SVB & T Corporation

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2019 and 2018

SVB & T Corporation
December 31, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Directors
SVB & T Corporation
French Lick, Indiana

We have audited the accompanying consolidated financial statements of SVB & T Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SVB & T Corporation and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Cincinnati, Ohio
March 23, 2020

SVB & T Corporation

Consolidated Balance Sheets
December 31, 2019 and 2018
(In Thousands, Except Share Data)

Assets

	2019	2018
Cash and due from banks	$ 6,144	$ 2,593
Federal funds sold	10,745	7,068
Interest-bearing demand deposits in banks	4,391	6,338
Cash and cash equivalents	21,280	15,999
Interest-bearing time deposits in banks	1,200	1,175
Available-for-sale securities	57,820	55,644
Loans held for sale	156	150
Loans, net of allowance for loan losses of $4,340 and $3,893 at December 31, 2019 and 2018	345,822	305,879
Premises and equipment	6,636	5,273
Federal Home Loan Bank stock	2,567	2,169
Bank-owned life insurance	8,820	8,052
Accrued interest receivable	2,413	1,824
Foreclosed assets held for sale	129	58
Other	6,007	4,730
Total assets	$ 452,850	$ 400,953

Liabilities and Stockholders' Equity

	2019	2018
Liabilities		
Deposits		
Noninterest bearing	$ 51,344	$ 52,178
Interest-bearing	309,846	279,676
Total deposits	361,190	331,854
Accrued interest payable	927	666
Long-term debt	39,764	24,710
Other liabilities	5,102	3,072
Total liabilities	406,983	360,302
Stockholders' Equity		
Preferred stock; Series A shares; $.001 par value; authorized 100,000 shares; issued and outstanding 2019 and 2018 - 125 shares; liquidation preference $1,000 per share	125	125
Common stock, no par value; $0.25 stated value; authorized - 2019 and 2018 - 2,000,000 shares issued - 2019 and 2018 - 800,000 shares; outstanding - 2019 and 2018 - 559,136 shares	200	200
Capital surplus	6,618	6,618
Retained earnings	45,884	42,403
Accumulated other comprehensive income	2,134	399
Treasury stock, at cost		
Common; 2019 and 2018 - 240,864 shares	(9,094)	(9,094)
Total stockholders' equity	45,867	40,651
Total liabilities and stockholders' equity	$ 452,850	$ 400,953

SVB & T Corporation

Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2019 and 2018
(In Thousands, Except Share Data)

	2019	2018
Interest and Dividend Income		
Loans	$ 17,154	$ 14,642
Securities		
Taxable	1,054	1,133
Tax-exempt	902	563
Dividends on Federal Home Loan Bank stock	123	108
Other	325	315
Total interest and dividend income	19,558	16,761
Interest Expense		
Deposits	4,561	3,292
Long-term debt	952	568
Total interest expense	5,513	3,860
Net Interest Income	14,045	12,901
Provision for Loan Losses	885	751
Net Interest Income After Provision for Loan Losses	13,160	12,150
Noninterest Income		
Fiduciary activities	2,915	2,691
Customer service fees	713	731
Net gains on loan sales	771	620
Net realized gains on sales of available-for-sale securities	444	-
Other	1,031	1,148
Total noninterest income	5,874	5,190
Noninterest Expense		
Salaries and employee benefits	8,290	7,002
Premises and equipment	1,666	1,460
Deposit insurance premiums	22	138
Other	4,372	3,848
Total noninterest expense	14,350	12,448
Income Before Income Tax	4,684	4,892
Provision for Income Taxes	628	743
Net Income	$ 4,056	$ 4,149
Basic and Diluted Earnings Per Share	$ 7.22	$ 7.40
Net Income	$ 4,056	$ 4,149
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $(555) and benefit of $93 for 2019 and 2018, respectively	2,086	(350)
Less: reclassification adjustment for realized gains included in net income, net of taxes of $93 and $0, respectively	(351)	-
	1,735	(350)
Comprehensive Income	$ 5,791	$ 3,799

SVB & T Corporation

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2019 and 2018
(In Thousands, Except Shares Outstanding and Per Share Data)

	Common Stock		Preferred	Capital	Retained	Accumulated Other Comprehensive	Treasury	
	Shares	Amount	Stock	Surplus	Earnings	Income	Stock	Total
Balance, January 1, 2018	558,689	$ 200	$ 125	$ 6,611	$ 38,924	$ 626	$ (9,101)	$ 37,385
Reclassification for adoption of ASU 2018-02	-	-	-	-	(123)	123	-	-
Net income	-	-	-	-	4,149	-	-	4,149
Other comprehensive loss	-	-	-	-	-	(350)	-	(350)
Dividends on common stock ($0.95 per share)	-	-	-	-	(531)	-	-	(531)
Dividends on preferred stock ($128 per share)	-	-	-	-	(16)	-	-	(16)
Exercise of stock options (447 shares)	447	-	-	7	-	-	7	14
Balance, December 31, 2018	559,136	200	125	6,618	42,403	399	(9,094)	40,651
								-
Net income	-	-	-	-	4,056	-	-	4,056
Other comprehensive income	-	-	-	-	-	1,735	-	1,735
Dividends on common stock ($1.00 per share)	-	-	-	-	(559)	-	-	(559)
Dividends on preferred stock ($128 per share)	-	-	-	-	(16)	-	-	(16)
Balance, December 31, 2019	559,136	$ 200	$ 125	$ 6,618	$ 45,884	$ 2,134	$ (9,094)	$ 45,867

See Notes to Consolidated Financial Statements

SVB & T Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Operating Activities		
Net income	$ 4,056	$ 4,149
Items not requiring (providing) cash		
Depreciation and amortization	677	634
Provision for loan losses	885	751
Amortization and accretion, net	163	175
Deferred income taxes	82	(56)
Gain on sale of securities	(444)	-
Loss on sale of foreclosed assets	23	1
Increase in cash surrender value of bank-owned life insurance	(768)	(175)
Gain on disposal of premises and equipment	(10)	-
Changes in		
Loans held for sale	(6)	557
Accrued interest receivable	(589)	(195)
Other assets	(1,063)	(619)
Accrued interest payable	261	275
Other liabilities	1,133	(231)
Net cash provided by operating activities	4,400	5,266
Investing Activities		
Net change in interest-bearing time deposits	(25)	1,755
Purchases of available-for-sale securities	(22,427)	(10,589)
Proceeds from calls and maturities of available-for-sale securities	6,462	6,005
Proceeds from sales of available-for-sale securities	16,266	-
Net change in loans	(41,002)	(21,507)
Purchase of premises and equipment	(2,050)	(386)
Purchase of FHLB stock	(398)	-
Proceeds from the sale of premises and equipment	20	-
Proceeds from the sale of foreclosed assets	80	46
Net cash used in investing activities	(43,074)	(24,676)
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	20,967	22,114
Net change in certificates of deposit	8,369	(5,303)
Proceeds from Federal Home Loan Bank advances	73,000	24,037
Repayment of Federal Home Loan Bank advances	(57,946)	(28,476)
Proceeds from issuance of subordinated debt	-	5,000
Dividends paid	(435)	(547)
Exercise of stock options	-	14
Net cash provided by financing activities	43,955	16,839
Change in Cash and Cash Equivalents	5,281	(2,571)
Cash and Cash Equivalents, Beginning of Year	15,999	18,570
Cash and Cash Equivalents, End of Year	$ 21,280	$ 15,999
Supplemental Cash Flows Information		
Interest paid	$ 5,252	$ 3,585
Income taxes paid	505	565
Real estate acquired in settlement of loans	174	40
Dividends accrued but not paid	140	-

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

Nature of Operations

SVB & T Corporation (Company) is a financial holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Springs Valley Bank & Trust Company (Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Orange, Dubois and surrounding counties in southern Indiana. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

The Bank has five wholly owned subsidiaries: SVB & T Holdings, Inc., which is primarily engaged in managing the Bank's investment securities; SVB & T Investment I, II and III, LLC, which are primarily engaged in holding certain real estate acquired by the Bank in connection with the foreclosure of loans; and SVB & T Properties, Inc., which was formed during 2015. SVB & T Properties, Inc., a Delaware corporation, holds approximately $84.5 million and $84.9 million of loans at December 31, 2019 and 2018, respectively. As part of the formation, SVB & T Properties, Inc. issued 125 shares of 12.5% Series A cumulative preferred stock during 2015. The preferred stock is carried at $125,000 and is included in the consolidated balance sheets. SVB & T Risk Management, Inc., a wholly owned subsidiary of the Company, was formed on July 9, 2016 as a captive insurance company and is incorporated in Nevada.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and the Bank and each of the Bank's wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or satisfaction of loans, loan servicing rights, valuation of deferred tax assets and fair value of financial instruments.

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2019, the Company's cash accounts exceeded federally insured limits by approximately $4,653,000.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks are carried at cost.

Securities

Available-for-sale debt securities, which include any securities for which the Company has no immediate plans to sell but may be sold in the future, are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss).

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs and the allowance for loan losses.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Depreciable assets are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on disposition are included in current operations.

Federal Home Loan Bank Stock

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. 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 adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed Assets Held for Sale

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

Operating Leases

The right-of use (ROU) asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Lease payments included in the measurement of the lease liability are comprised of fixed payments owed over the lease term.

Treasury Stock

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

Stock Options

At December 31, 2019 and 2018, the Company has share-based employee compensation plans, which are described more fully in Note 15.

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 Company—put presumptively beyond the 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 Company 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.

Revenue Recognition

Accounting Standards Codification 606, *Revenue from Contracts with Customers* (ASC 606) provides that an entity should recognize revenue to depict 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 or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Revenue generated from financial instruments, including loans and investment securities, are not included in the scope of ASC 606. The adoption of ASC 606 did not result in a change to the accounting for any of the Company's revenue streams that are within the scope of the amendments. Revenue-generating activities that are within the scope of ASC 606 and that are presented as noninterest income in the Company's consolidated statements of income include:

Fiduciary income - this includes periodic fees due from trust and investment services for managing the customers' financial assets. Fees are generally charged on a quarterly or annual basis and are recognized ratably throughout the period, as the services are provided on an ongoing basis.

Service charges and fees on deposit accounts - these include general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer, or overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries. The Company's tax years still subject to examination by taxing authorities are years subsequent to 2015 (federal and Indiana).

Earnings Per Share

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

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

(Tables in Thousands, Except Share Data)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities.

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. There was no reserve required at December 31, 2019.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities				
December 31, 2019				
Mortgage-backed GSE residential	$ 15,160	$ 207	$ (58)	$ 15,309
State and political subdivisions	39,959	2,564	(12)	42,511
	$ 55,119	$ 2,771	$ (70)	$ 57,820

(Tables in Thousands, Except Share Data)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities				
December 31, 2018				
Mortgage-backed GSE residential	$ 22,548	$ 41	$ (317)	$ 22,272
State and political subdivisions	32,587	886	(101)	33,372
	$ 55,135	$ 927	$ (418)	$ 55,644

The amortized cost and fair value of available-for-sale securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 600	$ 603
One to five years	4,749	4,944
Five to ten years	11,865	12,808
After ten years	22,745	24,156
	39,959	42,511
Mortgage-backed GSE residential	15,160	15,309
Totals	$ 55,119	$ 57,820

The Company had no securities pledged as collateral at December 31, 2019 and 2018, respectively.

Gross gains of approximately $503,000 and $0 and gross losses of approximately $59,000 and $0 resulting from sales of available-for-sale debt securities were realized during the years ended December 31, 2019 and 2018, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2019 and 2018, was approximately $7,590,000 and $25,020,000, respectively, which is approximately 13 percent and 45 percent, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates since the investments were purchased.

(Tables in Thousands, Except Share Data)

The following tables show the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31:

	2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Mortgage-backed GSE residential	$ 6,240	$ (45)	$ 862	$ (13)	$ 7,102	$ (58)
State and political subdivisions	488	(12)	-	-	488	(12)
Total temporarily impaired securities	$ 6,728	$ (57)	$ 862	$ (13)	$ 7,590	$ (70)

	2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Mortgage-backed GSE residential	$ 3,233	$ (15)	$ 14,547	$ (302)	$ 17,780	$ (317)
State and political subdivisions	5,503	(67)	1,737	(34)	7,240	(101)
Total temporarily impaired securities	$ 8,736	$ (82)	$ 16,284	$ (336)	$ 25,020	$ (418)

(Tables in Thousands, Except Share Data)

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31 include:

	2019	2018
Commercial		
Nonreal estate commercial	$ 73,154	$ 53,157
Commercial real estate	169,756	152,055
Consumer		
Nonreal estate consumer	13,676	11,143
Consumer mortgage	78,236	79,936
Home equity line of credit	14,219	12,270
Credit cards and other	862	1,162
Gross loans	349,903	309,723
Less		
In-process accounts	259	49
Allowance for loan losses	(4,340)	(3,893)
	$ 345,822	$ 305,879

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

2019	Nonreal Estate Commercial	Commercial Real Estate	Nonreal Estate Retail Consumer	Consumer Mortgage	Home Equity Line of Credit	Credit Cards and Other	Total
Allowance for Loan Losses							
Balance, beginning of year	$ 581	$ 2,063	$ 128	$ 885	$ 48	$ 188	$ 3,893
Provision charged to expense	1,028	133	(3)	(206)	39	(106)	885
Losses charged off	(306)	(79)	(84)	(33)	-	(62)	(564)
Recoveries	-	29	46	21	-	30	126
Balance, end of year	$ 1,303	$ 2,146	$ 87	$ 667	$ 87	$ 50	$ 4,340
Ending balance Individually evaluated for impairment	$ 533	$ 317	$ -	$ 19	$ -	$ -	$ 869
Ending balance Collectively evaluated for impairment	$ 770	$ 1,829	$ 87	$ 648	$ 87	$ 50	$ 3,471
Loans							
Ending balance Individually evaluated for impairment	$ 1,813	$ 7,100	$ -	$ 285	$ -	$ -	$ 9,198
Ending balance Collectively evaluated for impairment	$ 71,341	$ 162,656	$ 13,676	$ 77,951	$ 14,219	$ 862	$ 340,705

(Tables in Thousands, Except Share Data)

	2018						
	Nonreal Estate Commercial	Commercial Real Estate	Nonreal Estate Retail Consumer	Consumer Mortgage	Home Equity Line of Credit	Credit Cards and Other	Total
Allowance for Loan Losses							
Balance, beginning of year	$ 404	$ 1,889	$ 150	$ 944	$ 32	$ 52	$ 3,471
Provision charged to expense	226	301	94	(68)	16	183	752
Losses charged off	(49)	(178)	(144)	(49)	-	(58)	(478)
Recoveries	-	51	28	58	-	11	148
Balance, end of year	$ 581	$ 2,063	$ 128	$ 885	$ 48	$ 188	$ 3,893
Ending balance Individually evaluated for impairment	$ 53	$ 412	$ -	$ 19	$ -	$ -	$ 484
Ending balance Collectively evaluated for impairment	$ 528	$ 1,651	$ 128	$ 866	$ 48	$ 188	$ 3,409
Loans							
Ending balance Individually evaluated for impairment	$ 2,995	$ 7,636	$ -	$ 390	$ -	$ -	$ 11,021
Ending balance Collectively evaluated for impairment	$ 50,162	$ 144,419	$ 11,143	$ 79,546	$ 12,270	$ 1,162	$ 298,702

Internal Risk Categories

Loan grades for commercial loans are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, special mention or O.A.E.M., represents loans of lower quality and is considered criticized. The grades of 6, or substandard, and 7, or doubtful, refer to assets that are classified. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

Minimal Risk, Pass (1): All of the risks associated with this credit (based on each of the Bank's creditworthiness criteria) are minimal or the loan is supported by pledged deposits, U.S. Government securities, etc.

Low Risk, Pass (2): Most of the risks associated with this credit (based on each of the Bank's creditworthiness criteria) are minimal.

Moderately Low Risk, Pass (3): Some of the risk associated with this credit (based on each of the Bank's creditworthiness criteria) is acceptable.

Moderate Risk, Pass (4): The weighted overall risk associated with this credit (based on each of the Bank's creditworthiness criteria) is acceptable.

Special Mention, O.A.E.M. (5): The weighted overall risk associated with this credit is considered higher than normal (but still acceptable) or the loan possesses deficiencies which corrective action by the Bank would remedy, thereby reducing risk.

Substandard (6): The weighted overall risk associated with this credit (based on each of the Bank's creditworthiness criteria) is considered undesirable, or the Bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected.

Doubtful (7): Weakness makes collection or liquidation in full (based on currently existing facts) improbable.

Loss (8): This credit is of little value and not warranted as a bankable asset.

Risk characteristics applicable to significant segments of the loan portfolio are described as follows.

Nonreal Estate Commercial: The nonreal estate commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Nonreal Estate Consumer: The nonreal estate consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

Consumer Mortgage: The consumer mortgage portfolio is generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Home Equity Line of Credit: The home equity line of credit portfolio is secured by 1-to-4 family residential properties. These lines of credit are typically secured by a junior lien.

(Tables in Thousands, Except Share Data)

Credit Cards and Other: The credit cards and other portfolio primarily consists of extensions of credit to individuals for household, family and other personal expenditures arising from credit cards. Also included in this portfolio are extensions under prearranged overdraft plans.

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

	2019		
	Nonreal Estate Commercial	Commercial Real Estate	Total
Grade:			
Pass (1-4)	$ 71,850	$ 163,564	$ 235,414
Special mention, O.A.E.M. (5)	190	2,536	2,726
Substandard (6)	1,114	3,656	4,770
Doubtful (7)	-	-	-
Loss (8)	-	-	-
Total	$ 73,154	$ 169,756	$ 242,910

	2018		
	Nonreal Estate Commercial	Commercial Real Estate	Total
Grade			
Pass (1-4)	$ 46,694	$ 135,425	$ 182,119
Special mention, O.A.E.M. (5)	3,863	7,901	11,764
Substandard (6)	2,600	8,729	11,329
Doubtful (7)	-	-	-
Loss (8)	-	-	-
Total	$ 53,157	$ 152,055	$ 205,212

The Bank evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

(Tables in Thousands, Except Share Data)

Management grades all loans except commercial loans as performing or nonperforming. Nonperforming loans are defined as those that are more than 90 days past due or on nonaccrual.

	2019				
	Nonreal Estate Consumer	Consumer Mortgage	Home Equity Line of Credit	Credit Cards and Other	Total
Performing	$ 13,654	$ 77,473	$ 14,219	$ 834	$ 106,180
Nonperforming	22	763	-	28	813
Total	$ 13,676	$ 78,236	$ 14,219	$ 862	$ 106,993

	2018				
	Nonreal Estate Consumer	Consumer Mortgage	Home Equity Line of Credit	Credit Cards and Other	Total
Performing	$ 11,134	$ 78,679	$ 12,270	$ 1,162	$ 103,245
Nonperforming	9	1,257	-	-	1,266
Total	$ 11,143	$ 79,936	$ 12,270	$ 1,162	$ 104,511

The following tables present the Company's loan portfolio aging analysis as of December 31:

	2019					
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Total Loans > than 90 Days and Accruing
Commercial						
Nonreal estate commercial	$ 146	$ 140	$ 286	$ 72,868	$ 73,154	$ 91
Commercial real estate	2,536	430	2,966	166,790	169,756	108
Consumer						
Nonreal estate consumer	140	22	162	13,514	13,676	5
Consumer mortgage	356	763	1,119	77,117	78,236	185
Home equity line of credit	699	-	699	13,520	14,219	-
Credit cards	18	28	46	816	862	28
Total loans	$ 3,895	$ 1,383	$ 5,278	$ 344,625	$ 349,903	$ 417

(Tables in Thousands, Except Share Data)

	2018					
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Total Loans > than 90 Days and Accruing
Commercial						
Nonreal estate commercial	$ 190	$ 48	$ 238	$ 52,919	$ 53,157	$ -
Commercial real estate	351	486	837	151,218	152,055	130
Consumer						
Nonreal estate consumer	26	8	34	11,109	11,143	8
Consumer mortgage	554	1,115	1,669	78,267	79,936	184
Home equity line of credit	68	-	68	12,202	12,270	-
Credit cards	17	71	88	1,074	1,162	71
Total loans	$ 1,206	$ 1,728	$ 2,934	$ 306,789	$ 309,723	$ 393

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

The following tables present impaired loans for the years ended December 31:

	2019					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
Nonreal estate commercial	$ 854	$ 854	$ -	$ 1,057	$ 61	$ 69
Commercial real estate	5,837	5,837	-	6,330	430	438
Nonreal estate consumer	-	-	-	-	-	-
Consumer mortgage	-	-	-	-	-	-
Home equity line of credit	-	-	-	-	-	-
Loans with a specific valuation allowance						
Nonreal estate commercial	959	959	533	1,256	58	50
Commercial real estate	1,263	1,263	317	1,315	48	45
Nonreal estate consumer	-	-	-	-	-	-
Consumer mortgage	285	285	19	285	9	-
Home equity line of credit	-	-	-	-	-	-
Total impaired loans	$ 9,198	$ 9,198	$ 869	$ 10,243	$ 606	$ 602

(Tables in Thousands, Except Share Data)

	2018					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
Nonreal estate commercial	$ 2,849	$ 2,849	$ -	$ 2,947	$ 148	$ 145
Commercial real estate	6,371	6,371	-	7,213	290	259
Nonreal estate consumer	-	-	-	-	-	-
Consumer mortgage	105	105	-	106	7	7
Home equity line of credit	-	-	-	-	-	-
Loans with a specific valuation allowance						
Nonreal estate commercial	146	146	53	138	5	5
Commercial real estate	1,265	1,265	412	1,621	62	53
Nonreal estate consumer	-	-	-	-	-	-
Consumer mortgage	285	285	19	286	9	5
Home equity line of credit	-	-	-	-	-	-
Total impaired loans	$ 11,021	$ 11,021	$ 484	$ 12,311	$ 521	$ 474

The following table presents the Company's nonaccrual loans at December 31:

	2019	2018
Commercial		
Nonreal estate commercial	$ 498	$ 48
Commercial real estate	460	612
Consumer		
Nonreal estate consumer	22	8
Consumer mortgage	1,109	1,326
Home equity line of credit	-	-
Credit cards and other	-	-
	$ 2,089	$ 1,994

At December 31, 2019, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate, modification to interest only payments or a permanent reduction of the recorded investment in the loan.

(Tables in Thousands, Except Share Data)

The following tables present information regarding troubled debt restructurings by class for the years ended December 31, 2019 and 2018.

Newly classified troubled debt restructurings:

	2019		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Consumer Mortgages	2	150	150
Commercial Real Estate	2	3,071	3,071

	2018		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial Real Estate	1	645	645

New restructured loans by type of modification:

	2019				
	Interest Only	Principal Reduction	Term	Combination	Total
Consumer Mortgages	$ -	$ 150	$ -	$ -	$ 150
Commercial Real Estate	-	-	3,071	-	3,071

	2018				
	Interest Only	Principal Reduction	Term	Combination	Total
Commercial Real Estate	$ 645	-	-	-	$ 645

The troubled debt restructurings referred to above did not increase the allowance for loan losses during the years ended December 31, 2019 and 2018.

A loan is considered to be in default when it is 90 days past due or transferred to nonaccrual.

No troubled debt restructurings modified in the past 12 months subsequently defaulted.

(Tables in Thousands, Except Share Data)

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2019	2018
Land	$ 1,058	$ 1,058
Buildings and improvements	6,347	5,957
Equipment	3,781	3,335
Construction in progress	1,078	-
	12,264	10,350
Less accumulated depreciation	5,628	5,077
Net premises and equipment	$ 6,636	$ 5,273

Note 6: Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were approximately $75,703,000 and $68,031,000 at December 31, 2019 and 2018, respectively. Capitalized mortgage-servicing rights are not significant at December 31, 2019 and 2018.

The loans serviced for others result from loan sales transactions with the FHLB of Indianapolis that provide for establishment of a Lender Risk Account (LRA), which represents a recourse obligation for absorbing potential losses on loans sold and an asset to the Bank. The funds withheld to settle recourse obligations was approximately $1,371,000 at December 31, 2019; however, these receivables are recorded at their fair value at the time of the establishment of the LRA. The fair value is estimated by discounting the cash flows over the life of each master commitment contract. The carrying value of the LRA is equal to the initial fair value plus an interest component, less any cash receipts and was approximately $598,000 and $576,000 at December 31, 2019 and 2018, respectively.

Note 7: Deposits

	2019	2018
Demand deposits	$ 135,153	$ 125,786
Savings deposits	92,450	80,850
Certificates and other time deposits of $250,000 or more	37,530	35,684
Other certificates and time deposits	96,057	89,534
Total	$ 361,190	$ 331,854

(Tables in Thousands, Except Share Data)

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

2020	$ 97,498
2021	20,024
2022	13,320
2023	1,609
2024	1,136
	$ 133,587

Note 8: Short-Term Borrowings

At December 31, 2019, the Company had total discretionary federal fund lines of $16,000,000 available with three financial institutions. No amounts were outstanding against the lines as of December 31, 2019 and 2018.

Note 9: Long-Term Debt

Long-term debt consisted of the following components:

	2019	2018
Federal Home Loan Bank Advances	$ 34,764	$ 19,710
Subordinated debentures	5,000	5,000
Total	$ 39,764	$ 24,710

At December 31, 2019 and 2018, advances from the FHLB totaled $34,764,000 and $19,710,000, respectively. At December 31, 2019, advances ranged from 0.68% to 2.51%, due at various dates through 2029.

As a member of the FHLB system at year-end 2019, the Company had the ability to obtain up to $17,019,000 in additional borrowings based on collateral pledged to the FHLB at December 31, 2019. The FHLB advances are secured by mortgage and CRE loans totaling approximately $60,366,000 and $43,996,000, respectively, at December 31, 2019.

On July 31 2018, the Company issued $5,000,000 of subordinated debentures at an initial fixed interest rate of 6.45%, which is payable quarterly. Beginning July 31 2023, the interest rate converts to a variable rate equal to the three-month LIBOR plus 3.54%. The subordinated debentures mature on July 31, 2028.

(Tables in Thousands, Except Share Data)

Aggregate annual maturities of long-term debt at December 31, 2019 are:

2020	$	7,764
2021		1,500
2022		3,500
2023		2,000
2024		-
Thereafter		25,000
	$	39,764

Note 10: Operating Leases

The Company is a lessee in several noncancellable operating lease arrangements, primarily for retail branches and equipment. Certain of these leases contain renewal options for periods ranging from one year to five years. Payments due under the lease contracts include fixed payments plus, for many of the Company's real estate leases, variable payments such as the Company's proportionate share of property taxes, insurance, and common area maintenance.

The Company adopted ASU 2016-02, *Leases (ASC 842),* using the alternative transition method as of the date of adoption, January 1, 2019, as permitted by the amendments in ASU 2018-11. As a result, the Company was not required to adjust its comparative period financial information for effects of the adoption of the standard or make the new required lease disclosures for periods prior to the effective date. Upon adoption of this accounting guidance on January 1, 2019, the Company recorded an initial ROU asset of $366,000, and a lease liability of $366,000.

Management elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. The Company did elect the practical expedient to use hindsight for leases existing at the adoption date. The Company did not elect the practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease components.

Management determines if an arrangement is or contains a lease at contract inception. If an arrangement is determined to be or contain a lease, the Company recognizes a ROU asset and a lease liability at the lease commencement date. Leases are classified as operating or finance leases at the lease commencement date. At December 31, 2019, all of the Company's leases were classified as operating leases. The Company's lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments related to the lease liability include how management determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) the lease term, and (3) lease payments.

(Tables in Thousands, Except Share Data)

ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, management cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Company utilizes its incremental borrowing rate as the discount rate for leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay for the respective property being leased. At the time of adoption, the Company applied a 5.50% - 6.00% discount rate to each lease based on this estimate.

The lease term for all of the Company's leases includes the noncancellable period of the lease plus any additional periods covered by either the Company's option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor. If a lease contract contains multiple renewal options, management generally models lease cash flows through the first renewal option period unless the contract contains economic incentives or other conditions that increase or decrease the likelihood that additional renewals are reasonably certain to be exercised.

The Company's operating lease ROU asset and lease liability are presented in "Other Assets" and "Other Liabilities," respectively, on the Company's consolidated balance sheets. The carrying amount of the Company's ROU asset and lease liability at December 31, 2019 were $336,000. The Company's operating lease expense is recorded in "Premises and equipment" expense on the Company's consolidated statements of income.

For the year ended December 31, 2019, total operating lease cost equaled $51,000 and the cash paid for amounts included in measurement of lease liabilities equaled $49,000.

At December 31, 2019, the Company's operating leases had a weighted-average remaining term of 8.7 years and a weighted-average discount rate of 5.52%.

Undiscounted cash flows included in lease liabilities have expected contractual payments as follows:

2020	$	49
2021		49
2022		48
2023		43
2024		47
Thereafter		189
		425
Less effects of discounting		(89)
Operating lease liabilities recognized	$	336

(Tables in Thousands, Except Share Data)

Note 11: Income Taxes

The provision for income taxes includes these components:

	2019	2018
Taxes currently payable	$ 546	$ 799
Deferred income taxes	82	(56)
Income tax expense	$ 628	$ 743

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

	2019	2018
Computed at the statutory rate (21%)	$ 983	$ 1,027
Increase (decrease) resulting from		
Tax-exempt interest	(213)	(135)
Tax-exempt life insurance income	(35)	(37)
Tax credits	(182)	(157)
Amortization of low income housing tax credit investments	136	157
Nontaxable captive insurance income	(113)	(117)
Other	52	5
Actual tax expense	$ 628	$ 743

(Tables in Thousands, Except Share Data)

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

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 1,047	$ 919
Loan income	42	77
Deferred compensation	634	559
Net operating loss	223	140
	1,946	1,695
Deferred tax liabilities		
Depreciation	(672)	(692)
Unrealized gains on available-for-sale securities	(567)	(106)
State tax	-	(45)
Federal Home Loan Bank Lender Risk Account	(160)	(156)
Prepaids	(136)	(144)
Accrual to cash basis adjustments	(141)	-
Other	(32)	(65)
	(1,708)	(1,208)
Net deferred asset before valuation allowance	238	487
Valuation allowance		
Beginning balance	(140)	(58)
Increase during the period	(294)	(82)
Ending balance	(434)	(140)
Net deferred asset (liability)	$ (196)	$ 347

On January 1, 2018, the Company applied the provisions of ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permit the reclassification of stranded tax effects resulting from the TCJA in accumulated other comprehensive income (AOCI) to retained earnings. The amount of the reclassification was $123,000.

Note 12: Regulatory Matters

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

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2019, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Tables in Thousands, Except Share Data)

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total capital						
(to risk-weighted assets)	$ 51,880	14.6%	$ 28,455	8.0%	$ 35,569	10.0%
Tier I capital						
(to risk-weighted assets)	47,415	13.3%	21,341	6.0%	28,455	8.0%
Common equity Tier I capital						
(to risk-weighted assets)	47,415	13.3%	16,006	4.5%	23,120	6.5%
Tier I capital						
(to average assets)	47,415	10.5%	18,081	4.0%	22,601	5.0%
As of December 31, 2018						
Total capital						
(to risk-weighted assets)	$ 47,543	15.6%	$ 24,345	8.0%	$ 30,431	10.0%
Tier I capital						
(to risk-weighted assets)	43,614	14.3%	18,258	6.0%	24,345	8.0%
Common equity Tier I capital						
(to risk-weighted assets)	43,614	14.3%	13,694	4.5%	19,780	6.5%
Tier I capital						
(to average assets)	43,614	10.9%	16,064	4.0%	20,081	5.0%

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer was 2.50% at December 31, 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period.

Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 13: Related-Party Transactions

At December 31, 2019 and 2018, the Company had loans outstanding to executive officers, directors, significant shareholders and affiliates (related parties) in the amount of approximately $495,000 and $2,517,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2019 and 2018, totaled approximately $1,332,000 and $1,192,000, respectively.

Certain officers and directors of a related party own 40 percent of the outstanding capital stock of the Company.

Note 14: Employee Benefits

The Company has a retirement savings 401(k) profit-sharing plan covering substantially all employees. Employees may contribute up to 100 percent of their compensation. The Company may also make contributions to the plan at the discretion of the board of directors. During 2018, the Company amended the plan. The plan provides for a 100% Company match up to a maximum of 3% and a 50% match up to a maximum of 4% and 5% of each participant's annual compensation. Employer contributions charged to expense for 2019 and 2018 were approximately $356,000 and $326,000, respectively.

The Company has an employee benefit plan, which covers most employees. Benefits include a self-insured medical plan, a wholly owned term-life insurance plan and a long-term disability plan. The self-insured medical plan carries an insurance override to protect the Company against major increases in claims. The Company's contributions to the plan for the years ended December 31, 2019 and 2018, were approximately $662,000 and $610,000, respectively.

The Company added supplemental retirement plan arrangements for the benefit of certain officers during 2014 in lieu of the Death Benefit Only (DBO) plan previously in place. Certain officers continue under the DBO plan. These arrangements are funded by life insurance contracts that have been purchased by the Company and a portion of death benefit has been endorsed to the employee. The Company has recorded income from the life insurance policies of approximately $168,000 and $174,000 in 2019 and 2018, respectively. The Company's expense for the plan during 2019 and 2018 was approximately $115,000 and $167,000, respectively. The Company has a liability recorded of approximately $1,109,000 and $1,004,000 at December 31, 2019 and 2018, respectively, for the post-retirement liability related to the future premiums for these policies. The Company's recorded assets in the policies are approximately $8,820,000 and $8,052,000 at December 31, 2019 and 2018, respectively.

Note 15: Stock Option Plans

The Company's Employee Share Option Plans (Plans) permit the grant of share options and shares to its employees for up to 86,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on two years of continuous service and have 10-year contractual terms. Share awards generally vest over periods of five to ten years.

(Tables in Thousands, Except Share Data)

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on historical volatility of a similar industry sector index. The Company uses historical data to estimate option exercise and employee termination within the valuation model, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The discount rate for post-vesting restrictions is estimated based on the Company's credit-adjusted risk-free rate of return.

There were no options granted during 2019 and 2018.

As of December 31, 2019, there was no unrecognized compensation cost related to share-based compensation arrangements granted under the Plans.

The Company has a policy to satisfy share option exercises through the issuance of treasury stock shares.

No future funding of the Plans is anticipated. The Plans were terminated during 2008 and 2011.

Note 16: Earnings Per Share

Earnings per share were computed as follows:

	Year Ended December 31, 2019		
	Income	Weighted-Average Shares	Per Share Amount
Net income	$ 4,056		
Less preferred stock dividends	(16)		
Net income available to common stockholders	$ 4,040		
Basic and diluted earnings per share			
Income available to common stockholders		559,136	$ 7.22

(Tables in Thousands, Except Share Data)

	Year Ended December 31, 2018		
	Income	Weighted-Average Shares	Per Share Amount
Net income	$ 4,149		
Less preferred stock dividends	(16)		
Net income available to common stockholders	$ 4,133		
Basic and diluted earnings per share			
Income available to common stockholders		558,903	$ 7.40

There were no options to purchase shares of common stock or other dilutive securities as of December 31, 2019.

Note 17: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

(Tables in Thousands, Except Share Data)

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. The Company has no liabilities measured at fair value on a recurring basis. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Cash Equivalents and Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 securities include, state and political subdivisions and mortgage-backed GSE residential securities.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

	2019			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents				
Money market mutual fund	$ 724	$ 724	$ -	$ -
Available-for-Sale Securities				
Mortgage-backed GSE residential	15,309	-	15,309	-
State and political subdivisions	42,511	-	42,511	-

	2018			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents				
Money market mutual fund	$ 2,831	$ 2,831	$ -	$ -
Available-for-Sale Securities				
Mortgage-backed GSE residential	22,272	-	22,272	-
State and political subdivisions	33,372	-	33,372	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. The Company has no liabilities measured at fair value on a nonrecurring basis. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

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

(Tables in Thousands, Except Share Data)

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Collateral-dependent impaired loans	$ 2,323	$ -	$ -	$ 2,323
December 31, 2018				
Collateral-dependent impaired loans	$ 1,696	$ -	$ -	$ 1,696

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2018 and 2017.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted - Average)
December 31, 2019				
Collateral-dependent impaired loans	$ 2,323	Market comparable properties	Marketability discount	15% - 40% (24%)
December 31, 2018				
Collateral-dependent impaired loans	$ 1,696	Market comparable properties	Marketability discount	0% - 55% (31%)

(Tables in Thousands, Except Share Data)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Fair Value of Financial Instruments

The following tables present estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	2019			
		Fair Value Measurements Using		
	Carrying Amount	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 cash equivalents	$ 21,280	$ 21,280	$ -	$ -
Interest-bearing time deposits in banks	1,200	1,200	-	-
Available-for-sale securities	57,820	-	57,820	-
Loans held for sale	156	-	156	-
Loans, net of allowance for loan losses	345,822	-	-	345,176
Federal Home Loan Bank stock	2,567	-	2,567	-
Interest receivable	2,413	-	2,413	-
Financial Liabilities				
Deposits	361,190	-	364,731	-
Long-term debt	39,764	-	40,735	-
Interest payable	927	-	927	-

(Tables in Thousands, Except Share Data)

	2018			
		Fair Value Measurements Using		
	Carrying Amount	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 cash equivalents	$ 15,999	$ 15,999	$ -	$ -
Interest-bearing time deposits in banks	1,175	1,175	-	-
Available-for-sale securities	55,644	-	55,644	-
Loans held for sale	150	-	150	-
Loans, net of allowance for loan losses	305,879	-	-	301,570
Federal Home Loan Bank stock	2,169	-	2,169	-
Interest receivable	1,824	-	1,824	-
Financial Liabilities				
Deposits	331,854	-	319,597	-
Long-term debt	24,710	-	26,803	-
Interest payable	666	-	666	-

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents and Interest-Bearing Time Deposits in Banks

The carrying amount approximates fair value.

Loans

Fair values of loans and leases are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

Loans Held for Sale

The carrying amount approximates fair value due to the insignificant time between origination and date of sale.

Federal Home Loan Bank Stock

The carrying amount approximates fair value. All transactions in the capital stock of the FHLB are executed at par.

Accrued Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The estimated fair value of demand, NOW, savings and money market deposits is the book value, since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Long-Term Debt

The fair value of these borrowings is estimated by discounting the estimated future cash flows using current estimated market rates for similar borrowings. The market rates used were averages of current rates of companies with similar characteristics to the Company and obtained from an independent third party.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk. Other significant estimates and concentrations not discussed in those notes include:

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 19: Commitments and Credit Risk

Commitments to Originate Loans

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

At December 31, 2019 and 2018, the Company had outstanding commitments to originate loans aggregating approximately $65,499,000 and $57,763,000, respectively.

Standby Letters of Credit

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

The Company had total outstanding standby letters of credit amounting to $733,000 and $478,000 at December 31, 2019 and 2018, respectively, with terms ranging from one year to five years.

Note 20: Future Change in Accounting Principle

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized.

The CECL model represents a significant change from existing practice and may result in material changes to the Company's accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the date of adoption. The new standard is effective for annual periods beginning after December 15, 2020.

Note 21: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Company. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through March 23, 2020, which is the date the consolidated financial statements were available to be issued.