BUILDING *Stronger* COMMUNITIES

JEFFERSON SECURITY BANK
JSB
BUILDING COMMUNITY

2018 ANNUAL REPORT

Building Stronger Communities

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's presence in the market has certainly changed over the last year. In 2018, we focused on strengthening our impact on the individuals, businesses and organizations within the communities we serve. In doing so, we closely examined our products and services to ensure our customers could experience the benefits and personal touch of a local independent community bank dedicated to their needs as well as the benefits from the technologies and conveniences offered in the world today. The result was a stronger focus on community involvement and customer service, improved line of deposit products with each customer in mind, enhanced customer information security options and new technologies that allow, among other things, online loan payments and the ability to send electronic payments with ease. Over the last 149 years, Jefferson Security Bank has supported the members of our community by making their financial needs our priority.

As you will see through our financial results, we hit many milestones in 2018. We reported our highest net income in the history of JSB, achieved our highest asset and capital levels and saw improvement in many of our financial ratios. However, I can guarantee you that at every step of the way, the focus remained not only on what is important today, but also what is necessary for future success. We have consistently implemented and executed a forward looking strategy and plan that led to strong financial results and improved customer satisfaction with new products and services.

Through these efforts, we achieved record net income of $2.5 million for the year ended 2018, an increase of 76% or $1.1 million when compared to $1.4 million for the year ended 2017. Basic and diluted earnings per share were $8.92 for the year ended 2018, up from $5.07 for the year ended 2017. The increase in net income resulted primarily from an increase in interest income generated from our loan portfolio as well as improved employee productivity and company efficiencies. Total assets reached over $300 million for the first time in the Bank's history. We have continued to experience loan growth, with an increase in net loans of $26 million or 15% when compared to December 31, 2017, with total loans of $200 million as of December 31, 2018. Total deposits declined slightly from $268 million as of December 31, 2017 to $262 million as of December 31, 2018, a decline of 2%. These changes in loans and deposits improved our loan to deposit ratio by 11%, from 65% to 76%, when comparing December 31, 2017 and 2018, respectively.

Reflecting over the events of 2018 takes me back to the slogan featured on the cover of last year's annual report, *Investing Today for Tomorrow's Memories*. 2018 was an amazing year for Jefferson Security Bank. As our new culture begins to take shape and becomes embedded in our daily activities and decision-making processes, it is incredibly rewarding to see the positive impact on our communities and on our financial performance. All of the hard work and effort put forth is not simply to maintain the status of the bank, but to grow and build your independent community bank for years to come.

Sincerely,

Cindy A. Kitner

Cindy A. Kitner, CPA
President and CEO

BOARD OF DIRECTORS

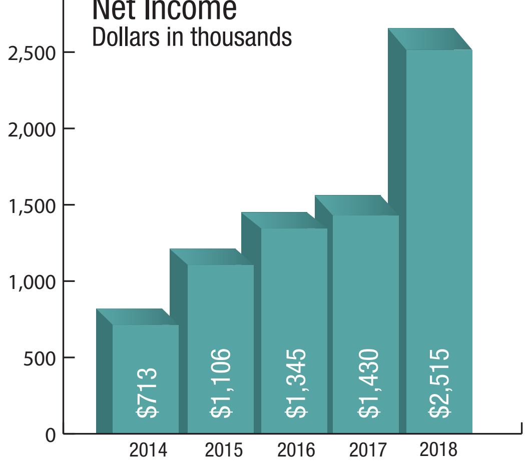
Left to Right: Monica W. Lingenfelter, Corporate Secretary; Brant M. Lowe; R. Andrew McMillan, Jr.; Cindy A. Kitner, CPA, President and CEO; Frederick K. Parsons, Chair; Dennis L. Barron; Suellen D. Myers; Christian E. Asam; Eric J. Lewis, CPA, Vice Chair.

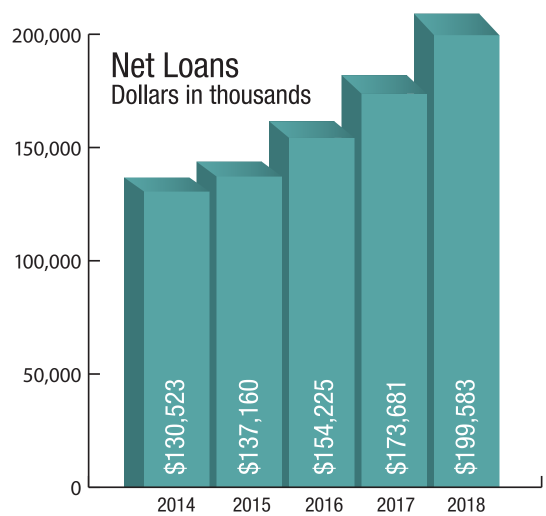
EXECUTIVE OFFICERS

Left to Right: Jenna L. Kesecker, CPA Executive Vice President and Chief Financial Officer; Cindy A. Kitner, CPA, President and CEO; Karl J. "Jeff" Keller Executive Vice President of Lending

Financial Highlights

5 Year Summary	2018	2017	2016	2015	2014
SUMMARY OF OPERATIONS					
(in thousands)					
Interest Income	$ 11,115	$ 9,637	$ 8,997	$ 8,485	$ 8,245
Interest Expense	1,637	1,070	975	882	946
Net Interest Income	9,478	8,567	8,022	7,603	7,299
Provision for Loan Losses	128	133	40	15	420
Other Income	1,897	1,954	1,823	1,924	1,713
Other Expense	8,186	8,097	8,231	8,216	7,955
Applicable Income Taxes	546	861	229	190	(76)
Net Income	$ 2,515	$ 1,430	$ 1,345	$ 1,106	$ 713
PER SHARE DATA					
Net Income	$ 8.92	$ 5.07	$ 4.75	$ 3.87	$ 2.47
Cash Dividends Declared	1.45	1.15	1.00	0.90	0.90
Book Value	84.31	80.85	76.35	73.07	71.08
END OF YEAR BALANCE SHEET SUMMARY					
(in thousands)					
Loans, Net	$ 199,583	$ 173,681	$ 154,225	$ 137,160	$ 130,523
Securities Available for Sale	86,367	95,515	107,472	102,153	98,718
Securities Held for Maturity	3,846	4,137	4,621	26,957	26,255
Total Assets	310,701	294,578	288,032	287,527	285,724
Deposits	262,250	267,760	255,514	260,777	261,706
Capital	23,542	22,821	21,550	20,770	20,144
SELECT RATIOS					
Average Equity to Average Assets	7.48%	7.87%	7.71%	7.12%	7.24%
Return on Average Assets	0.83%	0.50%	0.47%	0.39%	0.25%
Return on Average Equity	11.11%	6.31%	6.10%	5.43%	3.45%





By investing our time, talent and resources to local, civic and charitable organizations, JSB is committed to building stronger communities.


JSB
10735
DATE 10-22-18
PAY TO THE ORDER OF Alzheimer's Association
$2,500.00
Two thousands five hundred
DOLLARS
MEMO
JSB


NEW, UNWRAPPED TOYS ONLY
CAMPAIGN RUNS 1 OCTOBER THROUGH DECEMBER
MARINE CORPS RESERVE
TOYS FOR TOTS


NEW, UNWRAPPED TOYS ONLY
CAMPAIGN RUNS 1 OCTOBER THROUGH DECEMBER
MARINE CORPS RESERVE
TOYS FOR TOTS


JEFFERSON SECURITY BANK
JSB
BUILDING COMMUNITY

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, 2018 and 2017, 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, 2018 and 2017, 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 20, 2019

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and due from financial institutions	$ 4,077,932	$ 4,890,014
Interest bearing deposits with depository institutions	51,920	50,558
Cash and cash equivalents	4,129,852	4,940,572
Securities available for sale, at fair value	86,366,618	95,514,958
Securities held to maturity (fair value of $3,882,892 - 2018; $4,207,399 - 2017)	3,846,424	4,137,262
Restricted securities, at cost	1,079,400	396,100
Loans, net of allowance for loan losses of $1,987,970 - 2018; $1,881,997 - 2017	199,583,219	173,681,235
Accrued interest receivable	867,026	866,488
Premises and equipment, net	5,731,971	6,074,478
Bank owned life insurance	6,216,390	6,053,355
Other assets	2,879,940	2,913,576
Total assets	$ 310,700,840	$ 294,578,024
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 192,030,423	$ 199,465,070
Noninterest bearing	70,219,819	68,294,565
Total deposits	262,250,242	267,759,635
Securities sold under an agreement to repurchase	2,354,388	1,616,969
Accrued interest payable	63,049	27,372
Federal funds purchased	25,000	- -
Federal Home Loan Bank advances	20,645,600	637,600
Other accrued expenses and other liabilities	1,820,081	1,715,619
Total liabilities	287,158,360	271,757,195
Shareholders' Equity		
Common stock, $10 par value; 300,000 shares authorized; issued and outstanding, 279,246 shares at December 31, 2018 and 282,246 shares at December 31, 2017	2,792,460	2,822,460
Additional paid-in capital	2,792,460	2,822,460
Retained earnings	22,461,648	20,517,537
Accumulated other comprehensive (loss), net	(4,504,088)	(3,341,628)
Total shareholders' equity	23,542,480	22,820,829
Total liabilities and shareholders' equity	$ 310,700,840	$ 294,578,024

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2018 and 2017

	2018	2017
Interest and dividend income		
Loans, including fees	$ 8,878,007	$ 7,362,438
Securities:		
Taxable	1,623,405	1,413,725
Nontaxable	554,644	820,335
Dividends and other interest	59,343	40,431
Total interest and dividend income	11,115,399	9,636,929
Interest expense		
Deposits	1,317,785	1,033,001
Borrowings	319,655	37,132
Total interest expense	1,637,440	1,070,133
Net interest income	9,477,959	8,566,796
Provision for loan losses	128,000	133,000
Net interest income after provision for loan losses	9,349,959	8,433,796
Noninterest income		
Service charges on deposit accounts	661,817	640,561
Other service charges, commissions and fees	947,798	910,328
Realized gain on securities	1,359	116,167
Income from bank owned life insurance	163,035	163,153
Other	123,701	123,774
Total noninterest income	1,897,710	1,953,983
Noninterest expense		
Salaries and employee benefits	4,355,844	4,283,574
Occupancy	1,271,363	1,212,027
Advertising and marketing	226,407	144,071
ATM and debit card fees	345,220	347,327
Data processing	738,263	715,230
Postage and stationery supplies	209,432	189,722
Professional services	264,804	337,296
FDIC and state assessments	177,672	165,905
Other real estate owned (income) expense, net	(30,716)	16,113
Director fees	129,800	108,900
Realized loss on fixed assets	- -	2,681
Other	498,083	573,772
Total noninterest expense	8,186,172	8,096,618
Income before income tax expense	3,061,497	2,291,161
Income tax expense	546,129	860,828
Net income	$ 2,515,368	$ 1,430,333
Basic and diluted earnings per common share	$ 8.92	$ 5.07

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017

	2018	2017
Net income	$ 2,515,368	$ 1,430,333
Other comprehensive (loss) income, net of tax:		
Unrealized holding (losses) gains on securities available for sale arising during period	(676,700)	67,990
Reclassification adjustment for securities gains included in net income	(1,020)	(72,023)
Change in pension benefits	(519,124)	123,916
Reclassification adjustment for change in pension benefits included in net income	75,106	51,709
Change in supplemental executive retirement benefits	(77,900)	(34,547)
Reclassification adjustment for change in supplemental executive retirement benefits included in net income	37,178	27,580
Total other comprehensive (loss) income	(1,162,460)	164,625
Comprehensive income	$ 1,352,908	$ 1,594,958

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, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at December 31, 2016	$ 2,822,460	$ 2,822,460	$ 18,832,571	$ (2,927,037)	$ 21,550,454
Net income	- -	- -	1,430,333	- -	1,430,333
Other comprehensive income	- -	- -	- -	164,625	164,625
Reclassification of stranded tax effects from change in tax rate	- -	- -	579,216	(579,216)	- -
Cash dividends - $1.15 per share	- -	- -	(324,583)	- -	(324,583)
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

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income	$ 2,515,368	$ 1,430,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	526,095	556,068
Provision for loan losses	128,000	133,000
Provision for other real estate owned	- -	13,500
Deferred income tax expense	604,545	7,807
Deferred income tax expense from change in federal tax rate	- -	385,241
Net amortization of securities	456,634	668,901
Net gain on sale of securities available for sale	(904)	(111,172)
Net gain on call of securities available for sale	(455)	(4,995)
Net loss on sale of other real estate owned	- -	3,513
Deferred gain recognized on other real estate owned	(30,716)	(1,225)
Net loss on fixed assets	- -	2,681
Income from bank owned life insurance	(163,035)	(163,153)
Net change in:		
Accrued interest receivable	(538)	65,754
Accrued interest payable	35,677	(15,625)
Other assets	(345,002)	(318,013)
Other accrued expenses and other liabilities	(410,995)	477,364
Net cash provided by operating activities	3,314,674	3,129,979
Cash flows from investing activities		
Net increase in loans	(26,029,984)	(19,589,173)
Purchase of securities available for sale	(7,531,421)	(20,114,302)
Proceeds from sale of securities available for sale	3,791,684	15,378,874
Proceeds from calls, maturities and principal paydowns of securities available for sale	11,536,145	16,137,239
Proceeds from calls, maturities and principal paydowns of securities held to maturity	283,869	479,191
Proceeds from the sale of other real estate owned	- -	60,112
Net (increase) decrease in Federal Home Loan Bank stock	(683,300)	310,800
Premises and equipment expenditures, net	(183,588)	(259,988)
Net cash used in investing activities	(18,816,595)	(7,597,247)
Cash flows from financing activities		
Net (decrease) increase in interest bearing deposits	(7,434,647)	8,435,163
Net increase in noninterest bearing deposits	1,925,254	3,810,731
Net increase in securities sold under an agreement to repurchase	737,419	812,007
Net increase in federal funds purchased	25,000	- -
Net increase (decrease) in Federal Home Loan Bank advances	20,008,000	(8,075,100)
Repurchase of common stock	(222,000)	- -
Dividends paid	(409,257)	(324,583)
Net cash provided by financing activities	14,629,769	4,658,218
Net change in cash and cash equivalents	(872,152)	190,950
Cash and cash equivalents at beginning of year	4,940,572	4,749,622
Cash and cash equivalents at end of year	$ 4,068,420	$ 4,940,572

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(Continued)

	2018	2017
Supplemental disclosures:		
Interest paid	$ 1,601,763	$ 1,085,758
Income taxes paid	548,802	439,658
Change in unrealized holding losses on available for sale securities	(903,626)	(6,506)
Change in pension benefits	(592,024)	283,267
Change in supplemental executive retirement benefits	(54,297)	(11,238)

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 five 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, other than temporary impairment of securities 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 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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/or 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 watchlist, 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.

<ins>Troubled Debt Restructurings</ins>: 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.

<ins>Other Real Estate Owned</ins>: 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.

<ins>Concentrations of Credit Risk</ins>: 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 2018 and 2017 and intends to continue this practice. The Bank provides a supplemental executive retirement plan to members of senior management who had not obtained their maximum benefit under the defined benefit pension plan.

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, 2018 and 2017, 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 2017, 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. There were no shares purchased either as part of a publicly announced plan or otherwise. In June 2018, 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. 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 have been repurchased as approved.

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, 2018, retained net income, which was free of such restriction, amounted to approximately $4,273,672.

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 2018 and 2017 was $25,826 and $23,475, 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 Adopted in 2018

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and most industry-specific guidance throughout the ASC. The amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Effective January 1, 2018, the Bank adopted ASU 2014-09 utilizing the modified retrospective approach. Based on an assessment of revenue streams under the standard, management concluded that ASU 2014-09 did not materially change the method in which revenue is recognized for those revenue streams. Since there was no net income impact upon adoption of the new guidance, there was no cumulative effect adjustment made to the opening balance of retained earnings. An evaluation of certain costs related to those revenue streams was also completed to determine whether such costs should be presented as expenses or contra-revenue. Based on the evaluation, the Bank determined that any classification changes were immaterial to both revenue and expenses. The impact of ASU 2014-09 was immaterial to the Bank's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU 2016-01 were effective on January 1, 2018 and did not have a material impact on the Bank's consolidated financial statements. In accordance with 2) above, the Bank measured the fair value of its loan and CD portfolio as of December 31, 2018 using an exit price notion (see Note 14 Fair Value Measurements).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The Bank adopted ASU 2017-07 effective January 1, 2018 and did not have a material impact on the Bank’s consolidated financial statements. In accordance with ASU No. 2017-07, non-servicing components of net periodic pension cost were reclassified from compensation expense to other noninterest expense.

Accounting Standards Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 (“Codification Improvements to Topic 842, Leases.”) and ASU 2018-11 (“Leases (Topic 842): Targeted Improvements.”) Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). The adoption of this standard on January 1, 2019 did not have a material effect on the Bank’s consolidated financial statements.

In June 2016, the FASB issued 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 companies that are not SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. 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 March 2017, the FASB issued ASU 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.” The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018,

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Bank does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements. The Bank is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

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 of the 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.

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, 2018 and 2017. 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 281,917 for 2018 and 282,246 for 2017. Basic and diluted earnings per common share was $8.92 and $5.07 for the years ended December 31, 2018 and 2017, 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.

NOTE 3 – SECURITIES (Continued)

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, 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
December 31, 2017				
U.S. Government and agency	$ 70,964,606	$ 201,863	$ (964,228)	$ 70,202,241
State and municipal	25,424,740	142,118	(254,141)	25,312,717
	$ 96,389,346	$ 343,981	$ (1,218,369)	$ 95,514,958

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, 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
December 31, 2017				
U.S. Government and agency	$ 1,591,668	$ 2,718	$ (5,385)	$ 1,589,001
State and municipal	2,545,594	72,804	- -	2,618,398
	$ 4,137,262	$ 75,522	$ (5,385)	$ 4,207,399

At December 31, 2018 and 2017, securities were pledged to secure public deposits and for other purposes required or permitted by law. These securities had a fair value of $73,821,967 and $70,638,494, and an amortized cost of $75,244,684 and $71,166,447, at December 31, 2018 and 2017, respectively. The fair value of securities pledged to secure securities sold under an agreement to repurchase was $2,377,488 and $1,850,638, and the amortized cost of these securities was $2,398,339 and $1,846,353 at December 31, 2018 and 2017, respectively.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2018 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in less than one year	$ 125,000	$ 125,093	$ - -	$ - -
Due from one to five years	7,706,892	7,608,119	- -	- -
Due from five to ten years	28,903,890	28,261,101	1,668,982	1,671,839
Due after ten years	51,408,850	50,372,305	2,177,442	2,211,053
	$ 88,144,632	$ 86,366,618	$ 3,846,424	$ 3,882,892

NOTE 3 – SECURITIES (Continued)

For the years ended December 31, 2018 and 2017, proceeds from sales and calls of securities available for sale were $3,856,684 and $19,118,874, respectively. Gross realized gains on sales and calls on available for sale securities amounted to $11,510 and $183,840, while gross realized losses amounted to $10,151 and $67,673 for the years ended December 31, 2018 and 2017, respectively. The tax provision applicable to these net realized gains were $339 and $44,144 in 2018 and 2017, respectively. For the years ended December 31 2018 and 2017, there were no proceeds from the sale or call of securities held to maturity.

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.

The Bank does not have any securities that are considered "other than temporarily impaired" at December 31, 2018 and 2017. Based on market prices at the respective dates, the Bank had one hundred twelve securities at December 31, 2018 and seventy-eight at December 31, 2017 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, 2018 and 2017.

	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)

	Duration of Unrealized Losses at December 31, 2017					
	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	$ 23,831,266	$ (202,809)	$ 28,556,467	$ (766,804)	$ 52,387,733	$ (969,613)
State and municipal	3,558,375	(36,333)	6,299,733	(217,808)	9,858,108	(254,141)
	$ 27,389,641	$ (239,142)	$ 34,856,200	$ (984,612)	$ 62,245,841	$ (1,223,754)

NOTE 4 – LOANS

Loans are shown on the consolidated balance sheets net of the allowance for loan losses. 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, 2018 and 2017.

	2018	2017
Loans secured by real estate:		
Commercial real estate:		
Construction	$ 11,017,216	$ 9,925,943
Owner occupied	16,691,954	16,440,764
Non-owner occupied	32,436,518	23,023,338
Residential real estate:		
Construction	12,202,708	7,512,518
Home equity	14,162,073	13,758,413
Other	106,612,786	95,868,559
Total loans secured by real estate	193,123,255	166,529,535
Commercial	5,490,831	6,316,833
Consumer:		
Credit cards	338,175	321,678
Revolving credit plans	188,661	178,351
Other	2,990,666	2,657,494
	202,131,588	176,003,891
Net deferred loan fees and costs	(560,399)	(440,659)
Allowance for loan losses	(1,987,970)	(1,881,997)
Loans, net	$ 199,583,219	$ 173,681,235

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, 2018 and 2017:

	2018	2017
Beginning balance	$ 1,881,997	$ 1,782,484
Loans charged off	(35,086)	(273,259)
Recoveries	13,059	239,772
Provision for loan losses	128,000	133,000
Ending balance	$ 1,987,970	$ 1,881,997

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

	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

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2017					
Allowance for loan losses:					
Beginning balance	$ 566,125	$ 1,164,851	$ 18,434	$ 33,074	$ 1,782,484
Loans charged off	(239,564)	(27,061)	- -	(6,634)	(273,259)
Recoveries	178,338	2,502	54,051	4,881	239,772
Provision for loan losses	78,657	70,339	(15,225)	(771)	133,000
Ending balance	$ 583,556	$ 1,210,631	$ 57,260	$ 30,550	$ 1,881,997
Ending balance: individually evaluated for impairment	$ 136,000	$ 149,000	$ - -	$ 2,000	$ 287,000
Ending balance: collectively evaluated for impairment	$ 447,556	$ 1,061,631	$ 57,260	$ 28,550	$ 1,594,997
Loans:					
Ending balance	$ 49,390,045	$ 117,139,490	$ 6,316,833	$ 3,157,523	$ 176,003,891
Ending balance: individually evaluated for impairment	$ 5,816,964	$ 1,018,857	$ - -	$ 18,219	$ 6,854,040
Ending balance: collectively evaluated for impairment	$ 43,573,081	$ 116,120,633	$ 6,316,833	$ 3,139,304	$ 169,149,851

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, 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)

Impaired loans at December 31, 2017 were as follows:

December 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 563,350	$ 563,350	$ - -	$ 575,074	$ 32,165
Owner occupied	227,834	227,834	- -	227,834	14,145
Non-owner occupied	4,089,738	4,104,594	- -	4,156,815	52,092
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	427,839	427,839	- -	359,707	26,031
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	907,101	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	936,042	936,042	136,000	938,516	38,894
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	591,018	596,260	149,000	602,348	22,697
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	18,219	18,219	2,000	19,671	1,198
Total	$ 6,854,040	$ 6,874,138	$ 287,000	$ 7,787,066	$ 187,222

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the aging of past due loans including nonaccrual loans as of December 31, 2018 and 2017 by class of loans:

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

December 31, 2017	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	$ - -	$ 3,078	$ - -	$ 3,078	$ 9,922,865	$ 9,925,943	$ - -
Owner occupied	- -	- -	- -	- -	16,440,764	16,440,764	- -
Non-owner occupied	- -	- -	2,461,101	2,461,101	20,562,237	23,023,338	- -
Residential real estate:							
Construction	- -	- -	- -	- -	7,512,518	7,512,518	- -
Home equity	4,248	- -	- -	4,248	13,754,165	13,758,413	- -
Other	280,892	- -	34,334	315,226	95,553,333	95,868,559	34,334
Commercial	- -	- -	- -	- -	6,316,833	6,316,833	- -
Consumer:							
Credit cards	3,233	- -	- -	3,233	318,445	321,678	- -
Revolving credit plans	- -	- -	- -	- -	178,351	178,351	- -
Other	- -	- -	- -	- -	2,657,494	2,657,494	- -
Total	$ 288,373	$ 3,078	$ 2,495,435	$ 2,786,886	$ 173,217,005	$ 176,003,891	$ 34,334

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following table displays the types of loans that comprised nonaccruals at December 31, 2018 and 2017:

	2018	2017
Commercial real estate:		
Construction	$ - -	$ 936,042
Owner occupied	312,942	- -
Non-owner occupied	3,448,253	2,461,101
Residential real estate:		
Construction	- -	- -
Home equity	- -	- -
Other	79,261	88,894
Commercial	- -	- -
Consumer:		
Credit cards	- -	- -
Revolving credit plans	- -	- -
Other	- -	- -
Total	$ 3,840,456	$ 3,486,037

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, 2018 and 2017:

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

December 31, 2017	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial real estate:					
Construction	$ 8,645,722	$ 716,870	$ 563,351	$ - -	$ 9,925,943
Owner occupied	14,829,654	1,611,110	- -	- -	16,440,764
Non-owner occupied	16,051,007	3,575,188	3,397,143	- -	23,023,338
Residential real estate:					
Construction	7,512,518	- -	- -	- -	7,512,518
Home equity	12,619,046	678,929	460,438	- -	13,758,413
Other	91,040,855	4,363,563	464,141	- -	95,868,559
Commercial	6,271,461	45,372	- -	- -	6,316,833
Consumer:					
Credit cards	321,678	- -	- -	- -	321,678
Revolving credit plans	178,351	- -	- -	- -	178,351
Other	2,638,179	19,315	- -	- -	2,657,494
Total	$ 160,108,471	$ 11,010,347	$ 4,885,073	$ - -	$ 176,003,891

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, 2018 and 2017, the Bank had a total of $4,859,850 and $2,333,016, 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, 2018 and 2017, the Bank had no loans that subsequently defaulted during the period within twelve months of modification.

The following tables detail the additions to troubled debt restructurings during the years ended December 31, 2018 and 2017:

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 a troubled debt restructuring 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.

December 31, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate:			
Other	1	$ 95,143	$ 95,143
Total	1	$ 95,143	$ 95,143

The loan was classified as a troubled debt restructuring because the loan had twelve consecutive months of interest only extensions. The loan was 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 years ended:

	2018	2017
Balance, beginning of year	$ - -	$ 75,900
Properties acquired at foreclosure	- -	- -
Sale of foreclosed properties	- -	(62,400)
Valuation adjustments	- -	(13,500)
Balance, end of year	$ - -	$ - -

Net expense applicable to OREO, other than valuation adjustments, was $0 and $2,613 for the years ended December 31, 2018 and 2017, respectively. The Bank did not have any residential real estate loans for which formal foreclosure proceedings were in process as of December 31, 2018.

NOTE 7 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment for December 31, 2018 and 2017 follows:

	2018	2017
Land	$ 1,580,761	$ 1,580,761
Buildings and improvements	8,548,924	8,491,871
Furniture and equipment	4,037,674	3,983,724
Total cost	14,167,359	14,056,356
Less accumulated depreciation	(8,435,388)	(7,981,878)
Premises and equipment, net	$ 5,731,971	$ 6,074,478

Depreciation expense for the years ended December 31, 2018 and 2017 totaled $526,095 and $556,068, 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 20.94% of total deposits at December 31, 2018 and two deposit relationships that, collectively, represented 19.97% of total deposits at December 31, 2017.

The aggregate amount of time deposit accounts in denominations of $250,000 or more at December 31, 2018 and 2017 was $4,293,647 and $3,089,191, respectively. There were no brokered deposits as of December 31, 2018 and 2017.

At December 31, 2018, the scheduled maturities of time deposits were as follows:

2019	$ 20,837,232
2020	6,892,124
2021	3,746,864
2022	3,159,340
2023	3,774,432
	$ 38,409,992

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 $2,354,388 and $1,616,969 at December 31, 2018 and 2017, 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, 2018, the Bank had a maximum borrowing capacity with the FHLB of $91,107,800 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 $114,600,000 and $102,248,000 at December 31, 2018 and 2017, respectively, and Federal Home Loan Bank stock with a book value of $998,900 and $315,600, respectively. This borrowing capacity has no scheduled maturity date. The Bank had outstanding advances from the FHLB of $20,645,600 and $637,600 at December 31, 2018 and 2017, respectively. The outstanding advances on December 31, 2018 were overnight borrowings at a rate of 2.62%.

Available Lines of Credit

At December 31, 2018, the Bank had lines of credit available with various financial institutions totaling $12,000,000 for the purchase of federal funds. At December 31, 2018, the Bank had outstanding borrowings against these lines totaling $25,000. There were no outstanding borrowings as of December 31, 2017. 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, 2018 and 2017, 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, 2018 and 2017 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2018 and 2017.

	2018	2017
Change in benefit obligation:		
Beginning benefit obligation	$ 9,818,447	$ 9,203,342
Interest cost	358,892	389,803
Actuarial (gain) loss	(421,980)	583,579
Benefits paid	(410,185)	(358,277)
Ending benefit obligation	$ 9,345,174	$ 9,818,447
Change in plan assets, at fair value:		
Beginning plan assets	$ 10,728,006	$ 9,680,945
Actual return on plan assets	(443,368)	1,405,338
Employer contribution	- -	- -
Benefits paid	(410,185)	(358,277)
Ending plan assets	$ 9,874,453	$ 10,728,006
Funded status	$ 529,279	$ 909,559
Accrued benefit asset recognized on the consolidated balance sheets at December 31	$ 529,279	$ 909,559
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 3,801,449	$ 3,209,425
Deferred tax asset	(950,362)	(802,356)
Net amount recognized	$ 2,851,087	$ 2,407,069

The accumulated benefit obligation for the defined benefit plan was $9,345,174 and $9,818,477 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the assumptions used to determine the benefit obligation are as follows:

	2018	2017
Discount rate	4.08%	3.75%
Expected rate of return on plan assets	6.53%	6.47%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

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

	2018	2017
Components of net periodic benefit cost:		
Interest cost	$ 358,892	$ 389,803
Expected return on plan assets	(670,777)	(621,894)
Net amortization and deferral	100,141	83,402
Net periodic benefit income	(211,744)	(148,689)
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss) income:		
Net actuarial loss (gain) at December 31	692,165	(199,865)
Amortization of net loss	(100,141)	(83,402)
Total recognized in other comprehensive (loss) income	592,024	(283,267)
Total recognized in net periodic benefit cost and other comprehensive (loss) income	$ 380,280	$ (431,956)
Discount rate	3.75%	4.35%
Expected rate of return on plan assets	6.47%	6.21%

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 $86,299.

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, 2018 and 2017 are as follows:

	Percentage of Plan Assets at December 31,	
Asset Category	**2018**	**2017**
Equity Securities	58%	60%
Debt Securities	40%	38%
Cash	2%	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, 2018 and 2017:

		Fair Value Measurements at Report 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)
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	$ - -

		Fair Value Measurements at Report Date Using		
Description	Balance as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 220,834	$ 220,834	$ - -	$ - -
Equity Securities				
U.S. Large cap	4,229,988	4,229,988	- -	- -
U.S. Mid cap	899,951	899,951	- -	- -
U.S. Small cap	233,301	233,301	- -	- -
International	1,052,127	1,052,127	- -	- -
Fixed Income Securities				
Core fixed income	3,936,125	- -	3,936,125	- -
International	155,680	- -	155,680	- -
Total	$ 10,728,006	$ 6,636,201	$ 4,091,805	$ - -

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 2019.

Estimated future benefit payments are as follows:

2019	$ 506,000
2020	531,000
2021	534,000
2022	537,000
2023	545,000
2024 to 2028	2,733,000

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, 2018 and 2017 follows. The amounts shown below are recognized in the Bank's consolidated balance sheet as of December 31, 2018 and 2017.

	2018	2017
Change in benefit obligation:		
Beginning benefit obligation	$ 768,267	$ 645,814
Service cost	68,970	49,878
Interest cost	34,119	29,609
Plan amendments	158,514	- -
Actuarial (gain) loss	(54,646)	55,722
Benefits paid	(12,756)	(12,756)
Ending benefit obligation	$ 962,468	$ 768,267
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	$ (962,468)	$ (768,267)
Accrued benefit liability recognized on the consolidated balance sheet at December 31	$ (962,468)	$ (768,267)
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 43,212	$ 99,004
Prior service cost	382,776	272,688
Deferred tax asset	(106,497)	(92,923)
Net amount recognized	$ 319,491	$ 278,769

The accumulated benefit obligation for the supplemental executive retirement plan was $962,468 and $768,267 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the assumptions used to determine the benefit obligation are as follows:

	2018	2017
Discount rate	4.73%	3.95%
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 (loss) income and the assumptions used to determine net periodic benefit cost are as follows:

	2018	2017
Components of net periodic benefit cost:		
Service cost	$ 68,970	$ 49,878
Interest cost	34,119	29,609
Amortization of prior service cost	48,426	44,484
Amortization of net loss	1,145	- -
Net periodic benefit cost	152,660	123,971
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss) income:		
Net actuarial (gain) loss at December 31	(54,646)	55,722
Prior service cost	158,514	- -
Amortization of prior service cost	(48,426)	(44,484)
Amortization of gain	(1,145)	- -
Total recognized in other comprehensive (loss) income	54,297	11,238
Total recognized in net periodic benefit cost and other comprehensive (loss) income	$ 206,957	$ 135,209
Discount rate	3.95%	4.63%
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 2019.

Estimated future benefit payments are as follows:

2019	$ 12,756
2020	14,101
2021	14,459
2022	14,701
2023	15,042
2024 to 2028	175,022

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, 2018 and 2017, the matching contribution expense attributable to the Plan amounted to $23,924 and $32,998, 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 2015.

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Federal		
Current	$ (154,840)	$ 399,683
Deferred	620,505	12,504
	465,665	412,187
State		
Current	96,424	68,097
Deferred	(15,960)	(4,697)
	80,464	63,400
Deferred tax asset adjustment for enacted change in tax rate	- -	385,241
Income tax expense	$ 546,129	$ 860,828

Income tax expense for 2017 includes a revaluation adjustment of the net deferred tax assets in the amount of $385,241. This expense was recorded as a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017. The act reduced the federal income tax rate for corporations from 35% to 21% effective January 1, 2018.

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

	2018	2017
Federal statutory rate	21.0%	34.0%
Increase (decrease) resulting from:		
Tax-exempt income	(5.0)	(14.7)
State taxes, net of federal income tax effect	0.6	0.9
Tax impact from enacted change in tax rate	- -	16.8
Nondeductible expenses and other, net	1.2	0.6
	17.8%	37.6%

NOTE 11 – INCOME TAXES (Continued)

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Allowance for loan losses	$ 258,501	$ 226,500
Deferred real estate gains	- -	7,679
Deferred loan fees	140,100	110,164
Nonaccrual loan income	302,752	233,921
Supplemental executive retirement benefits, net	340,102	293,749
Alternative minimum tax credit	141,160	828,198
Net unrealized loss on available for sale securities	444,504	218,597
Home equity expenses	3,961	5,002
Other	- -	13,615
	1,631,080	1,937,425
Deferred tax liabilities:		
Fixed assets, net	(128,050)	(131,393)
Pension benefits, net	(132,320)	(227,390)
Accretion on investment securities	(11,664)	(9,596)
	(272,034)	(368,379)
Net deferred tax asset	$ 1,359,046	$ 1,569,046

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 $4,302,531 and $3,208,205 at December 31, 2018 and 2017, respectively. During 2018, total principal additions were $1,445,693 and total principal payments were $351,367. Deposits from related parties held by the Bank at December 31, 2018 and 2017 amounted to $2,851,874 and $2,245,269, 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.

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

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

	December 31, 2018	December 31, 2017
Commitments to extend credit	$ 4,969,000	$ 7,050,000
Unfunded commitments	34,395,000	33,913,000
Standby letters of credit	606,000	1,007,000

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, 2018 and 2017, reserve balances amounted to $1,073,000 and $856,000, 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 more significant inputs or assumptions that are unobservable in the market.

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

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, 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	$ - -

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2017:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2017**	**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	$ 70,202,241	$ - -	$ 70,202,241	$ - -
State and municipal	25,312,717	- -	25,312,717	- -
	$ 95,514,958	$ - -	$ 95,514,958	$ - -

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.

The following tables present the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2018 and 2017:

		Fair Value at December 31, 2018		
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

		Fair Value at December 31, 2017		
Description	**Balance as of December 31, 2017**	**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	$ 1,258,279	$ - -	$ - -	$ 1,258,279

The following tables present quantitative information about Level 3 Fair Value Measurements for December 31, 2018 and 2017 (dollars in thousands):

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%)

Assets	**Fair Value as of December 31, 2017**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Impaired Loans, net	$ 989	Discounted appraised value	Selling cost	6% - 9% (6%)
	269	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, 2018, fair values of loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. This is not comparable with the fair values disclosed for December 31, 2017, which were based on an entrance price basis. 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, 2018 and 2017, 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, 2018 and 2017 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, 2018 were estimated using an exit price notion in accordance with the prospective adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." Fair values for December 31, 2017 were estimated using the guidance in effect for that period, which permitted the use of an entry price notion in the compilation of this disclosure.

	December 31, 2018		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	$ 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 purhased	25	25	25	- -	- -
Federal Home Loan Bank advances	20,646	20,646	20,646	- -	- -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2017		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	$ 4,890	$ 4,890	$ 4,890	$ - -	$ - -
Interest bearing deposits with depository institutions	51	51	51	- -	- -
Securities available for sale	95,515	95,515	- -	95,515	- -
Securities held to maturity	4,137	4,207	- -	4,207	- -
Restricted securities	396	396	- -	396	- -
Loans, net	173,681	177,131	- -	- -	177,131
Accrued interest receivable	866	866	- -	866	- -
Bank owned life insurance	6,053	6,053	- -	6,053	- -
Financial liabilities:					
Deposits	$ 267,760	$ 267,712	$ - -	$ 230,677	$ 37,035
Securities sold under an agreement to repurchase	1,617	1,617	- -	1,617	- -
Accrued interest payable	27	27	- -	27	- -
Federal Home Loan Bank advances	638	638	638	- -	- -

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,	
	2018	**2017**
Noninterest Income		
Service charges on deposit accounts	$ 661,817	$ 640,561
Other service charges, commission and fees	947,798	910,328
Other	72,401	72,174
Net revenue from contracts with customers	1,682,016	1,623,063
Noninterest income within the scope of other ASC topics	215,694	330,920
Total noninterest income	$ 1,897,710	$ 1,953,983

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, 2018 and 2017, 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 will be 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 8.03% and 8.76% as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, 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, 2018 and 2017 are also 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
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%
2017								
Total capital (to risk weighted assets)	$ 27,938	16.74%	$ 13,352	8.00%	$ 15,438	9.25%	$ 16,690	10.00%
Tier 1 capital (to risk weighted assets)	$ 26,056	15.61%	$ 10,014	6.00%	$ 12,100	7.25%	$ 13,352	8.00%
Common equity tier 1 (to risk weighted assets)	$ 26,056	15.61%	$ 7,511	4.50%	$ 9,597	5.75%	$ 10,849	6.50%
Tier 1 capital (to average assets)	$ 26,056	8.76%	$ 11,899	4.00%	N/A	N/A	$ 14,874	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, 2016	$ (538,086)	$ (2,165,469)	$ (223,482)	$ (2,927,037)
Unrealized holding gains on available for sale securities, net of tax $41,671	67,990	- -	- -	67,990
Reclassification adjustment, net of tax ($44,144)	(72,023)	- -	- -	(72,023)
Change in pension benefits, net of tax $75,949	- -	123,916	- -	123,916
Reclassification adjustment, net of tax $31,693	- -	51,709	- -	51,709
Change in supplemental executive retirement benefits, net of tax ($21,175)	- -	- -	(34,547)	(34,547)
Reclassification adjustment, net of tax $16,904	- -	- -	27,580	27,580
Reclassification adjustment of stranded tax effects from change in tax rate	(113,671)	(417,225)	(48,320)	(579,216)
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)

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

Reclassification out of accumulated other comprehensive loss for December 2018 and 2017 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, 2018		
Amortization of defined benefit pension items		
Net actuarial loss	$ (100,141) [1]	
Amortization of supplemental executive retirement benefit items		
Prior service cost	(48,426) [2]	
Net loss	(1,145) [2]	
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

[1] This accumulated other comprehensive loss component is included in the computation of net periodic pension cost. See Note 10, Notes to Consolidated Financial Statements, for additional information.

[2] This accumulated other comprehensive loss component is included in the computation of net periodic benefit cost. See Note 10, Notes to Consolidated Financial Statements, for additional information.

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, 2017		
Amortization of defined benefit pension items		
Net actuarial loss	$ (83,402) [1]	
Amortization of supplemental executive retirement benefit items		
Prior service cost	(44,484) [2]	
Reclassification adjustment for gains on available for sale securities	116,167	Realized gain on securities
	4,453	Income tax benefit
	$ (7,266)	Net of tax

[1] This accumulated other comprehensive loss component is included in the computation of net periodic pension cost. See Note 10, Notes to Consolidated Financial Statements, for additional information.

[2] This accumulated other comprehensive loss component is included in the computation of net periodic benefit cost. See Note 10, Notes to Consolidated Financial Statements, for additional information.

NOTE 18 – CONCENTRATION RISK

The Bank maintains its cash accounts in several correspondent banks. As of December 31, 2018, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $60,267. Most of the Bank's activities are with customers located within its local market areas. As of December 31, 2018, the Bank had two deposit relationships totaling $54,925,050 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, 2018, real estate loans represented 95.5% 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 20, 2019, 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.

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