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## BOARD CHAIR'S LETTER

To Wayne Savings Bancshares, Inc. Stockholders:

We are pleased to report on the unprecedented results of operations of Wayne Savings Bancshares, Inc., the parent of 119-year-old Wayne Savings Community Bank, for the year ended December 31, 2017.

2017 was a record year for Wayne Savings. Net income totaled \$3.1 million, or \$1.13 per common share, for the year ended December 31, 2017, compared to \$2.2 million, or \$0.82 per common share, for the year ended December 31, 2016, with record earnings in both the third and fourth quarters. Our stock price has shown continued improvement, and our earnings have enabled us both to complete a stock repurchase program and to increase our quarterly dividend, in keeping with our commitment to maximizing shareholder returns.

2017 was an eventful year: one in which, after a long and thorough search, we were excited to announce James R. (Jay) VanSickle II as President and CEO. Jay, who brought extensive knowledge of the banking industry and an impressive track record of successful execution and leadership, joined us in August, and wasted no time in implementing cultural change that has already produced tangible results. In September, we successfully completed a conversion of our charter from a savings and loan to an Ohio chartered commercial bank, allowing us to restructure our loan portfolio into higher yielding, shorter duration assets. In December, we announced the addition of Brian Hopkins of Ancora Advisors LLC to our board. Brian brings to the board the perspective of the institutional investor community, as well as valuable skill sets in corporate finance, capital allocation, corporate governance and strategic decision-making. Last, but not least, we have just this month completed an SEC deregistration that we expect will produce six figure annual cost savings.

The details of our financial performance are contained in the following pages. If you have read our prior reports, you will note that the comparisons this year are different than in the past, due to the reorganization of the Company's back-office operations as part of our strategic commitment to improved earnings.

We are proud of the growth Wayne Savings has experienced in 2017 and believe it has been a transformational year for the Company. We are excited about our opportunities and look forward to maintaining our momentum in 2018.

As we begin our 120th year of service, Wayne Savings is in strong financial condition and well-positioned for the future with a talented and dedicated staff. Our customers expect us to deliver quality products, convenient technology and outstanding customer service. These expectations also represent our commitment to our communities. We believe the community banking model continues to be the best way to assist our customers in the fulfillment of their dreams.

On behalf of our Board of Directors and staff, we thank you for your continued confidence and support, and hope you feel your support has been rewarded with Wayne Savings poised to drive long-term shareholder value.



Peggy J. Schmitz

*Chair, Board of Directors*

**Wayne Savings Bancshares, Inc.**  
**Annual Report**  
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## SELECTED FINANCIAL DATA

The financial highlights below indicate, 2017 has been a monumental year in which Wayne Savings is heading towards a high-performing Community Bank. Below are some performance measures year to year detailing the progress the Company has made.

	December 31,				
	2017	2016	2015	2014	2013
	(In thousands)				
<b>Selected Financial Condition Data:</b>					
Total assets	\$ 439,797	\$ 454,791	\$ 433,632	\$ 417,713	\$ 410,293
Loans receivable, net	345,900	332,283	293,121	265,609	261,130
Mortgage-backed securities <sup>(1)</sup>	38,652	59,358	77,433	90,047	82,451
Investment securities	24,359	20,910	26,221	25,911	27,797
Cash and cash equivalents <sup>(2)</sup>	6,041	16,756	11,156	10,783	13,381
Deposits	372,465	383,733	362,427	348,922	337,571
Stockholders' equity	41,585	41,028	39,905	40,002	38,552

<sup>(1)</sup> Includes mortgage-backed securities and private-label collateralized mortgage obligations.

<sup>(2)</sup> Includes cash and due from banks, interest-bearing deposits in other financial institutions and federal funds sold.

	Year ended December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except per share amounts)				
<b>Selected Operating Data:</b>					
Interest income	\$ 16,428	\$ 15,551	\$ 14,499	\$ 14,631	\$ 14,397
Interest expense	1,980	2,070	1,967	2,063	2,321
Net interest income	14,448	13,481	12,532	12,568	12,076
Provision for loan losses	301	365	1,175	333	220
Net interest income after provision for loan losses	14,147	13,116	11,357	12,235	11,856
Noninterest income	2,145	1,996	1,890	1,852	1,591
Noninterest expense	11,957	12,158	11,187	10,619	10,758
Income before income taxes	4,335	2,954	2,060	3,468	2,689
Federal income taxes	1,226	708	413	837	633
Net Income	<u>\$ 3,109</u>	<u>\$ 2,246</u>	<u>\$ 1,647</u>	<u>\$ 2,631</u>	<u>\$ 2,056</u>
Basic and diluted earnings per share	<u>\$ 1.13</u>	<u>\$ 0.82</u>	<u>\$ 0.60</u>	<u>\$ 0.95</u>	<u>\$ 0.72</u>
Cash dividends declared per common share	<u>\$ 0.37</u>	<u>\$ 0.36</u>	<u>\$ 0.36</u>	<u>\$ 0.35</u>	<u>\$ 0.31</u>

## SELECTED FINANCIAL DATA

	Year ended December 31,				
	2017	2016	2015	2014	2013
<b>Key Operating Ratios and Other Data:</b>					
Return on average assets (net income divided by average total assets)	0.69%	0.51%	0.39%	0.64%	0.51%
Return on average equity (net income divided by average equity)	7.39%	5.46%	4.11%	6.60%	5.24%
Average equity to average assets	9.39%	9.26%	9.46%	9.63%	9.77%
Equity to assets at year end	9.46%	9.02%	9.20%	9.58%	9.40%
Interest rate spread (difference between average yield on interest-earning assets and average cost of interest-bearing liabilities)	3.38%	3.18%	3.11%	3.19%	3.17%
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.41%	3.21%	3.14%	3.22%	3.20%
Noninterest expense to average assets <sup>(1)</sup>	2.67%	2.73%	2.61%	2.56%	2.67%
Nonperforming and impaired loans to loans receivable, net	0.85%	1.16%	1.65%	2.65%	4.44%
Nonperforming and impaired assets to total assets	0.68%	0.85%	1.12%	1.73%	2.83%
Average interest-earning assets to average interest-bearing liabilities	105.61%	105.36%	105.39%	105.49%	105.72%
Allowance for loan losses to nonperforming and impaired loans	100.02%	78.70%	57.06%	39.35%	24.31%
Allowance for loan losses to nonperforming and impaired assets	98.51%	78.69%	56.90%	38.38%	24.31%
Net interest income after provision for losses on loans, to noninterest expense <sup>(1)</sup>	118.68%	111.25%	112.39%	115.52%	110.47%
Number of full-service offices	11	11	11	11	11
Dividend payout ratio	32.74%	43.90%	60.00%	36.84%	43.06%

(1) In calculating this ratio, noninterest expense does not include provisions for losses or gains on the sale of real estate acquired through foreclosure.

### Discussion of Financial Condition Changes December 31, 2017 from December 31, 2016

At December 31, 2017, total assets decreased \$15.0 million, or 3.3%, to \$439.8 million from the \$454.8 million at December 31, 2016 primarily due to a \$10.7 million decrease in cash and cash equivalents and a decrease of \$17.3 million in securities, partially offset by an increase of \$13.6 million in net loans. During the year ended December 31, 2017, the Bank disbursed \$73.7 million of loans, received payments of \$60.1 million and transferred \$334,000 to foreclosed assets held for sale. Although the Bank experienced increased loan balances from 2016, competition from other financial institutions for quality loan growth continues to be difficult within the Bank's market area. The increase in loan balances was funded by the reduction in the balances of both cash and cash equivalents and the securities portfolio.

At December 31, 2017 the allowance for loan losses totaled \$2.9 million, or 0.84% of gross loan balances compared to \$3.0 million, or 0.91% of gross loans at December 31, 2016. In determining the amount of the loan loss allowance at any point of time, management systematically determines the risk of loss in the portfolio. First, delinquent and classified nonresidential, multi-family and commercial loans are evaluated for potential impairment in carrying value. At December 31, 2017, all delinquent and classified residential, nonresidential, multi-family and commercial loans were analyzed, with specific valuation required reserves of \$295,000 compared to the 2016 level of reserve required of \$658,000 allocated to these categories of loans. The loans evaluated in 2017 were \$2.4 million compared to \$3.1 million in 2016. The decline was mainly due to a commercial charge-off in 2017 of \$373,000 and a paydown releasing specific reserves of \$254,000. The largest loan in this category consisted of a loan secured by commercial real estate property totaling \$748,000 at December 31, 2017. The Company incurred net charge-offs for the year of \$431,000 of which \$373,000 was for two loans secured by commercial equipment, and \$53,000 of one-to-four family residential real estate loan charge-offs and an unsecured consumer loan of \$5,000. These charge-offs were mainly offset with a one-to-four family residential real estate recovery. The second step in determining the allowance for loan losses is to calculate a reserve based on the historical loss experience of each individual loan type in the portfolio. In addition to the historic loss percentage, management also incorporates an additional risk factor based on the perception of the overall risk in the economy. Finally, to provide additional assurance with respect to the validity of the commercial loan risk rating system, management engages a third-party loan reviewer who provides an independent validation of the Bank's loan grading process. Management recorded a \$301,000 provision for losses on loans for the year ended December 31, 2017, a decrease of \$64,000 from the \$365,000 recorded for the year ended December 31, 2016. The decreased provision was primarily due to reduced charge-offs compared to the prior year period.

## **Discussion of Financial Condition Changes December 31, 2017 from December 31, 2016 - continued**

Goodwill of \$1.7 million is carried on the Company's balance sheet as a result of the acquisition of Stebbins Bancshares in June 2004. In accordance with FASB ASC 350, this goodwill is tested for impairment on at least an annual basis. Management evaluated the goodwill and arrived at the conclusion there was no impairment at December 31, 2017.

Deposits totaled \$372.5 million at December 31, 2017, a decrease of \$11.3 million, or 2.9%, from December 31, 2016. Demand accounts increased \$12.2 million, or 10.9%, savings and money market accounts decreased \$1.1 million, or 0.8%, and time deposits decreased \$22.3 million, or 17.0%. The increase in demand accounts is due to our customers' preference to maintain liquid deposits, rather than invest in low yielding fixed-rate term certificates, in order to take advantage of expected future rate increases. The Company also introduced into the market a high interest checking product during the fourth quarter of 2017. The Company continues to monitor deposit activity closely to respond to changes in customer preference for types of deposits. In general, management attempts to benchmark retail certificate of deposit pricing to the cost of alternate sources of funds, including FHLB advances and brokered deposits. Exceptions are made to defend customer relationships with significant value to the Bank while allowing rate sensitive certificate of deposit customers with no relationship with the Bank to move to other alternatives.

Advances from the FHLB decreased \$4.5 million, from \$18.0 million at December 31, 2016 to \$13.5 million at December 31, 2017 mainly due to the scheduled maturity of a \$6.0 million fixed-rate advance that was not replaced. The Bank uses FHLB advances to extend the duration of its liabilities to manage the interest rate risk associated with the longer duration of loans as compared to securities at a lower cost than other funding alternatives, particularly retail term deposits.

At December 31, 2017, stockholders' equity totaled \$41.6 million, an increase of \$557,000 compared to the balance at December 31, 2016. This increase is primarily due to net income of \$3.1 million, partially offset by dividends of \$1.0 million, a stock repurchase of \$1.4 million and a \$234,000 decrease in other comprehensive loss. The decrease in other comprehensive loss included a \$448,000 decrease in unrealized gains on securities available-for-sale, partially offset by a \$62,000 increase related to post-retirement benefits. The increase in post-retirement benefits, was due to changes in the annual actuarial assumptions, and includes a \$116,000 decrease in the pension unrecognized net loss, partially offset by a \$54,000 increase in the unrecognized net loss arising from the cost of post-retirement split dollar life insurance coverage as part of the Company's bank-owned life insurance plan.

On September 22, 2016, the Company announced the adoption of a new share buy-back program authorizing the repurchase of an additional 2.5% or 69,546, shares of its common stock outstanding. As of December 31, 2017, the Company had purchased all of the shares authorized under this program.

### **Comparison of operating results for the years ended December 31, 2017 and December 31, 2016**

#### General

Net income totaled \$3.1 million, or \$1.13 per common share, for the year ended December 31, 2017, compared to \$2.2 million, or \$0.82 per common share, for the year ended December 31, 2016. The increase in net income was primarily due to increases in both net interest income and noninterest income and a decrease in both the provision for loan losses and noninterest expense, partially offset by an increase the provision for federal income taxes. The return on average equity and return on average assets for the twelve months ended December 31, 2017 were 7.39% and 0.69%, respectively, compared to 5.46% and 0.51%, respectively for the twelve months ended December 31, 2016.

The Company was involved in a contested proxy solicitation where a shareholder sought to place a representative on the Company's Board of Directors in 2017. This unsuccessful shareholder attempt to defeat the Wayne Savings' nominee negatively impacted net income with costs of \$426,000. Without these costs, the return on average equity and return on average assets for the twelve months ended December 31, 2017 would have been 8.05% and 0.76%.

#### Interest Income

Interest income increased \$877,000, and totaled \$16.4 million for the year ended December 31, 2017, compared to the year ended December 31, 2016. This increase was due to a \$4.2 million increase in the average balance of interest-earning assets, and a 17 basis point (bp) increase in the average yield on interest-earning assets from 3.70% at December 31, 2016 to 3.87% at December 31, 2017.

## Comparison of operating results for the years ended December 31, 2017 and December 31, 2016 - continued

Interest income on loans increased \$1.2 million for the year ended December 31, 2017, compared to the year ended December 31, 2016. This increase is primarily due to a \$25.9 million, or 8.3%, increase in the average balance of loans outstanding and a 3 bp increase in the weighted-average yield on loans to 4.23% at December 31, 2017 compared to 4.20% at December 31, 2016. The increase in the yield was due to the market interest rate environment moderately increasing over the year.

Interest income on securities decreased \$394,000, or 17.8%, during the year ended December 31, 2017, compared to the year ended December 31, 2016. This decrease was primarily due to an \$21.0 million decrease in the average balance of securities partially offset by an increase of 13 bps in the weighted-average yield to 2.47% at December 31, 2017 compared to 2.34% for the year ended December 31, 2016. The decrease in the average balance was due to investing the cash flow from principal reductions into higher yielding loans.

### Interest Expense

Interest expense for the year ended December 31, 2017, totaled \$2.0 million, a decrease of \$90,000, or 4.3%, compared to interest expense for the year ended December 31, 2016. The decrease in interest expense was substantially due to a decrease in the weighted-average cost of funds of 0.49% for December 31, 2017 compared to 0.52% for 2016, partially offset with an increase in the average balance of interest-bearing liabilities of \$3.1 million.

Interest expense on deposits totaled \$1.7 million for the year ended December 31, 2017 a decrease of \$71,000, compared to the year ended December 31, 2016. This decrease was primarily due to a 2 bp decrease in the weighted-average cost of deposits from 0.48% for the year ended December 31, 2016, to 0.46% for the year ended December 31, 2017, partially offset by a \$4.1 million increase in the average balance of deposits. The decrease in the weighted-average cost of deposits was primarily due to a \$13.5 million decrease in average certificate of deposit balances.

Interest expense on other short-term borrowings totaled \$10,000 for the year ended December 31, 2017, and \$9,000 for December 31, 2016. During the year ended December 31, 2017 the average balance of other short-term borrowings increased by \$990,000, while the weighted-average cost of other short-term borrowings decreased by 1 bp to 0.14% for the year ended December 31, 2017, from 0.15% for the year ended December 31, 2016.

Interest expense on Federal Home Loan Bank advances totaled \$247,000 for the year ended December 31, 2017, a decrease of \$20,000, or 7.5%, compared to the year ended December 31, 2016. This decrease was due a \$2.0 decrease in the average balance partially offset with a 3 bp increase in rate.

### Net Interest Income

Net interest income totaled \$14.4 million for the year ended December 31, 2017 an increase of \$967,000, compared to the year ended December 31, 2016. The increase in net interest income was due to a 20 bp increase in the interest rate spread to 3.38% at December 31, 2017 compared to 3.18% at December 31, 2016, and a \$4.2 million increase in net interest-earning assets. The increase in the interest rate spread is due to the rates earned on interest-earning assets repricing upward and the rates paid on interest-bearing liabilities declined. During the year ended December 31, 2017, yields earned on interest-earning assets increased 17 bp, while rates paid on interest-bearing liabilities declined by 3 bps compared to the year ended December 31, 2016.

### Provision for Losses on Loans

The Company recorded a provision for loan losses totaling \$301,000 for the year ended December 31, 2017, compared to \$365,000 for the year ended December 31, 2016. The decrease in the provision is mainly due to a decline in the required specific reserves as the Company received partial paydowns during the year on a classified credit. This decline was partially offset with an increase in loan balances for the period causing increased allowances.

### Noninterest Income

Noninterest income, consisting primarily of deposit service charges, earnings on bank-owned life insurance policies, gains on sale of loans, and other operating income totaled \$2.1 million for the year ended December 31, 2017, and increased by \$149,000, or 7.5%, compared to the year-ended December 31, 2016. The increase was primarily due to a \$62,000 increase in gain on sale of loans and a \$56,000 increase in non-deposit investment fees. The increase in gain on sale of loans was primarily due to loans sold of \$5.7 million for the year ended December 31, 2016 compared to \$10.4 million sold for the year ended December 31, 2017.



## Comparison of operating results for the years ended December 31, 2017 and December 31, 2016 - continued

### Noninterest Expense

Noninterest expense decreased by \$201,000, or 1.7%, and totaled \$12.0 million for the year ended December 31, 2017 compared to \$12.2 million for the year ended December 31, 2016. This decrease includes a \$930,000 decrease in salaries and employee benefits and a \$55,000 decrease in federal deposit insurance premiums. The decrease in salaries and employee benefits was due to higher severance in 2016, staff reductions in 2017 and decreased pension expense due to planned retirements occurring in 2016. These decreases were partially offset with a \$334,000 increase in legal expense, other noninterest expenses of \$214,000 and professional fees of \$123,000. The legal expense increase of \$334,000, of which 210,000 was due to the proxy contest and additional costs related to the charter change, deregistration from the securities and exchange commission and delisting from the NASDAQ. The other noninterest expense increase of \$214,000 was mainly due to the proxy contest and the \$123,000 of professional fees was mainly the development and training of staff and internal systems.

### Federal Income Taxes

Provision for Federal income taxes was \$1.2 million for the year ended December 31, 2017, reflecting an increase of \$518,000 from the year ended December 31, 2016. The increase is primarily due to an \$1.4 million increase in pre-tax income. The difference in the effective tax rates of 28.3% and 24.0% for the years ended December 31, 2017 and 2016, respectively, from the 34% statutory rate was mainly due to the beneficial effects of tax-exempt income from the cash surrender value of life insurance and other tax-exempt obligations. On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35 percent to 21 percent, as well as other changes. As a result of enactment of the legislation, the Corporation incurred additional one-time income tax benefit of approximately \$16,000 during the fourth quarter of 2017, primarily related to the re-measurement of certain deferred tax assets and liabilities.

## AVERAGE BALANCE SHEET

The following tables set forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	For the years ended December 31,					
	2017		2016			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Dollars in thousands)					
<b>Interest-earning assets:</b>						
Loans receivable, net <sup>(1)</sup>	\$ 339,002	\$ 14,347	4.23%	\$ 313,124	\$ 13,140	4.20%
Investment securities <sup>(2)</sup>	73,320	1,814	2.47%	94,332	2,208	2.34%
Interest-earning deposits <sup>(3)</sup>	11,919	267	2.24%	12,554	203	1.62%
Total interest-earning assets	424,241	16,428	3.87%	420,010	15,551	3.70%
Noninterest-earning assets	23,588			23,972		
Total assets	<u>\$ 447,829</u>			<u>\$ 443,982</u>		
<b>Interest-bearing liabilities:</b>						
Deposits	\$ 376,511	\$ 1,723	0.46%	\$ 372,458	\$ 1,794	0.48%
Other short-term borrowings	6,941	10	0.14%	5,951	9	0.15%
Borrowings	18,260	247	1.35%	20,244	267	1.32%
Total interest-bearing liabilities	401,712	1,980	0.49%	398,653	2,070	0.52%
Noninterest-bearing liabilities	4,059			4,217		
Total liabilities	405,771			402,870		
Stockholders' equity	42,058			41,112		
Total liabilities and stockholders' equity	<u>\$ 447,829</u>			<u>\$ 443,982</u>		
Net interest income		<u>\$ 14,448</u>			<u>\$ 13,481</u>	
Interest rate spread <sup>(4)</sup>			<u>3.38%</u>			<u>3.18%</u>
Net yield on interest-earning assets <sup>(5)</sup>			<u>3.41%</u>			<u>3.21%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities			<u>105.61%</u>			<u>105.36%</u>

(1) Includes non-accrual loan balances.

(2) Includes mortgage-backed securities designated as available-for-sale.

(3) Includes federal funds sold and interest-bearing deposits in other financial institutions.

(4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

## Independent Auditor's Report

Stockholders and Board of Directors  
Wayne Savings Bancshares, Inc.  
Wooster, Ohio

We have audited the accompanying consolidated financial statements of Wayne Savings Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

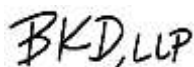
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our 2017 audit in accordance with auditing standards generally accepted in the United States of America and we conducted our 2016 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wayne Savings Bancshares, Inc. and its subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**BKD, LLP**  
Fort Wayne, Indiana  
February 20, 2018

**WAYNE SAVINGS BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2017 and 2016**  
**(In thousands, except share data)**

	2017	2016
<b>Assets</b>		
Cash and due from banks	\$ 3,066	\$ 10,138
Interest-bearing deposits	2,975	6,618
Cash and cash equivalents	6,041	16,756
Available-for-sale securities	51,441	70,709
Held-to-maturity securities	11,570	9,559
Loans, net of allowance for loan losses of \$2,941 and \$3,040 at December 31, 2017 and 2016, respectively	345,900	332,283
Premises and equipment, net	6,051	6,420
Federal Home Loan Bank stock	4,226	4,226
Foreclosed assets held for sale, net	45	2
Accrued interest receivable	1,154	1,146
Bank-owned life insurance	10,097	9,827
Goodwill	1,719	1,719
Prepaid federal income taxes	83	264
Other assets	1,470	1,880
Total assets	\$ 439,797	\$ 454,791
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Demand	\$ 123,373	\$ 111,213
Savings and money market	139,920	141,029
Time	109,172	131,491
Total deposits	372,465	383,733
Other short-term borrowings	7,409	7,246
Federal Home Loan Bank advances	13,500	18,000
Deferred federal income taxes	6	184
Interest payable and other liabilities	4,832	4,600
Total liabilities	398,212	413,763
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, 500,000 shares of \$.10 par value authorized; no shares issued	-	-
Common stock, \$.10 par value; authorized 9,000,000 shares; 3,978,731 shares issued	398	398
Additional paid-in capital	36,093	36,041
Retained earnings	24,414	22,317
Shares acquired by ESOP	(206)	(273)
Accumulated other comprehensive loss	(753)	(519)
Treasury stock, at cost: Common: 1,272,887 and 1,196,892 shares at December 31, 2017 and 2016, respectively	(18,361)	(16,936)
Total stockholders' equity	41,585	41,028
Total liabilities and stockholders' equity	\$ 439,797	\$ 454,791

**WAYNE SAVINGS BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**Years Ended December 31, 2017 and 2016**  
**(In thousands, except per share data)**

	2017	2016
<b>Interest and Dividend Income</b>		
Loans	\$ 14,347	\$ 13,140
Securities	1,814	2,208
Dividends on Federal Home Loan Bank stock and other	267	203
Total interest and dividend income	<u>16,428</u>	<u>15,551</u>
<b>Interest Expense</b>		
Deposits	1,723	1,794
Other short-term borrowings	10	9
Federal Home Loan Bank advances	247	267
Total interest expense	<u>1,980</u>	<u>2,070</u>
<b>Net Interest Income</b>	14,448	13,481
<b>Provision for Loan Losses</b>	301	365
<b>Net Interest Income After Provision for Loan Losses</b>	<u>14,147</u>	<u>13,116</u>
<b>Noninterest Income</b>		
Deposit service charges	623	610
Gain on loan sales	280	218
Gain on sale of investments	3	-
Earnings on bank-owned life insurance	301	298
Interchange fees	450	406
Other operating	488	464
Total noninterest income	<u>2,145</u>	<u>1,996</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	6,374	7,304
Net occupancy and equipment expense	1,960	1,882
Federal deposit insurance premiums	167	215
Franchise taxes	362	353
Advertising and marketing	271	275
Legal	486	152
Professional fees	282	159
ATM network	246	245
Audit and accounting	353	331
Other	1,456	1,242
Total noninterest expense	<u>11,957</u>	<u>12,158</u>
<b>Income Before Federal Income Taxes</b>	4,335	2,954
<b>Provision for Federal Income Taxes</b>	1,226	708
<b>Net Income</b>	<u>\$ 3,109</u>	<u>\$ 2,246</u>
<b>Other comprehensive loss:</b>		
Unrealized losses on available-for-sale securities, net of taxes of (\$152) and (\$209) for 2017 and 2016 respectively	(296)	(406)
Change in split-dollar life insurance policy unrecognized net loss	(54)	(42)
Change in defined benefit plan settlement charge, net of taxes of \$53 and \$69 for 2017 and 2016 respectively	103	133
Change in defined benefit plan unrecognized net gain, net of taxes of \$20 and \$11 for 2017 and 2016 respectively	38	22
Amortization of net (gain) loss included in net periodic pension cost, net of taxes of (\$13) and \$33 for 2017 and 2016 respectively	(25)	65
<b>Other comprehensive loss</b>	<u>(234)</u>	<u>(228)</u>
<b>Total comprehensive income</b>	<u>\$ 2,875</u>	<u>\$ 2,018</u>
<b>Basic Earnings Per Share</b>	<u>\$ 1.13</u>	<u>\$ 0.82</u>
<b>Diluted Earnings Per Share</b>	<u>\$ 1.13</u>	<u>\$ 0.82</u>

**WAYNE SAVINGS BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2017 and 2016**  
(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Shares Acquired by ESOP	Accumulated Other Comprehensive Loss	Treasury Stock	Total
<b>Balance, December 31, 2015</b>	\$ 398	\$ 36,017	\$ 21,060	\$ (343)	\$ (291)	\$ (16,936)	\$ 39,905
Net Income	-	-	2,246	-	-	-	2,246
Other comprehensive loss	-	-	-	-	(228)	-	(228)
Cash dividends - \$0.36 per Share	-	-	(989)	-	-	-	(989)
ESOP shares earned	-	24	-	70	-	-	94
<b>Balance, December 31, 2016</b>	398	36,041	22,317	(273)	(519)	(16,936)	41,028
Net Income	-	-	3,109	-	-	-	3,109
Other comprehensive loss	-	-	-	-	(234)	-	(234)
Purchase Treasury Shares at cost	-	-	-	-	-	(1,425)	(1,425)
Cash dividends - \$0.37 per Share	-	-	(1,012)	-	-	-	(1,012)
ESOP shares earned	-	52	-	67	-	-	119
<b>Balance, December 31, 2017</b>	\$ 398	\$ 36,093	\$ 24,414	\$ (206)	\$ (753)	\$ (18,361)	\$ 41,585

**WAYNE SAVINGS BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**  
**(In thousands)**

	2017	2016
<b>Operating Activities</b>		
Net income	\$ 3,109	\$ 2,246
Items not requiring (providing) cash		
Depreciation and amortization	688	671
Provision for loan losses	301	365
Amortization of premiums and discounts on securities	816	1,186
Amortization of mortgage servicing rights	44	44
Amortization of deferred loan origination fees	(68)	(118)
Deferred income taxes	(25)	(43)
Net gains on sale of loans	(280)	(218)
Proceeds from sale of loans in the secondary market	10,395	5,707
Origination of loans for sale in the secondary market	(10,125)	(5,489)
Amortization expense of stock benefit plan	119	94
Provision for impairment on foreclosed assets held for sale	49	34
Loss on sale of foreclosed assets held for sale	(7)	6
Gain on sale of investments	(3)	-
Gain on sale of premises and equipment	(1)	-
Increase in value of bank-owned life insurance	(270)	(273)
Changes in		
Accrued interest receivable	(8)	3
Other assets	547	188
Interest payable and other liabilities	252	453
Net cash provided by operating activities	5,533	4,856
<b>Investing Activities</b>		
Purchases of available-for-sale securities	(7,123)	(3,475)
Purchase of held-to-maturity securities	(2,273)	(1,698)
Proceeds from maturities, paydowns and sale available-for-sale securities	25,190	26,365
Proceeds from maturities, paydowns and sale of held-to-maturity securities	201	393
Net change in loans	(14,174)	(39,526)
Purchase of premises and equipment	(320)	(428)
Proceeds from the sale of fixed assets	1	-
Proceeds from the sale of foreclosed assets	249	90
Net cash provided by (used in) investing activities	\$ 1,751	\$ (18,279)

**WAYNE SAVINGS BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**Years Ended December 31, 2017 and 2016**  
**(In thousands)**

	<u>2017</u>	<u>2016</u>
<b>Financing Activities</b>		
Net change in deposits	\$ (11,268)	\$ 21,306
Net change in other short-term borrowings	163	1,640
Proceeds from Federal Home Loan Bank advances	89,050	18,675
Repayments of Federal Home Loan Bank advances	(93,550)	(21,675)
Advances by borrowers for taxes and insurance	22	66
Dividends on common stock	(991)	(989)
Treasury stock purchases	(1,425)	-
Net cash provided by (used in) financing activities	<u>(17,999)</u>	<u>19,023</u>
<b>Increase (decrease) in Cash and Cash Equivalents</b>	<b>(10,715)</b>	<b>5,600</b>
<b>Cash and Cash equivalents, Beginning of period</b>	<u>16,756</u>	<u>11,156</u>
<b>Cash and Cash equivalents, End of period</b>	<u><u>\$ 6,041</u></u>	<u><u>\$ 16,756</u></u>
<b>Supplemental Cash Flows Information</b>		
Interest paid on deposits and borrowings	<u>\$ 1,989</u>	<u>\$ 2,081</u>
Federal income taxes paid	<u>\$ 1,035</u>	<u>\$ 550</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Transfers from loans to foreclosed assets held for sale	<u>\$ 334</u>	<u>\$ 118</u>
Recognition of mortgage servicing rights	<u>\$ 124</u>	<u>\$ 82</u>
Dividends payable	<u>\$ 271</u>	<u>\$ 250</u>



**WAYNE SAVINGS BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

The revenues, operating income and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Wayne, Holmes, Ashland, Medina and Stark Counties, and include a wide range of individuals, businesses and other organizations. The Company has historically conducted its business through its main office in Wooster, Ohio.

The Company's primary deposit products are checking, savings, money market and term certificate accounts. Wayne Savings Community Bank's primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

***Principles of Consolidation***

The consolidated financial statements include the accounts of Wayne Savings Bancshares, Inc. ("Wayne" or the "Company") and its wholly owned subsidiary, Wayne Savings Community Bank (the "Bank"). All intercompany transactions and balances have been eliminated.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, goodwill and pension and other retirement benefit plans. In connection with the determination of the allowance for loan losses management obtains independent appraisals for significant properties.

***Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution. From time to time, the Company's interest-bearing cash accounts may exceed the FDIC's insured limit of \$250,000. Management considers the risk of loss to be very low.

***Securities***

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost

**WAYNE SAVINGS BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Past due status is determined based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current for a period of six months and future payments are reasonably assured.

***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 income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light 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.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

**WAYNE SAVINGS BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

***Premises and Equipment, Net***

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. An accelerated method is used for tax purposes. Leasehold improvements are also stated at cost less accumulated depreciation and are depreciated using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is shorter. Gains and losses on dispositions are included in current operations. No asset impairment was recognized during the years ended December 31, 2017 and 2016.

***Federal Home Loan Bank Stock***

The Company is required as a condition of membership in the Federal Home Loan Bank of Cincinnati (“FHLB”) to maintain an investment in FHLB common stock. The required investment in the common stock is based on a predetermined formula. The stock is redeemable at par and, therefore, its cost is equivalent to its redemption value. The stock is periodically evaluated for impairment. At December 31, 2017, the FHLB placed no restrictions on redemption of shares in excess of a member’s required investment in the stock.

***Foreclosed Assets Held for Sale, Net***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

***Bank-Owned Life Insurance***

The Bank has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

***Goodwill***

The composition of goodwill is as follows at December 31, 2017 and 2016:

	2017	2016
	(In thousands)	
Goodwill	\$ 1,719	\$ 1,719

Pursuant to FASB ASC 350, the Company is required to annually test goodwill for impairment. The Company performs its annual goodwill impairment test as of November 30 each year. The Company’s testing of goodwill in the current year indicated there was no impairment in the carrying value of this asset.

***Mortgage Servicing Rights***

Mortgage servicing assets are recognized separately when rights are acquired through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to

**WAYNE SAVINGS BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing rights and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment, if necessary, is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported in the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

***Treasury Stock***

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

**WAYNE SAVINGS BANCSHARES, INC.**  
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The Company recognizes interest and penalties on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to tax authorities for years before 2014.

On December 22, 2017, H.R.1, formerly known as the Tax Cuts and Jobs Act (the “Tax Reform Act”), was enacted into law. Beginning in 2018, the Tax Reform Act reduces the federal tax rate for corporations from 35% to 21% and changes or limits certain deductions. The effect of this change is expected to lower the Company’s effective tax rate from 28% in 2017 to approximately 20% in 2018. The Tax Reform Act also caused a one-time positive earnings adjustment of \$16,000 to revalue the deferred tax items.

***Earnings Per Share***

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, if any, and are determined using the treasury stock method.

Treasury stock shares and unearned ESOP shares are not deemed outstanding for earnings per share calculations.

***Comprehensive Income***

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities, changes in the funded status of the defined benefit pension plan and the split-dollar life insurance plan.

***Advertising and Marketing***

Advertising and marketing costs are expensed as incurred. The Company’s advertising and marketing expense totaled \$271,000 for the year ended December 31, 2017 and \$275,000 for year ended December 31, 2016.

***Reclassifications***

Certain reclassifications have been made to the prior years’ financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on net income.

***Transfers of Financial Assets***

Transfers of financial assets are accounted for as sales, when the control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Subsequent Events***

Subsequent events have been evaluated through February 20, 2018, which is the date the financial statements were available to be issued.

**Note 2: Restriction on Cash and due from banks**

The Company is required to maintain reserve funds in cash, and or, on deposit with the Federal Reserve Bank. The reserve required at December 31, 2017, was \$301,000.

**WAYNE SAVINGS BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**Note 3: Securities**

The amortized cost and fair values, together with gross unrealized gains and losses, of securities are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
<b>Available-for-sale securities</b>				
December 31, 2017:				
Mortgage-backed securities of government-sponsored entities	\$ 38,654	\$ 85	\$ 608	\$ 38,131
State and political subdivisions	13,074	250	14	13,310
Totals	<u>\$ 51,728</u>	<u>\$ 335</u>	<u>\$ 622</u>	<u>\$ 51,441</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
<b>Available-for-sale securities</b>				
December 31, 2016:				
U.S. government agencies	\$ 11	\$ -	\$ -	\$ 11
Mortgage-backed securities of government-sponsored entities	58,797	399	582	58,614
Private-label collateralized mortgage obligations	41	-	1	40
State and political subdivisions	11,698	402	56	12,044
Totals	<u>\$ 70,547</u>	<u>\$ 801</u>	<u>\$ 639</u>	<u>\$ 70,709</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
<b>Held-to-maturity Securities:</b>				
December 31, 2017:				
Mortgage-backed securities of government-sponsored entities	\$ 521	\$ -	\$ 6	\$ 515
State and political subdivisions	11,049	74	90	11,033
Totals	<u>\$ 11,570</u>	<u>\$ 74</u>	<u>\$ 96</u>	<u>\$ 11,548</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
<b>Held-to-maturity Securities:</b>				
December 31, 2016:				
U.S. government agencies	\$ 21	\$ -	\$ -	\$ 21
Mortgage-backed securities of government-sponsored entities	704	7	-	711
State and political subdivisions	8,834	12	239	8,607
Totals	<u>\$ 9,559</u>	<u>\$ 19</u>	<u>\$ 239</u>	<u>\$ 9,339</u>

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-for-sale</u>		<u>Held-to-maturity</u>	
	<u>Amortized cost</u>	<u>Fair Value</u>	<u>Amortized cost</u>	<u>Fair Value</u>
	(In thousands)			
Within one year	\$ 2,591	\$ 2,626	\$ -	\$ -
One to five years	1,907	1,977	2,620	2,604
Five to ten years	3,977	4,073	3,544	3,508
After ten years	4,599	4,634	4,885	4,921
	<u>13,074</u>	<u>13,310</u>	<u>11,049</u>	<u>11,033</u>
Mortgage-backed securities of government-sponsored entities	38,654	38,131	521	515
Totals	<u>\$ 51,728</u>	<u>\$ 51,441</u>	<u>\$ 11,570</u>	<u>\$ 11,548</u>

**WAYNE SAVINGS BANCSHARES, INC.**  
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The carrying value of securities pledged as collateral, to secure public deposits, customer repurchase agreements and for other purposes, was \$37.0 million and \$43.7 million at December 31, 2017 and 2016, respectively.

There were sales of \$9.5 million of available-for-sale and \$154,000 held-to-maturity investments during the year ended December 31, 2017 and no sales in 2016. These sales were structured to improve the performance of the portfolio by reinvesting the sale proceeds from the smaller mortgage-backed securities balances into higher yielding municipal bonds. The \$9.5 million was mainly mortgage-backed securities with a remaining book balance of under 5% of the original principal amount. Gross gains of \$92,000 and gross losses of \$91,000 resulting from the sale of available-for-sale-securities were realized for 2017 of the original principal amount. The held-to-maturity investments was also mainly mortgage-backed securities with a remaining book balance of less than 1%. Gross gains of \$3,000 and gross losses of \$1,000 resulting from the sale of held-to-maturity securities were realized for 2017. This transaction does not call into question the Bank's intent to hold other securities to maturity.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2017 and 2016 was \$42.1 million and \$49.8 million, which represented approximately 67% and 62%, respectively, of the Company's aggregate fair market value of the available-for-sale and held-to-maturity investment portfolios. These declines resulted primarily from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary at December 31, 2017.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The unrealized losses on the Company's investments in mortgage-backed securities of government-sponsored entities and municipal securities were caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2017.

The following table shows the gross unrealized losses and fair value of the Company's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

	December 31, 2017					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Mortgage-backed securities of government-sponsored entities	\$ 9,702	\$ 102	\$ 24,939	\$ 512	\$ 34,641	\$ 614
State and political subdivisions	3,845	23	3,600	81	7,445	104
Total temporarily impaired securities	<u>\$ 13,547</u>	<u>\$ 125</u>	<u>\$ 28,539</u>	<u>\$ 593</u>	<u>\$ 42,086</u>	<u>\$ 718</u>

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	December 31, 2016					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Mortgage-backed securities of government-sponsored entities	\$ 32,810	\$ 409	\$ 7,978	\$ 173	\$ 40,788	\$ 582
Private-label collateralized mortgage obligations	-	-	40	1	40	1
State and political subdivisions	8,087	204	929	91	9,016	295
Total temporarily impaired Securities	<u>\$ 40,897</u>	<u>\$ 613</u>	<u>\$ 8,947</u>	<u>\$ 265</u>	<u>\$ 49,844</u>	<u>\$ 878</u>

**Note 4: Loans and Allowance for Loan Losses**

Categories of loans at December 31, include:

	2017	2016
	(In thousands)	
One-to-four family residential	\$ 194,396	\$ 193,424
Multi-family residential	12,364	11,425
Construction	7,079	2,744
Nonresidential real estate and land	121,261	107,788
Commercial	24,214	23,215
Consumer and other	2,145	2,193
Less	<u>361,459</u>	<u>340,789</u>
Undisbursed portion of loans in process	11,892	4,719
Deferred loan origination fees	726	747
Allowance for loans losses	2,941	3,040
Total loans	<u>\$ 345,900</u>	<u>\$ 332,283</u>

**The risk characteristics of each portfolio segment are as follows:**

**Residential Real Estate Loans**

For residential mortgage loans that are secured by one-to-four family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in one-to-four family residences. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

**All Other Mortgage Loans**

All other mortgage loans consist of residential construction loans, nonresidential real estate loans, land loans and multi-family real estate loans.

Residential construction loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction loans are typically structured as permanent one-to-four family loans originated by the Company with a 12-month construction phase. Accordingly, upon completion of the construction phase, there is no change in interest rate or term to maturity of the original construction loan, nor is a new permanent loan originated. These loans are generally owner occupied and the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded.

Nonresidential real estate loans are negotiated on a case-by-case basis. Loans secured by nonresidential real estate generally involve a greater degree of risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans.



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Furthermore, the repayment of loans secured by nonresidential real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

The Company also originates a limited number of land loans secured by individual improved and unimproved lots for future residential construction. In addition, the Company originated loans to commercial customers with land held as the collateral.

Multi-family real estate loans generally involve a greater degree of credit risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

**Commercial Business Loans**

Commercial business loans carry a higher degree of risk than one-to-four family residential loans. Such lending typically involves large loan balances concentrated in a single borrower or groups of related borrowers for rental or business properties. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the success of the operation of the related project and thus is typically affected by adverse conditions in the real estate market and in the economy. The Company originates commercial loans generally in the \$50,000 to \$1,000,000 range with the majority of these loans being under \$500,000. Commercial loans are generally underwritten based on the borrower's ability to pay and assets such as buildings, land and equipment are taken as additional loan collateral. Each loan is evaluated for a level of risk and assigned a rating from "1" (the highest quality rating) to "7" (the lowest quality rating).

**Consumer Loans**

Consumer loans entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as automobiles, mobile homes, boats, and recreational vehicles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In particular, amounts realizable on the sale of repossessed automobiles may be significantly reduced based upon the condition of the automobiles and the lack of demand for used automobiles.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2017 and 2016:

	<u>One-to-four family residential</u>	<u>All other mortgage loans</u>	<u>Commercial business loans</u>	<u>Consumer loans</u>	<u>Total</u>
<b>December 31, 2017</b>					
Allowance for loan losses:			(In thousands)		
Beginning balance	\$ 1,479	\$ 1,108	\$ 447	\$ 6	\$ 3,040
Provision(credit) charged to expense	(246)	111	431	5	301
Losses charged off	(53)	-	(373)	(5)	(431)
Recoveries	30	-	1	-	31
Ending balance	<u>\$ 1,210</u>	<u>\$ 1,219</u>	<u>\$ 506</u>	<u>\$ 6</u>	<u>\$ 2,941</u>
Allowance Balances:					
Individually evaluated for impairment	<u>\$ 124</u>	<u>\$ 122</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 295</u>
Collectively evaluated for impairment	<u>\$ 1,086</u>	<u>\$ 1,097</u>	<u>\$ 457</u>	<u>\$ 6</u>	<u>\$ 2,646</u>
Loan Balances:					
Ending balance:	<u>\$ 194,396</u>	<u>\$ 140,704</u>	<u>\$ 24,214</u>	<u>\$ 2,145</u>	<u>\$ 361,459</u>
Individually evaluated for impairment	<u>\$ 1,255</u>	<u>\$ 1,022</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ 2,426</u>
Collectively evaluated for impairment	<u>\$ 193,141</u>	<u>\$ 139,682</u>	<u>\$ 24,065</u>	<u>\$ 2,145</u>	<u>\$ 359,033</u>
<b>December 31, 2016</b>					
Allowance for loan losses:			(In thousands)		
Beginning balance	\$ 1,346	\$ 1,210	\$ 279	\$ 2	\$ 2,837
Provision (credit) charged to expense	213	(19)	166	5	365
Losses charged off	(81)	(83)	-	(1)	(165)
Recoveries	1	-	2	-	3
Ending balance	<u>\$ 1,479</u>	<u>\$ 1,108</u>	<u>\$ 447</u>	<u>\$ 6</u>	<u>\$ 3,040</u>
Allowance Balances:					
Individually evaluated for impairment	<u>\$ 323</u>	<u>\$ 151</u>	<u>\$ 184</u>	<u>\$ -</u>	<u>\$ 658</u>
Collectively evaluated for impairment	<u>\$ 1,156</u>	<u>\$ 957</u>	<u>\$ 263</u>	<u>\$ 6</u>	<u>\$ 2,382</u>
Loan Balances:					
Ending balance:	<u>\$ 193,424</u>	<u>\$ 121,957</u>	<u>\$ 23,215</u>	<u>\$ 2,193</u>	<u>\$ 340,789</u>
Individually evaluated for impairment	<u>\$ 1,527</u>	<u>\$ 1,067</u>	<u>\$ 547</u>	<u>\$ -</u>	<u>\$ 3,141</u>
Collectively evaluated for impairment	<u>\$ 191,897</u>	<u>\$ 120,890</u>	<u>\$ 22,668</u>	<u>\$ 2,193</u>	<u>\$ 337,648</u>

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The following tables present the credit risk profile of the Bank's loan portfolio based on rating category and payment activity as of December 31, 2017 and 2016:

<b>December 31, 2017</b>	<b>One-to-four family residential</b>	<b>All other mortgage loans</b>	<b>Commercial business loans</b>	<b>Consumer loans</b>
Rating *	(In thousands)			
Pass (Risk 1-4)	\$ 191,460	\$ 137,394	\$ 22,488	\$ 2,145
Special Mention (Risk 5)	-	2,132	255	-
Substandard (Risk 6)	2,936	1,178	1,471	-
Total	<u>\$ 194,396</u>	<u>\$ 140,704</u>	<u>\$ 24,214</u>	<u>\$ 2,145</u>

<b>December 31, 2016</b>	<b>One-to-four family residential</b>	<b>All other mortgage loans</b>	<b>Commercial business loans</b>	<b>Consumer loans</b>
Rating *	(In thousands)			
Pass (Risk 1-4)	\$ 189,975	\$ 119,503	\$ 22,427	\$ 2,193
Special Mention (Risk 5)	-	-	-	-
Substandard (Risk 6)	3,449	2,454	788	-
Total	<u>\$ 193,424</u>	<u>\$ 121,957</u>	<u>\$ 23,215</u>	<u>\$ 2,193</u>

\* Ratings are generally assigned to consumer and residential mortgage loans on a "pass" or "fail" basis, where "fail" results in a substandard classification. Commercial loans, both secured by real estate or other assets or unsecured, are analyzed in accordance with an analytical matrix codified in the Bank's loan policy that produces a risk rating as described below.

Risk 1 is unquestioned credit quality for any credit product. Loans are secured by cash and near cash collateral with immediate access to proceeds.

Risk 2 is very low risk with strong credit and repayment sources. Borrower is well capitalized in a stable industry, financial ratios exceed peers and financial trends are positive.

Risk 3 is very favorable risk with highly adequate credit strength and repayment sources. Borrower has good overall financial condition and adequate capitalization.

Risk 4 is acceptable, average risk with adequate credit strength and repayment sources. Collateral positions must be within Bank policies.

Risk 5 or "Special Mention," also known as "watch," has potential weakness that deserves Management's close attention. This risk includes loans where the borrower has developed financial uncertainties or is resolving them. Bank credits have been secured or negotiations will be ongoing to secure further collateral. In accordance with regulatory guidance, this category is generally regarded as temporary, as successful remedial actions will either successfully move the credit back up to Risk 4 or unsuccessful remedial actions will result in the credit being downgraded to Risk 6.

Risk 6 or "Substandard" loans are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged. This risk category contains loans that exhibit a weakening of the borrower's credit strength with limited credit access and all nonperforming loans.

Risk 7 or "Doubtful" loans are significantly under protected by the current net worth and paying capacity of the borrower or of the collateral pledged. This risk category contains loans that are likely to experience a loss of some magnitude, but where the amount of the expected loss is not known with enough certainty to allow for an accurate calculation of a loss amount for charge-off. This category is considered to be temporary until a charge-off amount can be reasonably determined.

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The following tables present the Bank's loan portfolio aging analysis as of December 31, 2017 and 2016:

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
(In thousands)						
One-to-four family residential loans	\$ 410	\$ 58	\$ 411	\$ 879	\$ 193,517	\$ 194,396
All other mortgage loans	748	-	61	809	139,895	140,704
Commercial business loans	-	-	-	-	24,214	24,214
Consumer loans	-	-	-	-	2,145	2,145
Total	<u>\$ 1,158</u>	<u>\$ 58</u>	<u>\$ 472</u>	<u>\$ 1,688</u>	<u>\$ 359,771</u>	<u>\$ 361,459</u>

December 31, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
(In thousands)						
One-to-four family residential loans	\$ 442	\$ 419	\$ 959	\$ 1,820	\$ 191,604	\$ 193,424
All other mortgage loans	-	-	63	63	121,894	121,957
Commercial business loans	16	-	22	38	23,177	23,215
Consumer loans	8	-	-	8	2,185	2,193
Total	<u>\$ 466</u>	<u>\$ 419</u>	<u>\$ 1,044</u>	<u>\$ 1,929</u>	<u>\$ 338,860</u>	<u>\$ 340,789</u>

There were no loans that were past due 90 days or greater that were still accruing at December 31, 2017, or at December 31, 2016.

Non-accrual loans were comprised of the following at December 31, 2017 and 2016:

Non-accrual loans	2017	2016
(In thousands)		
One-to-four family residential loans	\$ 959	\$ 1,473
Nonresidential real estate loans	808	85
All other mortgage loans	-	-
Commercial business loans	144	-
Consumer loans	4	-
Total	<u>\$ 1,915</u>	<u>\$ 1,558</u>

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2017 and 2016, the Company had \$1.3 million and \$1.5 million, respectively, of residential mortgages; \$1.0 million of nonresidential mortgages for both years; and \$149,000 and 511,000, respectively, of commercial loans. Included in these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of \$806,000 and 776,000 in residential mortgage loans and \$210,000 and in non-residential real estate loans and commercial loans of \$122,000 and \$511,000 for December 31, 2017 and 2016, respectively.

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The following tables present impaired loans as of and for the years ended December 31, 2017 and 2016:

<b>December 31, 2017</b>	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u> (In thousands)	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
Loans without a specific valuation allowance					
One-to-four family residential loans	\$ 892	\$ 906	\$ -	\$ 1,088	\$ 30
All other mortgage loans	210	210	-	216	16
Commercial business loans	-	-	-	-	-
Loans with a specific valuation allowance					
One-to-four family residential loans	363	363	124	323	9
All other mortgage loans	812	812	122	849	34
Commercial business loans	149	149	49	451	8
Total:					
One-to-four family residential loans	\$ 1,255	\$ 1,269	\$ 124	\$ 1,411	\$ 39
All other mortgage loans	1,022	1,022	122	1,065	50
Commercial business loans	149	149	49	451	8
	<u>\$ 2,426</u>	<u>\$ 2,440</u>	<u>\$ 295</u>	<u>\$ 2,927</u>	<u>\$ 97</u>
<b>December 31, 2016</b>					
Loans without a specific valuation allowance					
One-to-four family residential loans	\$ 1,121	\$ 1,189	\$ -	\$ 1,019	\$ 37
All other mortgage loans	226	226	-	838	19
Commercial business loans	-	-	-	-	-
Loans with a specific valuation allowance					
One-to-four family residential loans	406	406	323	622	-
All other mortgage loans	841	841	151	335	49
Commercial business loans	547	547	184	168	1
Total:					
One-to-four family residential loans	\$ 1,527	\$ 1,595	\$ 323	\$ 1,641	\$ 37
All other mortgage loans	1,067	1,067	151	1,173	68
Commercial business loans	547	547	184	168	1
	<u>\$ 3,141</u>	<u>\$ 3,209</u>	<u>\$ 658</u>	<u>\$ 2,982</u>	<u>\$ 106</u>

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The following tables present information regarding newly classified troubled debt restructurings by class for the years ended December 31, 2017 and 2016:

Troubled Debt Restructurings	Number of loans	Pre-modification Unpaid Principal Balance	Post-modification Unpaid Principal Balance
		(dollars in thousands)	
<b>December 31, 2017</b>			
One-to-four family residential loans	2	\$ 134	\$ 134
Total	2	\$ 134	\$ 134
<b>December 31, 2016</b>			
One-to-four family residential loans	8	\$ 406	\$ 406
Commercial business loans	4	508	508
Total	12	\$ 914	\$ 914

All the above TDR classifications occurred as concessions were granted to borrowers experiencing financial difficulties. These concessions may include a reduction in the stated rate, an interest rate that is below market interest rates for similar debt, an extension of the maturity date or delaying principal payments through interest only payments. Each TDR has been individually evaluated for impairment with the appropriate specific valuation allowance included in the allowance for loan losses calculation. There were no TDR classifications which defaulted during the year ended December 31, 2017 or the year ended December 31, 2016. The Company considers TDRs that become 90 days or more past due under modified terms as subsequently defaulted unless the TDR terms indicate annual repayments.

Foreclosed assets held for sale include those properties that the Bank has obtained legal title to, through a formal foreclosure process, or the borrower conveying all interest in the property to the Bank through the completion of a deed in lieu of foreclosure, or similar legal agreement. The following table presents the balance of mortgage loans collateralized by residential real estate properties held as foreclosed assets at December 31, 2017 and December 31, 2016.

	December 31, 2017	December 31, 2016
	Recorded Investment	
	(In thousands)	
One-to-four family residential loans	\$ 45	\$ 2

Banks foreclose on certain properties in the normal course of business when it is more probable than not that the loan balance will not be recovered through scheduled payments. Foreclosure is usually a last resort and begins after all other collection efforts have been exhausted. The following table presents the balance of those mortgage loans collateralized by residential real estate properties that are in the formal process of foreclosure at December 31, 2017 and December 31, 2016.

	December 31, 2017	December 31, 2016
	Recorded Investment	
	(In thousands)	
One-to-four family residential loans	\$ 38	\$ 97

**Note 5: Premises and Equipment**

Major classifications of premises and equipment, stated at cost, at December 31, 2017 and 2016 are as follows:

	2017	2016
	(In thousands)	
Land and improvements	\$ 1,799	\$ 1,799
Office buildings and improvements	8,190	8,072
Furniture, fixtures and equipment	5,439	5,239
Leasehold improvements	350	350
	15,778	15,460
Less accumulated depreciation	9,727	9,040
Total	\$ 6,051	\$ 6,420

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**Note 6: Loan Servicing**

The Company has recognized servicing rights for residential mortgage loans sold with servicing retained. Residential mortgage loans serviced for others are subject to credit, prepayment and interest rate risks.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was \$43.4 million and \$36.9 million at December 31, 2017 and 2016, respectively. Contractually specified servicing fees, late fees and ancillary fees of approximately \$51,000 and \$40,000 are included in loan servicing fees in the consolidated statements of income at December 31, 2017 and 2016, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$694,000 and \$345,000 at December 31, 2017 and 2016, respectively.

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. Servicing assets are included in other assets on the consolidated balance sheets.

Activity in the balance of servicing assets was as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Carrying amount, beginning of period	\$ 407	\$ 369
Additions		
Servicing obligations that result from transfers of financial assets	152	82
Subtractions		
Amortization	44	44
	<u>\$ 515</u>	<u>\$ 407</u>

The fair value of servicing rights subsequently measured using the amortization method was as follows:

Fair value, beginning of period	\$444	\$404
Fair value, end of period	\$552	\$444

**Note 7: Interest-bearing Time Deposits**

Interest-bearing time deposits in denominations of \$250,000 or more were \$9.5 million at December 31, 2017, and \$14.7 million at December 31, 2016.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

<u>Due during the year ending December 31,</u>	(In thousands)
2018	\$ 39,844
2019	25,004
2020	19,799
2021	8,814
2022	7,947
Thereafter	7,764
	<u>\$ 109,172</u>

**Note 8: Other Short-Term Borrowings**

Short-term borrowings included the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Other Short-term borrowings	\$ 7,409	\$ 7,246

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Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by available-for-sale securities and such collateral is held by the Bank. The maximum amount of outstanding agreements at any month end during the years ended December 31, 2017 and 2016 totaled \$7.9 million and \$7.2 million for the periods ending December 31, 2017 and 2016. The average daily balance totaled \$6.9 million and \$6.0 million for years ended December 31, 2017 and 2016, respectively. These short-term borrowings were collateralized by \$9.8 million, and \$9.1 million of Mortgage-backed securities of government-sponsored entities at December 31, 2017 and 2016 respectively. The agreements at December 31, 2017, mature daily.

Repurchase agreements are offered by the Bank to commercial business customers to provide them with an opportunity to earn a return on their excess cash balances. These repurchase agreements are considered secured borrowings and are reported in other short-term borrowings. On a daily basis the Bank transfers securities to these customers in exchange for their cash and subsequently agrees to repurchase those same securities the next business day. In the event the Bank is unable to repurchase the securities from the customer, the customer will then have a claim against those securities.

**Note 9: Federal Home Loan Bank Advances**

At December 31, 2017, advances from the Federal Home Loan Bank were as follows:

<u>Interest Rate Range</u>	<u>Maturing year ending December 31,</u>	<u>Amount</u>
<b>2017</b>		(In thousands)
1.30% - 1.52%	2018	7,500
1.47% - 1.55%	2019	6,000
		<u>\$ 13,500</u>
<u>Interest Rate Range</u>	<u>Maturing year ending December 31,</u>	<u>Amount</u>
<b>2016</b>		(In thousands)
0.97% - 1.42%	2017	6,000
1.30% - 1.33%	2018	6,000
1.47% - 1.55%	2019	6,000
		<u>\$ 18,000</u>

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$138.5 million at December 31, 2017.

Additionally, as a member of the Federal Home Loan Bank system at December 31, 2017, the Bank had the ability to obtain up to \$100.9 million in additional borrowings. Borrowings from the FHLB are secured by a blanket pledge of the one-to-four family residential real estate loan portfolio. The Bank's borrowing capacity can be further increased by the pledge of additional collateral, including additional types of loans from the Bank's loan portfolio and unpledged investment securities.

At December 31, 2017, the Bank had a cash management line of credit with the Federal Reserve Bank in the amount of \$14.9 million, none of which was drawn. The Bank had approximately \$15.4 million of state and political subdivision bonds pledged as collateral for this line of credit.

**Note 10: Income Taxes**

The provision for income taxes includes the following components at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Taxes currently payable	\$ 1,251	\$ 751
Deferred income taxes	(25)	(43)
Income tax expense	<u>\$ 1,226</u>	<u>\$ 708</u>



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A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2017	2016
	(In thousands)	
Computed at the statutory rate (34%)	\$ 1,441	\$ 972
Increase (decrease) resulting from		
Tax-exempt interest	(171)	(196)
Earnings on bank-owned life insurance	(102)	(101)
Other	58	33
Actual tax expense	\$ 1,226	\$ 708

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35 percent to 21 percent, as well as other changes. As a result of enactment of the legislation, the Corporation incurred additional one-time income tax benefit of approximately \$16,000 during the fourth quarter of 2017, primarily related to the re-measurement of certain deferred tax assets and liabilities.

The tax effects of temporary differences related to deferred taxes shown in 2017 are at the new tax rate of 21% as the 2016 deferred items are listed at the 34% prior tax rate on the consolidated balance sheets as follows:

	2017	2016
	(In thousands)	
Deferred tax assets		
Deferred loan origination fees	\$ 152	\$ 254
Allowance for loan losses	618	1,034
Real estate owned valuation	-	3
Pension adjustment	121	255
Reserve for uncollected interest	124	197
Benefit plan expenses	101	115
Unrealized losses on securities available-or-sale	60	-
Accrued other expenses	15	-
AMT credit carryover and low income housing credit	29	-
Total deferred tax assets	1,220	1,858
Deferred tax liabilities		
Prepaid pension	(80)	(154)
Federal Home Loan Bank stock dividends	(632)	(1,023)
Book/tax depreciation differences	(324)	(541)
Financed loan fees	(82)	(130)
Unrealized gains on securities available-or-sale	-	(55)
Mortgage servicing rights	(108)	(139)
Total deferred tax liabilities	(1,226)	(2,042)
Net deferred tax liability	\$ (6)	\$ (184)

Prior to fiscal 1997, the Company was allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8% of otherwise taxable income and subject to certain limitations based on aggregate loans and deposit account balances at the end of the year. This cumulative percentage of earnings bad debt deduction totaled approximately \$2.7 million as of December 31, 2017. If the amounts that qualified as deductions for federal income taxes are later used for purposes other than bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. The amount of unrecognized deferred tax liability relating to the cumulative bad debt deduction was approximately \$567,000 at December 31, 2017.

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**Note 11: Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss, included in stockholders' equity as of December 31, are as follows:

	2017	2016
	(In thousands)	
Gross unrealized gain (loss) on securities available-for-sale	\$ (287)	\$ 162
Gross unrealized loss for unfunded status of split-dollar life insurance plan liability (tax free)	(185)	(131)
Gross unrealized loss for unfunded status of defined benefit plan liability	(574)	(750)
	(1,046)	(719)
Tax effect	293	200
Net-of-tax amount	\$ (753)	\$ (519)

**Note 12: Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

The Bank must give notice to the Federal Reserve Bank of Cleveland prior to declaring a dividend to the Company and is subject to existing regulatory guidance where, in general, a dividend is permissible without regulatory approval if the institution is considered to be "well capitalized" and the dividend does not exceed current year-to-date net income plus the change in retained earnings for the previous two calendar years. For dividends in excess of the above criteria, the Bank must make application to the Federal Reserve Bank of Cleveland and receive approval before declaring a dividend to the Company.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2017, based on the computations for the call report the Bank is classified as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain capital ratios as set forth in the table below. There are no conditions or events since December 31, 2017 that management believes have changed the Bank's capital classification.

Effective January 1, 2015, new regulatory capital requirements commonly referred to as "Basel III" were implemented. Management opted out of the accumulated other comprehensive income treatment under the new requirements, and as such unrealized gains and losses from available-for-sale securities will continue to be excluded from Bank regulatory capital.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank will be required to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends or paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

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The Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2017</b>						
Tier I Capital to average assets	\$ 40,023	8.9%	\$ 18,009	4.0%	\$ 22,512	5.0%
Tier 1 Common equity capital to risk-weighted assets	40,023	13.0%	13,826	4.5%	19,971	6.5%
Tier I Capital to risk-weighted assets	40,023	13.0%	18,434	6.0%	24,579	8.0%
Total Risk-based capital to risk-weighted assets	42,968	14.0%	24,579	8.0%	30,724	10.0%
<b>As of December 31, 2016</b>						
Tier I Capital to average assets	\$ 38,133	8.5%	\$ 17,850	4.0%	\$ 22,313	5.0%
Tier 1 Common equity capital to risk-weighted assets	38,133	13.0%	13,159	4.5%	19,007	6.5%
Tier I Capital to risk-weighted assets	38,133	13.0%	17,545	6.0%	23,393	8.0%
Total Risk-based capital to risk-weighted assets	41,176	14.1%	23,393	8.0%	29,241	10.0%

**Note 13: Related Party Transactions**

At December 31, 2017 and 2016, the Bank had loans outstanding to executive officers, directors, and their affiliates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. Such loans are summarized below.

	2017	2016
	(In thousands)	
Aggregate balance – Beginning of period	\$ 113	\$ 319
New loans	238	-
Repayments and reclassifications	(6)	(206)
Aggregate balance – End of period	<u>\$ 345</u>	<u>\$ 113</u>

Deposits from Officers and Board Members held by the Bank at December 31, 2017, and 2016, totaled \$908,000 and \$1.2 million, respectively.

The Bank paid legal fees to a law firm of which a director of the Company is a member. The amounts paid totaled approximately \$15,000 and \$14,000 for the years ended December 31, 2017 and December 31, 2016, respectively.

**Note 14: Employee Benefit Plans**

***Pension and Other Post-Retirement Benefit Plans***

The Company has a frozen noncontributory defined benefit pension plan covering all employees who met the eligibility requirements prior to December 31, 2003. Compensation and service accruals were frozen at the same date. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company expects to contribute approximately \$30,000 to the plan during 2018.

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The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ 1,717	\$ 2,153
Interest cost	70	92
Actuarial gain	72	(26)
Benefits paid	(47)	(39)
Settlements	(160)	(463)
End of year	<u>1,652</u>	<u>1,717</u>
Change in fair value of plan assets		
Beginning of year	1,421	1,722
Actuarial return on plan assets	215	114
Employer contribution	32	87
Benefits paid	(47)	(39)
Settlements	(161)	(463)
End of year	<u>1,460</u>	<u>1,421</u>
Funded status at end of year	<u>\$ (192)</u>	<u>\$ (296)</u>

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Net loss	<u>\$ (574)</u>	<u>\$ (750)</u>

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is approximately \$41,000.

The accumulated benefit obligation for the defined benefit pension plan was \$1.7 million at both December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Components of net periodic benefit cost		
Interest cost	\$ 70	\$ 92
Expected return on plan assets	(85)	(107)
Amortization of net loss	62	98
Settlement charge	56	202
Net periodic benefit cost	<u>\$ 103</u>	<u>\$ 285</u>

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in mutual funds that may invest in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

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Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through an investment in equity securities. The target asset allocation percentages for 2017 are as follows:

SMID-Cap stocks	55 - 75%
Fixed income investments	25 - 45%
Cash	0 - 20%

Benefit payments expected to be paid from the plan as of December 31, 2017 are as follows:

	(In thousands)	
2018	\$	53
2019		70
2020		77
2021		79
2022		78
Thereafter		462
	<u>\$</u>	<u>819</u>

At December 31, 2017 and 2016, the fair value of plan assets as a percentage of the total was invested in the following:

	<u>2017</u>	<u>2016</u>
Equity Securities	65%	61%
Debt securities	34%	37%
Cash and cash equivalents	1%	2%
	<u>100%</u>	<u>100%</u>

Significant assumptions include the following as of December 31, 2017 and 2016:

	<b>Pension Benefits</b>	
	<u>2017</u>	<u>2016</u>
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	3.78%	4.14%
Rate of compensation increase (frozen)	N/A	N/A
Weighted-average assumptions used to determine benefit cost:		
Discount rate	4.14%	4.34%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase (frozen)	N/A	N/A

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

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The fair value of the Company's pension plan assets, and the related investment references, at December 31, 2017, and 2016 by asset category are as follows:

December 31, 2017	Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Mutual funds-Equity		(In thousands)		
Large Cap Value (a)	\$ 90	\$ 90	\$ -	\$ -
Large Cap Core (b)	122	122	-	-
Mid Cap Core (c)	106	106	-	-
Small-Cap Core (d)	50	50	-	-
International Core (e)	239	239	-	-
Large Cap Growth (f)	193	193	-	-
Small/Midcap Growth (g)	56	56	-	-
Mutual funds-Fixed Income				
Fixed Income-Core Plus (h)	367	367	-	-
Intermediate Duration (i)	124	124	-	-
Common/Collective Trusts-Equity				
Large Cap Value (j)	92	-	92	-
Cash				
Money Market (k)	21	21	-	-
Total	<u>\$ 1,460</u>	<u>\$ 1,368</u>	<u>\$ 92</u>	<u>\$ -</u>

- (a) This category consists of a mutual fund holding 100-160 stocks, designed to track and outperform the Russell 1000 Value Index.
- (b) This category contains stocks of the S&P 500 Index. The stocks are maintained in approximately the same weightings as the index.
- (c) This category contains stocks of the MSCI U.S. Mid Cap 450 index Index. The stocks are maintained in approximately the same weightings as the index.
- (d) This category contains stocks whose sector weightings are maintained within a narrow band around those of the Russell 2000 Index. The portfolio will typically hold more than 150 stocks.
- (e) This category consists of investments with long-term growth potential located primarily in Europe, the Pacific Basin, and other developed emerging markets.
- (f) This category consists of two mutual funds, one which invests primarily of large U.S. – based growth companies, the other in fast-growing large cap growth companies with sustainable franchises and positive price momentum.
- (g) This category seeks capital appreciation through investments in common stock of small-capitalization companies, defined as those with a total market value of no more than \$2 billion at the time the fund first invests in them.
- (h) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that Index. The third fund targets investments of 50% or more in mortgage-backed securities guaranteed by the US government and its agencies.
- (i) This category consists of a mutual fund which invest in a diversified portfolio of high-quality bonds and other fixed income securities, including U.S. Government obligations, mortgage-related and asset-backed securities, corporate and municipal bonds, CMOs, and other securities mostly rated A or better.
- (j) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
- (k) This category consists of a money market fund and is used for liquidity purposes.

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December 31, 2016

Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Mutual funds-Equity				
Large Cap Value (a)	\$ 86	\$ 86	\$ -	\$ -
Large Cap Core (b)	114	114	-	-
Mid Cap Core (c)	100	100	-	-
Small-Cap Core (d)	52	52	-	-
International Core (e)	208	208	-	-
Large Cap Growth (f)	158	158	-	-
Small/Midcap Growth (g)	55	55	-	-
Mutual funds-Fixed Income				
Fixed Income-Core Plus (h)	398	398	-	-
Intermediate Duration (i)	134	134	-	-
Common/Collective Trusts-Equity				
Large Cap Value (j)	90	-	90	-
Cash				
Money Market (k)	26	26	-	-
Total	<u>\$ 1,421</u>	<u>\$ 1,331</u>	<u>\$ 90</u>	<u>\$ -</u>

- (a) This category consists of a mutual fund holding 100-160 stocks, designed to track and outperform the Russell 1000 Value Index.
- (b) This category contains stocks of the S&P 500 Index. The stocks are maintained in approximately the same weightings as the index.
- (c) This category contains stocks of the MSCI U.S. Mid Cap 450 index Index. The stocks are maintained in approximately the same weightings as the index.
- (d) This category contains stocks whose sector weightings are maintained within a narrow band around those of the Russell 2000 Index. The portfolio will typically hold more than 150 stocks.
- (e) This category consists of investments with long-term growth potential located primarily in Europe, the Pacific Basin, and other developed emerging countries.
- (f) This category consists of two mutual funds, one which invests primarily of large U.S. – based growth companies, the other in fast-growing large cap growth companies with sustainable franchises and positive price momentum.
- (g) This category seeks capital appreciation through investments in common stock of small-capitalization companies, defined as those with a total market value of no more than \$2 billion at the time the fund first invests in them.
- (h) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that Index. The third fund targets investments of 50% or more in mortgage--backed securities guaranteed by the US government and its agencies.
- (i) This category consists of a mutual fund which invest in a diversified portfolio of high-quality bonds and other fixed income securities, including U.S. Government obligations, mortgage-related and asset-backed securities, corporate and municipal bonds, CMOs, and other securities mostly rated A or better.
- (j) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
- (k) This category consists of a money market fund and is used for liquidity purposes.

Also, the Company provides post-retirement benefits to certain officers of the Company under split-dollar life insurance policies. The Company accounts for the policies in accordance with ASC 715-60, which requires companies to recognize a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee extending to post-retirement periods. The liability is recognized based on the substantive agreement with the employee.

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The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

	2017	2016
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ 933	\$ 879
Service cost	20	8
Interest cost	40	37
Loss /(Gain)	82	34
Benefits Paid	(32)	(25)
End of year	<u>\$ 1,043</u>	<u>\$ 933</u>

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of:

	2017	2016
	(In thousands)	
Prior service cost	\$ 55	\$ 69
Net loss(gain)	130	62

The accumulated benefit obligation for the split-dollar benefit plan was \$1.0 million and \$933,000 at December 31, 2017 and 2016, respectively.

The estimated net gain for the split-dollar plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is approximately \$67,000.

	2017	2016
	(In thousands)	
Components of net periodic benefit cost		
Service cost	\$ 20	\$ 8
Interest cost	40	37
(Gain)/Loss recognized	(29)	(22)
Prior service cost	14	14
Net periodic benefit cost	<u>\$ 45</u>	<u>\$ 37</u>

The retiree accrued liability expected to be reversed from the plan as of December 31, 2017 is as follows:

	(In thousands)
2017	\$ 33
2018	36
2019	39
2020	43
2021	49
Thereafter	333
	<u>\$ 533</u>

Significant assumptions for the split-dollar plan liability include the following as of December 31, 2017 and 2016:

	2017	2016
Weighted-average assumptions used to determine benefit cost obligation:		
Discount rate	3.78%	4.14%
Rate of compensation increase	1.50%	1.50%
Weighted-average assumptions used to determine benefit cost:		
Discount rate	3.78%	4.14%
Rate of compensation increase	1.50%	1.50%



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The Company has an Employee Stock Ownership Plan (“ESOP”) covering substantially all employees of the Company. The ESOP acquired 163,265 shares of Company common stock at \$10.00 per share in 2003 with funds provided by a loan from the Company. Accordingly, \$1.6 million of common stock acquired by the ESOP was shown as a reduction of stockholders’ equity. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares, which will be distributed to participants, are treated as compensation expense. Compensation expense is recorded equal to the average fair market value of the stock during the year when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP.

ESOP expense was approximately \$129,000 and \$109,000 for years ended December 31, 2017 and December 31, 2016.

Share information for the ESOP is as follows at December 31, 2017 and 2016:

	2017	2016
Allocated shares	142,683	135,999
Unearned shares	20,582	27,266
Total ESOP shares	163,265	163,265
Fair value of unearned shares at end of period	\$ 379,738	\$ 449,889

At December 31, 2017, the fair value of the 142,683 allocated shares held by the ESOP was approximately \$2.6 million.

In addition to the defined benefit plan and ESOP, the Company has a 401(k) plan covering substantially all employees. The Company’s 401(k) matching percentage was 100% of the first 4% contributed by the employee and 50% of the employees’ next 2% of contributions. Expense related to the 401(k) plan totaled approximately \$149,000 and \$154,000 for the years ended December 31, 2017 and December 31, 2016, respectively.

**Note 15: Earnings Per Share**

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2017		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 3,109		
Basic earnings per share			
Income available to common stockholders		2,748,137	\$ 1.13
Income available to common stockholders and assumed conversions	\$ 3,109	2,748,137	\$ 1.13
	Year Ended December 31, 2016		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 2,246		
Basic earnings per share			
Income available to common stockholders		2,747,586	\$ 0.82
Income available to common stockholders and assumed conversions	\$ 2,246	2,747,586	\$ 0.82

There were no dilutive securities or stock options outstanding at December 31, 2017 or December 31, 2016.

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**Note 16: Disclosures about Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data 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

**Recurring Measurements**

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the Company's consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Available-for-sale Securities**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and December 31, 2016:

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
<b>December 31, 2017</b>				
Mortgage-backed securities of government-sponsored entities	\$ 38,131	\$ -	\$ 38,131	\$ -
State and political subdivisions	13,310	-	13,310	-
(In thousands)				
<b>December 31, 2016</b>				
U.S. government agencies	\$ 11	\$ -	\$ 11	\$ -
Mortgage-backed securities of government-sponsored entities	58,614	-	58,614	-
Private-label collateralized mortgage obligations	40	-	40	-
State and political subdivisions	12,044	-	12,044	-

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**Nonrecurring Measurements**

Certain assets may be required to be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

**Collateral-dependent Impaired Loans, Net of ALLL**

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the office of the Chief Financial Officer. Appraisals are reviewed for accuracy and consistency by the office of the Chief Financial Officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the office of the Chief Financial Officer by comparison to historical results.

**Foreclosed Assets Held for Sale**

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of real estate is based on appraisals or evaluations. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

Appraisals of real estate are obtained when the real estate is acquired and subsequently as deemed necessary by the office of the Chief Financial Officer. Appraisals are reviewed for accuracy and consistency by the Bank. Appraisers are selected from the list of approved appraisers maintained by management.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and December 31, 2016.

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
<b>December 31, 2017</b>				
Collateral-dependent impaired loans	\$ 822	\$ -	\$ -	\$ 822
Foreclosed assets	45	-	-	45
<b>December 31, 2016</b>				
Collateral-dependent impaired loans	\$ 1,053	\$ -	\$ -	\$ 1,053
Foreclosed assets	2	-	-	2

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**Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2017 and December 31, 2016, in thousands.

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Weighted Average</u>
<b>December 31, 2017</b>				
Collateral-dependent impaired loans	\$ 822	Market Comparable Properties	Marketability Discount	5%
Foreclosed assets	45	Expected selling price	Selling Costs	10%
<b>December 31, 2016</b>				
Collateral-dependent impaired loans	\$ 1,053	Market Comparable Properties and specialized equipment discounts	Marketability Discount	25%
Foreclosed assets	2	Expected selling price	Selling Costs	10%

There were no changes in the inputs or methodologies used to determine fair value at December 31, 2017 as compared to December 31, 2016.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	<u>Carrying Amount</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(In thousands)				
<b>December 31, 2017</b>				
Financial assets				
Cash and cash equivalents	\$ 6,041	\$ 6,041	\$ -	\$ -
Held-to-maturity Securities	11,570	-	11,548	-
Loans, net of allowance for loan losses	345,900	-	-	359,191
Federal Home Loan Bank stock	4,226	-	4,226	-
Interest receivable	1,154	-	1,154	-
Financial liabilities				
Deposits	372,465	263,293	107,873	-
Other short-term borrowings	7,409	-	7,409	-
Federal Home Loan Bank advances	13,500	-	13,423	-
Advances from borrowers for taxes and insurance	1,328	-	1,328	-
Interest payable	20	-	20	-

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	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
<b>December 31, 2016</b>				
Financial assets				
Cash and cash equivalents	\$ 16,756	\$ 16,756	\$ -	\$ -
Held-to-maturity securities	9,559	-	9,339	-
Loans, net of allowance for loan losses	332,283	-	-	341,999
Federal Home Loan Bank stock	4,226	-	4,226	-
Interest receivable	1,146	-	1,146	-
Financial liabilities				
Deposits	383,733	252,242	130,770	-
Other short-term borrowings	7,246	-	7,246	-
Federal Home Loan Bank advances	18,000	-	17,938	-
Advances from borrowers for taxes and insurance	1,306	-	1,306	-
Interest payable	29	-	29	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

***Cash and Cash Equivalents, Interest Receivable and Federal Home Loan Bank Stock***

The carrying amount approximates fair value.

***Held-to-Maturity Securities***

The fair value of held-to-maturity securities was estimated by using pricing models that contain market pricing and information, quoted prices of securities with similar characteristics or discounted cash flows that use credit-adjusted discount rates.

***Loans***

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

***Deposits***

Deposits include savings accounts, checking accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

***Interest Payable, Other Short-Term Borrowings and Advances from Borrowers for Taxes and Insurance***

The carrying amount approximates fair value.

***Federal Home Loan Bank Advances***

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

***Commitments to Originate Loans, Letters of Credit and Lines of Credit***

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness

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of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at December 31, 2017 and 2016.

**Note 17: Commitments and Credit Risk**

Total commercial and commercial real estate loans comprised 43% and 41%, respectively, of the loan portfolio for the years ended December 31, 2017 and December 31, 2016, with substantially all of these loans secured by commercial real estate and business assets mainly located in Ohio. Installment loans account for approximately 1% of the loan portfolio for both years ended December 31, 2017 and 2016. These loans are secured by consumer assets including automobiles, which account for 55% and 38%, respectively, of the installment loan portfolio. Residential one-to-four family real estate loans comprise 56% and 58% of the loan portfolio at December 31, 2017 and 2016, respectively, and primarily include first mortgage loans on residential properties and home equity lines of credit. Included in cash and due from banks as of the years ended December 31, 2017 and 2016, is \$2.6 million and \$2.3 million respectively of uninsured deposits in the form of branch cash on hand.

***Commitments to Originate Loans***

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2017 and 2016 the Company had outstanding commitments to originate fixed-rate loans aggregating approximately \$986,000 and \$1.6 million respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of one year. Total mortgage loans in the process of origination amounted to approximately \$4.6 million and \$3.1 million at December 31, 2017 and 2016, respectively.

The Company had undisbursed amounts of nonresidential real estate and land loans of \$6.2 million and commercial loans of \$26,000 at December 31, 2017. The Company had undisbursed amounts of nonresidential real estate and land loans of \$3.0 million and commercial loans of \$3,000 at December 31, 2016.

The Company had unused extensions of credit totaling \$7.9 million and \$7.8 million at December 31, 2017, and 2016, respectively, related to consumer loans.

***Standby Letters of Credit***

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements.

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Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had outstanding standby letters of credit totaling \$158,000 at December 31, 2017, and \$361,000 at December 31, 2016, with terms not exceeding eleven months. At both December 31, 2017 and 2016, the Company had no deferred revenue under standby letter of credit agreements.

***Lines of Credit***

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2017, the Company had granted unused lines of credit to borrowers aggregating approximately \$24.9 million and \$21.8 million for commercial lines and open-end consumer lines, respectively. At December 31, 2016, the Company had granted unused lines of credit to borrowers aggregating approximately \$20.2 million and \$20.8 million for commercial lines and open-end consumer lines, respectively.

***Leases***

The Company currently leases two branch banking facilities under an operating lease. The first lease originated in fiscal 2000 for a ten year term and 3 five year renewal options ending in October 2018. The Company's second operating lease commenced in fiscal 2001 for an original five year term with 3 five year renewal options and has currently renewed the third option to expire in April 2021. The minimum annual lease payments over the current lease term are as follows:

Year ending	(In thousands)
2018	\$ 56
2019	29
2020	29
2021	10
Total	<u>\$ 124</u>

The Company incurred rental expense under operating leases totaling approximately \$61,000 and \$60,000 for the years ended December 31, 2017 and December 31, 2016, respectively.

There were no other material commitments or contingencies at December 31, 2017.

**Note 18: Recent Accounting Developments**

FASB ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, was issued in August 2014. The amendments in this update provide guidance in Generally Accepted Accounting Principles (GAAP) about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this update were effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application was permitted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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FASB ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities was issued in January 2016. The amendments in this Update make targeted improvements to generally accepted accounting principles, and address certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except as specifically stated, early adoption of the amendments in this Update are not permitted. This standard is not expected to have a material impact on the Company’s consolidated financial statements, however the Company is no longer required to disclose the method and assumptions used to estimate the fair value of financial instruments measured at amortized cost.

FASB ASU 2016-04, Liabilities-Extinguishments of Liabilities (Subtopic 405-20), was issued in March 2016. The amendments in this Update apply to entities that offer certain prepaid stored-value products, including prepaid gift cards, prepaid telecommunication cards, and travelers checks. The amendments in this Update contain specific guidance for the derecognition of pre-paid stored value product liabilities and are an improvement to GAAP because they specify how pre-paid stored-value product liabilities with the Update’s scope should be derecognized. The amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Earlier application is permitted, including adoption in an interim period. This standard is not expected to have a material impact on the Company’s consolidated financial statements, as the Company does not currently have any liabilities related to stored value cards.

FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, was issued in June 2016. The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption of the amendments in this Update are allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update. The Company is studying the implications of this update, including following evolving regulatory and industry guidance, and gathering additional detailed historical data. The effect of this Update on the Company’s financial statements is not known at this time.

FASB ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, was issued in August 2016. The amendments in this Update provide guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This Update addresses eight specific cash flow issues with the objective of reducing the diversity in practice. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. An entity that elects early adoption must adopt all the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The amendments in this Update are not expected to have a material impact on the Company’s consolidated financial statements, as the Company has limited exposure to those cash flow items included in the Update.



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FASB ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash, was issued in November 2016. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The amendments in this Update are not expected to have a material impact on the Company's consolidated financial statements, however the cash flow presentation will be expanded to include the activity related to restricted cash, or required cash reserve balances upon adoption.

FASB ASU 2016-19, Technical Corrections and Improvements, was issued in December 2016. The amendments in this Update cover a wide range of Topics in the Accounting Standards Codification. The amendments generally fall into one of several categories including, amendments related to differences between original guidance and the Accounting Standards Codification, guidance clarification and reference corrections, simplification, or minor improvements. Most of the amendments in this Update do not require transition guidance and are effective upon issuance of this Update. The amendments in this Update are not expected to have a material impact on the Company's consolidated financial statements, as the Company has limited exposure and disclosures relating to those items included in this Update.

FASB ASU 2017-01, Business Combinations, (Topic 805), Clarifying the Definition of a Business, was issued in January 2017. The amendments in this Update clarify the definition of a business, with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this Update should be applied to annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this Update should be applied prospectively on or after the effective date. The amendments in this Update are not expected to have a material impact on the Company's consolidated financial statements, as the Company historically has experienced minimal acquisitions or disposals, if any.

FASB ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323), Amendments to SEC paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings, was issued in January 2017. The amendments in this Update provide guidance on the disclosures required regarding the reporting and financial statement impact of recently issued but not yet adopted standards. The Changes and Corrections in this Update are effective upon release. The amendments in this update will require the Company to provide increased disclosure with respect to adopting current and future accounting Updates.

FASB ASU 2017-04, Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment, was issued in January 2017. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The amendments in this Update should be adopted for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment performed on testing dates after January 1, 2017. The amendments in this Update are not expected to have a material impact on the Company's consolidated financial statements.

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FASB ASU 2017-07, Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost, was issued in March 2017. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered to the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this Update also allow for the service cost component to be eligible for capitalization when applicable. The amendments in this Update are effective for annual periods after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted and should be made within the first interim period that financial statements are issued. The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic post-retirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. The amendments in this Update are not expected to have a material impact on the Company's consolidated financial statements.

FASB ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities, was issued in March 2017. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The amendments in this Update are expected to have a negative impact on earnings during the shortened amortization period if the bond is not called. However, if the bond is not called, earnings should improve past the call date. If the bond is called as scheduled, the Updates in this amendment will not have a material impact on the Company's consolidated financial statements.

FASB ASU 2017-09 Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting, was issued in May 2017. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The amendments in this Update are not expected to impact the Company's consolidated financial statements, as the Company does not currently have any outstanding share-based payment awards.

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**Note 19: Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company at December 31, 2017 and 2016:

**Condensed Balance Sheets**

	2017	2016
	(In thousands)	
<b>Assets</b>		
Cash and due from banks	\$ 313	\$ 1,358
Notes receivable from the Bank	280	362
Investment in the Bank	40,989	39,332
Prepaid expenses and other assets	297	247
Total assets	\$ 41,879	\$ 41,299
<b>Liabilities and Stockholders' Equity</b>		
Accrued expenses and other liabilities	\$ 294	\$ 271
<b>Stockholders' equity</b>		
Common stock and additional paid-in capital	36,491	36,439
Retained earnings	24,414	22,317
Shares acquired by ESOP	(206)	(273)
Treasury stock – at cost	(18,361)	(16,936)
Accumulated other comprehensive income	(753)	(519)
Total stockholders' equity	41,585	41,028
Total liabilities and stockholders' equity	\$ 41,879	\$ 41,299

**Condensed Statements of Income and Comprehensive Income**

	2017	2016
	(In thousands)	
<b>Operating Income</b>		
Interest income	\$ 22	\$ 27
Dividends from the Bank	1,911	1,907
Total operating income	1,933	1,934
<b>Noninterest Expense</b>	876	273
<b>Earnings before Federal Income Tax Benefits and equity in undistributed income of the Bank</b>	1,057	1,661
<b>Federal Income Tax Benefits</b>	(289)	(84)
<b>Income before equity in undistributed income of the Bank</b>	1,346	1,745
<b>Equity in undistributed income of the Bank</b>	1,763	501
<b>Net Income</b>	\$ 3,109	\$ 2,246
<b>Total Comprehensive income</b>	\$ 2,875	\$ 2,018

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**Condensed Statements of Cash Flows**

	2017	2016
	(In thousands)	
<b>Operating Activities</b>		
Net income	\$ 3,109	\$ 2,246
Items not requiring (providing) cash		
Equity in undistributed net income of the Bank	(1,763)	(501)
Increase (decrease) in cash due to changes in:		
Prepaid expenses and other assets	(59)	(10)
Accrued expenses and other liabilities	2	8
Net cash provided by operating activities	1,289	1,743
<b>Investing Activities</b>		
Repayment of ESOP loan	82	82
Net cash provided by investing activities	82	82
<b>Financing Activities</b>		
Payment of dividends on common stock	(991)	(989)
Purchase of treasury stock	(1,425)	-
Net cash used in financing activities	(2,416)	(989)
<b>Net Change in Cash and Cash Equivalents</b>	(1,045)	836
<b>Cash and Cash Equivalents at Beginning of Period</b>	1,358	522
<b>Cash and Cash Equivalents at End of Period</b>	\$ 313	\$ 1,358

**Note 20: Quarterly Financial Data (Unaudited)**

The following table summarizes the Company's quarterly results of operations for the years ended December 31, 2017 and December 31, 2016:

Year Ended December 2017:	Three months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 3,977	\$ 4,095	\$ 4,154	\$ 4,202
Total interest expense	508	499	491	482
Net interest income	3,469	3,596	3,663	3,720
Provision for loan losses	27	83	99	92
Noninterest income	487	640	548	470
Noninterest expense	3,159	3,101	2,915	2,782
Income before income taxes	770	1,052	1,197	1,316
Federal income tax expense	199	291	342	394
Net income	\$ 571	\$ 761	\$ 855	\$ 922
Earnings per share				
Basic and diluted	\$ 0.21	\$ 0.27	\$ 0.31	\$ 0.34
Year Ended December 2016:	Three months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 3,841	\$ 3,826	\$ 3,953	\$ 3,931
Total interest expense	493	518	534	525
Net interest income	3,348	3,308	3,419	3,406
Provision (credit) for loan losses	(67)	11	208	213
Noninterest income	452	555	523	466
Noninterest expense	2,908	2,950	3,024	3,276
Income before income taxes	959	902	710	383
Federal income tax expense	252	228	160	68
Net income	\$ 707	\$ 674	\$ 550	\$ 315
Earnings per share				
Basic and diluted	\$ 0.26	\$ 0.24	\$ 0.20	\$ 0.12

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## BOARD OF DIRECTORS



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*Chair*



Jonathan Ciccotelli  
*Vice Chair*



Debra A. Marthey  
*Secretary & Treasurer*



Brian Hopkins



David L. Lehman



Glenn W. Miller



James R. VanSickle

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Myron L. Swartzentruber  
*Senior Vice President  
Chief Financial Officer and Treasurer*

Joel D. Beckler  
*Senior Vice President  
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