JEFFERSON SECURITY BANK

150

YEARS OF SERVICE

1869 — TO — 2019

2019 ANNUAL REPORT

BUILDING STRONGER COMMUNITIES

Our Mission:

We are a community bank that partners with our customers to enhance their lives and enrich our communities through local decision-making.

LETTER TO SHAREHOLDERS

JEFFERSON SECURITY BANK achieved a truly monumental level of commitment to the families and businesses of the Eastern Panhandle of West Virginia and surrounding areas, including Washington County, MD, in 2019 as we celebrated our 150th anniversary. We honored this occasion by hosting a celebration with you, our shareholders. The ongoing support shown by you and the generations before you have allowed your community bank to not only manage through countless economic cycles, significant technology advancements and a constantly evolving regulatory environment, but has allowed Jefferson Security Bank to grow and prosper. This growth has strengthened the ways we can give back to the community in an effort to make a difference for generations to come. To me, this is the heart of community banking. As part of our 150th anniversary, we also celebrated with the community by holding our inaugural community event. With plenty of food, activities and music, new memories were created as old memories were shared through great conversations and many laughs. Our employees actively participated in our 150 Days of Random Acts of Kindness Campaign, which focused on making a difference in as many lives as possible in celebration of our 150 years of service. These acts included food drives, a paint night, charity walks, toy collections, renovations for a local non-profit and many other sponsorships and activities to help serve the needs of those in our communities.

Providing solid financial performance is equally as important as our focus on honoring our heritage and building stronger communities for the future. For the second year in a row, Jefferson Security Bank achieved record earnings. Net income for the year ended 2019 totaled $2.80 million, an increase of 11.2% compared to net income of $2.52 million for the year ended 2018. This resulted in an increase in basic and diluted earnings per share from $8.92 per share to $10.02 per share when comparing the year ended 2018 to the year ended 2019, respectively. In 2019, a special dividend was declared in honor of our sesquicentennial, resulting in total dividends of $2.35 per share, an increase of 62.1% when compared to our total dividend of $1.45 per share in 2018. These changes resulted in an increase in book value per share of 16.4% from $84.31 per share for the year ended 2018 to $98.16 per share for the year ended 2019.

As shown on page 3, Financial Highlights, our strong financial performance was achieved by the growth experienced in loans, deposits and assets from 2018 to 2019. Also shown is the sustained improvement in our profitability ratios of return on average assets and return on average equity for the years ended 2019 and 2018 when compared to earlier years. In addition to taking action to stimulate growth by building relationships, we have continued to evaluate and streamline our processes and procedures. These efforts have resulted in positive changes to our efficiency ratio, allowing Jefferson Security Bank to operate more effectively. Over the last four years, since I have served as President & CEO, we have experienced nearly a 20% improvement in our efficiency ratio while continuing to increase our productivity.

Jefferson Security Bank was established over 150 years ago as a local independent community bank. While there have been many challenges to face, there have been just as many opportunities to embrace which have allowed us to stand strong in our commitment to be the bank of choice in the communities we serve. We are proud to have been publicly recognized by the Secretary of State as the oldest operating corporation in the state of West Virginia. Jefferson Security Bank was established on a solid foundation, and today we continue to build on that foundation to ensure we offer our customers the same options as larger banks, providing them with modern products, services and technologies with a more personalized touch to shape their futures for many years to come. It is with great pride that I work to honor the commitment made by our founders to our shareholders, our customers and others in our community. I appreciate your continued support which allows JSB to make a difference and to have a positive impact as we look ahead.

Cindy A. Kitner

Cindy A. Kitner, CPA
President and CEO

BOARD OF DIRECTORS

Left to Right: Monica W. Lingenfelter, Corporate Secretary; Brant M. Lowe; R. Andrew McMillan, Jr.; Cindy A. Kitner, CPA, President and CEO; Frederick K. Parsons, Chair; Dennis L. Barron; Suellen D. Myers; Christian E. Asam; Eric J. Lewis, CPA, Vice Chair.

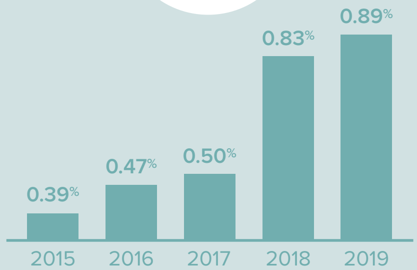
EXECUTIVE VICE PRESIDENTS

Jenna L. Kesecker, CPA
Executive Vice President
and Chief Financial Officer

Karl J. "Jeff" Keller
Executive Vice President of Lending

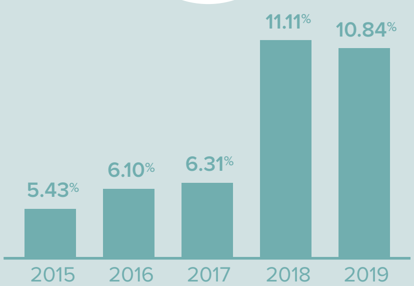
Select Ratios
(2015–2019)

0.89%



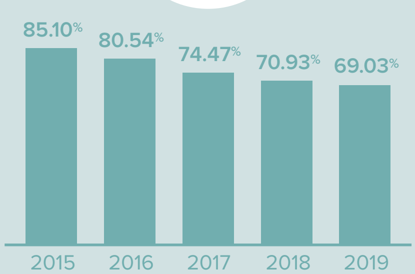
Return on Average Assets

10.84%



Return on Average Equity

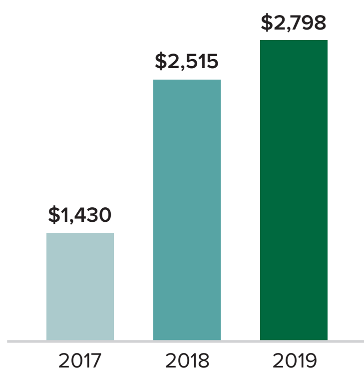
69.03%



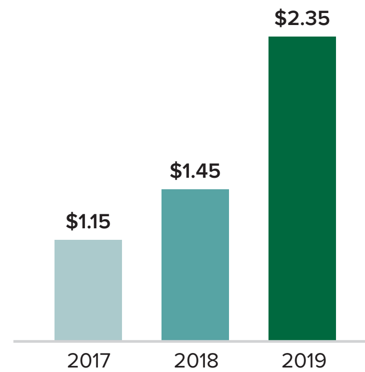
Efficiency Ratio

FINANCIAL HIGHLIGHTS

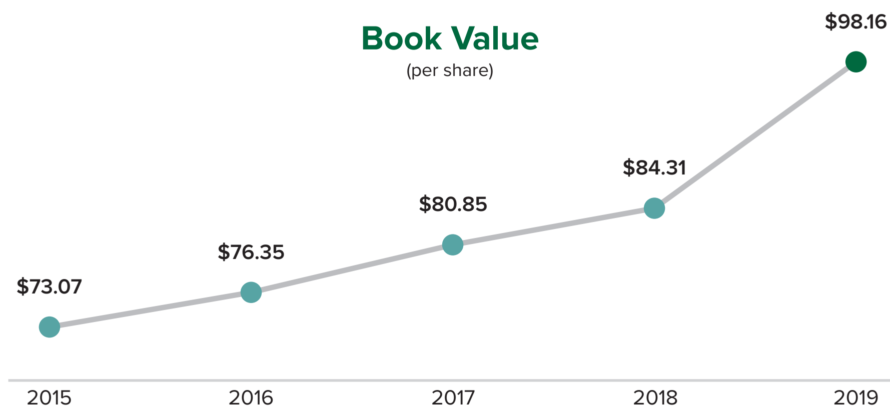
Net Income
(in thousands)



Cash Dividends Declared
(per share)



Book Value
(per share)



Growth Ratios
(compared to 2018)

8.86% Loans (net)

4.41% Assets

7.90% Deposits

TESTIMONIALS

"Jefferson Security Bank allows me to feel secure in my banking through their excellent customer service and individualized account care. Any time something has been off or looked questionable they have called me personally to alert me and confirm the account activity. Their staff is kind, and dedicated to making sure their accounts are taken care of."

Maria Allen, Owner of Maria's Taqueria

"All of the staff at JSB are professional, courteous, and will bend over backwards to help. I like how I'm always greeted when I walk in the door at JSB. They are always ready to help if I ever have a problem."

Arnold Dailey, Owner of D&D Meats

"JSB has been my bank since I opened a savings account as a kid over two decades ago. As I grew up in this community, got married, and had children, our banking needs and goals have changed a lot, but JSB has always been there for us and exceeded our expectations."

William Burner

"I have been a customer at Jefferson Security Bank for over 40 years –It's the best bank in the area! Their customer service is outstanding and my experiences have always been professional, positive, and pleasant. The staff are extremely accommodating and their services are seamless, whether I am using the branch closest to my home or in another area. Their ATMs are available 24/7/365 for all services. I am a frequent user of their Drive-Thru services and the staff personalize my experience and make me feel as though I am their favorite! They even have treats for my Golden Retriever and he waits for the drawer to open, knowing that he is receiving a special "withdrawal". Thank-you, JSB, for my outstanding banking experience!"

Cheryl Roberts

"Good Shepherd banks with Jefferson Security Bank because we are confident in their commitment to our banking needs and community outreach. Not only are they a local bank serving the public, they are friends and family who care deeply, live and work alongside us, and use their talents for the betterment of this area."

Good Shepherd Caregivers

YHB CPAs & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Jefferson Security Bank
Shepherdstown, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jefferson Security Bank and subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson Security Bank and subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 18, 2020

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and due from financial institutions	$ 3,697,973	$ 4,077,932
Interest bearing deposits with depository institutions	55,856	51,920
Cash and cash equivalents	3,753,829	4,129,852
Securities available for sale, at fair value	83,772,447	86,366,618
Securities held to maturity (fair value of $3,072,343 - 2019; $3,882,892 - 2018)	2,973,592	3,846,424
Restricted securities, at cost	675,400	1,079,400
Loans, net of allowance for loan losses of $2,036,051- 2019; $1,987,970 - 2018	217,274,015	199,583,219
Accrued interest receivable	932,518	867,026
Premises and equipment, net	5,635,890	5,731,971
Other real estate owned	278,100	- -
Bank owned life insurance	6,931,554	6,216,390
Other assets	2,174,481	2,879,940
Total assets	$ 324,401,826	$ 310,700,840
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 207,325,329	$ 192,030,423
Noninterest bearing	75,648,827	70,219,819
Total deposits	282,974,156	262,250,242
Securities sold under an agreement to repurchase	1,842,945	2,354,388
Accrued interest payable	116,789	63,049
Federal funds purchased	11,000	25,000
Federal Home Loan Bank advances	9,773,400	20,645,600
Other accrued expenses and other liabilities	2,272,895	1,820,081
Total liabilities	296,991,185	287,158,360
Shareholders' Equity		
Common stock, $10 par value; 300,000 shares authorized; issued and outstanding, 279,246 shares at December 31, 2019 and 2018	2,792,460	2,792,460
Additional paid-in capital	2,792,460	2,792,460
Retained earnings	24,603,092	22,461,648
Accumulated other comprehensive (loss), net	(2,777,371)	(4,504,088)
Total shareholders' equity	27,410,641	23,542,480
Total liabilities and shareholders' equity	$ 324,401,826	$ 310,700,840

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2019 and 2018

	2019	2018
Interest and dividend income		
Loans, including fees	$ 10,172,810	$ 8,878,007
Securities:		
Taxable	1,742,642	1,623,405
Nontaxable	360,731	554,644
Dividends and other interest	87,497	59,343
Total interest and dividend income	12,363,680	11,115,399
Interest expense		
Deposits	1,974,930	1,317,785
Borrowings	320,664	319,655
Total interest expense	2,295,594	1,637,440
Net interest income	10,068,086	9,477,959
Provision for loan losses	143,000	128,000
Net interest income after provision for loan losses	9,925,086	9,349,959
Noninterest income		
Service charges on deposit accounts	676,854	661,817
Other service charges, commissions and fees	951,143	947,798
Realized gain on securities	4,564	1,359
Income from bank owned life insurance	168,721	163,035
Other	114,079	123,701
Total noninterest income	1,915,361	1,897,710
Noninterest expense		
Salaries and employee benefits	4,563,069	4,355,844
Occupancy	1,238,746	1,271,363
Advertising and marketing	226,184	226,407
ATM and debit card fees	352,893	345,220
Data processing	747,915	738,263
Postage and stationery supplies	194,204	209,432
Professional services	255,081	264,804
FDIC and state assessments	86,323	177,672
Other real estate owned (income) expense, net	(2,359)	(30,716)
Director fees	128,300	129,800
Other	566,120	498,083
Total noninterest expense	8,356,476	8,186,172
Income before income tax expense	3,483,971	3,061,497
Income tax expense	686,299	546,129
Net income	$ 2,797,672	$ 2,515,368
Basic and diluted earnings per common share	$ 10.02	$ 8.92

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018

	2019	2018
Net income	$ 2,797,672	$ 2,515,368
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on securities available for sale arising during period	1,778,243	(676,700)
Reclassification adjustment for securities gains included in net income	(3,423)	(1,020)
Change in pension benefits	129,191	(519,124)
Reclassification adjustment for change in pension benefits included in net income	64,724	75,106
Change in supplemental executive retirement benefits	(281,082)	(77,900)
Reclassification adjustment for change in supplemental executive retirement benefits included in net income	39,064	37,178
Total other comprehensive income (loss)	1,726,717	(1,162,460)
Comprehensive income	$ 4,524,389	$ 1,352,908

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at December 31, 2017	$ 2,822,460	$ 2,822,460	$ 20,517,537	$ (3,341,628)	$ 22,820,829
Net income	- -	- -	2,515,368	- -	2,515,368
Other comprehensive loss	- -	- -	- -	(1,162,460)	(1,162,460)
Repurchase of common stock	(30,000)	(30,000)	(162,000)	- -	(222,000)
Cash dividends - $1.45 per share	- -	- -	(409,257)	- -	(409,257)
Balance at December 31, 2018	$ 2,792,460	$ 2,792,460	$ 22,461,648	$ (4,504,088)	$ 23,542,480
Net income	- -	- -	2,797,672	- -	2,797,672
Other comprehensive loss	- -	- -	- -	1,726,717	1,726,717
Cash dividends - $2.35 per share	- -	- -	(656,228)	- -	(656,228)
Balance at December 31, 2019	$ 2,792,460	$ 2,792,460	$ 24,603,092	$ (2,777,371)	$ 27,410,641

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 2,797,672	$ 2,515,368
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	495,610	526,095
Provision for loan losses	143,000	128,000
Deferred income tax expense	10,226	604,545
Net amortization of securities	447,825	456,634
Net loss (gain) on sale of securities available for sale	16,622	(904)
Net gain on call of securities available for sale	- -	(455)
Net gain on call of securities held to maturity	(21,186)	- -
Net gain on sale of other real estate owned	(3,781)	- -
Deferred gain recognized on other real estate owned	- -	(30,716)
Income from bank owned life insurance	(168,721)	(163,035)
Net change in:		
Accrued interest receivable	(65,492)	(538)
Accrued interest payable	53,740	35,677
Other assets	107,407	(345,002)
Other accrued expenses and other liabilities	404,712	(349,563)
Net cash provided by operating activities	4,217,634	3,376,106
Cash flows from investing activities		
Net increase in loans	(18,111,896)	(26,029,984)
Purchase of securities available for sale	(24,618,052)	(7,531,421)
Proceeds from sale of securities available for sale	15,613,505	3,791,684
Proceeds from calls, maturities and principal paydowns of securities available for sale	13,510,027	11,536,145
Proceeds from calls, maturities and principal paydowns of securities held to maturity	884,688	283,869
Purchase of bank owned life insurance	(546,443)	- -
Net decrease (increase) in Federal Home Loan Bank stock	404,000	(683,300)
Premises and equipment expenditures, net	(399,529)	(183,588)
Net cash used in investing activities	(13,263,700)	(18,816,595)
Cash flows from financing activities		
Net increase (decrease) in interest bearing deposits	15,294,906	(7,434,647)
Net increase in noninterest bearing deposits	5,429,008	1,925,254
Net (decrease) increase in securities sold under an agreement to repurchase	(511,443)	737,419
Net (decrease) increase in federal funds purchased	(14,000)	25,000
Net (decrease) increase in Federal Home Loan Bank advances	(10,872,200)	20,008,000
Repurchase of common stock	- -	(222,000)
Dividends paid	(656,228)	(409,257)
Net cash provided by financing activities	8,670,043	14,629,769
Net change in cash and cash equivalents	(376,023)	(810,720)
Cash and cash equivalents at beginning of year	4,129,852	4,940,572
Cash and cash equivalents at end of year	$ 3,753,829	$ 4,129,852

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Continued)

	2019	2018
Supplemental disclosures:		
Interest paid	$ 2,241,854	$ 1,601,763
Income taxes paid	124,389	548,802
Change in unrealized holding gains (losses) on available for sale securities	2,366,426	(903,626)
Transfers from loans to other real estate owned	342,100	- -
Loans provided for sales of other real estate owned	67,781	- -
Change in pension benefits	258,554	(592,024)
Change in supplemental executive retirement benefits	(322,691)	(54,297)

See accompanying notes to consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Jefferson Security Bank and subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Basis of Presentation: The consolidated financial statements include the accounts of Jefferson Security Bank and its wholly-owned limited liability company, JSB Financial, LLC. JSB Financial, LLC is an inactive subsidiary previously used for offering financial services; therefore, no elimination entries were needed for consolidation.

Nature of Operations, Business Segments: Jefferson Security Bank (the Bank) is headquartered in Shepherdstown, West Virginia. The principal markets for the Bank's financial services are the eastern panhandle region of West Virginia in Jefferson and Berkeley Counties and in adjacent Washington County, Maryland including the areas immediately surrounding these communities.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses, local government entities and non-profit organizations through its main office and four full-service retail banking offices and one drive-thru banking office located throughout its market area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion.

The Bank offers a variety of deposit products, including checking, savings, money market, individual retirement accounts and certificates of deposit. While the Bank's management monitors the revenue stream of various products and services, operations are managed and financial performance is evaluated on a bank wide basis. Accordingly, all of the Bank's operations are considered by management to be aggregated into one operating segment.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of the pension and supplemental executive retirement plan benefits and obligations.

Cash and Cash Equivalents: For purposes of the consolidated balance sheets and the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, cash items, amounts due from financial institutions with original maturities less than 90 days, interest bearing deposits with depository institutions with maturities within 90 days and federal funds sold. Amounts due from financial institutions may, at times, exceed federally insured limits and are carried at cost.

Debt Securities: Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity," which are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including debt securities with readily determinable fair values, 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.

The Bank follows relevant accounting guidance related to recognition and presentation of other than temporary impairment. This accounting guidance specifies that (*a*) if a company does not have the intent to sell the debt security prior to recovery and (*b*) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss. When the Bank does not intend to sell the security, and it is more likely than not the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock: The Bank, as a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. The redemption of FHLB stock is subject to certain limitations and conditions. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until payoff or maturity are reported at the principal balance outstanding less the allowance for loan losses and any deferred fees or costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using either the interest method or straight-line method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the estimated loan term. Interest income is not recorded when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days, unless the loan is both well secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual 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 and future payments are reasonably assured.

When a loan is not fully collateralized and is in the process of collection, the Bank may charge off the account balance or some portion thereof as a loss. Generally, a delinquency over 120 days past due will be charged off unless the loan is well secured and an acceptable collection plan is in place with the exception of personal residential property which may be charged off at 150 days. All charge offs are approved by the Loan Committee and reported to the Board of Directors.

Risk characteristics associated with specific segments of the loan portfolio are detailed below:

Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Borrowers may be subject to changes in industry conditions including decreasing demand and increasing material and production costs that cannot be immediately recaptured. Interest rate increases could have an adverse impact on the profitability of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.

Commercial loans secured by real estate carry risks associated with the profitability of the business and the ability to generate positive cash flows sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the collateral. Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be a loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.

Residential real estate loans carry risks associated with the continued credit worthiness of the borrower and changes in the value of collateral. These loans are subject to adverse employment conditions in the local economy leading to an increase in default rates. Residential real estate loans are mainly comprised of adjustable rate mortgages. In the event of incremental rate increases, the borrowers' ability to maintain payments may be impacted.

Consumer loans carry risks associated with the continued credit worthiness of the borrower and the value of the underlying collateral. In addition, these loans may be unsecured. Consumer loans are more likely to be immediately affected adversely by unemployment, divorce, illness or personal bankruptcy. Consumer loans are further segmented into credit cards and all other consumer loans.

Allowance for Loan Losses: The allowance for loan losses is an estimate of probable incurred losses inherent in the loan portfolio. The allowance for loan losses is increased by the provision for loan losses and decreased by charged off loans less recoveries. Management's evaluation of the adequacy of the allowance for loan losses is based on a quarterly evaluation of the loan portfolio. Management estimates the allowance balance required using historical experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the loan to be uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and 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 history, and the amount of the shortfall in relation to the principal and interest owed. The recorded investment in impaired loans is defined as the unpaid principal balance less any partial charge offs and net of any interest payments made by the borrower during the nonaccrual period.

For purposes of computing the specific loss component of the allowance, impairment is evaluated in total for smaller balance loans of similar nature such as consumer loans using historical experience and on an individual loan basis for other loans. For impaired loans individually evaluated, specific allocations are based on the present value of expected future cash flows from the loan discounted at the loan's original effective rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent.

The general component covers non-classified loans and is based on historical loss experience adjusted for nine qualitative factors. The historical loss experience is calculated based on losses in the portfolio over the previous five years. For the qualitative factors, the first factor is comprised of delinquent loans, accruing substandard loans, nonaccrual loans and net charge offs. The factor is applied to each loan segment. The second factor involves economic and industry conditions. Economic and industry conditions are assessed, as well as their impact on collateral value to arrive at assigned factor values, which are then applied to the loan segment balances. The other seven factors are based on economic conditions, lending policy and procedures, the experience of the loan department, quality of loan review, the composition of the loan portfolio, concentrations of credit and external factors such as competition, legal issues and regulatory requirements. These factors are subjective and the Bank's management provides input on these factors to determine the factor value to be equally applied to each loan segment.

<u>Troubled Debt Restructurings</u>: In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted previously for impaired loans. TDRs are individually evaluated for impairment.

<u>Other Real Estate Owned</u>: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated selling costs, 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 noninterest expense.

<u>Concentrations of Credit Risk</u>: Most of the Bank's activities are with customers located within Berkeley and Jefferson counties of West Virginia and in areas of Washington County, Maryland. Note 4, Notes to Consolidated Financial Statements, details the types of lending in which the Bank engages. The Bank does not have any significant concentrations in any one industry or customer.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method with useful lives ranging from 5 to 40 years for buildings and improvements, and 3 to 35 years for furniture and equipment. Maintenance, repairs and minor alterations are charged to current operations as expenditures are incurred. Major improvements are capitalized.

Employee Benefits: As of December 31, 2013, the Bank froze the defined benefit pension plan. A benefit plan with 401(k) features is available to employees age 21 and over who have worked at least one year with 1,000 hours of service. The plan allows employee contributions, with matching contributions, to be allocated based on a percentage of the employee salary deferral. The Bank contributed a percentage of each eligible employees' salary to their 401(k) plan account during 2019 and 2018 and intends to continue this practice. The Bank provides a supplemental executive retirement plan to members of senior management.

Income Taxes: When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the consolidated statements of income. As of December 31, 2019 and 2018, there was no liability for unrecognized tax benefits.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized holding gains and losses on securities available for sale and pension and postretirement benefits.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions (exit price notion). Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Stock Repurchase Plan: In June 2018, the Federal Deposit Insurance Corporation (FDIC) approved the open market repurchase of up to 15,000 shares of the issued and outstanding shares of Jefferson Security Bank's common stock. Under this approval, the Board of Directors approved the repurchase of 3,000 shares of common stock as part of a publicly announced plan. All shares were repurchased as approved. In June 2019, the FDIC approved the repurchase of up to 15,000 shares under similar terms. The approval will expire in 12 months unless a request for an extension is approved. The timing and quantity of purchases under this stock repurchase program will be at the discretion of the Board of Directors, and the program may be discontinued, or suspended and reinitiated, at any time. In 2019, there have been no shares repurchased either as part of a publicly announced plan or otherwise.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividend Restriction: Bank regulatory agencies restrict, without prior approval, the total dividend payments of a bank in any calendar year to the bank's retained net income of that year to date, as defined, combined with its retained net income of the preceding two years, less any required transfers to surplus. At December 31, 2019, retained net income, which was free of such restriction, amounted to approximately $5,353,305.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Such reclassifications had no material effect on the financial position and results of operations.

Financial Instruments with Off-Balance Sheet Risk: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss before considering customer collateral or repayment ability. Such financial instruments are recorded when they are funded.

Advertising Costs: The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2019 and 2018 was $33,449 and $27,476, respectively.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Recent Accounting Pronouncements

Accounting Standards Recently Adopted

In January 2019, the Bank adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Bank to recognize most leases on the balance sheet. Adoption of the leasing standard had no impact on the Bank. The Bank evaluated all leases and determined that none fell within the scope of this standard.

Accounting Standards Pending Adoption

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities that meet the definition of a U.S. Securities and Exchange Commission (SEC) filer, excluding smaller reporting companies, the standard is effective for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years. All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Bank is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Bank has a working group to address information requirements, evaluate methodologies, research forecasts and ensure readiness and compliance with the standard. The Bank is utilizing a model provider for the CECL model and will run multiple concurrent models prior to the effective date.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Bank does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Certain disclosure requirements have been deleted while the following disclosure requirements have been added: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets and the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The amendments are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Bank does not expect the adoption of ASU 2018-14 to have a material impact on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various Transition Resource Group (TRG) Meetings. The effective date of each of the amendments depends on the adoption date of ASU 2016-1, ASU 2016-03, and ASU 2017-12. The Bank is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, "Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief." The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The effective date and transition methodology for the amendments in ASU 2019-05 are the same as in ASU 2016-13. The Bank is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities. The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Bank is currently assessing the impact that ASU 2019-11 will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

NOTE 2 – EARNINGS PER SHARE

Basic and diluted earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effects of additional potential common shares, if present. No such items exist as of December 31, 2019 and 2018. Therefore, diluted earnings per share equals basic earnings per share for both years. Basic and diluted earnings per share are calculated based on weighted average common shares outstanding of 279,246 for 2019 and 281,917 for 2018. Basic and diluted earnings per common share was $10.02 and $8.92 for the years ended December 31, 2019 and 2018, respectively.

NOTE 3 – SECURITIES

The primary purposes of the securities portfolio are to generate income, supply collateral for public funds on deposit and meet liquidity needs of the Bank through readily saleable financial instruments. The portfolio is made up of fixed rate bonds, whose prices move inversely with interest rates, as well as variable rate bonds, whose prices correspond directly with interest rates. At the end of any accounting period, the securities portfolio may have both unrealized gains and losses. The Bank monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to determine if adjustments are needed.

The amortized cost and fair value of securities, with unrealized gains and losses, for the available for sale portfolio is shown in the following table.

Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. Government and agency	$ 67,768,274	$ 637,400	$ (245,457)	$ 68,160,217
State and municipal	15,415,761	217,392	(20,923)	15,612,230
	$ 83,184,035	$ 854,792	$ (266,380)	$ 83,772,447
December 31, 2018				
U.S. Government and agency	$ 65,254,688	$ 65,458	$ (1,384,408)	$ 63,935,738
State and municipal	22,889,944	12,982	(472,046)	22,430,880
	$ 88,144,632	$ 78,440	$ (1,856,454)	$ 86,366,618

NOTE 3 – SECURITIES (Continued)

The amortized cost and fair value of securities, with unrealized gains and losses, for the held to maturity portfolio is shown in the following table.

Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. Government and agency	$ 1,036,293	$ 27,560	$ - -	$ 1,063,853
State and municipal	1,937,299	71,191	- -	2,008,490
	$ 2,973,592	$ 98,751	$ - -	$ 3,072,343
December 31, 2018				
U.S. Government and agency	$ 1,315,075	$ 2,710	$ (9,658)	$ 1,308,127
State and municipal	2,531,349	44,825	(1,409)	2,574,765
	$ 3,846,424	$ 47,535	$ (11,067)	$ 3,882,892

At December 31, 2019 and 2018, securities were pledged to secure public deposits and for other purposes required or permitted by law. These securities had a fair value of $51,034,531 and $73,821,967, and an amortized cost of $50,479,823 and $75,244,684, at December 31, 2019 and 2018, respectively. The fair value of securities pledged to secure securities sold under an agreement to repurchase was $2,484,993 and $2,377,488, and the amortized cost of these securities was $2,472,588 and $2,398,339 at December 31, 2019 and 2018, respectively.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2019 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 287	$ 287	$ - -	$ - -
Due from one to five years	4,732,191	4,734,295	- -	- -
Due from five to ten years	16,620,166	16,639,205	1,650,930	1,693,355
Due after ten years	61,831,391	62,398,660	1,322,662	1,378,988
	$ 83,184,035	$ 83,772,447	$ 2,973,592	$ 3,072,343

For the years ended December 31, 2019 and 2018, proceeds from sales and calls of securities available for sale were $16,058,505 and $3,856,684, respectively. Gross realized gains on sales and calls on available for sale securities amounted to $25,654 and $11,510, while gross realized losses amounted to $42,276 and $10,151 for the years ended December 31, 2019 and 2018, respectively. The tax provision applicable to these net realized losses and gains were ($4,156) and $339 in 2019 and 2018, respectively.

For the years ended December 31 2019 and 2018, there were no proceeds from the sale of securities held to maturity. For the year ended December 31, 2019, proceeds from the call of securities held to maturity were $600,000. Gross realized gains on the call of held to maturity securities amounted to $21,186, with no gross realized losses for the year ended December 31, 2019. The tax provision applicable to the net realized gains was $5,297 in 2019. During 2018, there were no proceeds for the call of securities held to maturity and no gross gains or losses realized.

An impairment is considered "other than temporary" if any of the following conditions are met: the Bank intends to sell the security, it is more likely than not that the Bank will be required to sell the security before the recovery of its cost basis, or the Bank does not expect to recover the security's entire cost basis, even if the Bank does not intend to sell. On at least a quarterly basis, the Bank reviews available for sale and held to maturity securities for other than temporary impairment based on the severity and duration to which the cost basis exceeds the market value, changes related to credit quality factors of the issuer including economic and financial conditions, the present value of cash flows expected to be collected on the securities and the Bank's ability and intent to hold the security until maturity.

NOTE 3 – SECURITIES (Continued)

The Bank does not have any securities that are considered "other than temporarily impaired" at December 31, 2019 and 2018. Based on market prices at the respective dates, the Bank had sixty securities at December 31, 2019 and one hundred twelve securities at December 31, 2018 with unrealized losses. These unrealized losses were caused by interest rate fluctuations and not due to credit deterioration of the issuers. The following tables detail securities with unrealized losses at December 31, 2019 and 2018.

	Duration of Unrealized Losses at December 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency	$ 24,008,286	$ (139,453)	$ 12,095,921	$ (106,004)	$ 36,104,207	$ (245,457)
State and municipal	3,187,360	(11,819)	634,113	(9,104)	3,821,473	(20,923)
	$ 27,195,646	$ (151,272)	$ 12,730,034	$ (115,108)	$ 39,925,680	$ (266,380)

	Duration of Unrealized Losses at December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency	$ 10,854,579	$ (108,442)	$ 42,748,402	$ (1,285,624)	$ 53,602,981	$ (1,394,066)
State and municipal	10,130,703	(93,561)	9,194,634	(379,894)	19,325,337	(473,455)
	$ 20,985,282	$ (202,003)	$ 51,943,036	$ (1,665,518)	$ 72,928,318	$ (1,867,521)

NOTE 4 – LOANS

Loans are shown on the consolidated balance sheets net of the allowance for loan losses and deferred loan fees and costs. Interest is computed by methods that result in level rates of return on principal. Loans are charged off when, in the opinion of management, they are deemed to be uncollectible after taking into consideration such factors as the current financial condition of the customer and the underlying collateral and guarantees.

The following table presents a summary of the balances of loans at December 31, 2019 and 2018.

	2019	2018
Loans secured by real estate:		
Commercial real estate:		
Construction	$ 10,422,553	$ 11,017,216
Owner occupied	16,983,936	16,691,954
Non-owner occupied	35,020,930	32,436,518
Residential real estate:		
Construction	11,303,068	12,202,708
Home equity	12,994,959	14,162,073
Other	122,725,158	106,612,786
Total loans secured by real estate	209,450,604	193,123,255
Commercial	6,440,291	5,490,831
Consumer:		
Credit cards	356,174	338,175
Revolving credit plans	220,501	188,661
Other	3,462,372	2,990,666
	219,929,942	202,131,588
Net deferred loan fees and costs	(619,876)	(560,399)
Allowance for loan losses	(2,036,051)	(1,987,970)
Loans, net	$ 217,274,015	$ 199,583,219

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Management's evaluation of the adequacy of the allowance for loan losses is based on many factors including historical experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

An analysis of the allowance for loan losses follows for the years ended December 31, 2019 and 2018:

	2019	2018
Beginning balance	$ 1,987,970	$ 1,881,997
Loans charged off	(256,110)	(35,086)
Recoveries	161,191	13,059
Provision for loan losses	143,000	128,000
Ending balance	$ 2,036,051	$ 1,987,970

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2019					
Allowance for loan losses:					
Beginning balance	$ 583,399	$ 1,325,529	$ 46,375	$ 32,667	$ 1,987,970
Loans charged off	- -	(219,859)	- -	(36,251)	(256,110)
Recoveries	122,579	5,577	- -	33,035	161,191
Provision for loan losses	(163,640)	292,358	8,360	5,922	143,000
Ending balance	$ 542,338	$ 1,403,605	$ 54,735	$ 35,373	$ 2,036,051
Ending balance: individually evaluated for impairment	$ 12,000	$ 155,000	$ - -	$ 1,000	$ 168,000
Ending balance: collectively evaluated for impairment	$ 530,338	$ 1,248,605	$ 54,735	$ 34,373	$ 1,868,051
Loans:					
Ending balance	$ 62,427,419	$ 147,023,185	$ 6,440,291	$ 4,039,047	$ 219,929,942
Ending balance: individually evaluated for impairment	$ 6,279,788	$ 921,059	$ - -	$ 11,394	$ 7,212,241
Ending balance: collectively evaluated for impairment	$ 56,147,631	$ 146,102,126	$ 6,440,291	$ 4,027,653	$ 212,717,701

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2018					
Allowance for loan losses:					
Beginning balance	$ 583,556	$ 1,210,631	$ 57,260	$ 30,550	$ 1,881,997
Loans charged off	- -	(12,283)	(10,278)	(12,525)	(35,086)
Recoveries	3,288	59	- -	9,712	13,059
Provision for loan losses	(3,445)	127,122	(607)	4,930	128,000
Ending balance	$ 583,399	$ 1,325,529	$ 46,375	$ 32,667	$ 1,987,970
Ending balance: individually evaluated for impairment	$ 76,000	$ 204,000	$ - -	$ 3,000	$ 283,000
Ending balance: collectively evaluated for impairment	$ 507,399	$ 1,121,529	$ 46,375	$ 29,667	$ 1,704,970
Loans:					
Ending balance	$ 60,145,688	$ 132,977,567	$ 5,490,831	$ 3,517,502	$ 202,131,588
Ending balance: individually evaluated for impairment	$ 5,837,249	$ 967,791	$ - -	$ 15,298	$ 6,820,338
Ending balance: collectively evaluated for impairment	$ 54,308,439	$ 132,009,776	$ 5,490,831	$ 3,502,204	$ 195,311,250

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

For the impaired loans in the tables below, the recorded investment represents the outstanding principal balance for each loan. The unpaid principal balance represents the outstanding principal balance plus any amount that has been charged off and/or any payments that have been applied towards principal on nonaccrual loans.

Impaired loans at December 31, 2019 were as follows:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 756,688	$ 756,688	$ - -	$ 611,145	$ 49,316
Owner occupied	692,220	692,220	- -	402,061	44,449
Non-owner occupied	4,018,138	4,275,222	- -	4,110,659	39,884
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	162,914	176,442	- -	167,261	5,305
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	812,742	906,468	12,000	841,892	- -
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	758,145	788,207	155,000	776,191	24,670
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	11,394	12,584	1,000	13,506	774
Total	$ 7,212,241	$ 7,607,831	$ 168,000	$ 6,922,715	$ 164,398

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans at December 31, 2018 were as follows:

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 543,395	$ 543,395	$ - -	$ 548,995	$ 31,743
Owner occupied	227,809	227,809	- -	227,823	14,169
Non-owner occupied	4,189,703	4,290,664	- -	4,247,085	53,474
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	94,410	95,091	- -	130,584	7,311
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	876,342	922,425	76,000	905,172	- -
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	873,381	913,842	204,000	893,244	21,559
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	15,298	15,298	3,000	16,214	1,049
Total	$ 6,820,338	$ 7,008,524	$ 283,000	$ 6,969,117	$ 129,305

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the aging of past due loans including nonaccrual loans as of December 31, 2019 and 2018 by class of loans:

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ - -	$ - -	$ - -	$ - -	$ 10,422,553	$ 10,422,553	$ - -
Owner occupied	680,856	677,142	- -	1,357,998	15,625,938	16,983,936	- -
Non-owner occupied	- -	- -	- -	- -	35,020,930	35,020,930	- -
Residential real estate:							
Construction	- -	- -	- -	- -	11,303,068	11,303,068	- -
Home equity	- -	- -	15,077	15,077	12,979,882	12,994,959	15,077
Other	28,316	9,111	- -	37,427	122,687,731	122,725,158	- -
Commercial	- -	- -	- -	- -	6,440,291	6,440,291	- -
Consumer:							
Credit cards	- -	- -	- -	- -	356,174	356,174	- -
Revolving credit plans	- -	- -	- -	- -	220,501	220,501	- -
Other	16,110	- -	- -	16,110	3,446,262	3,462,372	- -
Total	$ 725,282	$ 686,253	$ 15,077	$ 1,426,612	$ 218,503,330	$ 219,929,942	$ 15,077

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ 89,577	$ - -	$ - -	$ 89,577	$ 10,927,639	$ 11,017,216	$ - -
Owner occupied	- -	- -	- -	- -	16,691,954	16,691,954	- -
Non-owner occupied	- -	- -	- -	- -	32,436,518	32,436,518	- -
Residential real estate:							
Construction	- -	- -	- -	- -	12,202,708	12,202,708	- -
Home equity	242,542	- -	- -	242,542	13,919,531	14,162,073	- -
Other	9,839	- -	45,508	55,347	106,557,439	106,612,786	45,332
Commercial	- -	- -	- -	- -	5,490,831	5,490,831	- -
Consumer:							
Credit cards	3,305	- -	- -	3,305	334,870	338,175	- -
Revolving credit plans	- -	- -	- -	- -	188,661	188,661	- -
Other	- -	- -	- -	- -	2,990,666	2,990,666	- -
Total	$ 345,263	$ - -	$ 45,508	$ 390,771	$ 201,740,817	$ 202,131,588	$ 45,332

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following table displays the types of loans that comprised nonaccruals at December 31, 2019 and 2018:

	2019	2018
Commercial real estate:		
Construction	$ - -	$ - -
Owner occupied	289,414	312,942
Non-owner occupied	3,230,995	3,448,253
Residential real estate:		
Construction	- -	- -
Home equity	- -	- -
Other	70,636	79,261
Commercial	- -	- -
Consumer:		
Credit cards	- -	- -
Revolving credit plans	- -	- -
Other	- -	- -
Total	$ 3,591,045	$ 3,840,456

Credit Quality Indicators

The Bank monitors credit quality indicators including risk ratings on loans to determine trends in credit quality of the loan portfolio. Every loan is assessed and assigned a risk rating by the loan officer prior to approval of the credit and monitored on an ongoing basis. The loan review policy dictates which portions of the loan portfolio will be periodically reassessed, which includes a review of the accuracy of the assigned risk ratings.

Loans are rated on a scale from pass to doubtful. The grade considers and reflects the credit worthiness, documentation and credit file completeness as well as legal and policy compliance. Each grade is described below.

Pass: Loans graded as pass are strong borrowers. The Bank will likely not incur a loss on loans graded as pass. Any inadequacies evident in financial performance and/or management sufficiency are offset by other features such as adequate collateral, good guarantors with liquid assets and/or cash flow capacity to repay the debt. Generally, loans classified as pass meet the terms of repayment but may be susceptible to deterioration if adverse factors are encountered.

Special Mention: Loans are graded as special mention when the borrower's character, credit, capacity or collateral is questionable. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. Circumstances warrant more than normal monitoring, as these borrowers reflect the risks described in the following categories. These loans should be placed on the Bank's watchlist, and are considered adversely classified. These credits are considered bankable assets with no apparent loss of principal or interest envisioned but may require a higher level of management attention. Assets are currently protected but potentially weak. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. Credits subject to economic, industry, or management factors having an adverse impact upon the credit's prospects for timely payment may also be classified as special mention.

Substandard: Loans graded as substandard are inadequately protected by the net worth and/or cash flow capacity of the borrower or of the collateral pledged. Loans graded as substandard have a borrower whose character has become suspect. The source of repayment is considered conditional, problematic or marginal. Substandard loans would include unsecured or partially secured loans to financially weak borrowers with a strong guarantor or endorser who did not benefit from the loan and without a curtailment in over one year. Some of the loans are workout loans with potential loss consideration. The credit risk in this situation relates to the possibility of some loss of principal and/or interest if the deficiencies are not corrected.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Doubtful: Loans graded as doubtful are inadequately protected by the net worth of the borrower or by the collateral pledged and repayment in full is improbable on the basis of existing facts, values and conditions. These loans may include those over two months past due that are not adequately secured or are in the process of collection. The probability of some loss is high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is deferred until a more exact status may be determined.

Loss: Loans graded as loss are considered uncollectible and continuance as an acceptable asset is not warranted. A loan classified as a loss is generally charged off.

The following tables display loans by credit quality indicators at December 31, 2019 and 2018:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 7,993,612	$ 1,672,253	$ 756,688	$ - -	$ 10,422,553
Owner occupied	14,556,865	1,445,438	981,633	- -	16,983,936
Non-owner occupied	29,728,152	2,061,783	3,230,995	- -	35,020,930
Residential real estate:					
Construction	10,943,664	359,404	- -	- -	11,303,068
Home equity	12,409,744	570,138	15,077	- -	12,994,959
Other	118,920,483	2,961,845	842,830	- -	122,725,158
Commercial	6,409,803	30,488	- -	- -	6,440,291
Consumer:					
Credit cards	356,174	- -	- -	- -	356,174
Revolving credit plans	220,501	- -	- -	- -	220,501
Other	3,439,732	22,640	- -	- -	3,462,372
Total	$ 204,978,730	$ 9,123,989	$ 5,827,223	$ - -	$ 219,929,942

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 9,916,014	$ 557,808	$ 543,394	$ - -	$ 11,017,216
Owner occupied	14,541,457	1,837,554	312,943	- -	16,691,954
Non-owner occupied	28,507,916	480,349	3,448,253	- -	32,436,518
Residential real estate:					
Construction	12,202,708	- -	- -	- -	12,202,708
Home equity	13,112,645	587,797	461,631	- -	14,162,073
Other	103,323,702	3,062,988	226,096	- -	106,612,786
Commercial	5,459,511	31,320	- -	- -	5,490,831
Consumer:					
Credit cards	338,175	- -	- -	- -	338,175
Revolving credit plans	188,661	- -	- -	- -	188,661
Other	2,975,368	15,298	- -	- -	2,990,666
Total	$ 190,566,157	$ 6,573,114	$ 4,992,317	$ - -	$ 202,131,588

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Loans are classified as troubled debt restructurings (TDR) when, for economic or legal reasons related to the borrower's financial position, management grants a concession to the borrower that would not have otherwise been considered. At December 31, 2019 and 2018, the Bank had a total of $4,661,177 and $4,859,850, respectively, in loans classified as troubled debt restructurings.

Troubled debt restructurings are considered subsequently defaulted once the loan is past due greater than 90 days and/or the foreclosure or repossession of collateral with a subsequent charge off of the loan. During the year ended December 31, 2019 and 2018, the Bank had no loans that subsequently defaulted during the period within twelve months of modification.

There were no additions to troubled debt restructurings during the year ended December 31, 2019. The following table details the additions to troubled debt restructurings during the year ended December 31, 2018.

December 31, 2018	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate:			
Non-owner occupied	2	$ 2,678,185	$ 2,678,185
Total	2	$ 2,678,185	$ 2,678,185

The loans were classified as troubled debt restructurings because the loans had modified payments and a below market rate. The loans were individually evaluated for impairment for the allowance for loan losses with no specific reserve allocation.

NOTE 6 – OTHER REAL ESTATE OWNED

The table below reflects changes in other real estate owned (OREO) for the year ended December 31, 2019. There were no other real estate owned properties held during 2018.

	2019
Balance, beginning of year	$ - -
Properties acquired at foreclosure	342,100
Sale of foreclosed properties	(67,781)
Gain on disposition	3,781
Valuation adjustments	- -
Balance, end of year	$ 278,100

At December 31, 2019, the balance of other real estate owned includes a foreclosed residential real estate property recorded as a result of obtaining physical possession in the amount of $278,100. Net expense applicable to OREO, other than valuation adjustments, was $1,422 for the year ended December 31, 2019. The Bank did not have any residential real estate loans for which formal foreclosure proceedings were in process as of December 31, 2019.

NOTE 7 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment for December 31, 2019 and 2018 follows:

	2019	2018
Land	$ 1,580,761	$ 1,580,761
Buildings and improvements	8,624,607	8,548,924
Furniture and equipment	4,190,932	4,037,674
Total cost	14,396,300	14,167,359
Less accumulated depreciation	(8,760,410)	(8,435,388)
Premises and equipment, net	$ 5,635,890	$ 5,731,971

Depreciation expense for the years ended December 31, 2019 and 2018 totaled $495,610 and $526,095, respectively.

NOTE 8 – DEPOSITS

The Bank makes every effort to obtain deposits to fund loan growth or the growth of the securities portfolio. The Bank had two deposit relationships that, collectively, represented 20.09% of total deposits at December 31, 2019 and two deposit relationships that, collectively, represented 20.94% of total deposits at December 31, 2018.

The aggregate amount of time deposit accounts in denominations of $250,000 or more at December 31, 2019 and 2018 was $5,404,498 and $4,293,647, respectively. There were no brokered deposits as of December 31, 2019 and 2018.

At December 31, 2019, the scheduled maturities of time deposits were as follows:

2020	$ 28,381,864
2021	6,322,782
2022	7,454,088
2023	3,596,251
2024	1,613,616
	$ 47,368,601

NOTE 9 – BORROWINGS

Securities Sold Under an Agreement to Repurchase

Securities sold under an agreement to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under an agreement to repurchase are reflected as the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Pledged securities related to securities sold under an agreement to repurchase are discussed in Note 3, Notes to Consolidated Financial Statements. Securities sold under an agreement to repurchase amounted to $1,842,945 and $2,354,388 at December 31, 2019 and 2018, respectively.

Federal Home Loan Bank Advances

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) which allows for participation in FHLB borrowing programs. At December 31, 2019, the Bank had a maximum borrowing capacity with the FHLB of $102,049,700 which is unrestricted and does not require the Bank to pledge securities or make other commitments. Under the terms of the agreement, advances from the FHLB are collateralized by one-to-four family mortgage loans totaling approximately $129,000,000 and $114,600,000 at December 31, 2019 and 2018, respectively, and Federal Home Loan Bank stock with a book value of $594,900 and $998,900, respectively. This borrowing capacity has no scheduled maturity date. The Bank had outstanding advances from the FHLB of $9,773,400 and $20,645,600 at December 31, 2019 and 2018, respectively. The outstanding advances on December 31, 2019 were overnight borrowings at a rate of 1.80%.

Available Lines of Credit

At December 31, 2019, the Bank had lines of credit available with various financial institutions totaling $12,000,000 for the purchase of federal funds. The Bank had outstanding borrowings against these lines totaling $11,000 and $25,000 at December 31, 2019 and 2018, respectively. The Bank has an agreement with the Federal Reserve Bank to borrow from the discount window, which is classified as a short term borrowing. In order to borrow funds under this agreement, the Bank must pledge securities to the Federal Reserve Bank. As of December 31, 2019 and 2018, the Bank had no borrowings from the discount window.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Pension Plan

As of December 31, 2013, the defined benefit pension plan was frozen. The pension plan's funded status as of December 31, 2019 and 2018 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2019 and 2018.

	2019	2018
Change in benefit obligation:		
Beginning benefit obligation	$ 9,345,174	$ 9,818,447
Interest cost	371,072	358,892
Actuarial loss (gain)	905,616	(421,980)
Benefits paid	(473,743)	(410,185)
Ending benefit obligation	$ 10,148,119	$ 9,345,174
Change in plan assets, at fair value:		
Beginning plan assets	$ 9,874,453	$ 10,728,006
Actual return on plan assets	1,752,316	(443,368)
Employer contribution	- -	- -
Benefits paid	(473,743)	(410,185)
Ending plan assets	$ 11,153,026	$ 9,874,453
Funded status	$ 1,004,907	$ 529,279
Accrued benefit asset recognized on the consolidated balance sheets at December 31	$ 1,004,907	$ 529,279
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 3,542,895	$ 3,801,449
Deferred tax asset	(885,724)	(950,362)
Net amount recognized	$ 2,657,171	$ 2,851,087

The accumulated benefit obligation for the defined benefit plan was $10,148,119 and $9,345,174 at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the assumptions used to determine the benefit obligation are as follows:

	2019	2018
Discount rate	3.32%	4.08%
Expected rate of return on plan assets	5.62%	6.53%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit (income) cost, other amounts recognized in other comprehensive income (loss) and the assumptions used to determine net periodic pension benefit cost are as follows:

	2019	2018
Components of net periodic benefit cost:		
Interest cost	$ 371,072	$ 358,892
Expected return on plan assets	(674,445)	(670,777)
Net amortization and deferral	86,229	100,141
Net periodic benefit income	(217,144)	(211,744)
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):		
Net actuarial (gain) loss at December 31	(172,255)	692,165
Amortization of net loss	(86,299)	(100,141)
Total recognized in other comprehensive income (loss)	(258,554)	592,024
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (475,698)	$ 380,280
Discount rate	4.08%	3.75%
Expected rate of return on plan assets	6.53%	6.47%

The estimated net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $127,623.

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the below categories, weighted based on the median of the target allocation for each class.

The Bank's pension plan weighted average asset allocations at December 31, 2019 and 2018 are as follows:

	Percentage of Plan Assets at December 31,	
Asset Category	**2019**	**2018**
Equity Securities	64%	58%
Debt Securities	26%	40%
Cash	10%	2%
Total	100%	100%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The following tables present the balance of plan assets measured at fair value on a recurring basis as of December 31, 2019 and 2018:

Description	Balance as of December 31, 2019	Fair Value Measurements at Report Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 1,143,652	$ 1,143,652	$ - -	$ - -
Equity Securities				
U.S. Large cap	4,131,081	4,131,081	- -	- -
U.S. Mid cap	1,426,422	1,426,422	- -	- -
U.S. Small cap	647,848	647,848	- -	- -
International	931,022	931,022	- -	- -
Fixed Income Securities				
Core fixed income	2,812,445	- -	2,812,445	- -
International	60,556	- -	60,556	- -
Total	$ 11,153,026	$ 8,280,025	$ 2,873,001	$ - -

Description	Balance as of December 31, 2018	Fair Value Measurements at Report Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 186,883	$ 186,883	$ - -	$ - -
Equity Securities				
U.S. Large cap	3,820,233	3,820,233	- -	- -
U.S. Mid cap	934,501	934,501	- -	- -
U.S. Small cap	166,709	166,709	- -	- -
International	790,595	790,595	- -	- -
Fixed Income Securities				
Core fixed income	3,927,389	- -	3,927,389	- -
International	48,143	- -	48,143	- -
Total	$ 9,874,453	$ 5,898,921	$ 3,975,532	$ - -

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Investment Policy and Strategy

The policy, as established by the Pension Committee, is to invest assets in a diversified portfolio per target allocations. The assets will be reallocated periodically to meet the target allocations of 60% equity securities and 40% debt securities. The investment policy will be reviewed periodically, under the advisement of a registered investment advisor.

The overall investment objective is to provide for long-term growth of capital through participation in the equity markets with a moderate level of income. The investment time horizon is estimated at five to ten years. The investment return objective is to achieve a return greater than a blended mix of stated indices tailored to the same asset mix of the plan assets by 0.5% after fees over a rolling five-year moving average basis.

Allowable assets include cash equivalents, taxable bonds, U.S. equity securities, international equity securities, institutional mutual funds and guaranteed investment contracts (GICs).

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of the total plan assets, and no more than 25% of total plan assets should be invested in any one industry (other than securities of the U.S. Government or Agencies). Additionally, no more than 20% of the plan assets shall be invested in foreign securities (both equity and fixed).

The Bank does not expect to make any contributions to the plan in 2020.

Estimated future benefit payments are as follows:

2020	$ 533,000
2021	537,000
2022	543,000
2023	552,000
2024	551,000
2025 to 2029	2,758,000

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Supplemental Executive Retirement Plan

In 2014, the Bank provided a supplemental executive retirement plan for senior management. The plan's funded status as of December 31, 2019 and 2018 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2019 and 2018.

	2019	2018
Change in benefit obligation:		
Beginning benefit obligation	$ 962,468	$ 768,267
Service cost	74,011	68,970
Interest cost	45,227	34,119
Plan amendments	- -	158,514
Actuarial loss (gain)	374,776	(54,646)
Benefits paid	(12,756)	(12,756)
Ending benefit obligation	$ 1,443,726	$ 962,468
Change in plan assets, at fair value:		
Beginning plan assets	$ - -	$ - -
Employer contributions	12,756	12,756
Actual benefits paid	(12,756)	(12,756)
Ending plan assets	$ - -	$ - -
Funded status	$ (1,443,726)	$ (962,468)
Accrued benefit liability recognized on the consolidated balance sheet at December 31	$ (1,443,726)	$ (962,468)
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 417,988	$ 43,212
Prior service cost	330,691	382,776
Deferred tax asset	(187,170)	(106,497)
Net amount recognized	$ 561,509	$ 319,491

The accumulated benefit obligation for the supplemental executive retirement plan was $1,443,726 and $962,468 at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the assumptions used to determine the benefit obligation are as follows:

	2019	2018
Discount rate	3.67%	4.73%
Rate of compensation increase	3.00%	3.00%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit cost, other amounts recognized in other comprehensive income (loss) and the assumptions used to determine net periodic benefit cost are as follows:

	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 74,011	$ 68,970
Interest cost	45,227	34,119
Amortization of prior service cost	52,085	48,426
Amortization of net loss	- -	1,145
Net periodic benefit cost	171,323	152,660
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):		
Net actuarial loss (gain) at December 31	374,776	(54,646)
Prior service cost	- -	158,514
Amortization of prior service cost	(52,085)	(48,426)
Amortization of gain	- -	(1,145)
Total recognized in other comprehensive income	322,691	54,297
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ 494,014	$ 206,957
Discount rate	4.73%	3.95%
Rate of compensation increase	3.00%	3.00%

There is no estimated net actuarial loss for the supplemental executive retirement to be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year.

The Bank will make a contribution to the plan of $12,756 in 2020.

Estimated future benefit payments are as follows:

2020	$ 12,756
2021	14,484
2022	14,717
2023	15,036
2024	14,888
2025 to 2029	225,201

401(k) Plan

The Bank has a 401(k) Plan whereby employees age 21 and over who have worked at least one year with 1,000 hours of service may participate in the Plan. The Bank makes matching contributions equal to 25 percent of the first five percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee over a five-year period based on a tiered schedule. Starting on January 1, 2014, the Bank contributed a percentage of each eligible employees' salary to their 401(k) Plan account in addition to matching contributions. For the years ended December 31, 2019 and 2018, the matching contribution expense attributable to the Plan amounted to $22,749 and $23,924, respectively.

NOTE 11 – INCOME TAXES

The Bank files income tax returns in the U.S. federal jurisdiction and the states of West Virginia and Maryland. With few exceptions, the Bank is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2016.

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Federal		
Current	$ 569,659	$ (154,840)
Deferred	30,181	620,505
	599,840	465,665
State		
Current	106,414	96,424
Deferred	(19,955)	(15,960)
	86,459	80,464
Income tax expense	$ 686,299	$ 546,129

Effective tax rates differ from the statutory federal income tax rate due to the following:

	2019	2018
Federal statutory rate	21.0%	21.0%
Increase (decrease) resulting from:		
Tax-exempt income	(3.2)	(5.0)
State taxes, net of federal income tax effect	0.5	0.6
Tax impact from enacted change in tax rate	- -	- -
Nondeductible expenses and other, net	1.4	1.2
	19.7%	17.8%

The components of the net deferred tax asset, included in other assets for December 31, 2019 and 2018, are as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 294,250	$ 258,501
Deferred loan fees	154,969	140,100
Nonaccrual loan income	364,124	302,752
Supplemental executive retirement benefits, net	457,922	340,102
Alternative minimum tax credit	- -	141,160
Net unrealized loss on available for sale securities	- -	444,504
Home equity expenses	2,834	3,961
	1,274,099	1,631,080
Deferred tax liabilities:		
Fixed assets, net	(99,005)	(128,050)
Pension benefits, net	(251,226)	(132,320)
Net unrealized gain on available for sale securities	(147,102)	- -
Accretion on investment securities	(9,728)	(11,664)
	(507,061)	(272,034)
Net deferred tax asset	$ 767,038	$ 1,359,046

NOTE 12 – RELATED PARTY TRANSACTIONS

The Bank had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to these parties totaled $4,573,584 and $4,302,531 at December 31, 2019 and 2018, respectively. During 2019, total principal additions were $1,185,653 and total principal payments were $914,600. Deposits from related parties held by the Bank at December 31, 2019 and 2018 amounted to $4,661,243 and $2,932,947, respectively.

NOTE 13 – COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Bank.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

Exposure to credit loss, if the other party does not perform, is represented by the contractual amount of these commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at year end follows:

	December 31,	
	2019	**2018**
Commitments to extend credit	$ 5,084,000	$ 4,969,000
Unfunded commitments	32,167,000	34,395,000
Standby letters of credit	52,000	606,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized as deemed necessary and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank generally holds collateral supporting these commitments. The amount of collateral obtained, if deemed necessary, is based upon management's credit evaluation of the customer. The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2019 and 2018, reserve balances amounted to $1,194,000 and $1,073,000, respectively.

NOTE 14 – FAIR VALUE MEASUREMENTS

The Bank follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. ASC 820 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under ASC 820 based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on prices, inputs and model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

In accordance with ASC 820, the following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a recurring basis in the consolidated financial statements.

Securities Available for Sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Using a market approach valuation methodology, third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2019:

		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale				
U.S. Government and agency	$ 68,160,217	$ - -	$ 68,160,217	$ - -
State and municipal	15,612,230	- -	15,612,230	- -
	$ 83,772,447	$ - -	$ 83,772,447	$ - -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2018:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2018**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities Available for Sale				
U.S. Government and agency	$ 63,935,738	$ --	$ 63,935,738	$ --
State and municipal	22,430,880	--	22,430,880	--
	$ 86,366,618	$ --	$ 86,366,618	$ --

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the consolidated financial statements.

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral or present value of expected future cash flows discounted at the loan's effective interest rate. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the Bank's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other Real Estate Owned: Loans are transferred to other real estate owned when the collateral securing them is foreclosed upon. The measurement of loss associated with other real estate owned is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property and initial losses are charged against the allowance for loan losses at the time of the transfer. Subsequent to transfer, fair values are determined in a similar manner to impaired loans secured by real estate previously discussed. Any additional fair value adjustments to other real estate owned are recorded in the period incurred and expensed against current earnings through a valuation allowance for other real estate owned.

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following tables present the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018:

		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans, net	$ 1,414,281	$ - -	$ - -	$ 1,414,281
Other Real Estate Owned, net	$ 278,100	$ - -	$ - -	$ 278,100

		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans, net	$ 1,482,021	$ - -	$ - -	$ 1,482,021

The following tables present quantitative information about Level 3 Fair Value Measurements for December 31, 2019 and 2018 (dollars in thousands):

Assets	Fair Value as of December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 1,144	Discount appraised value	Selling cost	6% - 7% (6%)
	270	Present value of future cash flows	Discount rate	6% - 18% (7%)
Other Real Estate Owned, net	$ 278	Discount appraised value	Selling cost	10% (10%)
			Discount for lack of marketability	9% (9%)

Assets	Fair Value as of December 31, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 1,144	Discount appraised value	Selling cost	6% - 7% (6%)
	338	Present value of future cash flows	Discount rate	6% - 18% (7%)

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following methods and assumptions were used to estimate fair values for other financial instruments:

Loans: For December 31, 2019 and 2018, fair values of loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. The carrying amount was considered to estimate fair value for certain variable rate loans that reprice frequently. Fair values of fixed rate loans and variable rate loans with infrequent repricing or repricing limits, were estimated using discounted cash flow analyses, using market interest rates being offered at that time for loans with similar terms to borrowers of similar creditworthiness, which included adjustments for liquidity concerns or underlying collateral values, where applicable.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if the Bank had disposed of such items at December 31, 2019 and 2018, the estimated fair values would have been achieved. Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2019 and 2018 should not necessarily be considered to apply at subsequent dates.

The carrying amounts and estimated fair values of the Bank's financial instruments are presented in the following tables. Fair values for December 31, 2019 and 2018 were estimated using an exit price notion in accordance with ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

	December 31, 2019		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 3,698	$ 3,698	$ 3,698	$ - -	$ - -
Interest bearing deposits with depository institutions	56	56	56	- -	- -
Securities available for sale	83,772	83,772	- -	83,772	- -
Securities held to maturity	2,974	3,072	- -	3,072	- -
Restricted securities	675	675	- -	675	- -
Loans, net	217,274	216,522	- -	- -	216,522
Accrued interest receivable	933	933	- -	933	- -
Bank owned life insurance	6,932	6,932	- -	6,932	- -
Financial liabilities:					
Deposits	$ 282,974	$ 283,458	$ - -	$ 235,606	$ 47,852
Securities sold under an agreement to repurchase	1,843	1,843	- -	1,843	- -
Accrued interest payable	117	117	- -	117	- -
Federal funds purchased	11	11	11	- -	- -
Federal Home Loan Bank advances	9,773	9,773	9,773	- -	- -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

(dollars in thousands)	December 31, 2018 Carrying Amount	December 31, 2018 Estimated Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 4,078	$ 4,078	$ 4,078	$ - -	$ - -
Interest bearing deposits with depository institutions	52	52	52	- -	- -
Securities available for sale	86,367	86,367	- -	86,367	- -
Securities held to maturity	3,846	3,883	- -	3,883	- -
Restricted securities	1,079	1,079	- -	1,079	- -
Loans, net	199,583	197,301	- -	- -	197,301
Accrued interest receivable	867	867	- -	867	- -
Bank owned life insurance	6,216	6,216	- -	6,216	- -
Financial liabilities:					
Deposits	$ 262,250	$ 262,263	$ - -	$ 223,840	$ 38,423
Securities sold under an agreement to repurchase	2,354	2,354	- -	2,354	- -
Accrued interest payable	63	63	- -	63	- -
Federal funds purchased	25	25	25	- -	- -
Federal Home Loan Bank advances	20,646	20,646	20,646	- -	- -

Interest Rate Risk

The Bank assumes interest rate risk, the risk that general interest rate levels will change, as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

NOTE 15 – REVENUE RECOGNITION

On January 1, 2018, the Bank adopted ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified ASC Topic 606. As stated in Note 1 Recent Accounting Pronouncements, the implementation of the new standard did not have a material impact on the measurement or recognition of revenue. Results for reporting periods beginning after January 1, 2018 and comparative periods are presented under ASC Topic 606.

The standard does not apply to revenue associated with financial instruments, net interest income, gains and losses from securities and income from bank-owned life insurance (BOLI). With the exception of gains or losses on sales of foreclosed properties, all of the revenue from contracts with customers in the scope of ASC Topic 606 is recognized within Noninterest Income in the Consolidated Statements of Income. Impacts from certain recurring revenue streams related to noninterest revenue streams such as service charges on deposit accounts, other service charges and fees and credit and debit card fees did not change significantly upon adoption of ASC Topic 606.

NOTE 15 – REVENUE RECOGNITION (Continued)

A description of the Bank's significant sources of revenue accounted for under ASC Topic 606 follows:

Service fees on deposit accounts

Revenue from service fees on deposit accounts is comprised of transaction-based fees, account maintenance and processing fees and overdraft service fees. Transaction-based fees and overdraft service fees are earned based on specific transactions or activity within a customer's deposit account. These fees are recognized at the time the related transaction or activity occurs and the Bank's performance obligation is complete. Revenue for account maintenance and processing fees is recognized monthly upon completion of the Bank's performance obligation. Service fees on deposit accounts are paid through a direct charge to the customer's account.

Other service charges, commission and fees

Revenue from other service charges, commission and fees is primarily comprised of interchange revenue and ATM fees, safe deposit box rental fees and collection and research fees. Interchange fees are earned when the Bank's debit and credit cardholders conduct transactions through card payment networks. Interchange fees are recognized daily, concurrent with the transaction processing services provided to the cardholder. ATM fees are earned when a non-Bank cardholder uses the Bank's ATM or when a customer uses a non-Bank ATM. These fees are recognized daily as the ATM transactions are settled. Safe deposit box rental fees are charged to the customer on an annual basis and recognized on a monthly basis through the contract period of twelve months. This revenue is recognized on a basis consistent with the duration of the performance obligation. Collection and research fees are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction.

Other noninterest income

Other noninterest income consists primarily of check ordering charges. Check ordering charges are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction.

The following presents noninterest income, segregated by revenue streams within the scope of ASC Topic 606 and those which are within the scope of other ASC Topics:

	December 31, 2019	December 31, 2018
Noninterest Income		
Service charges on deposit accounts	$ 676,854	$ 661,817
Other service charges, commission and fees	951,143	947,798
Other	63,964	72,401
Net revenue from contracts with customers	1,691,961	1,682,016
Noninterest income within the scope of other ASC topics	223,400	215,694
Total noninterest income	$ 1,915,361	$ 1,897,710

NOTE 16 – 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 Bank's consolidated 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 its 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.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier I Capital ratio is calculated and utilized in the assessment of capital for all institutions.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as presented in the table below of Total capital, Tier 1 capital and Common Equity Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank met all capital adequacy requirements to which it is subject.

Under the Basel III rules, the capital conservation buffer of 0.625% was effective January 1, 2016. The buffer was fully phased-in through equal installments of 0.625% each year until reaching 2.5% in January 2019. The purpose of the capital conservation buffer is to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to maintain the buffer will result in restrictions on the Bank's ability to make capital distributions and pay discretionary bonuses to executive officers. The Bank's capital conservation buffer was 8.25% and 8.03% as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's capital amounts (dollars in thousands) and ratios as of December 31, 2019 and 2018 are presented in the following table.

	Actual		Minimum For Capital Adequacy Purposes		Minimum For Capital Adequacy with Capital Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019								
Total capital (to risk weighted assets)	$ 32,224	16.25%	$ 15,860	8.00%	$ 20,817	10.50%	$ 19,826	10.00%
Tier 1 capital (to risk weighted assets)	$ 30,188	15.23%	$ 11,895	6.00%	$ 16,852	8.50%	$ 15,860	8.00%
Common equity tier 1 (to risk weighted assets)	$ 30,188	15.23%	$ 8,922	4.50%	$ 13,878	7.00%	$ 12,887	6.50%
Tier 1 capital (to average assets)	$ 30,188	9.51%	$ 12,704	4.00%	N/A	N/A	$ 15,880	5.00%
2018								
Total capital (to risk weighted assets)	$ 30,034	16.03%	$ 14,986	8.00%	$ 18,499	9.875%	$ 18,733	10.00%
Tier 1 capital (to risk weighted assets)	$ 28,046	14.97%	$ 11,240	6.00%	$ 14,752	7.875%	$ 14,986	8.00%
Common equity tier 1 (to risk weighted assets)	$ 28,046	14.97%	$ 8,430	4.50%	$ 11,942	6.375%	$ 12,176	6.50%
Tier 1 capital (to average assets)	$ 28,046	9.03%	$ 12,427	4.00%	N/A	N/A	$ 15,534	5.00%

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in each component of accumulated other comprehensive loss were as follows:

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension Benefits	Adjustments Related to Supplemental Executive Retirement Benefits	Accumulated Other Comprehensive (Loss)
Balance at December 31, 2017	$ (655,790)	$ (2,407,069)	$ (278,769)	$ (3,341,628)
Unrealized holding losses on available for sale securities, net of tax ($225,567)	(676,700)	- -	- -	(676,700)
Reclassification adjustment, net of tax ($339)	(1,020)	- -	- -	(1,020)
Change in pension benefits, net of tax ($173,041)	- -	(519,124)	- -	(519,124)
Reclassification adjustment, net of tax $25,035	- -	75,106	- -	75,106
Change in supplemental executive retirement benefits, net of tax ($25,968)	- -	- -	(77,900)	(77,900)
Reclassification adjustment, net of tax $12,393	- -	- -	37,178	37,178
Balance at December 31, 2018	$ (1,333,510)	$ (2,851,087)	$ (319,491)	$ (4,504,088)
Unrealized holding gains on available for sale securities, net of tax $592,747	1,778,243	- -	- -	1,778,243
Reclassification adjustment, net of tax ($1,141)	(3,423)	- -	- -	(3,423)
Change in pension benefits, net of tax $43,064	- -	129,191	- -	129,191
Reclassification adjustment, net of tax $21,575	- -	64,724	- -	64,724
Change in supplemental executive retirement benefits, net of tax ($93,694)	- -	- -	(281,082)	(281,082)
Reclassification adjustment, net of tax $13,021	- -	- -	39,064	39,064
Balance at December 31, 2019	$ 441,310	$ (2,657,172)	$ (561,509)	$ (2,777,371)

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

Reclassification out of accumulated other comprehensive loss for December 2019 and 2018 is as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
December 31, 2019		
Amortization of defined benefit pension items		
Net actuarial loss	$ (86,299)	Other expense
Amortization of supplemental executive retirement benefit items		
Prior service cost	(52,085)	Salaries and employee benefits
Reclassification adjustment for losses on available for sale securities	(16,622)	Realized gain on securities
	38,752	Income tax benefit
	$ (116,254)	Net of tax

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
December 31, 2018		
Amortization of defined benefit pension items		
Net actuarial loss	$ (100,141)	Other expense
Amortization of supplemental executive retirement benefit items		
Prior service cost	(48,426)	Salaries and employee benefits
Net loss	(1,145)	Other expense
Reclassification adjustment for gains on available for sale securities	1,359	Realized gain on securities
	37,089	Income tax benefit
	$ (111,264)	Net of tax

NOTE 18 – CONCENTRATION RISK

The Bank maintains its cash accounts in several correspondent banks. As of December 31, 2019, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $30,374. Most of the Bank's activities are with customers located within its local market areas. As of December 31, 2019, the Bank had two deposit relationships totaling $56,853,905 with each relationship holding more than 5% of total deposits. Significant changes in these accounts are monitored on an ongoing basis. As of December 31, 2019, real estate loans represented 95.2% of the loan portfolio. A detailed schedule is provided in Note 4, Notes to Consolidated Financial Statements. The Bank does not have any significant concentrations to any one customer.

NOTE 19 – SUBSEQUENT EVENTS

The Bank evaluated subsequent events that have occurred after the balance sheet date, but before the consolidated financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 18, 2020, the date the financial statements were available to be issued. Based on the evaluation, the Bank did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the consolidated financial statements.