

Message from the President

I am proud to highlight our activities over the course of 2016.

Our main focus early in the year was integrating the former Community National Bank of Northwestern Pennsylvania smoothly and efficiently into our daily operations. We converted the computers in those branches in February with very little customer disruption, and the acquired branches are operating effectively.

Since the acquisition, we conducted a review of our business operations. As a result, we decided to close three branches. These branches had safety concerns, were operating unprofitably, and lacked opportunity for growth. Technology also played a role, driving transactions to computers, mobile devices, and other non-traditional methods. Additionally, the close proximity to other Andover Bank branches was a factor. It is important to note that no employee lost their job as a result of the closures.

There was a time when it made sense to open branches all over the country. Convenience to a branch location was the number one reason people chose their bank. In this new world of rapidly changing technology, prolonged extremely low interest rates, and an excessive regulatory environment, it is very important that banks operate as efficiently as possible. Creating and maintaining shareholder value and confidence will always be our primary goal.

With the increased size brought on by the acquisition, and the added complexity of operating in a new market, revamping our retail operations, a major part of our strategic plan, became paramount in 2016. As a result, we engaged a marketing firm, with expertise in community banking, to survey our markets. This survey specifically focused on brand awareness and customer satisfaction levels. The data told us that we are technically very good at what we do, but we have room for improvement. Utilizing the results will assist that improvement, as we focus on new products, raising service standards, and building superior relationships with our customers and communities.



I'm delighted to report we've engaged this firm and have outsourced marketing to leverage their expertise and tell our story properly. This is the first time in our 133 year history that we have partnered with a professional marketing organization. Look for great things to happen over the next year, as we switch our efforts from a "defensive" to "offensive" plan of action.

I'm proud to report that our lenders and support staff had another strong year. Total loan originations were \$48.2 million, down \$2.6 million from 2015. However, total loans on the bank's balance sheet grew by \$4.3 million, or 2.3%. Additionally, the bank's asset quality remained very strong, with total delinquency well below 1%. As expected, the loan portfolio inherited through the acquisition has performed extremely well.

Total deposits declined to \$321.8 million in 2016, down \$8.9 million from 2015. Portions of this decline were anticipated as a result of the acquisition. The bank maintained its number one market share in Ashtabula County, as measured by the FDIC's deposit market share report. We are excited to see our market share grow in our new footprint, as a major segment of our marketing efforts will be in Erie County, Pennsylvania, and Lake County, Ohio.

I'm proud to acknowledge some of the milestones achieved this year. I'm also proud to acknowledge our greatest asset, our employees. It's a pleasure working with engaged, caring individuals that strive to exceed the customer's expectations. It's an honor for me to serve as President of the Andover Bank, but a greater honor to work side by side with them.

A handwritten signature in black ink that reads "Stephen E. Varckette". The signature is written in a cursive, flowing style.

Stephen E. Varckette

President