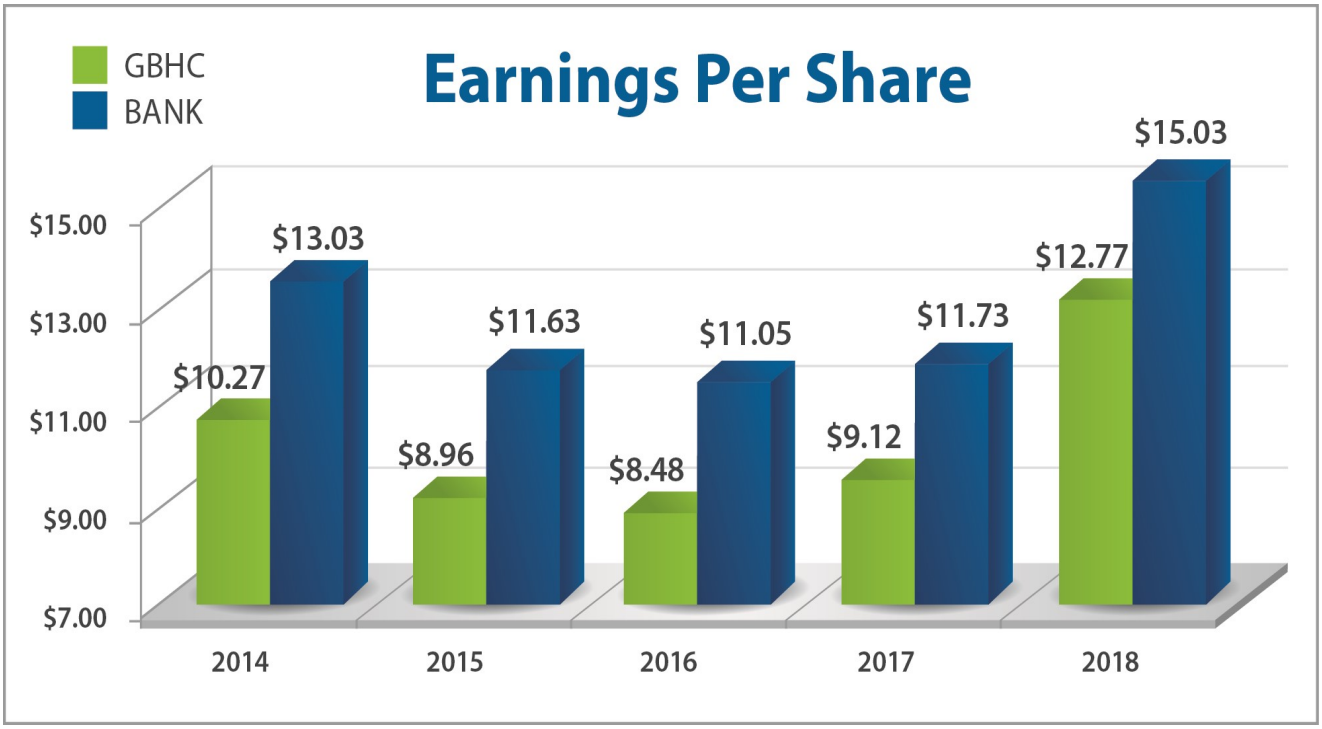

GBHC and 1st National Bank of Scotia Directors

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.
Director, Fenimore Asset Management

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

Bruce W. McConnelee
Retired - Hydro Mobile
Community Liason

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

L.H. Buhrmaster, Chairman
John H. Buhrmaster, President & Chief Executive Officer
Diane Smith Faubion, Executive Vice President
Robert J. Dieterich, Executive Vice President & Chief Financial Officer
Andrew T. Trainor, Sr. Vice President & Sr. Loan Officer
Laura M. Dieterich, Sr. Vice President & Corporate Secretary
Kelly A. Gibbons, Sr. Vice President of Retail Banking
James J. Smith, Chief Information Officer
Joan K. O'Brien, Auditor
Kenneth W. Swain III, Vice President
Gregory N. Phillips, Vice President
Jessica R. Petraccione, Vice President
Kevin R. Buhrmaster, Vice President
Christopher R. Hebbard, Vice President & Sr. Credit Officer
Teresa A. Freeman, Vice President
Rebecca D. Dashnaw, Vice President
Joyce A. Poulin, Vice President
John G. Dykeman, Vice President & Controller
Amy E. Belli, Vice President
Daniel A. Centi, Vice President
O. Neil Thomas, Vice President
Nancy R. Harrigan, Vice President
Dave Teta, Assistant Vice President
Debra A. Lindsay, Assistant Vice President
Louis J. Giammatteo, Assistant Vice President
Cheryl F. Hiller, Assistant Vice President
Karen E. Ballester, Assistant Vice President & Marketing Officer
Lisa A. Case, Assistant Vice President
Tracey J. Kearns, Training & Performance Officer
Cynthia A. Siatkowski, Compliance Officer
Premnarine Jaddu, Branch Operations Officer
Eric W. Bode, Branch Operations Officer
Trisha L. Santiago, Branch Operations Officer
Brian J. Morini, Branch Operations Officer
Kristen D. Faubion, Branch Operations Officer
Cara K. Pabon, Branch Operations Officer
Betsy Simek-Smith, Indirect Lending Officer

1st National Bank Retail Offices and Officers

Scotia Office
Debra A. Lindsay, *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*
1476 Balltown Road, Schenectady, New York 12309
(518) 370-7245

Colonie Office
Teresa A. Freeman, *Vice President - Area Manager*
1705 Central Avenue, Albany, New York 12205
(518) 370-7250

Guilderland Office
Lisa A. Case, *Assistant Vice President*
Teresa A. Freeman , *Vice President - Area Manager*
8 New Karner Road at Route 20, Guilderland, New York 12084
(518) 370-7255

Glenville Office
Cara K. Pabon, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
240 Saratoga Road, Scotia, New York 12302
(518) 370-7260

1st National Bank Retail Offices and Officers

Erie Boulevard Office
David Teta, *Assistant Vice President*
Teresa A. Freeman, *Vice President - Area Manager*
120 Erie Boulevard, Schenectady, New York 12305
(518) 370-7265

Saratoga Office
Louis J. Giammatteo, *Assistant Vice President*
Trisha L. Santiago, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
3013 Route 50, Saratoga Springs, New York 12866
(518) 370-7270

GE Global Research Center
Premnarine Jaddu, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
1 Research Circle, Schenectady, New York 12309
(518) 370-7217

Rotterdam Office
Eric W. Bode, *Branch Operations Officer*
Teresa A. Freeman , *Vice President - Area Manager*
2695 Hamburg Street, Schenectady, New York 12303
(518) 370-7285

Clifton Park Office
Kristen D. Faubion, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
1693 Route 9, Clifton Park, New York 12065
(518) 370-7290

Banking Services and Facilities

Deposit Services

- Personal & Business Checking Accounts
- Remote Deposit
- Online & 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
- 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

Visit us online www.firstscotia.com

Scautub Agency, LLC Directors and Officers

John H. Buhrmaster
Chairman of the Board

Robert J. Dieterich
Chief Executive Officer & Corporate Secretary

David D. Montana
President, Fortune Air, Inc.

Steven H. Heider
Owner, Northway Residential Services

Edmund J. Catalano
President

Mark D. Massaroni
Vice President

Gertrude A. Chojecki
Vice President

Scautub
AGENCY
SINCE 1926

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.

First Scotia | WEALTH MANAGEMENT

What sets us apart from other Wealth Management Advisors? We listen. We take the time to get to know you, your goals and your life. We give you the information you need to make choices that make sense for you. Our tenured advisors are devoted to earning your trust. You are our priority…**because relationships matter!**

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

Paul Cardone, INFINEX *Financial Advisor*
Located at the 1st National Bank of Scotia Clifton Park Office
1693 Route 9, Clifton Park, New York 12065
(518) 869-3169

Greg Phillips, INFINEX *Financial Advisor*
Located at the 1st National Bank of Scotia Main Office
201 Mohawk Avenue, Scotia, New York 12302
(518) 588-2805

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 188 organizations in 2018

2018 Contributions by Type

- 3% RELIGIOUS
- 8% ARTS
- 9% GENERAL NON-PROFIT
- 11% YOUTH SPORTS
- 12% CIVIC
- 24% SOCIAL SERVICES
- 33% EDUCATION

Consolidated Balance Sheets

(in thousands)

At December 31,	2018	2017
Assets		
Cash and cash equivalents:		
Cash on hand and deposits from financial institutions	$ 9,992	$ 11,128
Interest-bearing deposits from financial institutions	8,027	9,743
Total cash and cash equivalents	18,019	20,871
Debt Securities:		
Debt securities available-for-sale	23,183	24,360
Debt securities held-to-maturity (Fair value 2018 $3,229, 2017 $2,893)	3,148	2,813
Total debt securities	26,331	27,173
Equity Securities with readily determinable fair values	172	130
Loans, net of allowance: as of 12/31/2018 ($4,367), 12/31/2017 ($4,049)	411,138	395,421
Premises and equipment, net	5,653	5,839
Leased Property, net	1,927	1,648
Other real estate owned	-	179
Equity securities not readily marketable	1,128	1,138
Investments in unconsolidated associated companies	730	706
Cash surrender value of life insurance policies	882	740
Goodwill	178	178
Mortgage servicing rights	698	754
Other intangible assets, net	152	180
Other assets	10,051	11,068
Total Assets	$ 477,059	$ 466,025
Liabilities		
Deposits:		
Non-interest bearing	$ 122,389	$ 121,423
Interest-bearing	306,954	298,891
Total deposits	429,343	420,314
Borrowings	3,318	3,637
Other liabilities	7,435	5,571
Total liabilities	440,096	429,522
Shareholders' Equity		
Common stock, par value $0.01; authorized 250,000 shares; issued 204,905 Shares in 2018 and 2017 Outstanding 200,094 shares and 203,523 shares in 2018 and 2017, respectively	2	2
Additional paid-in capital	23,102	23,102
Retained earnings	18,131	15,934
Accumulated other comprehensive (loss)	(3,863)	(2,417)
Treasury stock, at cost (4,811 shares in 2018, 1,382 shares in 2017)	(409)	(118)
Total shareholders' equity	36,963	36,503
Total liabilities and shareholders' equity	$ 477,059	$ 466,025

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

Consolidated Income Statements

(in thousands)

Years ended December 31,	2018	2017
Interest and dividend income:		
Interest and fees on loans	$ 16,222	$ 14,905
Taxable securities	201	26
Tax exempt securities	337	398
Dividend income on equity securities	54	43
Interest on deposits from financial institutions	346	154
Total interest and dividend income	17,160	15,526
Interest Expense:		
Interest on deposits	495	313
Interest on advances from Federal Home Loan Bank	35	23
Interest on other borrowings	145	148
Total interest expense	675	484
Net interest income	16,485	15,042
Provision for loan loss	600	600
Net interest income after provisions	15,885	14,442
Non-Interest Income:		
Customer service charges and fees	1,089	1,060
Insurance and brokerage commissions	1,037	873
Loan servicing, net of servicing rights amortization	128	148
Net gains on sales of loans	108	231
Net gains on sales of other real estate owned	-	24
Net gains/(losses) on sales of debt securities	(1)	(4)
Unrealized gains/(losses) on equity securities	(9)	-
Other non-interest income	1,209	1,313
Total non-interest income	3,561	3,645
Non-Interest Expense:		
Salaries and employee benefits	9,603	9,210
Occupancy and equipment	2,264	2,031
Federal deposit insurance assessment	340	373
Data processing	298	294
Electronic banking	403	375
Accounting and auditing	290	297
Professional fees	97	179
Advertising and marketing	264	254
Amortization of other intangible assets	62	93
Other expenses	2,420	2,449
Total non-interest expense	16,041	15,555
Income before taxes	3,405	2,532
Applicable income taxes	827	675
Net income	$ 2,578	$ 1,857

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

Consolidated Statements of Comprehensive Income

(in thousands)

Years ended December 31,	2018	2017
Net income	$ 2,578	$ 1,857
Other comprehensive income (OCI), net of taxes		
Unrealized gains (losses) on securities, net of taxes:		
Unrealized holding gains (losses) arising during the period	(16)	85
Plus: reclassification adjustment for losses included in net income	1	4
Income tax (expense) benefit during the period	4	(33)
Net unrealized gains (losses) on securities, net of taxes	(11)	56
Defined benefit pension plan gains (losses), net of taxes:		
Net gains/(losses) arising during the period	(2,080)	238
Amortization of net loss	139	237
Income tax benefit (expense) during the period	506	(190)
Defined benefit pension plan gains/(losses), net of taxes	(1,435)	285
Other comprehensive income (loss), net of taxes	(1,446)	341
Total Comprehensive Income	$ 1,132	$ 2,198

Consolidated Statements of Changes in Shareholders' Equity

(in thousands)

	Common stock par value	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance, January 1, 2017	$ 2	$ 23,179	$ 14,061	$ (2,326)	$ (107)	$ 34,809
Associated company adjustment	-	(77)	-	-	-	(77)
Reclassification adjustment	-	-	432	(432)	-	-
Net income	-	-	1,857	-	-	1,857
Dividends declared ($2.05 per share)	-	-	(416)	-	-	(416)
Purchase of treasury stock, net	-	-	-	-	(11)	(11)
OCI, net of taxes	-	-	-	341	-	341
Balance, December 31, 2017	2	23,102	15,934	(2,417)	(118)	36,503
Adoption of ASU 2016-01 Financial Instruments[1]	-	-	69	-	-	69
Net income	-	-	2,578	-	-	2,578
Dividends declared ($2.25 per share)	-	-	(450)	-	-	(450)
Purchase of treasury stock, net	-	-	-	-	(291)	(291)
OCI, net of taxes	-	-	-	(1,446)	-	(1,446)
Balance, December 31, 2018	$ 2	$ 23,102	$ 18,131	$ (3,863)	$ (409)	$ 36,963

[1] *The adoption of ASU 2016-01 is described in footnote 2 - Summary of Significant Accounting Policies*

Consolidated Statements of Cash Flows

(in thousands)

Years ended December 31,	2018	2017
Cash flows from operating activities:		
Net income	$ 2,578	$ 1,857
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	692	612
Provision for loan losses and off balance sheet contingencies	750	710
Amortization of intangible assets	164	177
Net premium amortization on securities	62	206
Amortization of deferred loan costs	187	189
Amortization of pension losses from accumulated other comprehensive income	139	238
Deferred tax expense (benefit)	215	670
Earnings from associated companies	(24)	(62)
Unrealized losses on equity securities	9	-
Loss on sale of debt securities	1	4
Gain on sale of loans held for sale	(108)	(231)
Proceeds from sales of loans held for sale	6,217	11,864
Loans originated and held for sale	(6,109)	(11,633)
Earnings from cash surrender value life insurance policies	(22)	(13)
Net change in other assets and liabilities	928	(895)
Net cash provided by (used in) operating activities	5,679	3,693
Cash flows from investing activities:		
Proceeds from maturities and pay downs of securities	73,181	38,055
Proceeds from sales of securities	11,994	19,496
Purchases of securities	(84,382)	(56,085)
Sales/ (purchases) of FHLB stock	(4)	31
Purchase of Atlantic Community Bankers Bank Stock	-	(90)
Pension Plan Contributions	-	(3,000)
Proceeds from sales of Land Record Title Agency	-	20
Net loans made to customers	(16,504)	(5,643)
Capital expenditures	(785)	(1,321)
Net cash provided by (used in) investing activities	(16,500)	(8,537)
Cash flows from financing activities:		
Net increase in deposits	9,029	18,134
Repayment of borrowings	(319)	(4,818)
Dividends paid	(450)	(416)
Purchase of treasury stock	(291)	(11)
Net cash provided by (used in) financing activities	7,969	12,889
Net change in cash and cash equivalents	(2,852)	8,045
Cash and cash equivalents at beginning of year	20,871	12,826
Cash and cash equivalents at end of year	$ 18,019	$ 20,871
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	628	450
Income taxes	100	775

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

Notes to Consolidated Financial Statements

(1) Nature of Operations

Nature of Operations: 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 insurance 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 real estate and auto loans to consumers and small businesses.

(2) Summary of Significant Accounting Policies

Entity classification*:* The Company is classifying itself as a Private Company and we are following generally accepted accounting principles (GAAP) as required for private companies. Financial reporting requirements are generally less detailed for private companies vs. public entities. Private company standards only require 2 years of comparative financial statements and lesser detail is necessary in the financial statement footnotes. Also when a new accounting standard is issued, the Company reviews the effective date for private companies. Most new accounting standards allow one year longer for private companies to implement the new standards.

The consolidated financial statements and related footnotes are unaudited. Audited financial statements for our Company are only required when our Assets are over $500 million as of the end of the prior year-end.

Basis of Consolidation*:* The consolidated financial statements include the accounts of GBHC, the Bank, and the Agency subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements require 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.

Reclassifications: Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items in process of collection, due from correspondent banks and interest-bearing deposits with the Federal Reserve Bank.

The Bank is required to maintain deposit reserve balances with the Federal Reserve Bank of New York (FRB). The FRB calculates the required reserve based on deposit reports the Bank submits quarterly. As of December 31, 2018 and 2017, these required reserve balances amounted to $684,000 and $629,000 respectively.

Investment in Debt Securities*:* The Investments in debt securities amortized cost is adjusted for amortization of premiums and accretion of discounts computed straight line to the contractual maturity date. If a security is sold or is called prior to the maturity date, any unamortized premium or discount is

(2) Summary of Significant Accounting Policies (continued)

recognized as an adjustment to interest income in the month of call or sale date. Gains or losses on sales of investment securities are computed on a specific identification basis and recognized immediately upon the sale.

The Company classifies debt securities into one of two categories: held-to-maturity or available-for-sale. There is a third category trading securities required by GAAP but the Company does not carry any investments into the trading category.

In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to the contract maturity date. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Below is an accounting summary of the basic classifications and accounting treatment:

- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of stockholders' equity. They are merely disclosed in the notes to the consolidated financial statements.

- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported net (after taxes) in accumulated other comprehensive income (AOCI) within shareholders equity on the balance sheet until the securities are either sold, mature, or are called.

Readily Marketable Equity Securities: The Company has elected to early adopt select equity accounting provisions of Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10).* The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date is for fiscal years beginning after December 15, 2017 for public companies and after December 15. 2018 for non-public filers. The following provision of the ASU that impact the Company are as follows:

- Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The Company has elected to adopt early this provision of measuring readily marketable equity securities fair value changes into earnings as of January 1, 2018. The cumulative effect of prior year amounts is recorded into Retained Earnings (net of tax) within shareholders equity on the balance sheet and the unrealized gain or loss for the current year is reported in unrealized gains/(losses) from equity securities on the income statement.

(2) Summary of Significant Accounting Policies (continued)

Non-Marketable Equity Securities*:* The Bank owns several equity securities that are classified as non-marketable. The Bank is required to own shares of capital stock in the Federal Home Loan Bank of New York, the Federal Reserve Bank, and Atlantic Community Bankers Bank (ACBB) as a condition of membership. Also included in non-marketable equity securities is stock ownership in Senior Housing Crime Stopper Preferred shares which is used for the Bank's community reinvestment act (CRA) as qualified investments. All of these securities do not have a readily determinable fair value and transferability of the stocks is restricted. These securities are carried at cost and evaluated for impairment annually, following the guidance in ASU 2016-01 *Financial Instruments.* Management has determined that no impairment has occurred on any of these non-marketable equity securities. Dividends earned are recognized as income on the Income statement.

Loans*:* Loans receivable that management has the intent and ability to hold until contractual maturity or payoff are reported at their outstanding principal balances. Interest on loans is recognized on a simple interest basis unless a loan is placed on non-accrual at which time interest accruals are suspended. If a non-accrual loan is brought current due to the likelihood that all amounts due (principal and interest) will be collected, all non-accrued interest is recognized in interest income at the time a loan is changed from non-accrual to current status.

Loan origination fees and certain direct origination costs are deferred for longer-term loans, and the net amount is amortized as an adjustment of the related loan's yield into interest income using the straight-line method over the contractual lives of the related loans. If the loan is paid off early, any unamortized net fees and costs are transferred to interest income. Loan origination fees and costs for immaterial amounts, and for shorter term loans, are not deferred; these direct origination fees and cost amounts are recognized into the appropriate non-interest income or expense accounts.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Actual loan losses are charged against the allowance when management believes the uncollectibility of a loan balance has occurred. Subsequent recoveries, if any, are credited to the allowance.

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

Investment in Associated Companies*:* Included in the Company's investment in associated companies is the investment in 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 investment is $713,000. The equity method of accounting is used as required by GAAP because our ownership is over 20%. Also included in the Company's investments in associated companies are two smaller investments with a carrying value of $17,000. These smaller investments are recorded at cost due to a less than 20% ownership interest.

Premises and Equipment and Leased Properties*:* Premises and equipment and leased properties are stated at cost, less accumulated depreciation. Cost and related accumulated depreciation of premises and equipment retired or otherwise disposed of are removed from the respective cost and accumulated

(2) Summary of Significant Accounting Policies (continued)

depreciation accounts with any gain or loss recognized in earnings. An evaluation of our premises and equipment is performed annually by bank personnel to determine if any assets are either no longer used, been disposed, or are obsolete. If any assets are identified, impairments are recognized immediately and charged to earnings. Future depreciation charges are also changed if management determines a change in accounting estimates is required due to expected life changes of active assets during this annual premises and equipment review. Any changes in accounting estimates are treated prospectively, where only future years depreciation charges are changed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Goodwill and Intangible Assets: Goodwill as reported on the balance sheet is the original amount recorded from the Company's acquisition of its insurance subsidiary Scautub Agency, LLC in 2013. The Goodwill amount is not subject to amortization due to indefinite life of the assets. Instead an annual test for impairment is performed annually. Management has determined that no impairment has occurred to date. For its other intangible assets, the Company uses assumptions in establishing the carrying value, fair value, and estimating lives of identifiable intangible assets. Customer relationships are amortized on a straight-line basis over the estimated original lives of the assets of 15 years. All other intangible assets are fully amortized as of the reporting date.

Comprehensive Income (Loss)*:* Comprehensive income (loss) is the total of net income (loss) plus all other changes in equity arising from non-shareholder owner sources, which are referred to as other comprehensive income (loss). Accumulated other comprehensive income (loss) (AOCI), as reported on the consolidated balance sheets, includes unrecognized actuarial gains and losses from the Company's defined benefit pension plan and unrealized gains and losses from available for sale securities.

The ending balance in AOCI, net of tax, is as follows at the end of each respective year:

	(in thousands)	
	12/31/2018	12/31/2017
Unrealized gains/(losses) on AFS securities	(2)	10
Unrecognized gains/(losses) on defined pension plan	(3,861)	(2,427)
Total Accumulated other comprehensive income (loss)	(3,863)	(2,417)

Mortgage Servicing Rights*:* The Company services loans for others. Loan servicing assets are recognized initially at estimated fair value, as mortgage servicing rights (MSRs). The fair value is recognized when rights are acquired through sale of the Bank's qualifying loans to investors. Capitalized servicing rights are reported in intangible assets and are subsequently amortized into loan servicing fee income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. MSRs are evaluated for impairment annually based upon the fair value of the rights as compared to amortized cost. The Company employs an independent third party to estimate the fair value of the MSRs which determines any impairment. No impairment has occurred to date on the servicing assets.

Advertising*:* Costs incurred for advertising are charged to other non-interest expense as incurred.

Income Taxes: The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

(3) Debt Securities

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2018 and 2017 and the corresponding amounts of gross unrealized gains and losses:

Available-for-sale securities

(in thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
U.S. governments and its agencies	$ 8,961	$ 3	$ (7)	$ 8,957
State and local government municipalities	11,225	16	(31)	11,210
Mortgage-backed securities	3,000	16	-	3,016
Total available-for-sale	$ 23,186	$ 35	$ (38)	$ 23,183
2017				
U.S. governments and its agencies	$ -	$ -	$ -	$ -
State and local government municipalities	24,369	51	(60)	24,360
Mortgage-backed securities	-	-	-	-
Total available-for-sale	$ 24,369	$ 51	$ (60)	$ 24,360

Held-to-maturity securities

(in thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
State and local government municipalities	$ 3,148	$ 80	$ -	$ 3,229
Total held-to-maturity	$ 3,148	$ 80	$ -	$ 3,229
2017				
State and local government municipalities	$ 2,813	$ 80	$ -	$ 2,893
Total held-to-maturity	$ 2,813	$ 80	$ -	$ 2,893

(3) Debt Securities (continued)

The following table summarizes the amortized cost and fair value of debt securities by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost Basis	Fair Value	Amortized Cost	Fair Value
Within one year	$ 13,037	$ 13,019	$ 1,251	$ 1,256
Due after one year through five years	5,359	5,348	428	438
Due after five years through ten years	1,110	1,119	1,469	1,535
Due after ten years	680	681	-	-
Mortgage-backed securities	3,000	3,016	-	-
Total	$ 23,186	$ 23,183	$ 3,148	$ 3,229

At year-end 2018 and 2017, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Securities pledged at year-end 2018 and 2017 had a carrying amount of $12,675,000 and $17,449,000 and were pledged to secure public funds on deposits.

There were $19,500,000 in sales of available-for-sale securities with a loss of $4,000 recognized in the income statement during the year ended December 31, 2017. There were $12,000,000 in sales of available-for-sale securities with a loss of $1,000 recognized during the year ended December 31, 2018.

The Bank conducts a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment ("OTTI"). The Bank assesses whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the statement of condition date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not anticipated to be sufficient to recover the entire amortized cost basis. The guidance requires that credit-related OTTI is recognized in earnings while non-credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income ("OCI"). Non-credit-related OTTI is based on other factors, including liquidity and changes in the general interest rate environment.

Management does not believe any individual unrealized loss in other securities within the portfolio as of December 31, 2018 and 2017 represents OTTI, because most securities with unrealized losses within the 12 months or more category are local municipal securities that are closely monitored and have minor net loss positions under one percent.

(4) Readily Marketable Equity Securities

Readily marketable equity securities consist of the following for 2018 and 2017:

(in thousands)

At December 31,	2018	2017
Original cost	$ 108	$ 108
Unrealized gains (losses)	64	22
Total Marketable Equity Securities	$ 172	$ 130

The accumulated unrealized gains of $64,000 for the period ended December 31, 2018 is reported as follows: $73,000 adjustment in retained earnings (related to the prior year) due to early adoption of ASU 2016-01 Financial Instruments, ($9,000) unrealized losses (for the current year) in non-interest income.

(5) Loans

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

At December 31,	2018	2017
Real estate loans	$ 210,799	$ 190,322
Commercial and industrial	57,884	53,515
Individual consumer loans	146,793	155,605
All other	29	28
Total loans	415,505	399,470
Less: Allowance for Loan Loss	(4,367)	(4,049)
Loans, net of Allowance	$ 411,138	$ 395,421

Allowance for Loan Losses
(in thousands)

At December 31,	2018	2017
Balance, beginning of period	$ 4,049	$ 3,914
Recoveries credited to reserve	186	124
Provision for possible loan losses	600	600
Losses charged to reserve	(468)	(589)
Balance, end of period	$ 4,367	$ 4,049

(5) Loans (continued)

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. The dollar amount of non-performing loans in our portfolio has increased through 2018. 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:
(in thousands)

	Past due 90 days or more and still accruing		Non-accrual	
At December 31,	2018	2017	2018	2017
Real estate loans	$ 49	$ -	$ 1,344	$ 149
Commercial and industrial	-	-	262	36
Individual consumer loans	4	3	802	885
All other	-	-	-	-
Total loans	$ 53	$ 3	$ 2,408	$ 1,070

Loans pledged as collateral:

The bank pledges mortgage loans at the Federal Home Loan Bank of New York as collateral to secure our lines of credit at the FHLB. As of December 31, 2018 and 2017, the amount of loans pledged is $28,877,000 and $27,590,000 respectively. We use the FHLB line of credit for our liquidity needs as necessary.

(6) Mortgage Servicing Rights

Our initial measurement of mortgage servicing assets are recognized using the lower end of the prior year fair valuation range, then as the serviced loan portfolio pays down, we amortize the initial value proportional to the amount of loan proceeds received. Subsequently, we use a third party independent valuation service to provide us with an estimated fair value of our servicing rights which is received annually and the end of each year.

The fair value of servicing rights was estimated at $722,000 for 2018 $754,000 for 2017. When the third party valuation report is received, we are provided with a range of estimated fair values. We estimate the fair value using the mid-point of this range. This fair value report makes several assumptions, including prepayment speeds, discount rates, and weighted-average default rates.

As of 2018 and 2017 the estimated fair value is equal to or higher than our amortized cost at $698,000 and $754,000, respectively. Therefore, no impairment has been recognized and no related valuation allowance has been used to write down any additions to our mortgage servicing rights.

(7) Fair Value

Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2018 and 2017 are as follows: (in thousands)

	Fair Value Measurements at Reporting Date Using			
	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2018				
U.S. governments and its agencies	$ -	$ 8,957	$ -	$ 8,957
State and local government municipalities	-	11,210	-	11,210
Mortgage-backed securities	-	3,016	-	3,016
Total investment securities available-for-sale	-	23,183	-	23,183
Readily marketable equity securities	172	-	-	172
Total assets measured at fair value	$ 172	$ 23,183	$ -	$ 23,355
2017				
U.S. governments and its agencies	$ -	$ -	$ -	$ -
State and local government municipalities	-	24,360	-	24,360
Mortgage-backed securities	-	-	-	-
Total investment securities available-for-sale	-	24,360	-	24,360
Readily marketable equity securities	130	-	-	130
Total assets measured at fair value	$ 130	$ 24,360	$ -	$ 24,490

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.

(8) Other Real Estate Owned

Other real estate owned activity was as follows: (in thousands)

At December 31,	2018	2017
Beginning balance	$ 179	$ 200
Loans transferred to real estate owned	-	273
Capitalized expenditures	12	41
Direct write downs to allowance for loan losses	(23)	(84)
Sale of real estate owned	(168)	(251)
End of year	$ -	$ 179

At December 31, 2018, no other real estate owned is outstanding. As of December 31, 2017, the balance of other real estate owned was $179,000. Any foreclosed residential real estate properties is recorded as a result of obtaining physical possession of the property. At December 31, 2018 and 2017, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is $89,000 for both years.

(9) Premises and Equipment

The following is a summary of premises and equipment as of December 31:
(in thousands)

At December 31,	2018	2017
Land	$ 1,294	$ 1,294
Building and land improvements	7,817	7,550
Equipment and furniture	4,719	4,603
Total premises and equipment	13,830	13,447
Less: accumulated depreciation	(8,177)	(7,608)
Premises and equipment, net	$ 5,653	$ 5,839

Depreciation expense was $607,000 and $549,000 for the years ended December 31, 2018 and 2017, respectively.

(10) Leased Property

The Company owns two properties that it leases to others as of December 31, 2018. One property, located at 132 Erie Boulevard is used for general rental purposes. The second property, located at 120 Erie Boulevard, is leased back to the Bank and other tenants. Rental income recognized is $92,000 and $78,000 included in other non-interest income during the years ended 2018 and 2017, respectively.

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

At December 31,	2018	2017
Land	$ 274	$ 274
Building and land improvements	1,553	1,188
Equipment and furniture	330	330
Total premises and equipment	2,157	1,792
Less: accumulated depreciation	(230)	(144)
Premises and equipment, net	$ 1,927	$ 1,648

(11) Goodwill & Intangible Assets

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. Goodwill is not amortized, but is tested annually for impairment. 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, 2018 and 2017, the carrying value of goodwill of $178,000 is not impaired.

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 judgement in assessing whether the carrying amounts are not expected to be recoverable over their estimated useful lives. The customer relationship and noncompete 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 noncompete intangibles was amortized over a five-year period and is fully amortized as of December 31, 2018. Amortization expense of both the customer relationships and noncompete is reported into amortization of other intangible assets.

The change in carrying value of intangible assets for 2018 and 2017 is as follows:
(in thousands)

At December 31,	2018		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Amortized intangible assets:			
Other customer relationship intangibles	$ 223	$ (71)	$ 152
Noncompete	400	(400)	-
Total	$ 623	$ (471)	$ 152

At December 31,	2017		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Amortized intangible assets:			
Other customer relationship intangibles	$ 189	$ (56)	$ 133
Noncompete	400	(353)	47
Total	$ 589	$ (409)	$ 180

(12) Non Marketable Equity Securities

The following securities are classified as non-readily marketable securities due to the restricted nature of ownership transferability as described in Note 2 Accounting policies. All stock is carried at amortized cost and no impairments have occurred to date. The Senior Crime stopper preferred stock was purchased at an original premium of $112,000 and is being amortized straight-line to the contractual maturity date of 12/1/2023. The original par value is $500,000 and is fully secured with collateral held by a safekeeping agent.

Non-marketable equity securities consist of the following for 2018 and 2017:
(in thousands)

At December 31,	2018	2017
Federal Home Loan Bank	$ 228	$ 223
Federal Reserve Bank	247	247
Atlantic Community Bankers Bank	90	90
Senior Crime Stopper Preferred, net of amortization	563	578
Total Non-Marketable Equity Securities	$ 1,128	$ 1,138

(13) Deposits

Time deposits (included in Interest Bearing Deposits) that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2018 and 2017 were $8,215,000 and $1,011,000, respectively. During 2018, the bank accepted new jumbo CD's, resulting in a higher amount of uninsured time deposits.

Scheduled maturities of time deposits for the next five years were as follows:
(in thousands)

2019	$ 25,466
2020	4,027
2021	1,146
2022	1,453
2023	617
	$ 32,709

(14) Borrowings

The Bank loan was issued on October 15, 2012 for $4,000,000. The terms of this loan include: variable interest rate based upon the Wall Street Journal prime rate subject to change annually on January 1st. As of December 31, 2018 the interest rate is 5.50%. For the first ten years of this loan, principal and interest is paid on the 15th of each January, April, July and October using a fifteen year amortization schedule. On October 15, 2022 a one-time balloon payment is due equal to the entire unpaid principal balance at that time. This loan is fully secured by the pledging of the Company's GBHC stock up to the amount of the loan.

The other long term borrowings include: 1) a private note originally issued on August 1, 2013 for $691,000 related to the purchase of Scautub Insurance Agency. Principal and interest is paid monthly over a ten year amortization period. The note rate is fixed at 4.25% with a scheduled maturity date of August 1, 2023. 2) a promissory note originally issued on December 30, 2015 for $330,000 related to the furniture and fixtures at 120 Erie Boulevard. Principal and interest is paid monthly over a 15 year amortization period. The note rate is fixed at 3% with a scheduled maturity date of December 30, 2030.

The Company is in compliance with all debt covenants as required for all of these borrowings.

(in thousands)

At December 31,	2018	2017
Short term:		
Current portion of long-term	$ 298	$ 319
Total short-term borrowings	298	319
Long-term:		
Bank loan	2,683	2,915
Other	635	722
Total long-term borrowings	3,318	3,637
Less: current portion	(298)	(319)
Long-term portion	3,020	3,318
Total borrowings	$ 3,318	$ 3,637

At December 31, 2018, scheduled repayments of debt are as follows:
(in thousands)

2019	$ 298
2020	314
2021	331
2022	2,124
2023	78
Thereafter	173
	$ 3,318

(15) Pension Plan

The Bank sponsors a qualified defined 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 over the two-year period ending December 31, and a statement of the funded status as of December 31 of both years:

(in thousands)

As of December 31,	2018	2017
Reconciliation of pension benefit obligation		
Obligation at beginning of year	$ 17,796	$ 16,686
Service cost including expenses	135	138
Interest cost	679	713
Actuarial gain/(loss)	(477)	1,196
Benefit payments and expected expenses	(996)	(938)
Obligation at end of year	17,137	17,796
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	21,078	16,542
Actual return on plan assets	(1,222)	2,472
Employer Contributions	-	3,000
Benefit payments and actual expenses	(997)	(936)
Fair value of plan assets at end of year	18,859	21,078
Funded status at end of year	$ 1,722	$ 3,282
Amounts recognized in the Balance Sheet		
Included in other assets	$ 1,722	$ 3,282
Amounts recognized in AOCI		
Gain/(loss)	(5,265)	(3,324)
Components of net periodic pension cost/(income) and other amounts recognized in other comprehensive income		
Service cost	$ 135	$ 138
Interest cost	680	713
Expected return on plan assets	(1,334)	(1,040)
Amortization of net loss	139	238
Net periodic pension cost/(income)	(380)	49
Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Net loss/(gain)	2,080	(238)
Amortization of net (loss)	(139)	(238)
Total amount recognized in other comprehensive income	1,941	(476)
Total amount recognized in net periodic pension cost (income) and other comprehensive income	$ 1,560	$ (426)

(15) Pension Plan (continued)

Weighted average assumptions used	Used for Net Pension cost in fiscal year 1/1/18 - 12/31/18	Used for Pension obligation as of 12/31/2018
Discount rate	3.94%	4.54%
Long-term rate of return	6.50%	N/A

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2019	$ 888
2020	$ 938
2021	$ 971
2022	$ 994
2023	$ 1,044
2024-2028	$ 5,339

The plan asset allocations by asset category are as follows:

Fair value, December 31	2018	2017
Equity securities	46%	50%
Fixed income	46%	40%
Other	8%	10%
Total	100%	100%

The estimated 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 $(133,000).

(16) Other Benefit Plans

Deferred Compensation Plan: Our deferred compensation plan covers all directors and selected executive officers. Under this plan the company is obligated to pay each participant or their beneficiary the fair market of the assets upon the participant's requested redemption date. There is a deferred compensation liability obligation (included in other liabilities) in addition to a deferred compensation asset (included in other assets) of $5,210,000 as of December 31, 2018. The expense incurred for the deferred compensation for the year ending December 31, 2018 was $60,000 accrued respectively.

401(k) Plan: A 401(k) benefit plan allows employees contributions up to the annual IRS dollar limit. The employee contributions are matched up to 50% of the first 6% of the compensation contributed. Expense for 2018 and 2017 was $388,000 and $332,000 including an additional 3% discretionary contribution.

(17) Income Taxes

Income taxes included in the Statement of Income are as follows: (in thousands)

As of December 31,	2018	2017
Current:		
Federal	$ 608	$ -
State	4	5
Total current	612	5
Deferred:		
Federal	207	577
State	8	93
Total deferred	215	670
Applicable income taxes	$ 827	$ 675

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,	2018	2017
Federal income tax at statutory rate (21% for 2018 and 2017)	$ 702	$ 861
State tax net of federal income tax effect (6.5% for 2018and 2017)	11	96
Municipal bond interest	(61)	(123)
Deferred Tax Rate Reduction	-	(98)
Other	175	(61)
Total	$ 827	$ 675

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

At December 31,	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 1,048	$ 965
Deferred compensation	899	955
Net Operating Loss	-	129
Other	146	132
Deferred tax assets	2,093	2,181
Deferred tax liabilities:		
Pension	(450)	(858)
Depreciation	(115)	(109)
Servicing rights	(182)	(197)
Securities	(2)	(3)
Deferred tax liabilities	(749)	(1,167)
Net deferred tax assets	$ 1,344	1,014

(18) Related Party Transactions

Extensions of credit (including both advances and available funds) to principal officers, directors and their affiliates at December 31, 2018 was $3,531,000.

Deposits from principal officers, directors and their affiliates at December 31, 2018 was $3,258,000.

(19) Regulatory Capital Matters

The subsidiary Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2018 is 1.875% and for 2017 is 1.25%. Management believes as of December 31, 2018, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (in thousands) and ratios are presented below at year-end December 31, 2018 and December 31, 2017, respectively.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Thresholds	
2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets)	44,654	11.37%	31,400	8.00%	39,250	10.00%
Tier 1 Capital (to risk-weighted assets)	39,890	10.16%	23,550	6.00%	31,400	8.00%
Common Equity Tier 1 (to risk-weighted assets)	39,890	10.16%	17,675	4.50%	25,525	6.50%
Tier 1 Capital (to quarterly average assets)	39,890	8.22%	19,400	4.00%	24,250	5.00%
2017						
Total Capital (to risk-weighted assets)	42,679	11.14%	30,650	8.00%	38,300	10.00%
Tier 1 Capital (to risk-weighted assets)	38,281	9.99%	23,000	6.00%	30,650	8.00%
Common Equity Tier 1 (to risk-weighted assets)	38,281	9.99%	17,250	4.50%	24,900	6.50%
Tier 1 Capital (to quarterly average assets)	38,281	8.20%	18,675	4.00%	23,350	5.00%

(20) Loan Commitments and Other Related Activities

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,	Carrying Amount 2018	Carrying Amount 2017
Unrecognized Financial Instruments:		
Commitments to Extend Credit	$ 62,285	$ 55,804

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, stocks, 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.

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 11, 2019
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

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