



2015 ANNUAL REPORT & 10K

Together we grow

BOARD CHAIR'S LETTER

To Wayne Savings Bancshares, Inc. Stockholders:

We are pleased to report on the condition and results of operations of Wayne Savings Bancshares, Inc., the parent of Wayne Savings Community Bank for the year ended December 31, 2015.

2015 was a year of challenges, both expected and unexpected. The expected challenges were those that we commented on in last year's letter: the need to generate quality loan growth and non-interest income while carefully managing expenses and efficiently complying with ever increasing regulatory requirements in a continuing low interest rate environment. We believe that our principal successes were the loan growth that we achieved, which is the principal driver of our future net interest income, along with the implementation of organizational changes to operate more efficiently and effectively in accordance with our mission, vision, values and outcome objectives.

The unexpected challenge was the need to make a significant provision for loan losses due to a group of loan relationships that ended up having to be worked out during 2015. This situation, unfortunately, is one faced in the business of credit risk management. The important question is whether the situation is systemic or an isolated event. We believe, based on the information and risk factors included in the following pages, that the situation was an isolated event and not indicative of our future.

Thus, we continue to maintain our strategic focus on sustainable performance improvement that results in the creation of value for our stockholders, expanding opportunities for our staff and the fulfillment of the banking needs of our communities. Our principal strategic objectives, as further described in the following annual report, are to continue to improve the yield of our balance sheet assets, continue our transition from a transaction oriented culture to a relationship oriented culture, continue to improve our technology for the digital age and more effectively manage risk and regulatory compliance.

At risk of being repetitive, the economic environment continues to be challenging, with another year of prolonged low interest rates and intense competition for loans and deposits. These challenges continue to put pressure on our net interest income, while regulatory requirements and demand to enhance technology increase our non-interest expenses.

We continue to work hard to offset our decreasing net interest margin through increased sales efforts and strategies to generate both loan volume and value-added noninterest income while carefully managing noninterest expense. Apart from our extraordinary provision expense in 2015, we have again made progress, but there is still much more to do to reach the levels of performance we desire.

We continue to firmly believe in the community banking business model, where relationships with our customers and service to the community for 117 years represent a long term opportunity for our shareholders and an attractive alternative to large scale commoditized competitors. On behalf of the Board of Directors, management, and staff, we thank you for your continued confidence and support.



Peggy J. Schmitz
Chair, Board of Directors

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2015

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 0-23433

WAYNE SAVINGS BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

31-1557791

(I.R.S. Employer
Identification Number)

151 North Market Street, Wooster, Ohio

(Address of Principal Executive Offices)

44691

Zip Code

(330) 264-5767

(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.10 per share	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ___ NO X

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ___ NO X

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES X NO ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES X NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒

Indicate by check mark whether the Registrant is shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO X

As of March 1, 2016, the latest practicable date, there were 2,781,839 issued and outstanding shares of the Registrant's Common Stock. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last closing price on June 30, 2015, as reported on the Nasdaq Global Market, was approximately \$33.9 million.

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Wayne Savings Bancshares, Inc.
Form 10-K
For the Year Ended December 31, 2015

PART I.

Item 1.	Business	1
Item 1A.	Risk Factors	30
Item 1B.	Unresolved Staff Comments	35
Item 2.	Properties	36
Item 3.	Legal Proceedings	37
Item 4.	Mine Safety Disclosures	37

PART II.

Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	37
Item 6.	Selected Financial Data	39
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	41
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8.	Financial Statements and Supplementary Data	52
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	110
Item 9A.	Controls and Procedures	110
Item 9B.	Other Information	111

PART III.

Item 10.	Directors, Executive Officers and Corporate Governance	111
Item 11.	Executive Compensation	111
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	111
Item 13.	Certain Relationships and Related Transactions, and Director Independence	111
Item 14.	Principal Accountant Fees and Services	111

PART IV.

Item 15.	Exhibits and Financial Statement Schedules	112
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PART I

ITEM 1. Business

General

Wayne Savings Bancshares, Inc.

Wayne Savings Bancshares, Inc. (the “Company”), is a unitary thrift holding company for Wayne Savings Community Bank (the “Bank”). The only significant asset of the Company is its investment in the Bank. The Bank conducts its business from eleven full-service locations. The Company’s principal office is located at 151 North Market Street, Wooster, Ohio, and its telephone number at that address is (330) 264-5767. At December 31, 2015, the Company had total assets of \$433.6 million, total deposits of \$362.4 million, and stockholders’ equity of \$39.9 million, or 9.2% of total assets.

Wayne Savings Community Bank

The Bank is an Ohio-chartered stock savings and loan association headquartered in Wooster, Ohio. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). The Bank has been a member of the Federal Home Loan Bank (“FHLB”) System since 1937.

The Bank is a community-oriented institution offering a full range of consumer and business financial services to the local community. The Bank’s primary lending and deposit gathering area includes Wayne, Holmes, Ashland, Medina and Stark counties, where it operates eleven full-service offices. This contiguous five-county area is located in northeast Ohio, and is an active manufacturing and agricultural market. The Bank’s principal business activities consist of originating one-to-four family residential real estate loans, multi-family residential, commercial and nonresidential real estate loans. The Bank also originates non-real estate, secured commercial loans, consumer loans, and to a lesser extent, construction loans. The Bank also invests in mortgage-backed securities, obligations issued by state and political subdivisions and a small position of private-label collateralized mortgage obligations and other liquid investments, such as United States Government securities, federal funds, and deposits in other financial institutions.

The Bank’s primary objective for the loan portfolio is to pursue and maintain a diversified composition of mortgage, commercial and consumer loans to manage both risk and return, while meeting the needs of the markets we serve. A secondary objective is to continue shifting the longer duration, lower yielding mortgage loans and securities into adjustable rate commercial loans. Mortgage loans and refinancings caused by the low interest rate environment generated a \$26.6 million increase in one-to-four family residential mortgage loans from \$153.1 million, or 64.3% of the total loan portfolio at December 31, 2011, to \$179.7 million, or 59.0% of the total loan portfolio, at December 31, 2015. This increase was mainly due to growth in our 15 year fixed-rate mortgage product and our 30 year one-to-four family residential construction loans as interest rates remained at their historic low levels during the period. Over the previous five fiscal periods, commercial business lending and commercial lending collateralized by multi-family properties increased by \$7.5 million and \$3.9 million, respectively. Nonresidential real estate loans and commercial loans generally carry higher yields and shorter terms than one-to-four family loans. The increased emphasis on commercial lending has diversified the loan portfolio, expanded the Company’s product offerings and broadened the Company’s customer base and its corresponding ability to cross sell its varied product offerings. This change in emphasis has also resulted in increased staffing expense and, in the current economic environment, increased provisions for loan losses due to the higher inherent risk associated with commercial lending activities. Loan demand increased during the current year due to the low interest rate environment and increased sales efforts in the commercial lending division resulting in an increase in the loan portfolio funded by a decrease in cash and cash equivalents and increased deposit balances.

Market Area/Local Economy

The Bank, headquartered in Wooster, Ohio, operates in Wayne, Ashland, Medina, Holmes and Stark Counties in northeast Ohio. Wooster is located in Wayne County and is approximately midway between Cleveland and Columbus, Ohio.

Wayne County is characterized by a diverse economic base, which is not dependent on any particular industry. It is one of the leading agricultural counties in the state. Since 1892, Wooster has been the headquarters of the Ohio Agricultural Research and Development Center, the agricultural research arm of The Ohio State University. In addition, Wayne County is also the home base of several nationally known companies including The J.M. Smucker Company, and the Wooster Brush Company. It is also the home of many industrial plants, including LuK USA, Morton Salt, Artiflex, JLG Industries and Frito-Lay, Inc. The City of Wooster has a regional medical center, with a successful city-owned hospital and significant commitment by the world renowned Cleveland Clinic through state of the art medical facilities. Wayne County is also known for its excellence in education. The College of Wooster was founded in 1866 and serves 2,100 students during the school season. Other quality educational opportunities are offered by the Agricultural Technical Institute of The Ohio State University, and Wayne College, a branch of The University of Akron. In Wayne County, the Bank operates four full-service offices in Wooster, one stand-alone drive-thru facility and one full-service office in each of Rittman and Creston, both in northern Wayne County, adjacent to Medina County.

Ashland County, which is located due west of Wayne County, also has a diverse economic base. In addition to its agricultural segment, Ashland County has manufacturing plants producing rubber and plastics, machinery, transportation equipment, chemicals, apparel, and other items. Ashland is also the home of Ashland University, which was founded in 1878 and serves approximately 6,000 students. The City of Ashland is the county seat and the location of two of the Bank's branch offices, one of which is an in-store branch.

Medina County, located just north of Wayne County, is the center of a fertile agricultural region. While farming remains the largest industry in the county in terms of dollar value of goods produced, over 100 small manufacturing firms also operate in the county. The City of Medina is located in the center of the Cleveland-Akron-Lorain Standard Consolidated Statistical Marketing Area. Medina is located approximately 30 miles south of Cleveland and 15 miles west of Akron. Due to its proximity to Akron and Cleveland, a majority of Medina County's labor force is employed in these two cities. The Bank operates one full-service office in Medina County, which is located in the Village of Lodi, in the southernmost part of the county, adjacent to Wayne County.

Holmes County, located directly south of Wayne County, has a mostly rural economy. The local economy depends mostly upon agriculture, light manufacturing, fabrics, and wood products. Because of the scenic beauty and a large Amish community, revenues from tourism are becoming increasingly significant. The county is also noted for its many fine cheese-making operations. A large number of Holmes County residents are employed in Wayne County. The City of Millersburg is the county seat and the location of one of the Bank's branch offices.

Stark County, located directly east of Wayne County, is characterized by a diverse economy that includes a rich manufacturing heritage, which results in the production of a wide variety of products. In addition to manufacturing, Stark County also has a strong agricultural base including the production of dairy products. The major employers in North Canton are Diebold Incorporated (a major manufacturer of bank security products and automated teller machines), the Timken Company (a world-wide manufacturer of tapered roller bearings and power transmission components and systems) and the Timken Steel Company (a world-wide manufacturer specialty steels). Jackson Township is the home to the Westfield Belden Village

Shopping Center, while Plain Township is a residential and agricultural area with a few widely scattered light industries. North Canton is the location of one of the Bank's branches.

Lending Activities

General. Historically, the principal lending activity of the Company was the origination of fixed and adjustable rate mortgage ("ARM") loans collateralized by one-to-four family residential properties located in its market area. The Company originated ARM loans for retention in its portfolio, and fixed-rate loans eligible for resale in the secondary mortgage market. The Company continues to originate residential mortgage loans but is increasing the emphasis on the origination of loans collateralized by nonresidential and multi-family residential real estate, as well as commercial business loans. In addition, the Company is increasing its emphasis on the origination of consumer loans to broaden services offered to customers.

The Company has sought to make its interest-earning assets more interest rate sensitive by originating adjustable rate loans, such as ARM loans, home equity loans, and medium-term consumer loans. The Company also purchases mortgage-backed securities generally with estimated remaining average lives of five years or less. At December 31, 2015, approximately \$150.0 million, or 49.2%, of the Company's total loans consisted of loans with adjustable interest rates.

The Company continues to actively originate fixed-rate mortgage loans, generally with 15 to 30 year terms to maturity, collateralized by one-to-four family residential properties. One-to-four family fixed-rate residential mortgage loans generally are originated and underwritten according to standards that allow the Company to sell such loans in the secondary mortgage market for purposes of managing interest rate risk and liquidity. From November 2005 until January 2009, the Company decided to retain all one-to-four family, fixed-rate residential mortgage loan originations with terms of 15 and 30 years to manage the size of the portfolio and to provide higher yields as compared to alternative investments. In accordance with a policy adopted by the Bank's Asset/Liability Committee ("ALCO") that permits limited loan sales to address interest rate risk and liquidity concerns, during the years ended December 31, 2015 and December 31, 2014, the Company sold \$5.9 million and \$6.6 million, respectively, of fixed-rate residential mortgage loans into the secondary market to limit the buildup of interest rate risk and to provide pipeline funding during a period where a large number of originations were occurring due to refinancing activity by consumers. The Company retains servicing on its sold mortgage loans. The Company also originates interim construction loans on one-to-four family residential properties.

The Company has continued to develop the commercial business loan program in order to increase the Company's interest rate sensitive assets, increase interest income and diversify both the loan portfolio and the Company's customer base. The Company has four experienced commercial lenders to manage this portfolio. The Company targets small local businesses with loan amounts in the \$50,000 - \$1.0 million range with a majority of loans under \$500,000. Overall, commercial business loans increased to \$18.0 million at December 31, 2015, as compared to \$10.5 million at December 31, 2011, nonresidential real estate and land loans increased from \$62.9 million, or 26.4% of the total loan portfolio at December 31, 2011, to \$86.5 million, or 28.4% of the total loan portfolio at December 31, 2015.

Loan Maturity and Repricing Schedule. The following table sets forth certain information as of December 31, 2015, regarding the dollar amount of loans maturing in the Company's portfolio based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Adjustable and floating rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they mature, and fixed-rate loans are included in the period in which the final contractual repayment is due.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total
Mortgage loans:							
One-to-four family residential:							
Adjustable	\$ 26,848	\$ 12,209	\$ 7,914	\$ -	\$ -	\$ -	\$ 46,971
Fixed	1,164	1,186	683	25,184	62,486	42,058	132,761
Construction:							
Adjustable	14	-	-	-	-	-	14
Fixed	-	-	-	-	1,572	4,591	6,163
Multi-family residential, nonresidential and land:							
Adjustable	20,750	31,054	38,732	-	-	-	90,536
Fixed	1,647	278	90	685	5,708	-	8,408
Other loans:							
Commercial business loans	8,372	2,024	5,403	2,181	51	-	18,031
Consumer	362	379	768	235	160	-	1,904
Total loans	<u>\$ 59,157</u>	<u>\$ 47,130</u>	<u>\$53,590</u>	<u>\$ 28,285</u>	<u>\$ 69,977</u>	<u>\$ 46,649</u>	<u>\$304,788</u>

The following table sets forth at December 31, 2015, the dollar amount of all fixed-rate and adjustable rate loans maturing or repricing after December 31, 2016.

	<u>Fixed</u>	<u>Adjustable</u>
	(In thousands)	
Mortgage loans:		
One-to-four family residential	\$ 131,597	\$ 20,123
Construction	6,163	-
Multi-family, nonresidential and land	6,761	69,786
Consumer	1,529	13
Commercial business	5,618	4,041
Total loans	<u>\$ 151,668</u>	<u>\$ 93,963</u>

One-to-Four Family Residential Real Estate Loans. A significant part of the Company's lending activity consists of the origination of one-to-four family, owner-occupied, residential mortgage loans on properties located in the Company's market area. The Company also originates loans to commercial customers secured by one-to-four family non-owner occupied properties. The Company generally does not originate one-to-four family residential loans secured by properties outside of its market area. At December 31, 2015, the Company had \$179.7 million, or 59.0%, of its total loan portfolio invested in loans secured by one-to-four family residential mortgage properties.

The Company's fixed-rate loans generally are originated and underwritten according to standards that permit resale in the secondary mortgage market (so-called "conforming mortgages") and, in accordance with the "Qualified Mortgage" ("QM") rules that became effective January 10, 2014 as issued by the Consumer Financial Protection Bureau ("CFPB") will be considered to be Qualified Mortgages. Certain loans may be originated with certain exceptions that make the loans non-conforming and not qualified mortgages. These loans are limited in number and are reported to the Bank's Board of Directors on a quarterly basis as exceptions to the Bank's Loan Policy.

Whether the Company can or will sell fixed-rate loans into the secondary market, however, depends on a number of factors including the Company's portfolio mix, interest rate risk and liquidity positions, and market conditions. The Company's fixed-rate mortgage loans are amortized on a monthly basis with principal and interest due each month. One-to-four family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The Company's one-to-four family residential portfolio has increased \$10.1 million or 5.9%, from December 31, 2014, to December 31, 2015. Sales into the secondary market were \$5.9 million and \$6.6 million for the years ended December 31, 2015 and 2014, respectively. Such sales generally constituted current period originations. There were no loans identified as held-for-sale at December 31, 2015, 2014, 2013, 2012 or 2011.

The Company currently offers one-to-four family residential mortgage loans with terms typically ranging from 15 to 30 years, and with adjustable or fixed interest rates. Originations of fixed-rate mortgage loans versus ARM loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, customer preference, the Company's interest rate risk position, and loan products offered by the Company's competitors. The low interest rate environment over the last few years has resulted in a strong customer preference for fixed-rate mortgage loans.

The Company offers one ARM loan product. The Treasury ARM loan adjusts annually with interest rate adjustment limitations of 2% per year and with a cap of 3% or 5% on total rate increases or decreases over the life of the loan. The index on the Treasury ARM loan is the weekly average yield on U.S. Treasury securities, adjusted to a constant maturity of one year plus a margin. However, these loans are underwritten at the fully indexed interest rate. All loans require monthly principal and interest payments and negative amortization is not permitted. One-to-four family residential ARM loans totaled \$47.0 million, or 15.4% of the Company's total loan portfolio at December 31, 2015.

The primary purpose of offering ARM loans is to make the Company's loan portfolio more interest rate sensitive. However, as the interest income earned on ARM loans varies with prevailing interest rates, such loans do not offer the Company as predictable cash flows compared to long-term, fixed-rate loans. ARM loans carry increased credit risk associated with potentially higher monthly payments by borrowers as general market interest rates increase. It is possible, therefore, that during periods of rising interest rates, the risk of default on ARM loans may increase due to the upward adjustment of interest costs to the borrower. Management believes that the Company's credit risk associated with its ARM loans is reduced because the Company has either a 3% or 5% cap on interest rate increases during the life of its ARM loans.

The Company also offers home equity loans and equity lines of credit collateralized by a second mortgage on the borrower's principal residence. In underwriting these home equity loans, the Company requires that the maximum loan-to-value ratios, including the principal balances of both the first and second mortgage loans, not exceed 85%. The home equity loan portfolio consists of adjustable rate loans which use the prime rate as published in *The Wall Street Journal* as the interest rate index. Home equity loans include fixed term adjustable rate loans, as well as lines of credit. As of December 31, 2015, the Company's home equity loan portfolio totaled \$15.3 million, or 8.5%, of its one-to-four family mortgage loan portfolio.

The Company's one-to-four family residential first mortgage loans customarily include due-on-sale clauses, which are provisions giving the Company the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells or otherwise disposes of the underlying real property serving as security for the loan. Due-on-sale clauses are an important means of adjusting the rates on the Company's fixed-rate mortgage loan portfolio.

Regulations limit the amount that a savings association may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. The Company's lending policies limit the maximum loan-to-value ratio on both fixed-rate and ARM loans without private mortgage insurance to 80% of the lesser of the appraised value or the purchase price of the property to serve as collateral for the loan. However, the Company makes one-to-four family real estate loans with loan-to-value ratios in excess of 80%. For 15 year fixed-rate and ARM loans with loan-to-value ratios of 80.01% to 85%, 85.01% to 90%, 90.01% to 95%, and 95.01% to 97%, the Company requires the first 6%, 12%, 25% and 30%, respectively, of the loan to be covered by private mortgage insurance. For 30 year fixed-rate loans with loan-to-value ratios of 80.01% to 85%, 85.01% to 90%, and 90.01% to 97%, the Company requires the first 12%, 25%, and 30%, respectively, of the loan to be covered by private mortgage insurance. The Company requires fire and casualty insurance, as well as title insurance on all properties securing real estate loans made by the Company and flood insurance, where applicable.

Multi-Family Residential Real Estate Loans. Loans secured by multi-family real estate constituted approximately \$12.5 million, or 4.1%, of the Company's total loan portfolio at December 31, 2015. The Company's multi-family real estate loans are secured by multi-family residences, such as apartment buildings. At December 31, 2015, most of the Company's multi-family loans were secured by properties located within the Company's market area with an average balance of \$542,000. At December 31, 2015, the Company's largest multi-family real estate loan had a principal balance of \$2.8 million. Multi-family real estate loans currently are offered with adjustable interest rates or short-term balloon maturities, although in the past the Company originated fixed-rate long-term multi-family real estate loans. The terms of each multi-family loan are negotiated on a case-by-case basis, although such loans typically have adjustable interest rates tied to a market index, and amortize over 15 to 25 years. The Company currently does not have any multi-family real estate construction loans.

Loans secured by multi-family real estate 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.

Nonresidential Real Estate and Land Loans. Loans secured by nonresidential real estate constituted approximately \$86.5 million, or 28.4%, of the Company's total loan portfolio at December 31, 2015 compared to \$71.8 million or 26.1% of the total loan portfolio at December 31, 2014. The Company has continued its strategy to diversify the loan portfolio and has experienced growth in loan demand over the past year. The Company's nonresidential real estate loans are secured by improved property such as offices, small business facilities, and other nonresidential buildings. At December 31, 2015, approximately \$52.9 million, or 82.5%, of these loans are borrower occupied. At December 31, 2015, most of the Company's nonresidential real estate loans were secured by properties located within the Company's market area. The Company's largest nonresidential real estate loan at December 31, 2015 had a principal balance of \$3.0 million and the average balance of such loans was \$386,000. The terms of each nonresidential real estate loan are negotiated on a case-by-case basis. Nonresidential real estate loans are currently offered with adjustable interest rates or short-term balloon maturities, although in the past the Company has originated fixed-rate, long-term, nonresidential real estate loans. Nonresidential real estate loans originated by the Company

generally amortize over 15 to 25 years. The Company currently does not emphasize nonresidential real estate construction loans. Included in the loan tables above are nonresidential construction loans totaling \$4.2 million which were undisbursed at December 31, 2015.

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. 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 originates loans to commercial customers with land held as the collateral. Also included in this total were developed building lots of approximately \$115,000. Land loans totaled \$3.6 million at December 31, 2015.

Residential Construction Loans. To a lesser extent, the Company originates loans to finance the construction of one-to-four family residential property. At December 31, 2015, the Company had \$6.2 million of its total loan portfolio invested in construction loans. The Company makes construction loans to private individuals and to builders. 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.

Commercial Business Loans. Commercial business loans totaled \$18.0 million, or 5.9% of the Company's total loan portfolio at December 31, 2015. The Company has four experienced commercial lenders and plans to pursue commercial lending growth as part of the Company's strategic plan to diversify the loan portfolio.

Commercial 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 \$1.0 million 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. Ohio savings associations are authorized to invest in secured and unsecured consumer loans in an aggregate amount which, when combined with investments in commercial paper and corporate debt securities, does not exceed 20% of an association's assets. In addition, an Ohio savings association is permitted to invest up to 5% of its assets in loans for educational purposes.

As of December 31, 2015, consumer loans totaled \$1.9 million, or 0.6%, of the Company's total loan portfolio. The principal types of consumer loans offered by the Company are second mortgage loans, fixed-rate auto and truck loans, unsecured personal loans, and loans secured by deposit accounts. Consumer loans are offered primarily on a fixed-rate basis with maturities generally less than ten years.

The Company's second mortgage consumer loans are secured by the borrower's principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans, of 85% or less. Such loans are offered on a fixed-rate basis with terms of up to ten years. At December 31, 2015, second mortgage loans totaled \$332,000, or 0.2%, of one-to-four family mortgage loans.

The underwriting standards employed by the Company for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The quality and stability of the applicant's monthly income are determined by analyzing the gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration. However, where applicable, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Consumer loans entail greater credit risk than one-to-four family 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 current level of demand for used automobiles. The Company adds a general provision on a regular basis to its consumer loan loss allowance, based on, among other factors, general economic conditions and prior loss experience. See "—Delinquencies and Classified Assets—Nonperforming and Impaired Assets," and "—Classification of Assets" for information regarding the Company's loan loss experience and reserve policy.

Loan Originations, Solicitation, Processing and Commitments. Loan originations are derived from a number of sources such as real estate agent referrals, existing customers, borrowers, builders, attorneys and walk-in customers. The Company has also entered into a number of participation loans with high quality lead lenders. The participations are outside the Company's normal lending area and diversify the loan portfolio. Upon receiving a loan application, the Company obtains a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, an appraiser approved by the Company appraises the real estate intended to secure the proposed loan. An underwriter in the Company's loan department checks the loan application file for accuracy and completeness, and verifies the information provided. Conventional mortgage loans up to \$240,000 can be approved by the mortgage loan underwriter. The mortgage department manager and mortgage department underwriter can also both approve loans that meet all requirements to be sold on the secondary market and comply with Freddie Mac underwriting of up to \$417,000. All loans up to \$300,000 can be approved by the Vice President, Commercial Lending. Any loans between \$300,000 and \$500,000 must be approved by the Senior Vice President/Senior Loan Officer or the President and Chief Executive Officer. The Loan Committee must approve loans from \$500,000 to \$3.0 million and loans in excess of \$3.0 million must be approved by the Board of Directors. The Loan Committee meets once a week to review and verify that loan officer approvals of loans are made within the scope of management's authority. All approvals are subsequently ratified monthly by the full Board of Directors. Fire and casualty insurance is required at the time the loan is made and throughout the term of the loan. After the loan is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2015, the Company had commitments to originate \$2.1 million of loans.

The commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization term, a brief description of the required collateral, and required insurance coverage. The borrower must provide proof of fire and casualty insurance on the property serving as collateral, which insurance must be maintained during the full term of the loan. A title search of the property is required on all loans secured by real property.

Origination, Purchase and Sale of Loans. The table below shows the Company's loan origination, purchase and sales activity for the periods indicated.

	December 31,		
	2015	2014	2013
	(In thousands)		
Total loans receivable, net at beginning of period	\$ 265,609	\$ 261,130	\$ 247,849
Loans originated:			
One-to-four family residential ⁽¹⁾⁽²⁾	46,360	32,257	41,048
Multi-family residential	1,709	-	6,861
Nonresidential real estate/land ⁽²⁾	8,674	10,186	16,330
Consumer loans	901	645	261
Commercial loans	6,930	5,599	7,315
Total loans originated	64,574	48,687	71,815
Loans sold:			
Whole loans	(5,877)	(6,595)	(7,335)
Total loans sold	(5,877)	(6,595)	(7,335)
Mortgage loans transferred to REO	(308)	(330)	(50)
Loan repayments	(30,877)	(37,283)	(51,149)
Total loans receivable, net at end of period	\$ 293,121	\$ 265,609	\$ 261,130

⁽¹⁾ Includes loans to finance the construction of one-to-four family residential properties and loans originated for sale in the secondary market.

⁽²⁾ Includes loans to finance the sale of real estate acquired through foreclosure.

Loan Origination Fees and Other Income. In addition to interest earned on loans, the Company generally receives loan origination fees. The Company accounts for loan origination fees in accordance with FASB ASC 310-20. To the extent that loans are originated or acquired for the Company's portfolio, FASB ASC 310-20 requires that the Company defer loan origination fees and costs and amortize such amounts as an adjustment of yield over the life of the loan by use of the level yield method. FASB ASC 310-20 reduces the amount of revenue recognized by many financial institutions at the time such loans are originated or acquired. Fees deferred under FASB ASC 310-20 are recognized into income immediately upon prepayment or the sale of the related loan. At December 31, 2015, the Company had \$765,000 in deferred loan origination fees. Loan origination fees are volatile sources of income. Such fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand for and availability of money.

The Company receives other fees, service charges, and other income that consist primarily of deposit transaction account service charges, late charges and income from REO operations. The Company recognized fees and service charges of \$1.4 million for the year ended December 31, 2015, \$1.3 million for the year ended December 31, 2014, and \$1.2 million for the year ended December 31, 2013.

Loans to One Borrower. Savings associations are subject to the same limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate). At December 31, 2015, the Company's largest

concentration of loans to one borrower totaled \$4.7 million. All of the loans in this concentration were current in accordance with their original terms at December 31, 2015. The Company had no loans at December 31, 2015, which exceeded the loans to one borrower regulations.

Delinquencies and Classified Assets

Delinquencies. The Company's collection procedures provide that when a loan is 15 days past due, a computer-generated late charge notice is sent to the borrower requesting payment, plus a late charge. This notice is followed with a letter again requesting payment when the payment becomes 20 days past due. If delinquency continues, at 30 days another collection letter is sent and personal contact efforts are attempted, either in person or by telephone, to strengthen the collection process and obtain reasons for the delinquency. Also, a repayment plan is established. If a loan becomes 60 days past due, the loan becomes subject to possible legal action if suitable arrangements to repay have not been made. In addition, the borrower is given information which provides access to consumer counseling services, to the extent required by HUD regulations. When a loan continues in a delinquent status for 90 days or more, and a repayment schedule has not been established or adhered to by the borrower, a notice of intent to foreclose is sent to the borrower, giving 30 days to cure the delinquency. If not cured, foreclosure proceedings are initiated.

Nonperforming and Impaired Assets. Loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collection of additional interest is doubtful. Mortgage loans are placed on non-accrual status generally when either principal or interest is 90 days or more past due and management considers the interest uncollectible. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income.

Under the provisions of FASB ASC 310-10, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. In applying the provisions of FASB ASC 310-10, the Bank considers one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. The exception to this rule is a Troubled Debt Restructured loan or "TDR". A loan is considered a TDR when the Bank concedes to terms normally not extended to a borrower experiencing a financial hardship. With respect to the Bank's multi-family, commercial and nonresidential loans, and the evaluation of impairment thereof, such loans are collateral dependent and, as a result, are carried at the lower of cost or fair value. At December 31, 2015, the Company had \$3.9 million of impaired loans, of which \$2.8 million were performing in accordance with their terms at such date.

At December 31, 2015, the Company had nonperforming loans totaling \$1.9 million comprised of \$1.7 million in one-to-four family residential mortgage loans and \$208,000 in nonresidential real estate loans. The ratio of nonperforming and impaired loans to loans receivable was 1.7% at December 31, 2015. At December 31, 2015, the largest nonperforming residential real estate loan totaled \$150,000. In the opinion of management, as of December 31, 2015, no significant unreserved loss is anticipated on any nonperforming loan. At December 31, 2014, the Company had nonperforming loans of \$3.2 million and a ratio of nonperforming and impaired loans to loans receivable of 2.7%. Of the nonperforming loans at December 31, 2014, \$2.7 million were one-to-four family residential mortgage loans, nonresidential real estate loans of \$350,000 and commercial loans totaled \$96,000. The Company has historically realized limited losses on such loans primarily because these loans are underwritten with a maximum 85% loan-to-value ratio.

Real estate acquired by the Company as a result of foreclosure or by deed in lieu of foreclosure ("REO") is deemed REO until such time as it is sold. When REO is acquired, it is recorded at the fair value, less estimated selling expenses. Valuations are periodically performed by management, and any subsequent decline in fair value is charged to operations.

The following table sets forth information regarding our non-accrual and impaired loans and real estate acquired through foreclosure at the dates indicated. For all the dates indicated, the Company did not have any material loans which had been restructured pursuant to FASB ASC 310-40.

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Non-accrual loans:					
Mortgage loans:					
One-to-four family residential	\$ 1,733	\$ 2,740	\$ 1,851	\$ 2,097	\$ 2,433
All other mortgage loans	-	-	-	-	-
Nonresidential real estate loans	208	350	1,045	3,123	3,271
Non-mortgage loans:					
Commercial business loans	-	96	2	32	92
Consumer	-	-	-	4	12
Total non-accrual loans	1,941	3,186	2,898	5,256	5,808
Accruing loans 90 days or more delinquent	-	-	-	-	-
Total nonperforming loans (1)	1,941	3,186	2,898	5,256	5,808
Loans deemed impaired (2)	2,888	3,850	8,698	9,225	5,145
Total nonperforming and impaired loans	4,829	7,036	11,596	14,481	10,953
Total real estate owned (3)	14	179	-	318	1,283
Total nonperforming and impaired assets	\$ 4,843	\$ 7,215	\$ 11,596	\$ 14,799	\$ 12,236
Total nonperforming and impaired loans to net loans receivable	1.65%	2.65%	4.44%	5.84%	4.72%
Total nonperforming and impaired loans to total assets	1.11%	1.68%	2.83%	3.60%	2.67%
Total nonperforming and impaired assets to total assets	1.12%	1.73%	2.83%	3.68%	2.98%

(1) Includes \$385,000 of impaired loans at December 31, 2015.

(2) Includes loans deemed impaired of \$3.0 million at December 31, 2015 that were performing as of such date.

(3) Represents the net book value of property acquired by the Company through foreclosure or deed in lieu of foreclosure.

During the years ended December 31, 2015 and December 31, 2014, gross interest income of \$155,000 and \$125,000 would have been recorded on loans that were accounted for on a non-accrual basis if the loans had been current throughout the period. Interest income recognized on non-accrual loans totaled \$16,000 and \$45,000 for the years ended December 31, 2015 and December 31, 2014, respectively. The Company recognized interest income on impaired loans for the years ended December 31, 2015 and December 31, 2014 of \$172,000 and \$103,000, respectively.

The following table sets forth information with respect to loans past due 60-89 days and 90 days or more in our portfolio at the dates indicated.

	December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Loans past due 60-89 days	\$ 329	\$ 495	\$ 292	\$ 341	\$ 289
Loans past due 90 days or more	1,112	1,786	1,435	2,501	2,784
*Total past due 60 days or more	\$ 1,441	\$ 2,281	\$ 1,727	\$ 2,842	\$ 3,073

Classification of Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the FDIC to be of lesser quality as “substandard,”

“doubtful,” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the savings institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated “special mention” by management.

When a savings institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When a savings institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of the amount of the assets so classified, or to charge-off such amount. A savings institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the FDIC, which can order the establishment of additional general or specific loss allowances. The Company regularly reviews the problem loans in its portfolio to determine whether any loans require classification in accordance with applicable regulations.

The following table sets forth the aggregate amount of the Company’s classified assets at the dates indicated.

	December 31,				
	2015	2014	2013	2012	2011
			(In thousands)		
Substandard assets (1)	\$ 8,035	\$ 9,696	\$ 11,081	\$ 14,798	\$ 13,354
Doubtful assets	-	-	-	-	-
Loss assets	-	-	-	-	-
Total classified assets	<u>\$ 8,035</u>	<u>\$ 9,696</u>	<u>\$ 11,081</u>	<u>\$ 14,798</u>	<u>\$ 13,354</u>

(1) Includes REO, if any at the dates indicated.

Allowance for Loan Losses. In determining the amount of the allowance for loan losses at any point in time, management and the Board of Directors apply a systematic process focusing on the risk of loss in the loan portfolio. First, delinquent nonresidential, multi-family and commercial loans are evaluated individually for potential impairment in their carrying value. Second, management applies historic loss experience to the individual loan types in the portfolio. In addition to the historic loss percentage, management employs an additional risk percentage based on factors identified by management as representative of the overall risk in the economy. However, the analysis of the allowance for loan losses requires an element of judgment and is subject to the possibility that the allowance may need to be increased, with the corresponding reduction in earnings.

During the years ended December 31, 2015, 2014, and 2013, the Company added \$1,175,000, \$333,000 and \$220,000, respectively, to the provision for loan losses. The Company’s allowance for loan losses totaled \$2.8 million for each of the three years ended December 31, 2015, 2014 and 2013. The provision for loan losses in the years ended December 31, 2015, 2014 and 2013 was based on the level of nonperforming loans and charge-offs, as well as the size and risk profile of the loan portfolio and assessments of internal and external factors as prescribed by regulation. While management believes that the Company’s

current allowance for loan losses is adequate, there can be no assurance that the allowance for loan losses will be adequate to cover losses that may in fact be realized in the future or that additional provisions for loan losses will not be required. To the best of management's knowledge, all known losses as of December 31, 2015, have been recorded.

Analysis of the Allowance for Loan Losses. The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Loans receivable, gross	\$ 295,958	\$ 268,378	\$ 263,949	\$ 251,177	\$ 235,953
Average loans receivable, net	274,979	261,683	251,156	235,894	233,374
Allowance balance, at beginning of period	2,769	2,819	3,328	3,854	3,203
Provision for losses:	1,175	333	220	773	806
Mortgage loans:					
One-to-four family	(1,158)	(38)	(130)	(146)	(157)
Residential construction	-	-	-	-	-
Multi-family residential	-	-	-	-	-
Nonresidential real estate and land	-	(261)	(621)	(1,199)	-
Other loans:					
Consumer	-	-	(2)	(11)	-
Commercial	-	(112)	-	(1)	-
Gross charge-offs	(1,158)	(411)	(753)	(1,357)	(157)
Recoveries:					
Mortgage loans:					
One-to-four family	47	8	10	42	-
Residential construction	-	-	-	-	-
Multi-family residential	-	-	-	-	-
Nonresidential real estate and land	-	17	-	-	-
Other loans:					
Consumer	3	1	12	1	2
Commercial	1	2	2	15	-
Gross recoveries	51	28	24	58	2
Net (charge-offs) recoveries	(1,107)	(383)	(729)	(1,299)	(155)
Allowance balance, at end of period	\$ 2,837	\$ 2,769	\$ 2,819	\$ 3,328	\$ 3,854
Allowance for loan losses as a percent of loans receivable, gross at end of period	0.96%	1.03%	1.07%	1.32%	1.63%
Net loan charge-offs (recoveries) as a percent of average loans receivable, net	0.40%	0.15%	0.29%	0.55%	0.07%
Ratio of allowance for loan losses to total non-performing assets at end of period	145.12%	82.29%	97.27%	59.71%	54.35%
Ratio of allowance for loan losses to nonperforming loans at end of period	146.16%	86.91%	97.27%	63.31%	66.36%

Investment Activities

The Company's cash and cash equivalents, consisting of cash and due from banks and interest-bearing deposits due from other financial institutions with original maturities of three months or less, totaled \$11.2 million at December 31, 2015, compared to \$10.8 million at December 31, 2014, an increase of \$373,000. The Company's investment portfolio is comprised of investment securities, and state and local obligations. The carrying value of the Company's investment securities totaled \$26.2 million at December 31, 2015, compared to \$25.4 million at December 31, 2014.

Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future, as well as management's projections as to the short-term demand for funds to be used in the Company's loan origination and other activities.

The Company also invests in mortgage-backed securities generally issued or guaranteed by the United States Government or agencies thereof or meeting investment grade credit quality standards in accordance with the Board-approved investment policy and regulatory guidance that is intended to increase earnings over lower yielding cash equivalents, reduce interest rate risk relative to longer duration whole loan alternatives, to provide liquidity to the institution primarily through monthly cash flows while limiting credit risk and meet Community Reinvestment Act ("CRA") requirements by investing in specified loan pools. Investments in mortgage-backed securities are made either directly or by exchanging mortgage loans in the Company's portfolio for such securities. These securities consist primarily of adjustable rate or shorter duration mortgage-backed securities issued or guaranteed by the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), and the Government National Mortgage Association ("GNMA"). Total mortgage-backed securities, including those designated as available-for-sale, decreased to \$77.2 million at December 31, 2015 from \$90.0 million at December 31, 2014, primarily due to using the cash flow from principal reductions to fund loan growth during the current year period.

The Company's holdings of private-label collateralized mortgage obligations totaled \$277,000 at December 31, 2015 compared to \$502,000 at December 31, 2014. All such securities were rated AAA at the time of purchase and the remaining three holdings continue to be of investment grade. These positions contain collateral that was originated during 2003 or earlier. In addition, management reviews a monthly analysis of actual and projected cash flows for these securities to determine whether or not any other-than-temporary impairment ("OTTI") exists. At December 31, 2015 and December 31, 2014, no OTTI was identified with respect to these securities.

The Company's objectives in investing in mortgage-backed securities vary from time to time depending upon market interest rates, local mortgage loan demand, the Company's level of liquidity and the need for CRA investments. Mortgage-backed securities are more liquid than whole loans, can be readily sold in response to market conditions and changes in interest rates and provide monthly principal and interest cash flows that can be used to fund loan demand or reinvested in the securities portfolio. Mortgage-backed securities purchased by the Company also have lower credit risk because principal and interest are generally either insured or guaranteed by the United States Government or agencies thereof.

Investments in state and municipal obligations are made to generate tax-exempt income, to manage interest rate risk through call protection, to diversify security types in the investment portfolio and to meet the requirements of CRA for investments in the Bank's CRA assessment area. Credit analysis of state and municipal obligations is completed in compliance with regulatory requirements to avoid reliance on ratings published by Nationally Recognized Statistical Ratings Organizations ("NRSRO").

The portfolio of state and municipal obligations is reviewed on a regular basis for classification and impairment in accordance with regulatory and accounting guidance. No impairment was recognized in the portfolio at December 31, 2015 or December 31, 2014 and no obligations were classified at either date.

Investment Portfolio. The following table sets forth the carrying value of the Company's investment securities portfolio, short-term investments and FHLB stock, at the dates indicated.

	December 31,					
	2015		2014		2013	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Investment portfolio:						
U.S. Government and agency obligations	\$ 183	\$ 183	\$ 226	\$ 226	\$ 246	\$ 246
Municipal obligations	25,397	25,931	24,731	25,511	27,240	27,059
Mortgage-backed securities of government- sponsored entities	77,024	77,161	88,616	89,567	81,291	81,737
Private-label collateralized mortgage obligations	274	277	491	502	675	704
Federal Home Loan Bank stock	4,226	4,226	4,226	4,226	5,025	5,025
Total investments	<u>\$ 107,104</u>	<u>\$ 107,778</u>	<u>\$ 118,290</u>	<u>\$ 120,032</u>	<u>\$ 114,477</u>	<u>\$ 114,771</u>

Investment Portfolio Maturities. The following table sets forth the scheduled final maturities, carrying values, market values and average yields for the Company's investment securities at December 31, 2015. At such date, the Company did not hold any investment securities with maturities in excess of 30 years.

At December 31, 2015

	Less than one year		One to Five Years		Five to Ten Years		More than Ten Years	
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
	(Dollars in Thousands)							
U.S. Government and agency obligations	\$ -	0.00%	\$ -	0.00%	\$ 36	0.92%	\$ 147	0.78%
Municipal obligations (tax-equivalent yields)	1,726	5.92%	3,361	4.86%	7,621	4.02%	12,689	5.48%
Mortgage-backed securities of government-sponsored entities	4	5.82%	2,714	3.02%	25,676	2.05%	48,630	2.20%
Private-label collateralized mortgage obligations	-	-	-	-	73	5.00%	201	5.30%
Total investment securities	\$ 1,730	5.92%	\$ 6,075	4.05%	\$ 33,406	2.51%	\$ 61,667	2.90%

Investment Portfolio:

U.S. Government and agency obligations
Municipal obligations (tax-equivalent yields)
Mortgage-backed securities of government-sponsored entities
Private-label collateralized mortgage obligations
Total investment securities

At December 31, 2015

Total Investment Securities			
Average Life In Years	Amortized Cost	Market Value	Weighted Average Yield
	(Dollars in Thousands)		
U.S. Government and agency obligations	\$ 183	\$ 183	0.81%
Municipal obligations (tax-equivalent yields)	25,397	25,931	5.00%
Mortgage-backed securities of government-sponsored entities	77,024	77,161	2.18%
Private-label collateralized mortgage obligations	274	277	5.22%
Total investment securities	\$ 102,878	\$ 103,552	2.90%

Investment Portfolio:

U.S. Government and agency obligations
Municipal obligations (tax-equivalent yields)
Mortgage-backed securities of government-sponsored entities
Private-label collateralized mortgage obligations
Total investment securities

Sources of Funds

General. The Company receives cash for the annual ESOP loan payment and dividends from the Bank for the company to fund operating expenses, tax settlement, cash dividends to shareholders and stock repurchases. Dividends from the Bank to the Company are subject to regulatory approval as discussed under “Federal Regulation – Limitations on Capital Distributions” below.

Deposits are the major source of the Bank’s funds for lending and other investment purposes. In addition to deposits, the Bank derives funds from the amortization, prepayment or sale of loans and mortgage-backed securities, the sale or maturity of investment securities, operations and, if needed, advances from the FHLB, the Federal Reserve discount window, brokered CD’s and Certificate of Deposit Account Registry Service “CDARS”. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan and mortgage-backed security prepayments are influenced significantly by general interest rates and market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes, particularly the management of interest rate risk.

Deposits. Consumer and commercial deposits are attracted principally from within the Bank’s market area through the offering of a broad selection of deposit instruments including checking accounts, savings accounts, money market accounts, term certificate of deposit accounts and individual retirement accounts. The Bank accepts deposits of \$100,000 or more and offers negotiated interest rates on such deposits. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit and the interest rate, among other factors. The Bank regularly evaluates its internal cost of funds, surveys rates offered by competing institutions, reviews the Bank’s cash flow requirements for lending and liquidity, and executes rate changes when deemed appropriate.

Deposit Portfolio. Savings and other deposits in the Company as of December 31, 2015, were comprised of the following:

Weighted Average Interest Rate	Minimum Term	Checking and Savings Deposits	Minimum Balance	Balances	Percentage of Total Deposits
				(In Thousands)	
0.06%	None	Checking accounts	\$ 100	\$ 101,532	28.01%
0.11%	None	Savings accounts	50	80,698	22.27%
0.15%	None	Money market accounts	2,500	51,391	14.18%
		Certificates of Deposit			
0.45%	12 months or less	Fixed term, fixed rate	500	17,426	4.81%
0.51%	13 to 24 months	Fixed term, fixed rate	500	24,368	6.72%
0.73%	25 to 36 months	Fixed term, fixed rate	500	6,271	1.73%
1.67%	37 months or more	Fixed term, fixed rate	500	70,422	19.43%
0.18%	Negotiable	Jumbo certificates	100,000	10,319	2.85%
				<u>\$ 362,427</u>	<u>100.00%</u>

The following table sets forth the change in dollar amount of deposits in the various types of accounts offered by the Company at the dates indicated.

	Balance at December 31, 2015	Percent of Deposits	Increase (Decrease)	Balance at December 31, 2014	Percent of Deposits	Increase (Decrease)	Balance at December 31, 2013	Percent of Deposits
				(Dollars in Thousands)				
Checking accounts	\$ 101,532	28.01%	\$ 9,611	\$ 91,921	26.34%	\$ 5,969	\$ 85,952	25.46%
Savings accounts	80,698	22.27%	3,431	77,267	22.15%	5,185	72,082	21.35%
Money market accounts	51,391	14.18%	(564)	51,955	14.89%	2,897	49,058	14.53%
Certificates of deposit ⁽¹⁾								
Original maturities of:								
12 months or less	17,426	4.81%	1,510	15,916	4.56%	2,817	13,099	3.88%
13 to 24 months	24,368	6.72%	(267)	24,635	7.06%	(142)	24,777	7.34%
25 to 36 months	6,271	1.73%	(3,887)	10,158	2.91%	(1,196)	11,354	3.36%
37 months or more	70,422	19.43%	7,875	62,547	17.93%	42	62,505	18.53%
Negotiated jumbo	10,319	2.85%	(4,204)	14,523	4.16%	(4,221)	18,744	5.55%
Total	\$ 362,427	100.00%	\$ 13,505	\$ 348,922	100.00%	\$ 11,351	\$ 337,571	100.00%

⁽¹⁾ Certain Individual Retirement Accounts ("IRAs") are included in the respective certificate balances. IRAs totaled \$27.3 million, \$27.3 million and \$28.8 million, as of December 31, 2015, 2014 and 2013, respectively.

The following table sets forth the average dollar amount and weighted-average rate of deposits in the various types of accounts offered by the Company for the periods indicated.

	Year ended December 31, 2015			Year ended December 31, 2014			Year ended December 31, 2013		
	Average Balance	Percent of Deposits	Weighted Average Rate	Average Balance	Percent of Deposits	Weighted Average Rate	Average Balance	Percent of Deposits	Weighted Average Rate
				(Dollars in thousands)					
Noninterest-bearing demand deposits	\$ 40,566	11.52%	0.00%	\$ 33,676	9.77%	0.00%	\$ 28,973	8.82%	0.00%
Checking accounts	53,910	15.30%	0.06%	53,042	15.38%	0.06%	50,542	15.38%	0.05%
Savings accounts	78,976	22.41%	0.11%	75,732	21.97%	0.11%	69,483	21.15%	0.11%
Money market accounts	52,119	14.79%	0.15%	52,038	15.09%	0.15%	48,841	14.86%	0.15%
Certificates of deposit	126,795	35.98%	1.10%	130,282	37.79%	1.06%	130,762	39.79%	1.16%
Total deposits	\$ 352,366	100.00%	0.45%	\$ 344,770	100.00%	0.46%	\$ 328,601	100.00%	0.52%

The following table sets forth the certificates of deposit in the Company classified by rates as of the dates indicated.

<u>Rate</u>	At December 31,		
	2015	2014	2013
	(In Thousands)		
0.00 - 2.00%	\$ 120,244	\$ 111,483	\$ 106,648
2.01 - 4.00%	8,552	16,286	23,821
4.01 - 5.00%	10	10	10
Total	<u>\$ 128,806</u>	<u>\$ 127,779</u>	<u>\$ 130,479</u>

The following table sets forth the amount and maturities of certificates of deposit at December 31, 2015.

<u>Rate</u>	Amount Due			
	Less Than One Year	1-2 Years	2-3 Years	After 3 Years
	(In Thousands)			
0.00 - 2.00%	\$ 45,606	\$ 29,590	\$ 14,477	\$ 30,571
2.01 - 4.00%	1,265	1,162	269	5,856
4.01 - 5.00%	-	10	-	-
Total	<u>\$ 46,871</u>	<u>\$ 30,762</u>	<u>\$ 14,746</u>	<u>\$ 36,427</u>

The following table indicates the amount of the Company's certificates of deposit of \$100,000 or more by time remaining until maturity as of December 31, 2015.

<u>Maturity Period</u>	<u>Certificates of Deposit</u>
	(In thousands)
Three months or less	\$ 10,311
Over three months through six months	2,842
Over six months through twelve months	4,902
Over twelve months	31,132
Total	<u>\$ 49,187</u>

Borrowings

Deposits are the primary source of funds for the Company's lending and investment activities and for its general business purposes. The Bank may rely upon advances from the FHLB and the Federal Reserve Bank discount window to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to extend liability duration for interest rate risk management purposes. Advances from the FHLB typically are collateralized by stock in the FHLB and a portion of first mortgage loans held by the Bank. At December 31, 2015, the Company had \$21.0 million in advances outstanding.

The FHLB functions as a central reserve bank providing credit for member financial institutions. Members of the FHLB are required to own capital stock in the FHLB and are authorized to apply for advances on the security of such stock and certain home mortgages and other assets (principally, securities that are obligations of, or guaranteed by, the United States) provided certain standards related to

creditworthiness have been met. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on a fixed percentage of a member institution's net worth, the FHLB's assessment of the institution's creditworthiness, or the amount of collateral available to secure additional borrowings.

Other short-term borrowings consist of repurchase agreements executed with customers as part of a commercial account sweep program. A portion of the Bank's securities portfolio is used to support this program.

	Year ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Federal Home Loan Bank advances:			
Maximum month-end balance	\$ 23,998	\$ 22,366	\$ 22,336
Balance at end of period	21,000	16,438	22,336
Average balance	19,878	18,586	21,669
Weighted-average interest rate on:			
Balance at end of period	1.32%	2.25%	2.64%
Average balance for period	1.86%	2.58%	2.82%

	Year ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Other short-term borrowings:			
Maximum month-end balance	\$ 7,189	\$ 7,000	\$ 8,373
Balance at end of period	5,606	7,000	7,212
Average balance	6,406	6,309	6,546
Weighted-average interest rate on:			
Balance at end of period	0.15%	0.15%	0.15%
Average balance for period	0.14%	0.15%	0.15%

Competition

The Company encounters strong competition both in attracting deposits and in originating real estate and other loans. The Bank's most direct competition for deposits has come historically from commercial banks, other savings associations, and credit unions in its market area, and the Company expects continued strong competition from such financial institutions in the foreseeable future. The Company's market area includes branches of several commercial banks that are substantially larger than the Company in terms of state-wide deposits. The Company competes for savings by offering depositors a high level of personal service and expertise together with a wide range of financial services.

The competition for real estate and other loans comes principally from commercial banks, mortgage banking companies, and other savings associations. This competition for loans has increased substantially in recent years as a result of the large number of institutions competing in the Company's market area as well as the increased efforts by commercial banks to expand mortgage loan originations.

The Company competes for loans primarily through the interest rates and loan fees it charges and the efficiency and quality of services, particularly local decision making, it provides borrowers, real estate brokers, and builders. Factors that affect competition include general and local economic conditions, current interest rate levels and volatility of the mortgage markets.

Subsidiaries

At December 31, 2015, the Company did not have any direct unconsolidated subsidiaries.

Total Employees

The Company had 104 full-time employees and 10 part-time employees at December 31, 2015. None of these employees are represented by a collective bargaining agent, and the Company believes that it enjoys good relations with its personnel.

Regulation

The regulatory environment for both the Company and the Bank changed significantly on July 21, 2011 in accordance with provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). On July 21, 2011, the regulatory responsibilities of the Office of Thrift Supervision (the “OTS”), formerly the primary federal regulator of both the Company and the Bank were transferred to other regulatory agencies. As a Savings and Loan Holding Company, the Company became subject to examination, supervision and extensive regulation by the Federal Reserve Bank of Cleveland (the “FRB”). With respect to the Bank, the federal examination responsibilities formerly held by the OTS were transferred to the FDIC. In addition, federal savings and loan associations are subject to regulations and rules as promulgated by the Office of the Comptroller of the Currency (the “OCC”). As part of the regulatory transition from the OTS to the FDIC, the Bank was required to transition from the OTS Thrift Financial Report to the Call Report used by the FDIC effective with the March 31, 2012 quarterly filing.

As a state-chartered, FDIC-insured institution, the Bank is subject to examination, supervision and extensive regulation by the Ohio Department of Commerce, Division of Financial Institutions (“ODFI”), and the FDIC. The Bank is a member of, and owns stock in, the FHLB of Cincinnati, which is one of the twelve regional banks in the Federal Home Loan Bank System. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The FDIC and ODFI regularly examine the Bank and prepare reports of examination addressed to the Company’s Board of Directors regarding any deficiencies that they may find in the Company’s operations. The FDIC also may examine the Bank in its role as the administrator of the Deposit Insurance Fund (“DIF”). The Bank’s relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws especially in such matters as the ownership of savings accounts and the form and content of the Bank’s mortgage documents. Any change in such regulation, whether by the FDIC, ODFI, or Congress, could have a material adverse impact on the Company, the Bank and their operations.

Federal Regulation of Savings and Loan Holding Companies

In accordance with the provisions of the Dodd-Frank Act, the OTS was abolished on July 21, 2011. The supervisory responsibilities formerly assigned to the OTS with respect to the Company were transferred to the FRB. As a unitary thrift holding company, the Company is deemed to be “non-complex” by the FRB. As a non-complex holding company, the supervision of the Company is largely determined by the examination ratings given to the Bank by the FDIC. As part of the regulatory transition from the OTS to the FRB, the Company transitioned from the OTS reporting formats to the FRB reporting format.

Federal Regulation of Savings Institutions

Business Activities. The activities of savings associations are governed by the Home Owners’ Loan Act, as amended (the “HOLA”) and, in certain respects, the Federal Deposit Insurance Act (the “FDI Act”).

These federal statutes, among other things, (1) limit the types of loans a savings association may make and (2) restrict the aggregate amount of loans secured by nonresidential real estate property to 400% of capital. The description of statutory provisions and regulations applicable to savings associations set forth herein does not purport to be a complete description of such statutes and regulations and their effect on the Company or the Bank.

The Dodd-Frank Act created a new, independent federal agency, the Consumer Financial Protection Bureau (“CFPB”), which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, fair lending laws and certain other statutes.

The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets, their service providers and certain non-depository entities such as debt collectors and consumer reporting agencies. Although the Bank has less than \$10 billion in assets, the impact of the formation of the CFPB has caused a ripple effect across all bank regulatory agencies, and placed a renewed focus on consumer protection and compliance efforts. For examples of this new authority, the CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower’s ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Loans to One Borrower. Under the HOLA, savings institutions are generally subject to the national bank limits on loans to one borrower. Generally, savings institutions may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of the institution’s unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily-marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. See “—Lending Activities—Loans to One Borrower.”

Qualified Thrift Lender Test. The HOLA requires savings associations to meet a qualified thrift lender (“QTL”) test. Under the QTL test, a savings association is required to maintain at least 65% of its “portfolio assets” (total assets less (i) specified liquid assets up to 20% of total assets, (ii) intangibles, including goodwill, and (iii) the value of property used to conduct business) in certain “qualified thrift investments,” primarily residential mortgages and related investments, including certain mortgage-backed and related securities on a monthly basis in 9 out of every 12 months.

A savings association that fails the QTL test must either convert to a bank charter or operate under certain restrictions. As of December 31, 2015, the Company maintained 74.4% of its portfolio assets in qualified thrift investments and, therefore, met the QTL test.

Limitation on Capital Distributions. Regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger and other distributions charged against capital. A “well-capitalized” institution can, after prior notice and non-objection by the regulatory authorities, make capital distributions during a calendar year in an amount up to 100% of its net income during the calendar year, plus its retained net income for the preceding two years. As of December 31, 2015, the Bank was a “well-capitalized” institution.

Community Reinvestment. Under the Community Reinvestment Act (the “CRA”), as implemented by federal regulations, a savings institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including

low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Company received a "satisfactory" CRA rating under the current CRA regulations in its most recent performance evaluation, dated July 8, 2013.

Transactions with Related Parties. The Company's authority to engage in transactions with related parties or "affiliates" (*i.e.*, any company that controls or is under common control with an institution, including the Bank and any non-savings institution subsidiaries) or to make loans to certain insiders, is limited by Sections 23A and 23B of the Federal Reserve Act ("FRA"). Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the savings institution and also limits the aggregate amount of transactions with all affiliates to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

Enforcement. Under the FDI Act, the FDIC has primary enforcement responsibility over state-chartered savings institutions and has the authority to bring enforcement action against all "institution-related parties," including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease-and-desist order to removal of officers and/or directors of the institutions, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. Criminal penalties for most financial institution crimes include fines of up to \$1 million and imprisonment for up to 30 years.

Standards for Safety and Soundness. The federal banking agencies have adopted a final regulation and Interagency Guidelines Prescribing Standards for Safety and Soundness ("Guidelines") to implement the safety and soundness standards required under the FDI Act. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The standards set forth in the Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset growth; and compensation, fees and benefits. The agencies also adopted a proposed rule which proposes asset quality and earnings standards which, if adopted, would be added to the Guidelines. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the FDI Act. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Capital Requirements. Banking regulations have established minimum capital guidelines requiring savings institutions to maintain certain capital ratios: a 4.0% Tier I capital ratio (core) to both total risk-weighted and average assets (leverage ratio) and an 8.0% Total Capital (risk-based) to risk-weighted assets ratio through 2015. Total Capital (risk-based) capital is defined as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus, minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain qualifying supervisory goodwill

and certain mortgage servicing rights. The regulations also require that, in meeting the core, leverage and risk-based capital ratios, institutions must deduct investments in and loans to subsidiaries engaged in activities not permissible for a national bank.

The risk-based capital guidelines for savings institutions require the maintenance of Tier 1 (core) and total capital (which is defined as core capital plus Tier 2 capital) to risk-weighted assets of 4.0% and 8.0%, respectively, for 2015. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk weight assigned by the capital regulations based on the risks which are inherent in the type of asset. The components of Tier 1 (core) capital are equivalent to those discussed earlier under the 4.0% leverage ratio. The components of Tier 2 capital currently include qualifying subordinated debt and redeemable preferred stock, cumulative perpetual preferred stock, allowance for loan and lease losses, and unrealized gains on available-for-sale equity securities. Allowance for loan and lease losses includable in Tier 2 capital is limited to a maximum of 1.25% of total risk-weighted assets. Overall, the amount of Tier 2 capital included as part of total capital cannot exceed 100% of core capital.

In July 2013 a final rule was issued by the bank regulatory agencies that revised the leverage and risk-based capital requirements and methods for calculating risk-weighted assets in accordance with the Basel Committee. It requires a capital conservation buffer to be phased in beginning in 2016 at 0.625% per year and increases to 2.50% by the end of 2019, and if not met, will restrict discretionary bonus payments to executive officers. A component of this rule included a one-time “opt-in” or “opt-out” provision to include accumulated other comprehensive income in regulatory capital. Management elected to “opt out” on the March 2015 Call Report remaining consistent with the past reporting.

Prompt Corrective Regulatory Action

Under the regulatory framework for prompt corrective action regulations, the FDIC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution’s degree of capitalization. Generally, a savings institution that has total risk-based capital of less than 8.0% or a Tier 1 capital ratio that is less than 4.0% is considered to be undercapitalized for 2015. At December 31, 2015 the Bank satisfied all requirements for inclusion in the “well-capitalized” category.

Insurance of Accounts and Regulation by the FDIC

The Bank is a member of the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the U.S. Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. Currently, FDIC deposit insurance rates generally range from 2.5 basis points to 45 basis points, depending on the assessment risk classification assigned to the depository institution.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the deposit insurance of the Bank.

Federal Home Loan Bank System

The Bank is a member of the FHLB System, which consists of 11 regional FHLBs. The FHLB provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLB, whichever is greater. The Bank was in compliance with this requirement with an investment in FHLB-Cincinnati stock, at December 31, 2015, of \$4.2 million. The FHLBs are required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the FHLBs pay to their members and could also result in the FHLBs imposing a higher rate of interest on advances to their members. FHLB dividends were 4.0% for the year ended December 31, 2015. In the event that dividends are reduced, or interest on future FHLB-Cincinnati advances is increased, the Bank's net interest income will decline.

Ohio Regulation

As a savings and loan association organized under the laws of the State of Ohio, the Bank is subject to regulation by the ODFI. Regulation by the ODFI affects the Bank's internal organization as well as its savings, mortgage lending, and other investment activities. Periodic examinations by the ODFI can be conducted on a joint basis with the FDIC but may also be conducted on an alternating basis. The Bank's most recent examination during the quarter ending June 30, 2014 was conducted by the FDIC. Ohio law requires that the Bank maintain federal deposit insurance as a condition of doing business.

Under Ohio law, an Ohio association may buy any obligation representing a loan that would be a legal loan if originated by the Bank, subject to various requirements including: loans secured by liens on income-producing real estate may not exceed 20% of an association's assets; consumer loans, commercial paper, and corporate debt securities may not exceed 20% of an association's assets; loans for commercial, corporate, business, or agricultural purposes may not exceed 30% of an association's assets, provided that an association's required reserve must increase proportionately; certain other types of loans may be made for lesser percentages of the association's assets; and, with certain limitations and exceptions, certain additional loans may be made if not in excess of 3% of the association's total assets. In addition, no association may make real estate acquisition and development loans for primarily residential use to one borrower in excess of 2% of assets. The total investments in commercial paper or corporate debt of any issuer cannot exceed 1% of an association's assets, with certain exceptions.

Ohio law authorizes Ohio-chartered savings associations to, among other things: (i) invest up to 15% of assets in the capital stock, obligations, and other securities of service corporations organized under the laws of Ohio, and an additional 20% of net worth may be invested in loans to majority-owned service corporations; (ii) invest up to 10% of assets in corporate equity securities, bonds, debentures, notes, or other evidence of indebtedness; (iii) exceed limits otherwise applicable to certain types of investments (other than investments in service corporations) by and between 3% and 10% of assets, depending upon the level of the institution's permanent stock, general reserves, surplus, and undivided profits; and (iv) invest up to 15% of assets in any loans or investments not otherwise specifically authorized or prohibited, subject to authorization by the institution's board of directors.

An Ohio association may invest in such real property or interests therein as its board of directors deems necessary or convenient for the conduct of the business of the association, but the amount so invested may not exceed the net worth of the association at the time the investment is made. Additionally, an association may invest an amount equal to 10% of its assets in any other real estate. This limitation does not apply, however, to real estate acquired by foreclosure, conveyance in lieu of foreclosure, or other legal proceedings in relation to loan security interests.

Notwithstanding the above powers authorized under Ohio law and regulation, a state-chartered savings association, such as the Bank, is subject to certain limitations on its permitted activities and investments under federal law, which may restrict the ability of an Ohio-chartered association to engage in activities and make investments otherwise authorized under Ohio law.

Ohio has adopted statutory limitations on the acquisition of control of an Ohio savings and loan association by requiring the written approval of the ODFI prior to the acquisition by any person or company, as defined under the Ohio Revised Code, of a controlling interest in an Ohio association. Control exists, for purposes of Ohio law, when any person or company, either directly, indirectly, or acting in concert with one or more other persons or companies (a) acquires 15% of any class of voting stock, irrevocable proxies, or any combination thereof, (b) directs the election of a majority of directors, (c) becomes the general partner of the savings and loan association, (d) has influence over the management and policies of the savings and loan association, (e) has the ability to direct shareholder votes, or (f) anything else deemed to be control by the ODFI. The ODFI's written permission is required when the total amount of control held by the acquiror was less than or equal to 25% control before the acquisition and more than 25% control after the acquisition, or when the total amount of control held by the acquiror was less than 50% before the acquisition and more than 50% after the acquisition. Ohio law also prescribes other situations in which the ODFI must be notified of the acquisition even though prior approval is not required. Any person or company, which would include a director, will not be deemed to be in control by virtue of an annual solicitation of proxies voted as directed by a majority of the board of directors.

Under certain circumstances, interstate mergers and acquisitions involving associations incorporated under Ohio law are permitted by Ohio law. A savings and loan association or savings and loan holding company with its principal place of business in another state may acquire a savings and loan association or savings and loan holding company incorporated under Ohio law if the laws of such other state permit an Ohio savings and loan association or an Ohio holding company reciprocal rights. Additionally, legislation permits interstate branching by savings and loan associations incorporated under Ohio law.

Ohio law requires prior written approval of the ODFI for a merger of an Ohio association with another savings and loan association or a holding company affiliate.

Holding Company Regulation

Holding Company Acquisitions. The Company is a registered savings and loan holding company within the meaning of Section 10 of the HOLA, and is subject to FRB examination and supervision as well as certain reporting requirements. Federal law generally prohibits a savings and loan holding company, without prior FRB approval, from acquiring the ownership or control of any other savings institution or savings and loan holding company, or all, or substantially all, of the assets or more than 5% of the voting shares thereof. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings institution not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the FRB.

Holding Company Activities. The Company operates as a unitary savings and loan holding company. The activities of the Company and its non-savings institution subsidiaries are restricted to activities traditionally permitted to multiple savings and loan holding companies and to financial holding companies under provisions of the Bank Holding Company Act. Multiple savings and loan holding companies may:

- furnish or perform management services for a savings association subsidiary of a savings and loan holding company;
- hold, manage or liquidate assets owned or acquired from a savings association subsidiary of a savings and loan holding company;

- hold or manage properties used or occupied by a savings association subsidiary of a savings and loan holding company;
- engage in activities determined by the Federal Reserve to be closely related to banking and a proper incident thereto; and
- engage in services and activities previously determined by the Federal Home Loan Bank Board by regulation to be permissible for a multiple savings and loan holding company as of March 5, 1987.

The activities financial holding companies may engage in include:

- lending, exchanging, transferring or investing for others, or safeguarding money or securities;
- insuring, guaranteeing or indemnifying others, issuing annuities, and acting as principal, agent or broker for purposes of the foregoing;
- providing financial, investment or economic advisory services, including advising an investment company;
- issuing or selling interests in pooled assets that a bank could hold directly;
- underwriting, dealing in or making a market in securities; and
- merchant banking activities.

If the regulator determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the regulator may impose such restrictions as deemed necessary to address such risk. These restrictions include limiting the following:

- the payment of dividends by the savings institution;
- transactions between the savings institution and its affiliates; and
- any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution.

Federal Securities Laws. The Company registered its common stock with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Exchange Act”). The Company is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Exchange Act. Since the passage of the Highway Transportation bill in December 2015, savings and loan holding companies are now permitted to delist if they have less than 1,200 shareholders.

Federal and State Taxation

Federal Taxation. Income taxes are accounted for under the asset and liability method which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Federal tax bad debt reserve method available to thrift institutions was repealed in 1996 for tax years beginning after 1995. As a result, the Company was required to change from the reserve method to the

specific charge-off method to compute its bad debt deduction. The recapture amount resulting from the change in a thrift's method of accounting for its bad debt reserves was taken into taxable income ratably (on a straight-line basis) over a six-year period.

Retained earnings as of December 31, 2015 include approximately \$2.7 million for which no provision for Federal income tax has been made. This reserve (base year and supplemental) is frozen/not forgiven as certain events could trigger a recapture such as stock redemption or distributions to shareholders in excess of current or accumulated earnings and profits.

The Company's federal income tax returns through March 31, 2011 have been closed by statute or examination.

Ohio Taxation. Effective in 2014, the Corporation and the Bank began remitting the Financial Institutions Tax ("FIT") as a replacement for the Ohio Franchise Tax, which the Bank had filed through 2013. The amount of the "FIT" is 0.8%, based on total equity capital, compared to the Franchise Tax of 1.3% of taxable net worth. The Bank is not currently under audit with respect to its Ohio franchise tax returns.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempt from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware. The tax is imposed as a percentage of the capital base of the Company with an annual maximum of \$180,000. The Company paid Delaware franchise taxes of \$34,000 for the year ended December 31, 2015.

ITEM 1A. Risk Factors

Except for the historical information contained herein, the matters discussed in this Form 10-K include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding the intent, belief and expectations of the Company and its management, such as statements concerning the Company's future profitability. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, factors detailed from time to time in the Company's filings with the SEC. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Form 10-K will prove to be accurate, and in light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company encounters a number of risks in the conduct of its business. A discussion of such risks follows.

The Company is subject to a number of general categories of risks that may adversely affect its financial condition or results of operations, many of which are outside of management's direct control, though efforts are made to manage those risks while optimizing returns. Among the types of risks assumed are: (1) credit risk, which is the risk of loss due to loan customers or other counterparties not being able to meet their financial obligations under agreed upon terms, (2) market risk, which is the risk of loss due to changes in the market value of assets and liabilities due to changes in market interest rates, foreign exchange rates, equity prices, and credit spreads, (3) liquidity risk, which is the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments based on external macro market issues, investor and customer perception of financial strength, and events unrelated to the Company such as war, terrorism, or financial institution market specific issues, and (4) operational risk, which is the risk of loss due to human error, inadequate or failed internal systems and controls, violations of, or noncompliance with, laws, rules,

regulations, prescribed practices, or ethical standards, and external influences such as market conditions, fraudulent activities, disasters, and security risks.

If one or more of the factors affecting our forward looking statements proves inaccurate, then our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by forward-looking statements contained herein. Therefore, we caution you not to place undue reliance on our forward-looking statements. Except as required by applicable law or regulation, we will not update our forward-looking statements to reflect actual results, performance or achievements.

In addition to the other information included or incorporated by reference into this report, readers should carefully consider that the following important factors, among others, could materially impact the Company's business, future results of operations, and future cash flows.

The Company's results of operations are significantly dependent on economic conditions and related uncertainties. Commercial banking is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, real estate values, government monetary policy, international conflicts, the actions of terrorists and other factors beyond our control may adversely affect our results of operations. Changes in interest rates, in particular, could adversely affect our net interest income and have a number of other adverse effects on our operations, as discussed in the immediately succeeding risk factor. Adverse economic conditions also could result in an increase in loan delinquencies, foreclosures and nonperforming assets and a decrease in the value of the property or other collateral which secures our loans, all of which could adversely affect our results of operations. We are particularly sensitive to changes in economic conditions and related uncertainties in Northeast Ohio because we derive substantially all of our loans, deposits and other business from this area. Accordingly, we remain subject to the risks associated with prolonged declines in national or local economies. The current economic climate, with associated legislative, regulatory, fiscal and monetary policy initiatives, may materially adversely affect the Company's operations. One example of this effect is the Federal Reserve's accommodative monetary policy, that has kept interest rates low for a prolonged period of time and has potentially had other macroeconomic effects such as an increase in housing prices in excess of fundamental values (a so-called "bubble") and a prolonged increase in stock market values.

Changes in interest rates could have a material adverse effect on our operations. The operations of financial institutions such as the Bank are dependent to a large extent on net interest income, which is the difference between the interest income earned on interest-earning assets such as loans and investment securities and the interest expense paid on interest-bearing liabilities such as deposits and borrowings. Changes in the general level of interest rates can affect our net interest income by affecting the difference between the weighted-average yield earned on our interest-earning assets and the weighted-average rate paid on our interest-bearing liabilities, or interest rate spread, and the average life of our interest-earning assets and interest-bearing liabilities. Changes in interest rates also can affect our ability to originate loans; the value of our interest-earning assets; our ability to obtain and retain deposits in competition with other available investment alternatives; and the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including governmental fiscal and monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we believe that the estimated maturities of our interest-earning assets currently are well balanced in relation to the estimated maturities of our interest-bearing liabilities (which involves various estimates as to how changes in the general level of interest rates will impact these assets and liabilities), there can be no assurance that our profitability would not be adversely affected during any period of changes in interest rates. In addition, the prolonged period of low interest rates in recent years has potentially altered consumer behavior with respect to loans and deposits, increasing regulatory scrutiny of interest rate risk management processes and increasing the difficulty of modeling potential future consumer behaviors and the risk of an incorrect forecast of profitability under a variety of potential interest rate scenarios.

The strength and stability of other financial institutions may adversely affect our business.

The actions and commercial soundness of other financial institutions could affect the Company's ability to engage in routine funding transactions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to different industries and counterparties, and executes transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks, mutual funds and other institutional clients. Rumors or questions about one or more financial services institutions or the financial services industry in general have led to liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of its counterparty or client. In addition, our credit risk may increase when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan. Any such losses could materially and adversely affect our results of operations.

There are increased risks involved with commercial real estate, commercial business and consumer lending activities. Our lending activities include loans secured by existing commercial real estate. Commercial real estate lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity. Our lending activities also include commercial business loans to small- to medium-sized businesses, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home equity and second mortgage loans, automobile loans, deposit account secured loans and unsecured loans. Although commercial business loans and consumer loans generally have shorter terms and higher interest rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

New mortgage lending rules may increase the risk associated with our residential mortgage lending business. Over the course of the past several years, the CFPB has issued numerous rules regarding mortgage lending, notably a rule requiring all home mortgage lenders to determine a borrower's ability to repay the loan. Loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may be protected from liability. While we believe that our current loan policy is consistent with the guidance, making the majority of our loans "qualified mortgages," there is the possibility that in the event of a dispute, regulators or courts may come to a different conclusion and the Bank may be exposed to unexpected liability. Additional rules regarding disclosures and closing documents (the so-called "TILA/RESPA" rules) took effect in 2015 and created additional compliance and liability risks.

Since the Truth in Lending Act-RESPA Integrated Disclosure ("TRID") rule became effective for loans originated on or after October 3, 2015, there has been uncertainty in the residential mortgage lending industry regarding whether the Truth in Lending Act's ("TILA") liability rules or RESPA's liability rules would govern TRID violations. The TRID rule required extensive modifications to the process of closing a federally regulated residential mortgage loan and the systems that support that process among lenders, real estate agents, title insurance agents and attorneys that close residential mortgage loans, and others. Under TILA, there is a private right of action. Under RESPA, there is not. The Mortgage Bankers Association has noted increased secondary market rejection of mortgages which may contain technical TRID violations. The CFPB issued guidance in the form of a December 29, 2015 letter to the Mortgage Bankers Association clarifying that TILA provisions are determinative of TRID liability. Although the CFPB guidance provides some indication of the CFPB's intentions for enforcement and interpretation of the TRID rule, the TRID enforcement posture of other mortgage industry participants such as Fannie Mae, Freddie Mac and federal banking regulators like the FDIC is not yet apparent. Management's assessment and management of TRID

compliance risk will evolve as the residential mortgage lending industry gains experience with loan closings, loan purchases and examinations. The TRID rule, including the cost of compliance and the ultimate impact on the mortgage industry, could adversely impact the Company's profitability.

Our allowance for loan losses may not be adequate to cover probable losses. We have established an allowance for loan losses which we believe is adequate to offset probable losses on our existing loans. There can be no assurance that any future declines in real estate market conditions, general economic conditions or changes in regulatory policies will not require us to increase our allowance for loan losses, which would adversely affect our results of operations and, possibly, our financial condition.

We may not be able to achieve or successfully manage continued growth. The Company has pursued and continues to pursue a strategy of organic growth. The success of the Company's growth strategy will depend largely upon its ability to manage its credit risk and control its costs while providing competitive products and services. This growth strategy may present special risks, such as the risk that the Company will not efficiently handle growth with its present operations, the risk of dilution of book value and earnings per share as a result of an acquisition, the risk that earnings will be adversely affected by the start-up costs associated with establishing new products and services, the risk that the Company will not be able to attract and retain qualified personnel needed for expanded operations, and the risk that its internal monitoring and control systems may prove inadequate.

Anti-Takeover Provisions could negatively impact the Company's shareholders. In addition to state and federal laws and regulations governing changes in control of insured depository institutions or holding companies, the Company's Certificate of Incorporation and Bylaws contain certain provisions that may delay or make more difficult an acquisition of control of the Company. Delaware law presently requires a two-thirds majority vote of the outstanding shares to approve a merger or other consolidation. Further, the Company has 500,000 shares of authorized but unissued preferred stock, par value \$0.10 per share, which may be issued in the future with such rights, privileges and preferences as are determined by the Board of Directors of the Company.

The Company's common stock trading volume may not provide adequate liquidity for investors. The Company's common stock is traded on the Nasdaq Global Market under the symbol "WAYN", but trading volume has not been significant. There can be no assurance given as to the liquidity of the market for the common stock or the price at which any sales may occur, which price will depend upon, among other things, the number of holders thereof, the interest of securities dealers in maintaining a market in the common stock and other factors beyond the control of the Company.

The market price of the Company's common stock can be volatile, which may make it more difficult to resell Company common stock at a desired time and price. The market price for the common stock could be subject to significant fluctuations in response to variations in quarterly and yearly operating results, general trends in the banking industry and other factors. In addition, the stock market can experience price and volume fluctuations that may be unrelated or disproportionate to the operating performance of affected companies. These broad fluctuations may make it more difficult for a shareholder to resell the Company common stock when a shareholder wants to and at prices a shareholder finds attractive or at all.

The loss of key personnel may adversely impact our financial stability. The Company's success depends to a great extent on its senior management. The loss of their individual services could have a material adverse impact on the Company's financial stability and its operations. In addition, the Company's future performance depends on its ability to attract and retain key personnel and skilled employees, particularly at the senior management level. The Company's financial stability and its operations could be

adversely affected if, for any reason, one or more key executive officers ceased to be active in the Company's management.

We may not be able to successfully compete with others for business. Banking institutions operate in a highly competitive environment. The Company competes with other commercial banks, credit unions, savings institutions, finance companies, mortgage companies, mutual funds, and other financial institutions, many of which have substantially greater financial resources than the Company. Certain of these competitors offer products and services that are not offered by the Company and certain competitors are not subject to the same extensive laws and regulations as the Company. Additionally, consolidation of the financial services industry in Ohio and in the Midwest in recent years has increased the level of competition. Recent and proposed regulatory changes may further intensify competition in the Company's market area.

Our ability to pay dividends may be limited. The Company is a savings and loan holding company, which is substantially dependent on the profitability of its subsidiary and the upstream payment of dividends from the Bank to the Company. Under state and federal banking law, the payment of dividends by the Bank to the Company is subject to capital adequacy requirements. The inability of the Bank to generate profits and pay such dividends to the Company, or regulator restrictions on the payment of such dividends to the Company even if Bank profits are earned, would have an adverse effect on the financial condition and results of operations of the Company and the Company's ability to pay dividends to its shareholders.

Goodwill Impairment may adversely impact our results of operations. Impairment of goodwill or other intangible assets could require charges to earnings, which could result in a negative impact on our results of operations. Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are evaluated for impairment periodically or when impairment indicators are present. Evaluation of goodwill and such other intangible assets could result in circumstances where the applicable intangible asset is deemed to be impaired for accounting purposes. Under such circumstances, the intangible asset's impairment would be reflected as a charge to earnings in the period during which such impairment is identified. Management evaluated the goodwill using an analysis of required measures of value, including the current stock price as an indicator of minority interest value, change of control multiples as a measure of controlling interest value and discounted cash flow analysis as a measure of going concern value and applied a weighting based on appraisal standards to arrive at a valuation conclusion that indicated no impairment at December 31, 2015.

Material breaches in the security of bank systems may have a significant effect on the Company business. Increasing attention is being paid by the media, regulators and legislators to all matters relating to "cybersecurity," and the incidence of "cyber attacks" is increasing in both frequency and scope against entities of all types. The Company's subsidiary bank collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by the Bank and third party service providers. The Bank has security, backup and recovery systems in place, as well as a business continuity plan to ensure the Bank's systems will not be inoperable. The Company's subsidiary bank also has security to prevent unauthorized access to the system. In addition, the Bank requires third party service providers to maintain similar controls. However, the Bank cannot be certain that these measures will be successful. A security breach in the system and loss of confidential information could result in losing customers' confidence and thus the loss of their business as well as additional significant costs for privacy monitoring activities.

The Bank's necessary dependence upon automated systems to record and process the Bank's transaction volumes poses the risk that technical system flaws or employee errors, tampering or manipulation of those systems will result in losses and may be difficult to detect. The Company's subsidiary bank may also be subject to disruptions of the operating system arising from events that are beyond the Bank's control (for example, computer viruses or electrical or telecommunications outages). The Bank is further exposed to the

risk that the third party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors as the Bank). These disruptions may interfere with service to the Bank's customers and result in a financial loss or liability.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

The Company conducts its business through its main banking office located in Wooster, Ohio, and its ten additional full-service branch offices located in its market area. The following table sets forth information about its offices as of December 31, 2015.

<u>Location</u>	<u>Leased or Owned</u>	<u>Original Year Leased or Acquired</u>	<u>Year of Lease Expiration</u>
North Market Street Office 151 North Market Street Wooster, Ohio	Owned	1902	N/A
Cleveland Point Financial Center 1908 Cleveland Road Wooster, Ohio	Owned	1978	N/A
Madison South Office 2024 Millersburg Road Wooster, Ohio	Owned	1999	N/A
Northside Office 543 Riffel Road Wooster, Ohio	Leased	1999	2018
Millersburg Office 90 North Clay Street Millersburg, Ohio	Owned	1964	N/A
Claremont Avenue Office 233 Claremont Avenue Ashland, Ohio	Owned	1968	N/A
Buehler's-Sugarbush Office 1055 Sugarbush Drive Ashland, Ohio	Leased	2001	2021
Rittman Office 237 North Main Street Rittman, Ohio	Owned	1972	N/A
Lodi Office 303 Highland Drive Lodi, Ohio	Owned	1980	N/A
North Canton Office 1265 South Main Street North Canton, Ohio	Owned	1998	N/A
Creston Office 121 North Main Street Creston, Ohio	Owned	2005	N/A

The Company's accounting and recordkeeping activities are maintained through an in-house data processing system with software provided by a third party vendor

ITEM 3. Legal Proceedings

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which, in the aggregate, involve amounts which are believed by management to be immaterial to the financial condition and operations of the Company.

ITEM 4. Mine Safety Disclosures

Not applicable

PART II**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock trades on the Nasdaq Global Market using the symbol "WAYN." The following table sets forth the high and low trading prices of the Company's common stock during the two most recent calendar years, together with the cash dividends declared.

<u>December 31, 2015</u>	<u>High</u>	<u>Low</u>	<u>Cash Dividend Declared</u>
First Quarter	\$ 14.49	\$ 13.07	\$ 0.09
Second Quarter	\$ 14.00	\$ 12.44	\$ 0.09
Third Quarter	\$ 13.50	\$ 12.20	\$ 0.09
Fourth Quarter	\$ 13.50	\$ 11.69	\$ 0.09

<u>December 31, 2014</u>	<u>High</u>	<u>Low</u>	<u>Cash Dividend Declared</u>
First Quarter	\$ 11.75	\$ 10.51	\$ 0.08
Second Quarter	\$ 13.48	\$ 11.24	\$ 0.09
Third Quarter	\$ 13.48	\$ 12.00	\$ 0.09
Fourth Quarter	\$ 14.59	\$ 12.01	\$ 0.09

As of February 29, 2016, the Company had 1,002 shareholders of record and 2,781,839 shares of common stock outstanding. The number of record shareholders does not reflect the number of brokers or persons whose stock is in nominee or “street name” accounts through brokers.

Payment of dividends on the Company’s common stock is subject to determination and declaration by the Board of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, the Company’s results of operations and financial condition, tax considerations, and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue.

The Company’s primary source of funds with which to pay dividends is cash and cash equivalents held at the holding company level and dividends from the Bank. The Bank’s ability to pay dividends to the Company is limited by regulations, and the Bank is required to notify and receive non-objection or apply and receive approval under certain conditions from the Federal Reserve Bank of the payment of dividends to the Company.

In addition to the foregoing, earnings of the Company appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of cash dividends or other distributions to stockholders without payment of taxes at the then-current tax rate by the Company on the amount of earnings removed from the reserves for such distributions. The Company intends to make full use of this favorable tax treatment and does not contemplate any distribution that would create federal tax liability.

ITEM 6. Selected Financial Data

The following tables set forth certain consolidated financial and other data of Wayne Savings Bancshares, Inc., at the dates and for the years indicated. For additional information about the Company, reference is made to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements of the Company.

	December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Selected Financial Condition Data:					
Total assets	\$ 433,632	\$ 417,713	\$ 410,293	\$ 402,117	\$ 410,097
Loans receivable, net	293,121	265,609	261,130	247,849	232,099
Mortgage-backed securities ⁽¹⁾	77,433	90,047	82,451	88,405	104,596
Investment securities	26,221	25,911	27,797	26,861	27,720
Cash and cash equivalents ⁽²⁾	11,156	10,783	13,381	12,055	19,816
Deposits	362,427	348,922	337,571	327,737	333,848
Stockholders' equity	39,905	40,002	38,552	39,785	39,715

⁽¹⁾ Includes mortgage-backed securities available-for-sale and private-label collateralized mortgage obligations.

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

	Year ended December 31,				Nine months ended December 31,
	2015	2014	2013	2012	2011
Selected Operating Data:	(In thousands, except per share amounts)				
Interest income	\$ 14,499	\$ 14,631	\$ 14,397	\$ 15,303	\$ 12,608
Interest expense	1,967	2,063	2,321	2,798	2,979
Net interest income	12,532	12,568	12,076	12,505	9,629
Provision for loan losses	1,175	333	220	773	806
Net interest income after provision for loan losses	11,357	12,235	11,856	11,732	8,823
Noninterest income	1,890	1,852	1,591	1,938	1,490
Noninterest expense	11,187	10,619	10,758	11,570	8,745
Income before income taxes	2,060	3,468	2,689	2,100	1,568
Federal income taxes	413	837	633	378	234
Net Income	\$ 1,647	\$ 2,631	\$ 2,056	\$ 1,722	\$ 1,334
Basic earnings per share	\$ 0.60	\$ 0.95	\$ 0.72	\$ 0.59	\$ 0.46
Diluted earnings per share	\$ 0.60	\$ 0.95	\$ 0.72	\$ 0.59	\$ 0.46
Cash dividends declared per common share	\$ 0.36	\$ 0.35	\$ 0.31	\$ 0.27	\$ 0.18

	Year ended December 31,				Nine months ended December 31,
	2015	2014	2013	2012	2011
Key Operating Ratios and Other Data:					
Return on average assets (net income divided by average total assets) ⁽¹⁾	0.39%	0.64%	0.51%	0.43%	0.43%
Return on average equity (net income divided by average equity) ⁽¹⁾	4.11%	6.60%	5.24%	4.28%	4.49%
Average equity to average assets	9.46%	9.63%	9.77%	9.99%	9.68%
Equity to assets at year end	9.20%	9.58%	9.40%	9.89%	9.68%
Interest rate spread (difference between average yield on interest-earning assets and average cost of interest-bearing liabilities)	3.11%	3.19%	3.17%	3.31%	3.26%
Net interest margin (net interest income as a percentage of average interest-earning assets) ⁽¹⁾	3.14%	3.22%	3.20%	3.34%	3.32%
Noninterest expense to average assets ⁽¹⁾⁽²⁾	2.61%	2.56%	2.67%	2.87%	2.85%
Nonperforming and impaired loans to loans receivable, net	1.65%	2.65%	4.44%	5.84%	4.72%
Nonperforming and impaired assets to total assets	1.12%	1.73%	2.83%	3.68%	2.98%
Average interest-earning assets to average interest-bearing liabilities	105.39%	105.49%	105.72%	104.43%	105.32%
Allowance for loan losses to nonperforming and impaired loans	57.06%	39.35%	24.31%	22.98%	35.19%
Allowance for loan losses to nonperforming and impaired assets	56.90%	38.38%	24.31%	22.49%	31.50%
Net interest income after provision for losses on loans, to noninterest expense ⁽²⁾	112.39%	115.52%	110.47%	101.40%	100.89%
Number of full-service offices	11	11	11	11	11
Dividend payout ratio	60.00%	36.84%	43.06%	45.76%	39.51%

⁽¹⁾ December 31, 2011 is a nine month period requiring these ratios to be annualized.

⁽²⁾ In calculating this ratio, noninterest expense does not include provisions for losses or gains on the sale of real estate acquired through foreclosure.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations General

The consolidated financial statements include Wayne Savings Bancshares, Inc. and its wholly owned subsidiary, Wayne Savings Community Bank. Intercompany transactions and balances are eliminated in the consolidated financial statements.

The Company's net income is primarily dependent on its net interest income, which is the difference between interest income earned on its loans, mortgage-backed securities and investments, and its cost of funds consisting of interest paid on deposits and borrowings. The Company's net income also is affected by its provision for loan losses, as well as the amount of noninterest income, including deposit service charges and gain on the sale of loans into the secondary market, and noninterest expense, such as salaries and employee benefits, federal deposit insurance premiums, occupancy and equipment costs, and income taxes. Earnings of the Company also are affected significantly by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities as more fully described under "Risk Factors" above.

Business Strategy

The Company's current business strategy is to operate a well-capitalized, profitable and community-oriented Bank dedicated to providing quality service and products to its customers. The Company has sought to implement this strategy in recent years by: (1) closely monitoring the needs of customers and providing personal, quality customer service; (2) continuing the origination of a wide array of loan products in the Company's market area; (3) managing interest rate risk exposure by better matching asset and liability maturities and rates; (4) increasing fee income, including participation in the secondary mortgage market; (5) managing asset quality; (6) maintaining a strong retail deposit base; (7) maintaining capital in excess of regulatory minimum requirements; and (8) emphasizing the commercial loan program to add high quality, higher yielding and shorter duration assets to the Company's loan portfolio.

Strategic Initiatives

As part of an ongoing strategic planning process, which includes annual plan updates and regular progress reviews by the Board of Directors, the Company continues to be engaged in several initiatives to improve the returns to shareholders over a foreseeable time horizon through the following activities:

- A strategic focus on core mission, vision and values statements that emphasize a balanced and sustainable approach to shareholder returns, customer and community relationships and staff development.
- Continued enhancement of balance sheet assets to increase higher yielding, on a risk-adjusted basis, and/or shorter duration commercial business and real estate (including commercial loans secured by residential real estate) and consumer (including home equity lines of credit secured by residential real estate) loans, while maintaining a residential mortgage loan portfolio and reducing, subject to liquidity constraints, the investment securities portfolio.
- Continued attention to balance sheet liabilities to enhance customer relationships through value-added services that are priced to generate acceptable returns to shareholders while managing risk, particularly liquidity and interest rate risks.
- Continued transition from a transaction-oriented thrift culture to a relationship-oriented commercial bank culture through new position descriptions, activity goals, performance reviews and compensation structures consistent with regulatory guidance. In addition, turnover in the existing staff is being used as an opportunity to recruit experienced talent to further change the culture of the organization. Management continues to analyze staffing levels and facilities, monitoring customer and transaction

volume to ensure appropriate staffing and to justify continued operations if volume levels decrease. Management also continues to evaluate opportunities to add talent tied to revenue-producing activities and contiguous market areas.

- Continued technology upgrades are scheduled to facilitate improved and more efficient customer service and operations.
- Continued focus on enterprise risk management and regulatory compliance. The focus of the ERM program is to ensure the identification, measurement and management of risks, and the pricing of risk to produce acceptable returns to shareholders. As part of ERM and coordinated with internal audit, regulatory compliance is a particular area of attention to facilitate the continued generation of returns to shareholders while avoiding the costs of remedial actions for compliance deficiencies commensurate with the risks assumed in those activities and consistent with legal requirements, regulatory requirements and general economic conditions.

Forward-Looking Statements

In addition to the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Economic circumstances, the Company's operations, and actual results could differ significantly from those discussed in forward-looking statements. Some of the factors that could cause or contribute to such differences are discussed herein but also include changes in the economy and interest rates in the nation and the Company's general market area. The forward-looking statements contained herein include, but are not limited to, those with respect to the following matters: (1) management's determination of the amount and adequacy of the allowance for loan losses; (2) the effect of changes in interest rates; (3) management's opinion as to the effects of recent accounting pronouncements on the Company's consolidated financial statements; and (4) management's opinion as to the Bank's ability to maintain regulatory capital at current levels.

Critical Accounting Policies

Allowance for Loan Losses The Company considers the allowance for loan losses and related loss provision to be a critical accounting policy. The Company has established a systematic method of periodically reviewing the credit quality of the loan portfolio in order to establish a sufficient allowance for loan losses. The allowance for loan losses is based on management's current judgments about the credit quality of individual loans and segments of the loan portfolio. The allowance for loan losses is established through a provision, and considers all known internal and external factors that affect loan collectability as of the reporting date. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management's knowledge of inherent risks in the portfolio that are probable and reasonably estimable and other factors that warrant recognition in providing an appropriate loan loss allowance.

Goodwill The Company recorded all assets and liabilities acquired in prior purchase acquisitions, including goodwill and other intangibles, at fair value as required. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using the straight-line method, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition.

Management has discussed the development and selection of these critical accounting policies with the audit committee of the Board of Directors.

Discussion of Financial Condition Changes December 31, 2015 from December 31, 2014

At December 31, 2015, total assets increased \$15.9 million, or 3.8%, to \$433.6 million from the \$417.7 million at December 31, 2014 mainly due to a \$27.5 million increase in net loans, partially offset by a \$12.3 million decrease in securities. During the year ended December 31, 2015, the Bank disbursed \$64.6 million of loans, received payments of \$30.9 million and transferred \$308,000 to foreclosed assets held for sale. Although the Bank experienced increased loan balances from 2014, 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 a \$13.5 million increase in deposit balances, a \$4.6 million increase in advances from the Federal Home Loan Bank, and a \$12.3 million decrease in securities balances compared to the prior year.

At December 31, 2015 and December 31, 2014, the allowance for loan losses totaled \$2.8 million, or 0.96% of gross loans and \$2.8 million, or 1.03%, of gross loans, respectively. 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, 2015, all delinquent and classified residential, nonresidential, multi-family and commercial loans were analyzed, with \$552,000 of the reserve being allocated to these categories of loans. The largest loan in this category consisted of a loan secured by one-to-four family residential properties totaling \$535,000 at December 31, 2015. The Company incurred net charge-offs for the year of \$1.1 million of one-to-four family residential real estate loans. The charge-offs primarily included certain loans that were subsequently transferred to foreclosed assets held for sale as a result of a formal process of foreclosure or through a deed-in-lieu from the borrower, and loans which are currently in the process of foreclosure. 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 \$1,175,000 provision for losses on loans for the year ended December 31, 2015, an increase of \$842,000 from the \$333,000 recorded for the year ended December 31, 2014. The increased provision was primarily due to a \$724,000 increase in net charge-offs and a \$27.5 million increase in net loan balances compared to the prior year period. The charge-offs primarily included certain loans that were subsequently transferred to foreclosed assets held for sale as a result of a formal process of foreclosure or through a deed-in-lieu from the borrower, and loans which are currently in the process of foreclosure. These charge-offs included certain loans that management had evaluated individually for impairment in prior periods and had specific reserves totaling \$474,000 at December 31, 2014. The increased charge-offs above the previously recorded level of specific reserves was due to actual realtor listing prices, updated selling costs and additional loan relationships that were foreclosed on, or are in the process of foreclosure. Specific reserves are charged off, in whole or in part, as the probability of loss becomes more likely, or reversed if the borrower's financial condition and or collateral values improve to a level where the specific reserve is no longer needed.

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, 2015.

Deposits totaled \$362.4 million at December 31, 2015, an increase of \$13.5 million, or 3.9%, from December 31, 2014. Demand accounts increased \$9.6 million, or 10.5%, savings and money market accounts increased \$2.9 million, or 2.2%, and time deposits increased \$1.0 million, or 0.8%. The increase in demand accounts and savings and money market balances 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 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 increased \$4.6 million, from \$16.4 million at December 31, 2014 to \$21.0 million at December 31, 2015 mainly due to an increase in fixed-rate term advances. During 2015, four new fixed-rate advances totaling \$12.0 million were drawn, which was partially offset by the maturity of three fixed-rate advances totaling \$7.5 million. 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. During December 2010, the Bank prepaid \$8.5 million of existing fixed-rate and term advances to reduce the carrying cost and extend the maturity dates of those advances into 2014 and 2015 to take advantage of the low interest rate environment at that time and to extend liability duration at a cost lower than the use of retail certificates of deposit. As part of this restructuring transaction, a \$526,000 prepayment penalty was paid and deferred. As of December 31, 2015 these advances were fully matured, and as such the related prepayment penalty has been fully amortized.

At December 31, 2015, stockholders' equity totaled \$39.9 million, a decrease of \$97,000, compared to the balance at December 31, 2014. This decrease is primarily due to \$511,000 decrease in accumulated other comprehensive income, dividends declared of \$990,000 and purchases of treasury stock totaling \$338,000, partially offset by net income of \$1.6 million. The decrease in other comprehensive income included a \$737,000 decrease in unrealized gains on available-for-sale securities, partially offset by a \$226,000 increase related to post-retirement benefits. The increase in post-retirement benefits, was due to changes in the annual actuarial assumptions, and includes a \$71,000 decrease in the pension unrecognized net loss, and a \$155,000 decrease 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.

The purchase of treasury shares during the current year period were made as part of the Company's share repurchase program that was initially announced during 2012 whereby the Company was authorized to repurchase up to 5.0%, or 150,206 shares of its common stock outstanding. On September 30, 2013, the Company announced the adoption of a new share buy-back program authorizing the repurchase of an additional 2.5% or 72,150, shares of its common stock outstanding. As of December 31, 2015 the Company has purchased all the shares authorized and has completed the share repurchase under these two programs.

Comparison of operating results for the years ended December 31, 2015 and December 31, 2014

General

Net income totaled \$1.6 million for the year ended December 31, 2015, compared to \$2.6 million for the year ended December 31, 2014. The decrease in net income was primarily due to increases in both the provision for loan losses and noninterest expense as well as a decrease in net interest income, partially offset by an increase in noninterest income and a decrease in the provision for federal income taxes.

Interest Income

Interest income decreased \$132,000, and totaled \$14.5 million for the year ended December 31, 2015, compared to the year ended December 31, 2014. This decrease was primarily due to by a 12 basis point (bp) decrease in the average yield on interest-earning assets to 3.63% at December 31, 2015, from 3.75% for the year ending December 31, 2014, partially offset by a \$9.1 million increase in the average balance of interest-earning assets.

Interest income on loans increased \$213,000 for the year ended December 31, 2015, compared to the year ended December 31, 2014. This increase is primarily due to a \$13.3 million increase in the average balance of loans outstanding, partially offset by a 13 bp decrease in the weighted-average yield on loans to 4.23% at December 31, 2015 compared to 4.36% at December 31, 2014. The decrease in the yield was due to the continuation of the overall low market interest rate environment, while the increase in the average balance was due to the Company's strategic initiative to increase the mix of earning assets from lower yielding securities into higher yielding loans.

Interest income on securities decreased \$324,000, or 10.7%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. This decrease is primarily due to a 23 bp decrease in the weighted-average yield to 2.41% at December 31, 2015 compared to 2.64% for the year ended December 31, 2014, and a \$2.7 million decrease in the average balance of securities. The decrease in yield was primarily due to increased prepayments causing an increase in premium amortization during the current year, while 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, 2015, totaled \$2.0 million, a decrease of \$96,000, or 4.7%, compared to interest expense for the year ended December 31, 2014. The decrease in interest expense was due to a 4 bp decrease in the weighted-average cost of funds to 0.52% for the year ended December 31, 2015, partially offset by a \$9.0 million increase in the average balance of interest-bearing liabilities compared to the year ended December 31, 2014.

Interest expense on deposits totaled \$1.6 million for both years ended December 31, 2015, and December 31, 2014. Although interest expense was essentially unchanged during the current year period, the weighted-average cost of deposits decreased 1 bp to 0.45% for the year ended December 31, 2015, which was substantially offset by a \$7.6 million increase in the average balance of deposits. The decrease in the weighted-average cost of deposits was due to the continuation of the overall low market interest rate environment as well as a shift in the composition of deposits from higher cost time deposits to lower cost checking, money market and savings accounts.

Interest expense on other short-term borrowings totaled \$9,000 for both years ended December 31, 2015, and December 31, 2014. During the year ended December 31, 2015 the average balance of other short-term borrowings increased by \$97,000, while the weighted-average cost of other short-term borrowings was 0.14% and 0.15% for the years ended December 31, 2015 and 2014, respectively.

Interest expense on Federal Home Loan Bank advances totaled \$369,000 for the year ended December 31, 2015, a decrease of \$111,000, or 23.1%, compared to the year ended December 31, 2014. This decrease is due a 72 bp decrease in the cost of borrowings to 1.86% for the year ended December 31, 2015 compared to the year ended December 31, 2014, partially offset by a \$1.3 million increase in the average balance. The decrease in the cost was due to the maturity of higher rate advances, while the increase in the average balance was due to new fixed-rate term advances in excess of the scheduled maturity of fixed-rate term advances during the current year period.

Net Interest Income

Net interest income totaled \$12.5 million for the year ended December 31, 2015 a decrease of \$36,000, compared to the year ended December 31, 2014. The decrease in net interest income is due to an 8 bp decrease in the interest rate spread to 3.11% at December 31, 2015 compared to 3.19% at December 31, 2014, partially offset by a \$112,000 increase in net interest-earning assets. The decrease in the interest rate spread due to the rates earned on interest-earning assets repricing downward more than the rates paid on interest-bearing liabilities. During the year ended December 31, 2015, yields earned on interest-earning assets decreased by 12 bp, while rates paid on interest-bearing liabilities decreased by 4 bp compared to the year ended December 31, 2014.

Provision for Losses on Loans

The Company recorded a provision for loan losses totaling \$1,175,000 for the year ended December 31, 2015, compared to \$333,000 for the year ended December 31, 2014. The increased provision is mainly due to an increase in charge-offs primarily related to nonperforming loans that were subsequently transferred to foreclosed assets held for sale combined with growth in the loan portfolio.

Noninterest Income

Noninterest income, consisting primarily of earnings on bank-owned life insurance policies, gains on sale of loans, and deposit service fees increased by \$38,000, or 2.1%, and totaled \$1.9 million for both years ended December 31, 2015, and December 31, 2014. The increase was primarily due to a \$95,000 increase in service fees, charges and other operating income, partially offset by a \$58,000 decrease in gain on sale of loans. The increase in service fees, charges and other operating income was primarily due to an increase in service charges on deposit accounts. The decrease in gain on sale of loans was primarily due to a decrease in loans sold. Loans sold totaled \$5.9 million, for the year ended December 31, 2015, compared to \$6.6 million during the year ended December 31, 2014.

Noninterest Expense

Noninterest expense increased by \$568,000, or 5.4%, and totaled \$11.2 million for the year ended December 31, 2015 compared to \$10.6 million for the year ended December 31, 2014. This increase includes a \$297,000 increase in salaries and employee benefits, a \$38,000 increase in occupancy and equipment expense, a \$104,000 increase in loss on sale of foreclosed assets held for sale, and a \$154,000 increase in other noninterest expense, partially offset by a \$38,000 decrease in amortization of intangible assets. The increase in salaries and employee benefits was primarily due to increased compensation as a result of merit increases, severance payments, the addition of new positions to support our transition from a transaction-oriented thrift culture and to implement technology upgrades to facilitate more efficient customer service and operations, and higher post-retirement benefit costs. Other increases include an increase in pension cost, an increase in Board and Committee fees, an increase in education and training, partially offset by a decrease in healthcare costs and the Company 401k match compared to the prior year period. The increase in occupancy and equipment expense was due to an increase in depreciation expense, and building repairs and maintenance, partially offset by a decrease in computer data expense. The increase in loss on sale of foreclosed assets held for sale was due to an increased number of sales during the current year period compared to only two sales in prior year period. The increase in other noninterest expense was due to higher legal fees related to problem loans, higher real estate owned and foreclosure expense due to increased foreclosed assets during the year, higher audit and accounting related expenses partially due to outsourcing the internal audit function, and higher charitable contributions. These increases were partially offset by lower special services during the current year period and a decrease in amortization of intangible assets as the core deposit intangible amortized to zero during the prior year period.

Federal Income Taxes

Provision for Federal income taxes was \$413,000 for the year ended December 31, 2015, reflecting a decrease of \$424,000 from the year ended December 31, 2014. The decrease is primarily due to a \$984,000 decrease in pre-tax income. The difference in the effective tax rates of 20.1% and 24.1% for the years ended December 31, 2015 and 2014, 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.

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,					
	2015			2014		
	Average Balance	Interest	Average Rate (Dollars in thousands)	Average Balance	Interest	Average Rate
Interest-earning assets:						
Loans receivable, net ⁽¹⁾	\$ 274,979	\$ 11,621	4.23%	\$ 261,683	\$ 11,408	4.36%
Investment securities ⁽²⁾	112,308	2,707	2.41%	114,972	3,031	2.64%
Interest-earning deposits ⁽³⁾	11,756	171	1.45%	13,291	192	1.44%
Total interest-earning assets	399,043	14,499	3.63%	389,946	14,631	3.75%
Noninterest-earning assets	24,183			23,622		
Total assets	\$ 423,226			\$ 413,568		
Interest-bearing liabilities:						
Deposits	\$ 352,366	\$ 1,589	0.45%	\$ 344,770	\$ 1,574	0.46%
Other short-term borrowings	6,406	9	0.14%	6,309	9	0.15%
Borrowings	19,878	369	1.86%	18,586	480	2.58%
Total interest-bearing liabilities	378,650	1,967	0.52%	369,665	2,063	0.56%
Noninterest-bearing liabilities	4,526			4,063		
Total liabilities	383,176			373,728		
Stockholders' equity	40,050			39,840		
Total liabilities and stockholders' equity	\$ 423,226			\$ 413,568		
Net interest income		\$ 12,532			\$ 12,568	
Interest rate spread ⁽⁴⁾			3.11%			3.19%
Net yield on interest-earning assets ⁽⁵⁾			3.14%			3.22%
Ratio of average interest-earning assets to average interest-bearing liabilities			105.39%			105.49%

(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.

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. Information is provided on changes attributable to (i) changes in average volume (changes in average volume multiplied by old rate); and (ii) changes in rate (change in rate multiplied by old average volume). Changes in rate-volume (changes in rate multiplied by the change in average volume) have been allocated proportionately between changes in rate and changes in volume;

	Year ended December 31, 2015 vs year ended December 31, 2014			Year ended December 31, 2014 vs year ended December 31, 2013		
	Increase (decrease)		Total Increase (decrease)	Increase (decrease)		Total Increase (decrease)
	Volume	Rate	(In thousands)	Volume	Rate	
Interest Income attributable to:						
Loans receivable	\$ 568	\$ (355)	\$ 213	\$ 471	\$ (584)	\$ (113)
Investment securities	(69)	(255)	(324)	47	326	373
Interest-bearing deposits	(22)	1	(21)	3	(29)	(26)
Total interest-earning assets	477	(609)	(132)	521	(287)	234
Interest expense attributable to:						
Deposits	34	(19)	15	80	(206)	(126)
Other short-term borrowings	-	-	-	(1)	-	(1)
Federal Home Loan Bank borrowings	31	(142)	(111)	(82)	(49)	(131)
Total interest-bearing liabilities	65	(161)	(96)	(3)	(255)	(258)
Increase (decrease) in net interest income	\$ 412	\$ (448)	\$ (36)	\$ 524	\$ (32)	\$ 492

Liquidity and Capital Resources

The Bank's primary sources of funds are deposits, principal repayments and prepayments on loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by the general level of interest rates, economic conditions and competition. The Bank manages the pricing of deposits to maintain a desired level of deposits and cost of funds. In addition, the Bank invests excess funds in federal funds and other short-term interest-earning assets, which provide liquidity to meet lending requirements. Liquid assets outstanding at December 31, 2015 and December 31, 2014, totaled \$106.5 million and \$119.8 million, respectively. For additional information about cash flows from the Company's operating, financing and investing activities, see the Statements of Cash Flows included in the Consolidated Financial Statements.

A major portion of the Bank's liquidity consists of cash and cash equivalents, which are a product of operating, investing and financing activities. The primary sources of cash are net income, principal repayments on loans and mortgage-backed securities, proceeds from deposits and advances from the FHLB, and sales of residential mortgage loans and investment securities. Liquidity management is both a daily and long-term function of business management. If the Bank requires liquidity beyond its ability to generate funds internally at a reasonable cost, borrowing agreements are in place with the FHLB and the Federal Reserve Bank of Cleveland, which provide additional sources of short and long term funding. As noted above, FHLB advances are used as part of an overall liability management strategy to extend duration for interest rate risk management purposes generally at a cost lower than equivalent duration retail certificates. At December 31, 2015, the Company had \$21.0 million in outstanding advances from the FHLB, and additional borrowing capacity from the FHLB totaling \$90.8 million based on the Bank's one-to-four family residential mortgage loans, mortgage-backed securities, home equity lines of credit, second mortgage loans and multi-family loans. The Bank also has pledged \$24.2 million to secure a line of credit with the Federal Reserve Bank of \$24.0 million which is in place to provide a backup, short-term source of liquidity. The Bank has the ability to pledge remaining market value of investment and mortgage-backed securities of \$48.3 million which would allow the Bank the ability to borrow additional longer term funds from the FHLB. The Bank had no outstanding balances with the Federal Reserve Bank of Cleveland at December 31, 2015 or December 31, 2014.

Contractual Obligations

The following table summarizes the Company's contractual obligations at December 31, 2015:

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years (In thousands)	More than 5 years	
Contractual obligations:					
Operating lease obligations	\$ 60	\$ 115	\$ 56	\$ 9	\$ 240
Advances from the Federal Home Loan Bank	3,000	12,000	6,000	-	21,000
Other short-term borrowings	5,606	-	-	-	5,606
Certificates of deposit maturities	46,871	45,508	24,618	11,809	128,806
Amount of commitments expiring per period:					
Commitments to originate loans:					
Letters of credit	407	-	-	-	407
Credit card/overdraft lines of credit	8,099	-	-	-	8,099
Home equity/commercial lines of credit	36,507	-	-	-	36,507
Real estate construction loans	10,094	-	-	-	10,094
Total contractual obligations	<u>\$ 110,644</u>	<u>\$ 57,623</u>	<u>\$ 30,674</u>	<u>\$ 11,818</u>	<u>\$ 210,759</u>

Impact of Inflation and Changing Prices

The consolidated financial statements of the Company and notes thereto, presented elsewhere herein, have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary. As a result, interest rates have a greater impact on the Company's performance than do the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Asset and Liability Management-Interest Rate Sensitivity Analysis

The Bank, like other financial institutions, is subject to interest rate risk to the extent that interest-earning assets reprice at a different time than interest-bearing liabilities. As part of its effort to monitor and manage interest rate risk, the Bank uses the "net portfolio value" ("NPV") methodology adopted by the regulators as part of its interest rate sensitivity regulations. The application of NPV methodology illustrates certain aspects of the Bank's interest rate risk.

Generally, NPV is the discounted present value of the difference between incoming cash flows on interest-earning and other assets and outgoing cash flows on interest-bearing and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the NPV, which would result from a theoretical change in market interest rates.

Presented below, as of December 31, 2015 and 2014, is an analysis of the Bank's interest rate risk as measured by changes in NPV for instantaneous and sustained 100, 200 and 300 basis point (1 basis point equals .01%) increases and a 100 basis point decrease in market interest rates.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the NPV approach. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Further, in the event of a change in interest rates, expected rates of prepayment on loans and mortgage-backed securities and early withdrawal levels from time deposits would likely deviate significantly from those assumed in making the risk calculations.

As a result of the extended period of historically low interest rates discussed above, the composition of the industry's assets and liabilities, and the Bank's assets and liabilities, has shifted. Consumers and businesses have generally preferred long term fixed-rate loans and have either avoided long term fixed-rate certificates of deposits or selected long term fixed-rate certificates of deposits with the intention of paying a prepayment penalty should interest rates rise sufficiently. These changes in consumer behavior have increased the difficulty of making model assumptions for estimating NPV under different interest rate scenarios and have increased regulatory scrutiny of interest rate risk, including model results and management's activities to manage interest rate risk exposures.

As of December 31, 2015

Change in Interest Rates (Basis Points)	Net Portfolio Value			Net Portfolio Value as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Value	Basis Point Change
	(In thousands)				
+300 bp	\$ 56,037	\$ (19,624)	(26)%	13.94%	(316)
+200 bp	62,180	(13,481)	(18)%	14.95%	(215)
+100 bp	67,786	(7,875)	(10)%	15.78%	(132)
0 bp	75,661	-	-	17.10%	-
-100 bp	66,134	(9,527)	(13)%	14.65%	(245)

As of December 31, 2014

Change in Interest Rates (Basis Points)	Net Portfolio Value			Net Portfolio Value as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Value	Basis Point Change
	(In thousands)				
+300 bp	\$ 52,638	\$ (19,573)	(27)%	13.54%	(333)
+200 bp	58,492	(13,719)	(19)%	14.55%	(232)
+100 bp	66,489	(5,722)	(8)%	16.02%	(85)
0 bp	72,211	-	-	16.87%	-
-100 bp	64,486	(7,725)	(11)%	14.72%	(215)

The Company attempts to reduce its exposure to interest rate risk generally by better matching the repricing characteristics of its interest rate sensitive assets and liabilities over a range of interest rate scenarios. Strategies include originating ARM loans and other adjustable rate or short-term loans, as well as by purchasing short-term investment and mortgage-backed securities and extending liabilities through promoting cost-effective, long-term retail time deposits or the use of long-term FHLB advances and wholesale market certificates of deposits. However, particularly in the current interest rate and credit market environment, borrowers typically prefer fixed-rate loans to ARM loans. Accordingly, ARM loan originations were very limited during the year ended December 31, 2015. Similarly, depositors currently prefer more liquid and short duration checking, money market and savings accounts to longer term time deposits. The net effect of this continuing shift in customer preference for longer duration loans and shorter duration deposits has been to expose the Company to increased interest rate risk.

The Company has an Asset-Liability Management Committee (“ALCO”), which is responsible for reviewing the Company’s asset-liability policies. The Committee meets and reports monthly to the Board of Directors on interest rate risks and trends, as well as liquidity and capital ratios and requirements. The Bank has operated within the framework of its prescribed NPV risk range for each of the last three years.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Wayne Savings Bancshares, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2015. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Cincinnati, Ohio
March 11, 2015

Wayne Savings Bancshares, Inc.

Consolidated Balance Sheets

December 31, 2015 and 2014

(In thousands, except share data)

	2015	2014
Assets		
Cash and due from banks	\$ 3,487	\$ 6,200
Interest-bearing deposits	7,669	4,583
Cash and cash equivalents	11,156	10,783
Available-for-sale securities	95,347	108,969
Held-to-maturity securities	8,307	6,989
Loans, net of allowance for loan losses of \$2,837 and \$2,769 at December 31, 2015 and 2014, respectively	293,121	265,609
Premises and equipment	6,663	6,829
Federal Home Loan Bank stock	4,226	4,226
Foreclosed assets held for sale, net	14	179
Accrued interest receivable	1,149	1,154
Bank-owned life insurance	9,554	9,282
Goodwill	1,719	1,719
Other assets	1,893	1,631
Prepaid federal income taxes	483	343
Total assets	\$ 433,632	\$ 417,713
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 101,532	\$ 91,921
Savings and money market	132,089	129,222
Time	128,806	127,779
Total deposits	362,427	348,922
Other short-term borrowings	5,606	7,000
Federal Home Loan Bank advances	21,000	16,438
Interest payable and other liabilities	4,258	4,678
Deferred federal income taxes	436	673
Total liabilities	393,727	377,711
Commitments and Contingencies	-	-
Stockholders' Equity		
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	36,017	35,995
Retained earnings	21,060	20,403
Shares acquired by ESOP	(343)	(416)
Accumulated other comprehensive income (loss)	(291)	220
Treasury stock, at cost: Common: 1,196,892 and 1,171,892 shares at December 31, 2015 and 2014, respectively	(16,936)	(16,598)
Total stockholders' equity	39,905	40,002
Total liabilities and stockholders' equity	\$ 433,632	\$ 417,713

Wayne Savings Bancshares, Inc.
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2015 and 2014
(In thousands, except per share data)

	2015	2014
Interest and Dividend Income		
Loans	\$ 11,621	\$ 11,408
Securities	2,707	3,031
Dividends on Federal Home Loan Bank stock and other	171	192
Total interest and dividend income	<u>14,499</u>	<u>14,631</u>
Interest Expense		
Deposits	1,589	1,574
Other short-term borrowings	9	9
Federal Home Loan Bank advances	369	480
Total interest expense	<u>1,967</u>	<u>2,063</u>
Net Interest Income	12,532	12,568
Provision for Loan Losses	<u>1,175</u>	<u>333</u>
Net Interest Income After Provision for Loan Losses	<u>11,357</u>	<u>12,235</u>
Noninterest Income		
Gain on loan sales	193	251
Earnings on bank-owned life insurance	294	293
Service fees, charges and other operating	1,403	1,308
Total noninterest income	<u>1,890</u>	<u>1,852</u>
Noninterest Expense		
Salaries and employee benefits	6,444	6,147
Net occupancy and equipment expense	1,986	1,948
Federal deposit insurance premiums	270	272
Franchise taxes	264	256
Provision for impairment on foreclosed assets held for sale	37	28
Loss on sale of foreclosed assets held for sale	106	2
Loss on disposal of office premises and equipment	2	4
Amortization of intangible assets	-	38
Other	2,078	1,924
Total noninterest expense	<u>11,187</u>	<u>10,619</u>
Income Before Federal Income Taxes	2,060	3,468
Provision for Federal Income Taxes	413	837
Net Income	<u>\$ 1,647</u>	<u>\$ 2,631</u>
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities, net of taxes of (\$380) and \$373 for 2015 and 2014, respectively	(737)	725
Change in split-dollar life insurance policy unrecognized net loss	155	(186)
Change in defined benefit plan unrecognized net gain (loss), net of taxes of \$1 and (\$213) for 2015 and 2014, respectively	2	(413)
Amortization of net loss included in net periodic pension cost, net of taxes of \$36 and \$15 for 2015 and 2014, respectively	69	29
Other comprehensive income (loss)	<u>(511)</u>	<u>155</u>
Total comprehensive income	<u>\$ 1,136</u>	<u>\$ 2,786</u>
Basic Earnings Per Share	<u>\$ 0.60</u>	<u>\$ 0.95</u>
Diluted Earnings Per Share	<u>\$ 0.60</u>	<u>\$ 0.95</u>

See Notes to Consolidated Financial Statements

Wayne Savings Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014
(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Shares Acquired by ESOP	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2013							
Net Income	\$ 398	\$ 35,976	\$ 18,743	\$ (492)	\$ 65	\$ (16,138)	\$ 38,552
	-	-	2,631	-	-	-	2,631
Other comprehensive loss Purchase Treasury Shares -- at cost	-	-	-	-	155	-	155
Cash dividends - \$0.35 per share	-	-	-	-	-	(460)	(460)
Amortization of expense related to ESOP	-	-	(971)	-	-	-	(971)
	-	19	-	76	-	-	95
Balance, December 31, 2014	398	35,995	20,403	(416)	220	(16,598)	40,002
Net Income	-	-	1,647	-	-	-	1,647
Other comprehensive loss Purchase Treasury Shares -- at cost	-	-	-	-	(511)	-	(511)
Cash dividends - \$0.36 per share	-	-	-	-	-	(338)	(338)
Amortization of expense related to ESOP	-	-	(990)	-	-	-	(990)
	-	22	-	73	-	-	95
Balance, December 31, 2015	\$ 398	\$ 36,017	\$ 21,060	\$ (343)	\$ (291)	\$ (16,936)	\$ 39,905

Wayne Savings Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(In thousands)

	2015	2014
Operating Activities		
Net income	\$ 1,647	\$ 2,631
Items not requiring (providing) cash		
Depreciation and amortization	591	573
Provision for loan losses	1,175	333
Amortization of premiums and discounts on securities	1,336	1,194
Amortization of mortgage servicing rights	51	38
Amortization of deferred loan origination fees	(81)	(99)
Amortization of intangible asset	-	38
Deferred income taxes	143	(65)
Net gains on sale of loans	(193)	(251)
Proceeds from sale of loans in the secondary market	6,070	6,846
Origination of loans for sale in the secondary market	(5,877)	(6,595)
Amortization expense of stock benefit plan	95	95
Provision for impairment on foreclosed assets held for sale	37	28
Loss on sale of foreclosed assets held for sale	106	2
Loss on sale of premises and equipment	2	4
Increase in value of bank-owned life insurance	(272)	(276)
Changes in		
Accrued interest receivable	5	30
Other assets	(454)	(142)
Interest payable and other liabilities	(298)	(203)
Net cash provided by operating activities	4,083	4,181
Investing Activities		
Purchases of available-for-sale securities	(12,971)	(29,582)
Purchase of held-to-maturity securities	(1,637)	(449)
Proceeds from maturities and paydowns of available-for-sale securities	24,177	24,162
Proceeds from maturities and paydowns of held-to-maturity securities	282	63
Proceeds from Federal Home Loan Bank Stock	-	799
Net change in loans	(28,914)	(5,043)
Purchase of premises and equipment	(427)	(721)
Proceeds from the sale of premises and equipment	-	7
Proceeds from the sale of foreclosed assets	330	120
Net cash used in investing activities	\$ (19,160)	\$ (10,644)

See Notes to Consolidated Financial Statements

Wayne Savings Bancshares, Inc.
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2015 and 2014
(In thousands)

	2015	2014
Financing Activities		
Net change in deposits	\$ 13,505	\$ 11,351
Net change in other short-term borrowings	(1,394)	(212)
Proceeds from Federal Home Loan Bank advances	30,562	5,762
Repayments of Federal Home Loan Bank advances	(26,000)	(11,660)
Advances by borrowers for taxes and insurance	105	30
Dividends on common stock	(990)	(946)
Treasury stock purchases	(338)	(460)
Net cash provided in financing activities	15,450	3,865
Increase (decrease) in Cash and Cash Equivalents	373	(2,598)
Cash and Cash equivalents, Beginning of period	10,783	13,381
Cash and Cash equivalents, End of period	\$ 11,156	\$ 10,783
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	\$ 1,974	\$ 2,084
Federal income taxes paid	\$ 350	\$ 900
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Transfers from loans to foreclosed assets held for sale	\$ 308	\$ 330
Recognition of mortgage servicing rights	\$ 88	\$ 99
Dividends payable	\$ 250	\$ 252

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

Nature of Operations

The Company's 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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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. 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 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. 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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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

Wayne Savings Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

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.

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. At December 31, 2015, 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

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 and Intangible Assets

The composition of goodwill and other intangible assets, all of which is core deposit intangible, at December 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Goodwill	\$ 1,719	\$ 1,719
Other intangible assets – gross	974	974
Other intangible assets – amortization	(974)	(974)
Total	\$ 1,719	\$ 1,719

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The Company did not record any amortization related to intangible assets during the year ended December 31, 2015, as the intangible asset was amortized to zero at May 31, 2014. The Company recorded amortization relative to intangible assets totaling \$38,000 for the year ending December 31, 2014. Such amortization was derived using the straight line method for the core deposit asset over ten years. Pursuant to FASB ASC 350, the Company is required to annually test goodwill and other intangible assets for impairment. The Company performs its annual goodwill impairment test as of November 30 each year. Management believes the accounting change is preferable in the circumstances because it incorporates more current market and other information to produce a goodwill impairment analysis that will provide timely and accurate information to the shareholders and other users of the Company's financial statements. The Company's testing of goodwill and other intangible assets in the current fiscal year indicated there was no impairment in the carrying value of these assets.

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 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

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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 2012.

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

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, net of applicable income taxes. Other comprehensive income 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

Advertising costs are expensed as incurred. The Company's advertising expense totaled \$201,000 for the year period ended December 31, 2015 and \$189,000 for year ended December 31, 2014.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net income.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Fiscal Year Change

In April 2011, the Company decided to change its fiscal year end to December 31 to facilitate consistency with regulatory reporting requirements. Regulatory reporting under OTS Thrift Financial Reporting requirements was reported on a quarter-to-date basis through December 31, 2011. Beginning with the quarter ended March 31, 2012 the Company began reporting to the FDIC using the Call Report on a calendar year-to-date period. The result of the fiscal year end change was a nine month period ended December 31, 2011.

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, 2015, was \$2.4 million.

Note 3: Securities

The amortized cost and approximate 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>Approximate Fair Value</u>
Available-for-sale securities	(In thousands)			
December 31, 2015:				
U.S. government agencies	\$ 101	\$ -	\$ -	\$ 101
Mortgage-backed securities of government-sponsored entities	75,972	662	530	76,104
Private-label collateralized mortgage obligations	274	3	-	277
State and political subdivisions	18,224	677	36	18,865
Totals	<u>\$ 94,571</u>	<u>\$ 1,342</u>	<u>\$ 566</u>	<u>\$ 95,347</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Approximate Fair Value</u>
Available-for-sale securities	(In thousands)			
December 31, 2014:				
U.S. government agencies	\$ 126	\$ -	\$ -	\$ 126
Mortgage-backed securities of government-sponsored entities	87,284	1,202	273	88,213
Private-label collateralized mortgage obligations	491	11	-	502
State and political subdivisions	19,174	992	38	20,128
Totals	<u>\$ 107,075</u>	<u>\$ 2,205</u>	<u>\$ 311</u>	<u>\$ 108,969</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Approximate Fair Value</u>
Held-to-maturity Securities:	(In thousands)			
December 31, 2015:				
U.S. government agencies	\$ 82	\$ -	\$ -	\$ 82
Mortgage-backed securities of government-sponsored entities	1,052	5	-	1,057
State and political subdivisions	7,173	29	136	7,066
Totals	<u>\$ 8,307</u>	<u>\$ 34</u>	<u>\$ 136</u>	<u>\$ 8,205</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Approximate Fair Value</u>
Held-to-maturity Securities:	(In thousands)			
December 31, 2014:				
U.S. government agencies	\$ 100	\$ -	\$ -	\$ 100
Mortgage-backed securities of government-sponsored entities	1,332	22	-	1,354
State and political subdivisions	5,557	7	181	5,383
Totals	<u>\$ 6,989</u>	<u>\$ 29</u>	<u>\$ 181</u>	<u>\$ 6,837</u>

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2015, 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.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair Value	Amortized cost	Fair Value
	(In thousands)			
Within one year	\$ 3,631	\$ 3,679	\$ -	\$ -
One to five years	3,022	3,219	843	858
Five to ten years	3,342	3,489	3,473	3,393
After ten years	8,330	8,579	2,939	2,897
	18,325	18,966	7,255	7,148
Mortgage-backed securities of government-sponsored entities	75,972	76,104	1,052	1,057
Private-label collateralized mortgage obligations	274	277	-	-
Totals	\$ 94,571	\$ 95,347	\$ 8,307	\$ 8,205

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The carrying value of securities pledged as collateral, to secure public deposits, customer repurchase agreements and for other purposes, was \$55.3 million and \$57.5 million at December 31, 2015 and 2014, respectively.

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, 2015 and 2014 was \$53.8 million and \$42.9 million, which represented approximately 52% and 38%, respectively, of the Company's aggregate amortized cost 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, 2015.

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 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, 2015 and 2014:

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

December 31, 2015						
	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	\$ 32,930	\$ 269	\$ 14,560	\$ 261	\$ 47,490	\$ 530
State and political subdivisions	3,756	50	2,515	122	6,271	172
Total temporarily impaired securities	<u>\$ 36,686</u>	<u>\$ 319</u>	<u>\$ 17,075</u>	<u>\$ 383</u>	<u>\$ 53,761</u>	<u>\$ 702</u>
December 31, 2014						
	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	\$ 22,443	\$ 118	\$ 13,947	\$ 155	\$ 36,390	\$ 273
State and political subdivisions	1,082	3	5,421	216	6,503	219
Total temporarily impaired securities	<u>\$ 23,525</u>	<u>\$ 121</u>	<u>\$ 19,368</u>	<u>\$ 371</u>	<u>\$ 42,893</u>	<u>\$ 492</u>

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, 2015.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
One-to-four family residential	\$ 179,732	\$ 169,676
Multi-family residential	12,474	12,203
Construction	6,177	2,922
Nonresidential real estate and land	86,470	71,795
Commercial	18,031	16,275
Consumer and other	<u>1,904</u>	<u>2,311</u>
	304,788	275,182
Less:		
Undisbursed portion of loans in process	8,065	6,121
Deferred loan origination fees	765	683
Allowance for loans losses	<u>2,837</u>	<u>2,769</u>
Total loans	<u><u>\$ 293,121</u></u>	<u><u>\$ 265,609</u></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

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. 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

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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, 2015 and 2014:

	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans	Total
December 31, 2015					
Allowance for loan losses:			(In thousands)		
Beginning balance	\$ 1,533	\$ 885	\$ 343	\$ 8	\$ 2,769
Provision charged to expense	924	325	(65)	(9)	1,175
Losses charged off	(1,158)	-	-	-	(1,158)
Recoveries	47	-	1	3	51
Ending balance	<u>\$ 1,346</u>	<u>\$ 1,210</u>	<u>\$ 279</u>	<u>\$ 2</u>	<u>\$ 2,837</u>
Allowance Balances:					
Individually evaluated for impairment	<u>\$ 506</u>	<u>\$ 13</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 552</u>
Collectively evaluated for impairment	<u>\$ 840</u>	<u>\$ 1,197</u>	<u>\$ 246</u>	<u>\$ 2</u>	<u>\$ 2,285</u>
Loan Balances:					
Ending balance:	<u>\$ 179,732</u>	<u>\$ 105,121</u>	<u>\$ 18,031</u>	<u>\$ 1,904</u>	<u>\$ 304,788</u>
Individually evaluated for impairment	<u>\$ 2,789</u>	<u>\$ 1,061</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 3,883</u>
Collectively evaluated for impairment	<u>\$ 176,943</u>	<u>\$ 104,060</u>	<u>\$ 17,998</u>	<u>\$ 1,904</u>	<u>\$ 300,905</u>
	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans	Total
December 31, 2014					
Allowance for loan losses:			(In thousands)		
Beginning balance	\$ 1,017	\$ 1,526	\$ 271	\$ 5	\$ 2,819
Provision charged to expense	546	(397)	182	2	333
Losses charged off	(38)	(261)	(112)	-	(411)
Recoveries	8	17	2	1	28
Ending balance	<u>\$ 1,533</u>	<u>\$ 885</u>	<u>\$ 343</u>	<u>\$ 8</u>	<u>\$ 2,769</u>
Allowance Balances:					
Individually evaluated for impairment	<u>\$ 653</u>	<u>\$ 18</u>	<u>\$ 145</u>	<u>\$ -</u>	<u>\$ 816</u>
Collectively evaluated for impairment	<u>\$ 880</u>	<u>\$ 867</u>	<u>\$ 198</u>	<u>\$ 8</u>	<u>\$ 1,953</u>
Loan Balances:					
Ending balance:	<u>\$ 169,676</u>	<u>\$ 86,920</u>	<u>\$ 16,275</u>	<u>\$ 2,311</u>	<u>\$ 275,182</u>
Individually evaluated for impairment	<u>\$ 3,279</u>	<u>\$ 18</u>	<u>\$ 145</u>	<u>\$ -</u>	<u>\$ 3,442</u>
Collectively evaluated for impairment	<u>\$ 166,397</u>	<u>\$ 86,902</u>	<u>\$ 16,130</u>	<u>\$ 2,311</u>	<u>\$ 271,740</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015 and 2014:

December 31, 2015	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans
	(In thousands)			
Rating *				
Pass (Risk 1-4)	\$ 172,617	\$ 100,961	\$ 17,893	\$ 1,904
Special Mention (Risk 5)	1,406	1,881	105	-
Substandard (Risk 6)	5,709	2,279	33	-
Total	<u>\$ 179,732</u>	<u>\$ 105,121</u>	<u>\$ 18,031</u>	<u>\$ 1,904</u>

December 31, 2014	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans
	(In thousands)			
Rating *				
Pass (Risk 1-4)	\$ 160,190	\$ 84,168	\$ 15,812	\$ 2,311
Special Mention (Risk 5)	2,015	851	318	-
Substandard (Risk 6)	7,471	1,901	145	-
Total	<u>\$ 169,676</u>	<u>\$ 86,920</u>	<u>\$ 16,275</u>	<u>\$ 2,311</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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

The following tables present the Bank’s loan portfolio aging analysis as of December 31, 2015 and 2014:

December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
(In thousands)							
One-to-four family residential loans	\$ 516	\$ 329	\$ 903	\$ 1,748	\$ 177,984	\$ 179,732	\$ -
All other mortgage loans	298	-	209	507	104,614	105,121	-
Commercial business loans	68	-	-	68	17,963	18,031	-
Consumer loans	-	-	-	-	1,904	1,904	-
Total	<u>\$ 882</u>	<u>\$ 329</u>	<u>\$ 1,112</u>	<u>\$ 2,323</u>	<u>\$ 302,465</u>	<u>\$ 304,788</u>	<u>\$ -</u>

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
(In thousands)							
One-to-four family residential loans	\$ 466	\$ 297	\$ 1,575	\$ 2,338	\$ 167,338	\$ 169,676	\$ -
All other mortgage loans	-	198	152	350	86,570	86,920	-
Commercial business loans	-	-	59	59	16,216	16,275	-
Consumer loans	-	-	-	-	2,311	2,311	-
Total	<u>\$ 466</u>	<u>\$ 495</u>	<u>\$ 1,786</u>	<u>\$ 2,747</u>	<u>\$ 272,435</u>	<u>\$ 275,182</u>	<u>\$ -</u>

Non-accrual loans were comprised of the following at December 31, 2015 and 2014:

Non-accrual loans	2015	2014
(In thousands)		
One-to-four family residential loans	\$ 1,733	\$ 2,740
Nonresidential real estate loans	208	350
All other mortgage loans	-	-
Commercial business loans	-	96
Consumer loans	-	-
Total	<u>\$ 1,941</u>	<u>\$ 3,186</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015, the Company had \$2.8 million of residential mortgages, \$1.1 million of nonresidential mortgages and \$33,000 of commercial loans that were modified in troubled debt restructurings. Included in these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of \$1.9 million in residential mortgage loans, nonresidential real estate and land loans of \$1.0 million and commercial loans of \$11,000 at December 31, 2015.

The following tables present impaired loans as of and for the years ended December 31, 2015 and 2014:

December 31, 2015	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
	(In thousands)				
Loans without a specific valuation allowance					
One-to-four family residential loans	\$ 1,224	\$ 1,238	\$ -	\$ 1,493	\$ 44
All other mortgage loans	-	-	-	532	-
Commercial business loans	-	-	-	9	-
Loans with a specific valuation allowance					
One-to-four family residential loans	1,565	1,875	506	1,347	56
All other mortgage loans	1,061	1,061	13	575	71
Commercial business loans	33	33	33	82	1
Total:					
One-to-four family residential loans	\$ 2,789	\$ 3,113	\$ 506	\$ 2,840	\$ 100
All other mortgage loans	1,061	1,061	13	1,107	71
Commercial business loans	33	33	33	91	1
	<u>\$ 3,883</u>	<u>\$ 4,207</u>	<u>\$ 552</u>	<u>\$ 4,038</u>	<u>\$ 172</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

December 31, 2014	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In thousands)		
Loans without a specific valuation allowance					
One-to-four family residential loans	\$ 1,108	\$ 1,108	\$ -	\$ 3,220	\$ 44
All other mortgage loans	-	-	-	1,097	-
Commercial business loans	-	-	-	19	-
Loans with a specific valuation allowance					
One-to-four family residential loans	2,171	2,171	653	1,499	56
All other mortgage loans	18	18	18	477	1
Commercial business loans	145	145	145	166	2
Total:					
One-to-four family residential loans	\$ 3,279	\$ 3,279	\$ 653	\$ 4,719	\$ 100
All other mortgage loans	18	18	18	1,574	1
Commercial business loans	145	145	145	185	2
	<u>\$ 3,442</u>	<u>\$ 3,442</u>	<u>\$ 816</u>	<u>\$ 6,478</u>	<u>\$ 103</u>

The following tables present information regarding newly classified troubled debt restructurings by class for the years ended December 31, 2015 and 2014.

Troubled Debt Restructurings	Number of loans	Pre-modification Unpaid Principal Balance	Post-modification Unpaid Principal Balance
		(dollars in thousands)	
December 31, 2015			
One-to-four family residential loans	1	\$ 17	\$ 17
December 31, 2014			
All other mortgage loans	2	\$ 1,057	\$ 1,090

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, 2015

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

or the year ended December 31, 2014. The Company considers TDRs that become 90 days or more past due under modified terms as subsequently defaulted.

As a result of adopting the amendments in Accounting Standards Update No. 2011-02 (the ASU), the Company reassessed all restructurings occurring on or after the beginning of its current fiscal year (April 1, 2011) for identification of TDRs. The Company identified no additional TDRs for which an allowance for credit losses had previously been measured under a general allowance for credit losses methodology.

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, 2015 and December 31, 2014.

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<u>Recorded Investment</u>	
	(In thousands)	
One-to-four family residential loans	\$ 14	\$ 179

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, 2015 and December 31, 2014.

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<u>Recorded Investment</u>	
	(In thousands)	
One-to-four family residential loans	\$ 171	\$ 24

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Land and improvements	\$ 1,799	\$ 1,799
Office buildings and improvements	8,027	8,024
Furniture, fixtures and equipment	4,890	4,469
Leasehold improvements	350	350
	<u>15,066</u>	<u>14,642</u>
Less accumulated depreciation	8,403	7,813
Total	<u>\$ 6,663</u>	<u>\$ 6,829</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 \$34.9 million and \$33.4 million at December 31, 2015 and 2014, respectively. Contractually specified servicing fees, late fees and ancillary fees of approximately \$30,000 and \$40,000 are included in loan servicing fees in the income statement at December 31, 2015 and 2014, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$313,000 and \$391,000 at December 31, 2015 and 2014, respectively.

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value.

Activity in the balance of servicing assets was as follows at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Carrying amount, beginning of period	\$ 332	\$ 271
Additions		
Servicing obligations that result from transfers of financial assets	88	99
Subtractions		
Amortization	51	38
	<u>\$ 369</u>	<u>\$ 332</u>

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

Fair value, beginning of period	\$367	\$344
Fair value, end of period	\$404	\$367

Note 7: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of \$250,000 or more were \$17.9 million at December 31, 2015, and \$19.5 million at December 31, 2014.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

At December 31, 2015, the scheduled maturities of time deposits are as follows:

<u>Due during the year ending December 31,</u>	(In thousands)
2016	\$ 46,871
2017	30,762
2018	14,746
2019	9,052
2020	15,566
Thereafter	11,809
	<u>\$ 128,806</u>

Note 8: Other Short-Term Borrowings

Short-term borrowings included the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Other Short-term borrowings	\$ 5,606	\$ 7,000

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, 2015 and 2014 totaled \$7.2 million and \$7.0 million, respectively, and the average daily balance totaled \$6.4 million and \$6.3 million for years ended December 31, 2015 and 2014, respectively. These short-term borrowings were collateralized by \$7.0 million, and \$9.0 million of Mortgage-backed securities of government-sponsored entities at December 31, 2015 and 2014 respectively. The agreements at December 31, 2015, 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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 9: Federal Home Loan Bank Advances

At December 31, 2015, 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>
		(In thousands)
1.21%	2016	\$ 3,000
0.97% - 1.42%	2017	6,000
1.30% - 1.33%	2018	6,000
1.47% - 1.55%	2019	6,000
		<u>\$ 21,000</u>

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$127.5 million at December 31, 2015.

At December 31, 2015, required annual principal payments on Federal Home Loan Bank advances were as follows:

<u>For the year ended December 31,</u>	<u>(In thousands)</u>
2016	\$ 3,000
2017	6,000
2018	6,000
2019	6,000
	<u>\$ 21,000</u>

Each advance is payable at its maturity date and has a prepayment penalty if repaid prior to maturity. During the quarter ended December 31, 2010, the Company prepaid \$8.5 million of Federal Home Loan Bank advances which resulted in a prepayment penalty of \$526,000. The Company replaced these advances with lower rate advances of \$8.5 million whose present value, based on a discount rate equal to the cost of funds rate of the original advances, was not substantially different than the value of the original advances immediately prior to prepayment. As such, the Company was required to defer the \$526,000 penalty over the life of the new advances. As of December 31, 2015 those advances related to the prepayment penalty had matured and were repaid and as such the prepayment penalty was fully amortized, while at December 31, 2014, the Bank had \$62,000 in unamortized prepayment penalties.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Additionally, as a member of the Federal Home Loan Bank system at December 31, 2015, the Bank had the ability to obtain up to \$90.8 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, 2015, the Bank had a cash management line of credit with the Federal Reserve Bank in the amount of \$24.0 million, none of which was drawn. The Bank had approximately \$24.2 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Taxes currently payable	\$ 270	\$ 902
Deferred income taxes	143	(65)
Income tax expense	<u>\$ 413</u>	<u>\$ 837</u>

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

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Computed at the statutory rate (34%)	\$ 668	\$ 1,179
Increase (decrease) resulting from		
Tax-exempt interest	(223)	(277)
Earnings on bank-owned life insurance	(100)	(82)
Other	68	17
Actual tax expense	<u>\$ 413</u>	<u>\$ 837</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were as follows:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Deferred tax assets		
Deferred loan origination fees	\$ 260	\$ 232
Allowance for loan losses	965	941
Real estate owned valuation	2	-
Pension adjustment	368	405
Reserve for uncollected interest	182	175
Benefit plan expenses	97	178
AMT credit carryover and low income housing credit	12	-
Total deferred tax assets	<u>1,886</u>	<u>1,931</u>
Deferred tax liabilities		
Prepaid pension	(221)	(190)
Federal Home Loan Bank stock dividends	(1,023)	(1,023)
Book/tax depreciation differences	(560)	(517)
Financed loan fees	(129)	(117)
Unrealized gains on securities available-for-sale	(264)	(644)
Mortgage servicing rights	(125)	(113)
Total deferred tax liabilities	<u>(2,322)</u>	<u>(2,604)</u>
Net deferred tax liability	<u>\$ (436)</u>	<u>\$ (673)</u>

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, 2015. 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 \$918,000 at December 31, 2015.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 11: Accumulated Other Comprehensive Income (Loss)

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

	2015	2014
	(In thousands)	
Gross unrealized gain on securities available-for-sale	\$ 777	\$ 1,894
Gross unrealized loss for unfunded status of split-dollar life insurance plan liability (tax free)	(89)	(244)
Gross unrealized loss for unfunded status of defined benefit plan liability	(1,083)	(1,191)
	(395)	459
Tax effect	104	(239)
Net-of-tax amount	\$ (291)	\$ 220

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, 2015, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2015, 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, 2015 that management believes have changed the Bank's capital classification.

Wayne Savings Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Effective January 1, 2015, new regulatory capital requirements commonly referred to as “Basel III” were implemented and are reflected in December 31, 2015 capital table below. 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.

The Bank’s actual capital amounts and ratios as of December 31, 2015 and 2014 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
As of December 31, 2015						
Tier I Capital to average assets	\$ 37,524	8.8%	\$ 17,092	4.0%	\$ 21,365	5.0%
Tier 1 Common equity capital to risk-weighted assets	37,524	13.4%	12,645	4.5%	18,265	6.5%
Tier I Capital to risk-weighted assets	37,524	13.4%	16,860	6.0%	22,480	8.0%
Total Risk-based capital to risk-weighted assets	40,361	14.4%	22,480	8.0%	28,099	10.0%
As of December 31, 2014						
Tier I Capital to average assets	\$ 36,834	8.8%	\$ 16,694	4.0%	\$ 20,868	5.0%
Tier I Capital to risk-weighted assets	36,834	14.1%	10,439	4.0%	15,658	6.0%
Total Risk-based capital to risk-weighted assets	39,603	15.2%	20,878	8.0%	26,097	10.0%

Note 13: Related Party Transactions

At December 31, 2015 and 2014, 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.

	2015	2014
	(In thousands)	
Aggregate balance – Beginning of period	\$ 400	\$ 222
New loans	9	186
Repayments and reclassifications	(90)	(8)
Aggregate balance – End of period	<u>\$ 319</u>	<u>\$ 400</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The loan reclassification during 2015 included a loan from a former employee. The loan continues to be outstanding and performing.

Deposits from related parties held by the Bank at December 31, 2015, and 2014, totaled \$386,000 and \$302,000, 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 \$8,000 and \$9,000 for the years ended December 31, 2015 and December 31, 2014, respectively.

The Bank leases an in-store retail branch from a corporation in which a director of the Company holds an interest. The current five year lease provides for renewal options through April 30, 2021. Rental expense for this lease was \$28,000 for both years ended December 31, 2015 and December 31, 2014, 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 \$180,000 to the plan during 2016.

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

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ 2,221	\$ 1,588
Interest cost	86	78
Actuarial (gain) loss	(112)	614
Benefits paid	(38)	(38)
Settlements	(4)	(21)
End of year	<u>2,153</u>	<u>2,221</u>
Change in fair value of plan assets		
Beginning of year	1,590	1,431
Actuarial return on plan assets	(11)	80
Employer contribution	185	138
Benefits paid	(38)	(38)
Settlements	(4)	(21)
End of year	<u>1,722</u>	<u>1,590</u>
Funded status at end of year	<u>\$ (431)</u>	<u>\$ (631)</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Net loss	<u>\$ (1,083)</u>	<u>\$ (1,191)</u>

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is approximately \$98,000.

The accumulated benefit obligation for the defined benefit pension plan was \$2.2 million at both December 31, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Components of net periodic benefit cost		
Internal cost	\$ 86	\$ 77
Expected return on plan assets	(99)	(90)
Amortization of net loss	105	44
Net periodic benefit cost	<u>\$ 92</u>	<u>\$ 31</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.

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 2015 are as follows:

SMID-Cap stocks	30-70%
Fixed income investments	30-70%
Cash	0-15%

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

At December 31, 2015 and 2014, the fair value of plan assets as a percentage of the total was invested in the following:

	<u>2015</u>	<u>2014</u>
Equity Securities	60%	67%
Debt securities	39%	32%
Cash and cash equivalents	1%	1%
	<u>100%</u>	<u>100%</u>

Benefit payments expected to be paid from the plan as of December 31, 2015 are as follows:

	(In thousands)	
2016	\$	74
2017		84
2018		92
2019		109
2020		116
Thereafter		634
	<u>\$</u>	<u>1,109</u>

Significant assumptions include the following as of December 31, 2015 and 2014:

	<u>Pension Benefits</u>	
	<u>2015</u>	<u>2014</u>
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	4.95%	3.95%
Rate of compensation increase (frozen)	N/A	N/A
Weighted-average assumptions used to determine benefit cost:		
Discount rate	4.95%	4.95%
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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The fair value of the Company's pension plan assets, and the related investment references, at December 31, 2015, and 2014 by asset category are as follows:

December 31, 2015		Fair Value Measurements Using			
Asset Category	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds-Equity		(In thousands)			
	\$				
Large Cap Value (a)	96	\$ 96	\$ -	\$ -	-
Large Cap Core (b)	132	132	-	-	-
Mid Cap Core (c)	118	118	-	-	-
Small-Cap Core (d)	57	57	-	-	-
International Core (e)	271	271	-	-	-
Large Cap Growth (f)	205	205	-	-	-
Small/Midcap Growth (g)	60	60	-	-	-
Mutual funds-Fixed Income					
Fixed Income-Core Plus					
(h)	501	501	-	-	-
Intermediate Duration (i)	166	166	-	-	-
Common/Collective Trusts-					
Equity					
Large Cap Value (j)	91	-	91	-	-
Cash					
Money Market	25	25	-	-	-
	\$				
Total	1,722	\$ 1,631	\$ 91	\$ -	-

- (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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

December 31, 2014

December 31, 2014		Fair Value Measurements Using			
Asset Category	Total Fair Value	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)	\$ 103	\$ 103	\$ -	\$ -	
Large Cap Core (b)	139	139	-	-	
Mid Cap Core (c)	131	131	-	-	
Small-Cap Core (d)	63	63	-	-	
International Core (e)	264	264	-	-	
Large Cap Growth (f)	202	202	-	-	
Small/Midcap Growth (g)	57	57	-	-	
Mutual funds-Fixed Income					
Fixed Income-US Core (h)	172	172	-	-	
Intermediate Duration (i)	341	341	-	-	
Common/Collective Trusts-Equity					
Large Cap Value (k)	96	-	96	-	
Cash					
Money Market	22	22	-	-	
Total	\$ 1,590	\$ 1,494	\$ 96	\$ -	

- (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. The stocks are maintained in approximately the same weightings as the index.
- (d) This category consists of 400 or more small and micro-cap companies, with as much as 25% invested in non-U.S. equities.
- (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 consists of a passively managed portfolio modeled after the Barclays Capital US Aggregate Float Adjusted Index. The fund invests in Treasury, Agency, corporate, mortgage-backed and asset-backed securities, maintaining a dollar-weighted maturity ranging between 5 and 10 years.
- (i) This category consists of a pair of mutual funds which invest in diversified portfolios 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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ 901	\$ 681
Service cost	7	41
Interest cost	37	33
(Gain)/Loss	(44)	163
Benefits Paid	(22)	(17)
End of year	<u>\$ 879</u>	<u>\$ 901</u>

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

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Prior service cost	\$ 83	\$ 97
Net loss(gain)	6	147

The accumulated benefit obligation for the split-dollar benefit plan was \$866,000 and \$901,000 at December 31, 2015 and 2014, respectively.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 \$8,000.

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Components of net periodic benefit cost		
Service cost	\$ 7	\$ 41
Interest cost	37	33
(Gain)/Loss recognized	98	(37)
Prior service cost	14	14
Net periodic benefit cost	<u>\$ 156</u>	<u>\$ 51</u>

The retiree accrued liability expected to be reversed from the plan as of December 31, 2015 is as follows:

	(In thousands)
2016	\$ 25
2017	28
2018	31
2019	33
2020	37
Thereafter	269
	<u>\$ 423</u>

Significant assumptions for the split-dollar plan liability include the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Weighted-average assumptions used to determine benefit cost obligation:		
Discount rate	4.34%	3.95%
Rate of compensation increase	1.50%	1.50%
Weighted-average assumptions used to determine benefit cost:		
Discount rate	4.34%	3.95%
Rate of compensation increase	1.50%	1.50%

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 for the years ended December 31, 2015 and December 31, 2014, was \$109,000 and \$112,000, respectively.

Share information for the ESOP is as follows at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Allocated shares	128,993	121,675
Unearned shares	<u>34,272</u>	<u>41,590</u>
Total ESOP shares	<u>163,265</u>	<u>163,265</u>
Fair value of unearned shares at end of period	<u>\$ 452,733</u>	<u>\$ 557,306</u>

At December 31, 2015, the fair value of the 128,993 allocated shares held by the ESOP was approximately \$1.7 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 \$148,000 and \$161,000 for the years ended December 31, 2015 and December 31, 2014, respectively.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

Year Ended December 31, 2015			
	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 1,647		
Basic earnings per share			
Income available to common stockholders		2,751,776	\$ 0.60
Income available to common stockholders and assumed conversions	\$ 1,647	2,751,776	\$ 0.60
Year Ended December 31, 2014			
	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 2,631		
Basic earnings per share			
Income available to common stockholders		2,780,166	\$ 0.95
Income available to common stockholders and assumed conversions	\$ 2,631	2,780,166	\$ 0.95

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

There were no dilutive securities or stock options outstanding at December 31, 2015 or December 31, 2014.

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, 2015 and December 31, 2014:

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

		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)	
	Fair Value				
(In thousands)					
December 31, 2015					
U.S. government agencies	\$ 101	\$ -	\$ 101	\$ -	
Mortgage-backed securities of government-sponsored entities	76,104	-	76,104	-	
Private-label collateralized mortgage obligations	277	-	277	-	
State and political subdivisions	18,865	-	18,865	-	
		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)	
	Fair Value				
(In thousands)					
December 31, 2014					
U.S. government agencies	\$ 126	\$ -	\$ 126	\$ -	
Mortgage-backed securities of government-sponsored entities	88,213	-	88,213	-	
Private-label collateralized mortgage obligations	502	-	502	-	
State and political subdivisions	20,128	-	20,128	-	

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

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015 and December 31, 2014.

		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)
		Fair Value		
(In thousands)				
December 31, 2015				
Collateral-dependent impaired loans	\$ 292	\$ -	\$ -	\$ 292
Foreclosed assets	5	-	-	5
December 31, 2014				
Collateral-dependent impaired loans	\$ 634	\$ -	\$ -	\$ 634
Foreclosed assets	59	-	-	59

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015 and December 31, 2014, in thousands.

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Weighted-Average</u>
December 31, 2015				
Collateral-dependent impaired loans	\$ 292	Market Comparable Properties, less delinquent real estate taxes	N/A	N/A
Foreclosed assets	5	Agreed upon selling price	Selling Costs	10%
December 31, 2014				
Collateral-dependent impaired loans	\$ 634	Market Comparable Properties, less delinquent real estate taxes	N/A	N/A
Foreclosed assets	59	Estimated Selling Price	Selling Costs	10%

There were no changes in the inputs or methodologies used to determine fair value at December 31, 2015 as compared to December 31, 2014.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

		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)
	Carrying Amount			
(In thousands)				
December 31, 2015				
Financial assets				
Cash and cash equivalents	\$ 11,156	\$ 11,156	\$ -	\$ -
Held-to-maturity securities	8,307	-	8,205	-
Loans, net of allowance for loan losses	293,121	-	-	302,595
Federal Home Loan Bank stock	4,226	-	4,226	-
Interest receivable	1,149	-	1,149	-
Financial liabilities				
Deposits	362,427	42,630	295,796	-
Other short-term borrowings	5,606	-	5,606	-
Federal Home Loan Bank advances	21,000	-	20,978	-
Advances from borrowers for taxes and insurance	1,240	-	1,240	-
Interest payable	40	-	40	-

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

		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)
	Carrying Amount			
(In thousands)				
December 31, 2014				
Financial assets				
Cash and cash equivalents	\$ 10,783	\$ 10,783	\$ -	\$ -
Held-to-maturity securities	6,989	-	6,837	-
Loans, net of allowance for loan losses	265,609	-	-	274,443
Federal Home Loan Bank stock	4,226	-	4,226	-
Interest receivable	1,154	-	1,154	-
Financial liabilities				
Deposits	348,922	34,403	294,365	-
Other short-term borrowings	7,000	-	7,000	-
Federal Home Loan Bank advances	16,438	-	16,572	-
Advances from borrowers for taxes and insurance	1,135	-	1,135	-
Interest payable	47	-	47	-

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.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 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, 2015 and 2014.

Note 17: Commitments and Credit Risk

Total commercial and commercial real estate loans comprised 38% and 36%, respectively, of the loan portfolio for the years ended December 31, 2015 and December 31, 2014, 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, 2015 and 2014. These loans are secured by consumer assets including automobiles, which account for 49% and 30%, respectively, of the installment loan portfolio. Residential one-to-four family real estate loans comprise 61% and 63% of the loan portfolio at December 31, 2015 and 2014, 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, 2015 and 2014, is \$2.6 million and \$2.9 million respectively of uninsured deposits in the form of branch cash on hand.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015 and 2014, the Company had outstanding commitments to originate fixed-rate loans aggregating approximately \$2.1 million and \$734,000, 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 \$4.5 million and \$1.1 million at December 31, 2015 and 2014, respectively.

The Company had undisbursed amounts of nonresidential real estate and land loans of \$4.2 million and commercial loans of \$291,000 at December 31, 2015. The Company had undisbursed amounts of nonresidential real estate and land loans of \$4.1 million at December 31, 2014.

At December 31, 2015, the Company had unused extensions of credit totaling \$7.8 million, compared to \$8.0 million at December 31, 2014, 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.

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 \$407,000 at December 31, 2015, and \$157,000 at December 31, 2014, with terms not exceeding eleven months. At both December 31, 2015 and 2014, the Company had no deferred revenue under standby letter of credit agreements.

Wayne Savings Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015, the Company had granted unused lines of credit to borrowers aggregating approximately \$17.1 million and \$19.4 million for commercial lines and open-end consumer lines, respectively. At December 31, 2014, the Company had granted unused lines of credit to borrowers aggregating approximately \$16.6 million and \$18.6 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)
2016	\$ 60
2017	60
2018	55
2019	28
2020	28
Thereafter	9
Total	<u>\$ 240</u>

The Company incurred rental expense under operating leases totaling approximately \$60,000 for the years ended December 31, 2015 and December 31, 2014.

There were no other material commitments or contingencies at December 31, 2015.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASU 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, was issued in January, 2015. This update eliminates from Generally Accepted Accounting Principles the concept of extraordinary items, which required that an entity separately classify, present and disclose extraordinary events and transactions. Eliminating the concept of extraordinary items will save time and reduce costs for preparers because they will not have to assess whether a particular event or transaction is extraordinary. It will also alleviate uncertainty for preparers, auditors, and regulators because auditors and regulators will no longer need to evaluate whether the preparer treated an unusual item appropriately. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. This standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs, was issued in April, 2015. The amendments in this Update require that debt issuance costs related to a recognized debit liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued, and the amendments in this Update should be applied retrospectively. This standard is not expected to have a material impact on the Company's consolidated financial statements.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

FASB ASU 2015-04, Compensation – Retirement Benefits (Subtopic 715), Practical Expedient for the Measurement of an Employer's Defined Benefit Obligation and Plan Assets, was issued in April, 2015. A reporting entity with a fiscal year end that does not coincide with a month end may incur more costs than other entities when measuring the fair value of plan assets of a defined benefit pension or other post-retirement benefit. For an entity with a fiscal year end that does not coincide with a month end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month end that is closest to the entity's fiscal year end and apply that practical expedient consistently from year to year. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. Early application is permitted, and the amendments in this Update should be applied retrospectively. This standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASU 2015-10, Technical Corrections and Improvements was issued in June, 2015. The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to entities. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this update. The amendments that require transition guidance are not expected to have a material impact on the Company's consolidated financial statements. The adoption of the other amendments in this update did not have a material impact on the Company's consolidated financial statements.

FASB ASU 2015-15, Interest – Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements was issued in August, 2015. The amendments in this Update address line-of-credit arrangements. In that, given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the terms of the line-of-credit arrangement. The amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued, and the amendments in this Update should be applied retrospectively. This standard is not expected to have a material impact on the Company's consolidated financial statements.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

FASB ASU 2015-16, Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments was issued in September 2015. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date. This standard is not expected to have a material impact on the Company's consolidated financial statements.

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.

FASB ASU 2016-02, Leases (Topic 842), Section A- Leases, Amendments to the FASB Accounting Standards Codification, Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification, and Section C – Background Information and Basis for Conclusions was issued in February 2016. The amendments in this Update are designed to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this Update include disclosures that are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this Update is permitted. This standard is not expected to have a material impact on the Company's consolidated financial statements.

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015 and 2014:

Condensed Balance Sheets

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Assets		
Cash and due from banks	\$ 522	\$ 705
Notes receivable from the Bank	444	525
Investment in the Bank	38,952	38,806
Prepaid expenses and other assets	250	254
Total assets	<u>\$ 40,168</u>	<u>\$ 40,290</u>
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	\$ 263	\$ 288
Stockholders' equity		
Common stock and additional paid-in capital	36,415	36,393
Retained earnings	21,060	20,403
Shares acquired by ESOP	(343)	(416)
Treasury stock – at cost	(16,936)	(16,598)
Accumulated other comprehensive income	(291)	220
Total stockholders' equity	<u>39,905</u>	<u>40,002</u>
Total liabilities and stockholders' equity	<u>\$ 40,168</u>	<u>\$ 40,290</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Condensed Statements of Income and Comprehensive Income

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Operating Income		
Interest income	\$ 32	\$ 36
Dividends from the Bank	<u>1,244</u>	<u>1,168</u>
Total operating income	1,276	1,204
Noninterest Expense	<u>252</u>	<u>276</u>
Earnings before Federal Income Tax Benefits and equity in undistributed income of the Bank	1,024	928
Federal Income Tax Benefits	<u>(75)</u>	<u>(78)</u>
Income before equity in undistributed income of the Bank	1,099	1,006
Equity in undistributed income of the Bank	<u>548</u>	<u>1,625</u>
Net Income	<u>\$ 1,647</u>	<u>\$ 2,631</u>
Total Comprehensive income	<u>\$ 1,136</u>	<u>\$ 2,786</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Condensed Statements of Cash Flows

	<u>2015</u>	<u>2014</u>
	(In thousands)	
Operating Activities		
Net income	\$ 1,647	\$ 2,631
Items not requiring (providing) cash		
Equity in undistributed net income of the Bank	(548)	(1,625)
Increase (decrease) in cash due to changes in:		
Prepaid expenses and other assets	(10)	(44)
Accrued expenses and other liabilities	(25)	3
Net cash provided by operating activities	<u>1,064</u>	<u>965</u>
Investing Activities		
Repayment of ESOP loan	<u>81</u>	<u>82</u>
Net cash provided by investing activities	81	82
Financing Activities		
Payment of dividends on common stock	(990)	(946)
Purchase of treasury stock	<u>(338)</u>	<u>(460)</u>
Net cash used in financing activities	<u>(1,328)</u>	<u>(1,406)</u>
Net Change in Cash and Cash Equivalents	(183)	(359)
Cash and Cash Equivalents at Beginning of Period	<u>705</u>	<u>1,064</u>
Cash and Cash Equivalents at End of Period	<u><u>\$ 522</u></u>	<u><u>\$ 705</u></u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 20: Quarterly Financial Data (Unaudited)

The following table summarizes the Company's quarterly results of operations for the years ended December 31, 2015 and December 31, 2014:

Year Ended December 2015:	Three months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 3,558	\$ 3,588	\$ 3,627	\$ 3,726
Total interest expense	486	503	480	498
Net interest income	3,072	3,085	3,147	3,228
Provision for loan losses	233	481	357	104
Noninterest income	431	443	538	478
Noninterest expense	2,703	2,782	2,879	2,823
Income before income taxes	567	265	449	779
Federal income tax expense	127	22	77	187
Net income	<u>\$ 440</u>	<u>\$ 243</u>	<u>\$ 372</u>	<u>\$ 592</u>
Earnings per share				
Basic	<u>\$ 0.16</u>	<u>\$ 0.09</u>	<u>\$ 0.13</u>	<u>\$ 0.22</u>
Diluted	<u>\$ 0.16</u>	<u>\$ 0.09</u>	<u>\$ 0.13</u>	<u>\$ 0.22</u>

Wayne Savings Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Year Ended December 2014:	Three months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 3,721	\$ 3,712	\$ 3,598	\$ 3,600
Total interest expense	542	530	500	491
Net interest income	3,179	3,182	3,098	3,109
Provision for loan losses	8	79	195	51
Noninterest income	365	480	523	484
Noninterest expense	2,645	2,649	2,642	2,683
Income before income taxes	891	934	784	859
Federal income tax expense	221	234	177	205
Net income	<u>\$ 670</u>	<u>\$ 700</u>	<u>\$ 607</u>	<u>\$ 654</u>
Earnings per share				
Basic	<u>\$ 0.24</u>	<u>\$ 0.25</u>	<u>\$ 0.22</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.24</u>	<u>\$ 0.25</u>	<u>\$ 0.22</u>	<u>\$ 0.24</u>

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable

ITEM 9A. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

**Wayne Savings Bancshares, Inc.
Management's Report on Internal Control Over Financial Reporting**

Management of Wayne Savings Bancshares, Inc. and subsidiary (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U. S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management of the Company has concluded that the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2015.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. These inherent limitations, however, are known features of the financial reporting process. It is possible, therefore, to design into the process safeguards to reduce, though not eliminate, this risk.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ H. Stewart Fitz Gibbon III
H. Stewart Fitz Gibbon III
President and Chief Executive Officer
March 11, 2016

/s/ Myron Swartzentruber
Myron Swartzentruber
Senior Vice President and Chief Financial Officer
March 11, 2016

ITEM 9B. Other Information

Not Applicable

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required herein is incorporated by reference from the section captioned “Information with Respect to Nominees for Director, Continuing Directors and Executive Officers” in the Company’s definitive proxy statement for the annual meeting of shareholders to be held on May 26, 2016, (the “Proxy Statement”) expected to be filed with the Securities and Exchange Commission on or about April 25, 2016.

Incorporated by reference to “Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management - Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

The Company has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of the Company and the Bank. Upon receipt of a written request we will furnish without charge to any shareholder a copy of the Code of Conduct and Ethics. Such written requests should be directed to Ms. Brittany Hartzler, Secretary, Wayne Savings Bancshares, Inc., 151 North Market Street, Wooster, Ohio 44691.

ITEM 11. Executive Compensation

The information required herein is incorporated by reference from the sections captioned “Management Compensation” in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is incorporated herein by reference from the section captioned “Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management” in the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required herein is incorporated by reference from the section captioned “Management Compensation - Indebtedness of Management and Related Party Transactions” in the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required herein is incorporated by reference from the section captioned “Proposal II - Ratification of Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following documents have been filed under “Item 8, Financial Statement and Supplementary Data” of this Form 10-K.

- (i) Report of Independent Registered Public Accounting Firm;
- (ii) Consolidated Balance Sheets;
- (iii) Consolidated Statements of Income;
- (iv) Consolidated Statements of Stockholders’ Equity;
- (v) Consolidated Statements of Cash Flows; and
- (vi) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

(a)(3) Exhibits

Exhibit Number	Description (and location)
3.1	Certificate of Incorporation (incorporated herein by reference to Exhibit D of the Plan of Conversion and Reorganization included as Exhibit 2 of the Form SB-2 Registration Statement filed with the SEC on September 18, 2001 (SEC file number 333-69600))
3.1.1	Amendment of the Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 of the Form SB-2 Registration Statement, Amendment Number 6, filed with the SEC on November 8, 2002 (SEC file number 333-69600))
3.2	By-Laws (incorporated herein by reference to Exhibit 3.2 of the Form 10-Q for the period ended June 30, 2013 filed with the SEC on August 9, 2013 (SEC file number 0-23433))
4.0	Form of Common Stock Certificate (incorporated herein by reference to Exhibit 4 of the Form SB-2 Registration Statement filed with the SEC on September 18, 2001 (SEC file number 333-69600))
10.2 *	Employment Agreement between Wayne Savings Community Bank and H. Stewart Fitz Gibbon III dated November 3, 2014 (incorporated herein by reference to Exhibit 10.2 of the Form 8-K Current Report filed with the SEC on November 26, 2014 (SEC file number 0-23433))
10.3	[reserved]
10.4 *	Amended and Restated Employment Agreement between Wayne Savings Community Bank and Joel D. Beckler dated November 20, 2012 (incorporated herein by reference to Exhibit 10.6 of the Form 8-K Current Report filed with the SEC on November 21, 2012 (SEC file number 0-23433))
10.5 *	[reserved]
10.6 *	Indemnification Agreement with directors and executive officers (filed herewith) (the form of Indemnification Agreement included herewith as Exhibit 10.6 has been entered into by the Registrant with directors, and with Senior Vice President and Senior Loan Officer Joel D. Beckler)
10.7 *	Group Term Carve-Out Plan for Senior Vice President and Above Agreement (incorporated herein by reference to Exhibit 10.7 of the Form 10-Q filed with the SEC on May 10, 2013 (SEC file number 0-23433))
10.8 *	Summary of Cash Incentive Bonus Plan (incorporated herein by reference to Exhibit 10.8 of the Form 10-Q filed with the SEC on May 10, 2013 (SEC file number 0-23433))
21.0	Subsidiaries of Registrant (included in Item 1 – "Business" and incorporated herein by reference)

23.0	Consent of BKD, LLP (filed herewith)
31.1	Certification pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer (filed herewith)
31.2	Certification pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer (filed herewith)
32.0	Certification pursuant to 18 U.S.C. Section 1350 (filed herewith)
101	Interactive financial data (XBRL) (furnished herewith)

* management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WAYNE SAVINGS BANCSHARES, INC.

Date: March 11, 2016

By: /s/H. Stewart Fitz Gibbon III
H. Stewart Fitz Gibbon III
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/H. Stewart Fitz Gibbon III
H. Stewart Fitz Gibbon III, President
and Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/Myron Swartzentruber
Myron Swartzentruber, Senior Vice
President and Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: March 11, 2016

Date: March 11, 2016

By: /s/Daniel R. Buehler
Daniel R. Buehler, Director

By: /s/Peggy J. Schmitz
Peggy J. Schmitz, Chair

Date: March 11, 2016

Date: March 11, 2016

By: /s/Jonathan Ciccotelli
Jonathan Ciccotelli, Director

By: /s/David L. Lehman
David L. Lehman, Director

Date: March 11, 2016

Date: March 11, 2016

By: /s/Glenn W. Miller
Glenn W. Miller, Director

By: /s/Debra A. Marthey
Debra A. Marthey, Director

Date: March 11, 2016

Date: March 11, 2016

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements No. 333-105845 and No. 333-119556 of Wayne Savings Bancshares, Inc. on Forms S-8 of our report dated March 11, 2016 on our audit of the consolidated financial statements of Wayne Savings Bancshares, Inc. as of and for the years ended December 31, 2015 and 2014, which is included in this Annual Report on Form 10-K of Wayne Savings Bancshares, Inc., for year ended December 31, 2015.

/s/ BKD, LLP

Cincinnati, Ohio
March 11, 2016

**PURSUANT TO RULE 13a-14(a) AND 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

I, H. Stewart Fitz Gibbon III, certify that:

1. I have reviewed this annual report on Form 10-K of Wayne Savings Bancshares, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: March 11, 2016

/s/ H. Stewart Fitz Gibbon III

H. Stewart Fitz Gibbon III

President and Chief Executive Officer

**PURSUANT TO RULE 13a-14(a) AND 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

I, Myron Swartzentruber, certify that:

1. I have reviewed this annual report on Form 10-K of Wayne Savings Bancshares, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 11, 2016

/s/ Myron Swartzentruber
Myron Swartzentruber
Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

I, H. Stewart Fitz Gibbon III, President and Chief Executive Officer, and Myron Swartzentruber, Senior Vice President and Chief Financial Officer, of Wayne Savings Bancshares, Inc. (the "Company"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 11, 2016 By: /s/ H. Stewart Fitz Gibbon III
H. Stewart Fitz Gibbon III, President and
Chief Executive Officer

Date: March 11, 2016 By: /s/ Myron Swartzentruber
Myron Swartzentruber, Senior Vice President
and Chief Financial Officer

Note: A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to Wayne Savings Bancshares, Inc. and will be retained by Wayne Savings Bancshares, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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BOARD OF DIRECTORS



Daniel R. Buehler



Jonathan Ciccotelli



H. Stewart Fitz Gibbon III



David L. Lehman



Debra A. Marthey



Glenn W. Miller



Peggy J. Schmitz

SENIOR OFFICERS

H. Stewart Fitz Gibbon III
President and Chief Executive Officer

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

Joel D. Beckler
Senior Vice President
Senior Loan Officer

Donna Knack
Senior Vice President
Director of Customer Service and Sales

Jeff King
Senior Vice President
Chief Information Officer

LOCATIONS

Wooster

Corporate Office
151 N. Market St.
330-264-5767

Cleveland Point Financial Center
1908 Cleveland Rd.
Investments: 330-262-5178
Branch: 330-262-5988

2024 Millersburg Rd.
330-264-2563

543 Riffel Rd.
330-264-0722

Drive Thru
132 East North St.
330-264-5767

Ashland

233 Claremont Ave.
419-289-1961

1055 Sugarbush Dr.
419-207-1192

Creston

121 N. Main St.
330-435-6371

Lodi

303 Highland Dr.
330-948-1811

Millersburg

90 N. Clay St.
330-674-5085

North Canton

1265 S. Main St.
330-494-5262

Rittman

237 N. Main St.
330-925-4075



waynesavings.com