Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Ben M. Susman/President
Name of the Holding Company Director and Official

Mount Hope Bankshares, Inc.
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

3/18/2019
Date of Signature

Date of Report (top-tier holding company's fiscal year-end):
12/31/2018
Month / Day / Year

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Mount Hope Bankshares, Inc.
Legal Title of Holding Company

602 Main Street/P O Box 751
(Mailing Address of the Holding Company) Street / P.O. Box

Mount Hope	WV	25880
City	State	Zip Code

N/A
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Ben M. Susman	President
Name	Title

304-877-5551/106
Area Code / Phone Number / Extension

304-877-3851
Area Code / FAX Number

bsusman@mthopebank.com
E-mail Address

None
Address (URL) for the Holding Company's web page

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

Is confidential treatment requested for any portion of this report submission? ..... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report ..... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Federal Reserve Bank Use Only

RSSD ID _____
C.I. _____

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City | State | Zip Code

Physical Location (if different from mailing address)

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City | State | Zip Code

Physical Location (if different from mailing address)

Form FR Y-6

Mount Hope Bankshares, Inc.

Mount Hope, West Virginia/USA
Fiscal Year Ending December 31, 2018

Report Item 1: Annual Report to Shareholders

The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the responsible Reserve Bank.

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

Consolidated
Financial Report
December 31, 2018

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Arnett Carbis Toothman llp
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Charleston, WV 25329
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800.642.3601

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mount Hope Bankshares, Inc. and Subsidiary
Mount Hope, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mount Hope Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the 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 Mount Hope Bankshares, Inc. and Subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Arnett Carbis Toothman LLP

Charleston, West Virginia
March 4, 2019

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

ASSETS	2018	2017
Cash and due from banks	$ 3,244,755	$ 3,473,079
Interest bearing deposits with other banks	3,370,961	1,740,615
Federal funds sold	588,000	28,000
Securities available for sale	46,581,352	51,473,838
Securities held to maturity (estimated fair value, 2018 $267; 2017 $312)	270	314
Loans, less allowance for loan losses of $667,819 and $670,880, respectively	65,424,006	66,455,293
Bank premises and equipment, net	941,693	989,937
Accrued interest receivable	505,050	527,308
Other assets	214,900	229,503
Total assets	$120,870,987	$124,917,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non interest bearing	$ 29,051,921	$ 31,656,230
Interest bearing	73,194,380	72,697,717
Total deposits	102,246,301	104,353,947
Short-term borrowings	1,411,000	2,291,000
Long-term borrowings	1,000,000	2,000,000
Other liabilities	127,564	297,709
Total liabilities	104,784,865	108,942,656
Shareholders' Equity		
Common stock, $2 par value 387,500 shares authorized and issued, outstanding 2018 - 375,440; 2017- 375,440	775,000	775,000
Capital surplus	910,263	910,263
Retained earnings	15,313,870	14,767,612
Less cost of shares acquired for the treasury, 2018 - 12,060; 2017 - 12,060	(265,320)	(265,320)
Accumulated other comprehensive income	(647,691)	(212,324)
Total shareholders' equity	16,086,122	15,975,231
Total liabilities and shareholders' equity	$120,870,987	$124,917,887

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Interest income:			
Interest and fees on loans:			
Taxable	$ 3,000,764	$ 2,807,166	$ 2,714,942
Nontaxable	114,143	111,534	64,818
Interest and dividends on securities:			
Taxable	758,479	679,952	696,339
Nontaxable	360,610	413,006	414,028
Interest on deposits with other banks	50,645	28,052	7,801
Interest on Federal funds sold	24,582	23,641	9,251
Total interest income	4,309,223	4,063,351	3,907,179
Interest expense:			
Interest on deposits	428,442	300,317	275,379
Interest on short-term borrowings	12,912	2,951	1,560
Interest on long-term borrowings	37,189	56,860	102,322
Total interest expense	478,543	360,128	379,261
Net interest income	3,830,680	3,703,223	3,527,918
Provision for loan losses	28,751	38,714	18,315
Net interest income after provision for loan losses	3,801,929	3,664,509	3,509,603
Other income:			
Service charges and fees	740,259	751,608	726,417
Securities gains	13,192	42,634	87,059
(Loss) on sale of other assets	(500)	(358)	(1,977)
Other	303,660	283,646	268,604
	1,056,611	1,077,530	1,080,103
Other expenses:			
Salaries and employee benefits	1,858,472	1,732,068	1,900,965
Net occupancy expense	355,225	366,759	351,738
Equipment rentals, depreciation and maintenance	121,356	137,043	149,411
Legal and accounting	110,490	98,545	114,184
Data processing	296,687	280,800	290,901
Insurance	85,314	86,534	102,366
Other operating expenses	569,396	552,132	539,763
	3,396,940	3,253,881	3,449,328
Income before income tax expense	1,461,600	1,488,158	1,140,378
Income tax expense	258,321	299,251	236,247
Net income	$ 1,203,279	$ 1,188,907	$ 904,131
Basic earnings per common share	$ 3.20	$ 3.17	$ 2.41
Average common shares outstanding	375,440	375,440	375,440

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Net income	$ 1,203,279	$ 1,188,907	$ 904,131
Other comprehensive income:			
Gross unrealized (losses) gains arising during the period	(537,905)	170,898	(590,138)
Adjustments for income tax benefit (expense)	112,960	(131,138)	230,154
	(424,945)	39,760	(359,984)
Less: Reclassification adjustment for (gains)/losses included in net income	(13,192)	(42,634)	(87,059)
Adjustments for income tax expense/(benefit)	2,770	32,738	33,953
	(10,422)	(9,896)	(53,106)
Other comprehensive income, net of tax	(435,367)	29,864	(413,090)
Comprehensive income	$ 767,912	$ 1,218,771	$ 491,041

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2018, 2017 and 2016

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2015	$ 775,000	$ 910,263	$ 13,808,403	$ (265,320)	$ 170,902	$ 15,399,248
Net income	-	-	904,131	-	-	904,131
Cash dividends declared on common stock ($1.42 per share)	-	-	(533,125)	-	-	(533,125)
Change in unrealized gain (loss) on securities	-	-	-	-	(413,090)	(413,090)
Balance, December 31, 2016	775,000	910,263	14,179,409	(265,320)	(242,188)	15,357,164
Net income	-	-	1,188,907	-	-	1,188,907
Cash dividends declared on common stock ($1.60 per share)	-	-	(600,704)	-	-	(600,704)
Change in unrealized gain (loss) on securities	-	-	-	-	29,864	29,864
Balance, December 31, 2017	775,000	910,263	14,767,612	(265,320)	(212,324)	15,975,231
Net income	-	-	1,203,279	-	-	1,203,279
Cash dividends declared on common stock ($1.75 per share)	-	-	(657,021)	-	-	(657,021)
Change in unrealized gain (loss) on securities	-	-	-	-	(435,367)	(435,367)
Balance, December 31, 2018	$ 775,000	$ 910,263	$ 15,313,870	$ (265,320)	$ (647,691)	$ 16,086,122

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,203,279	$ 1,188,907	$ 904,131
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	105,779	105,661	109,375
Provision for loan losses	28,751	38,714	18,315
Deferred income taxes (benefit)	(10,698)	(53,327)	(4,790)
Amortization of security premiums (accretion) of discounts, net	210,163	281,760	349,570
(Gain) loss on sale of securities	(13,192)	(42,634)	(87,059)
(Gain) loss on sale of other real estate and repossessed assets	(500)	358	1,977
(Increase) decrease in accrued interest receivable	22,258	(47,342)	23,542
(Increase) decrease in other assets	42,524	51,395	116,305
Increase (decrease) in other liabilities	(43,717)	26,067	155,595
Net cash provided by operating activities	1,544,647	1,549,559	1,586,961
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of securities available for sale	1,545,477	1,050,987	7,444,987
Proceeds from calls and maturities of securities available for sale	3,676,002	3,292,609	3,845,053
Principal payments received on securities available for sale	6,852,763	6,492,913	7,427,360
Principal payments received on securities held to maturity	44	222	759
Purchases of securities available for sale	(7,929,824)	(11,592,423)	(18,923,265)
Net (increase) decrease in interest bearing deposits with other banks	(1,630,346)	87,798	9,009,248
(Increase) decrease in Federal funds sold, net	(560,000)	3,126,000	332,000
Loans made to (repayments from) customers, net	947,615	(5,177,982)	(1,589,880)
Purchases of bank premises and equipment	(57,535)	(44,656)	(88,916)
Proceeds from sale of other real estate and repossessed assets	27,500	39,121	-
Net cash provided by (used in) investing activities	2,871,696	(2,725,411)	7,457,346

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW and savings accounts	(2,796,763)	605,367	(6,608,094)
Proceeds from sales of time deposits, net	689,117	1,175,384	1,010,372
Increase (decrease) in short-term borrowings	(880,000)	1,451,000	212,000
Principal payments made on long-term borrowings	(1,000,000)	(1,000,000)	(3,500,000)
Dividends paid	(657,021)	(600,704)	(533,125)
Net cash provided by (used in) financing activities	(4,644,667)	1,631,047	(9,418,847)
Increase (decrease) in cash and due from banks	(228,324)	455,195	(374,540)
Cash and due from banks:			
Beginning	3,473,079	3,017,884	3,392,424
Ending	$ 3,244,755	$ 3,473,079	$ 3,017,884
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest paid to depositors	$ 413,393	$ 291,050	$ 286,642
Interest paid on short-term borrowings	$ 12,912	$ 2,951	$ 1,560
Interest paid on long-term borrowings	$ 37,189	$ 56,860	$ 102,322
Income taxes paid	$ 282,850	$ 345,350	$ 82,389
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Other real estate and asset repossessions acquired in settlement of loans	$ 54,921	$ 52,990	$ -

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of business: Mount Hope Bankshares, Inc., (the Company) is a one-bank holding company incorporated in West Virginia. The wholly-owned subsidiary, Bank of Mount Hope, Inc. (the Bank) is a commercial bank with operations in Fayette and Raleigh County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Raleigh and Fayette Counties, West Virginia and the surrounding area.

Basis of presentation: The accounting and reporting policies of Mount Hope Bankshares, Inc. and Subsidiary (the Bank) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Mount Hope Bankshares, Inc., and its subsidiary, Bank of Mount Hope, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. For the year ended December 31, 2018, the Company evaluated subsequent events through March 4, 2019.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, NOW accounts, savings accounts, federal funds sold and federal funds purchased are reported net since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported net.

Interest bearing deposits with other banks: Interest bearing deposits with other banks mature within one year and are carried at cost.

Securities: Debt and equity securities are classified as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts.

Securities available for sale - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale." Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at fair value, net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as a separate component of shareholders' equity.

Trading securities - There are no securities classified as "trading" in the accompanying financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts is computed using methods which approximate the interest method of accounting.

Loans and allowance for loan losses: Loans are stated at the amount of unpaid principal, reduced by unearned discount (if any) and an allowance for loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Unearned interest on discounted loans is amortized to income over the life of the loans, using methods which approximate the interest method. For all other loans, interest is accrued daily on the outstanding balances.

Certain direct loan costs are recognized as expense when incurred. Whereas, accounting principles generally accepted in the United States of America require that such costs be deferred and amortized as adjustments of the related loan's yield over the contractual life of the loan. The Bank's method of recognition of direct loan costs does not produce results which are materially different from those that would be recognized under accounting principles generally accepted in the United States of America. Certain direct costs, principally unreimbursed appraisal costs and dealer's fees, are deferred and the net amount of fees and costs is amortized as an adjustment of the related loans yield. The Bank is generally amortizing these amounts over the contractual life.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been a demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

Bank premises and equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for Bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other real estate: Other real estate consists primarily of real estate held for resale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or appraised market value with any writedown being charged to the allowance for loan losses. Expenses incurred in connection with operating these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

Advertising: The Bank expenses advertising costs as incurred.

Income taxes: The provision for income taxes includes Federal and state income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

Profit sharing and thrift plan: The Bank has a contributory profit sharing plan covering substantially all employees. The Bank's contribution is discretionary and is determined by management on a yearly basis.

ESOP plan: The Bank sponsors a leveraged employee stock ownership plan that covers all employees who are eligible as to age and hours of service.

Basic earnings per share: Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 375,440 for each of the years ended December 31, 2018, 2017 and 2016, respectively.

Reclassifications: Certain amounts have been reclassified in the 2017 and 2016 financial statements in order to conform to the 2018 presentation.

Significant Authoritative Guidance: ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 will be effective January 1, 2019 and is not expected to have a significant impact on the financial statements.

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On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current accounting and financial reporting standards, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current standards, which requires that only capital leases be recognized on the balance sheet, the ASU requires that both types of leases be recognized on the balance sheet through the recognition of 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, and a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. The ASU also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by lessors remains largely unchanged from current requirements; but the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance. The FASB amended the standard with the issuance of ASU 2017-13 to conform with narrow-scope guidance of the Securities and Exchange Commission regarding adoption timing. The FASB further amended the standard with the issuance of ASU 2018-01 which provides an optional transition practical expedient for the adoption of ASU 2016-02 that, if elected, would not require an organization to reconsider their accounting for existing land easements that are not currently accounted for under the old leases standard. ASU 2018-01 also provides that new or modified land easements should be evaluated under ASU 2016-02, once an entity has adopted the new standard. Further amendments to the standard came with the issuance of ASU 2018-10, which addresses various narrow aspects of the guidance of Topic 842, and ASU 2018-11, which provides entities with an additional optional transition method of adoption, and provides lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under Topic 606 of the Accounting Standards Codification, and certain criteria are met. If the non-lease component or components associated with the lease component are the predominant component of the combined component, an entity is required to account for the combined component in accordance with Topic 606. Otherwise, the entity must account for the combined component as an operating lease in accordance with Topic 842. Additional narrow scope amendments have also been prescribed by ASU 2018-20 regarding issues facing lessors when applying Topic 842. Topic 842, as amended, is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities; not-for-profit entities that have issued, or are a conduit bond obligor for, securities traded, listed, or quoted on an exchange or over-the-counter market; and employee benefit plans that file financial statements with the Securities and Exchange Commission. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities. For entities that adopted the requirements of Topic 842 before the issuance of ASU 2018-10 and ASU 2018-20, the amendments of those ASUs became effective upon issuance of those amendments. The amendments of ASU 2018-20 may be applied retrospectively or prospectively in either the first reporting period beginning or ending after the issuance of ASU 2018-20. For entities that adopted the requirement of Topic 842 before the issuance of ASU 2018-11, the optional transition guidance was effective upon issuance, and the practical expedient guidance may be elected either prospectively in the first financial reporting period following the issuance of ASU 2018-11 or retrospectively to the original adoption or effective date of Topic 842 for the entity. The Company is currently evaluating the impact, if any, that adoption will have on the financial statements.

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ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments* provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 will be effective January 1, 2019 and is not expected to have a significant impact on the financial statements.

ASU 2017-01, *Business Combinations (Topic 805).* In January 2017, the FASB issued amendments to Topic 805 to clarify the definition of a business relative to adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments in this ASU provide a screen to determine when an integrated set of assets and activities (collectively referred to as a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If the screen is not met, it (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output, and (2) removes the evaluation of whether a market participant could replace the missing elements. This guidance is effective for public entities with fiscal years ending after December 15, 2017, and for all other entities for fiscal years ending after December 15, 2018. Early adoption is permitted, under certain circumstances and amendments should be applied on a prospective basis. The Company is currently evaluating the impact, if any, that adoption will have on the financial statements.

ASU 2017-08, *Receivables- Nonrefundable Fees and Other Costs (Subtopic 310-20).* In March 2017, the FASB issued guidance to amend the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This guidance is effective for public entities for fiscal years beginning after December 15, 2018, and for all other entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact, if any, that adoption will have on the financial statements.

On March 13, 2018, the Financial Accounting Standards Board issued ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.* These amendments to the Accounting Standards Codification add the guidance, among other things, to the FASB Accounting Standards Codification regarding the Tax Cuts and Jobs Act (the Act) under the Securities and Exchange Commission's Staff Accounting Bulletin No. 118 to address situations where the accounting under Topic 740 was previously incomplete for certain income tax effects of the Act upon issuance of an entity's financial statements for the reporting period in which the Act was enacted. The amendments of ASU 2018-05 were effective immediately upon issuance. The adoption of ASU 2018-05 did not have a material impact on the financial statements.

In August 2018, the FASB issued amendments that modify the disclosure requirements in Topic 820. The amendments remove the following disclosure requirements: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and for non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In addition, the amendments modify the following disclosure requirements: in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when the restrictions from redemption might lapse only if the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

investee has communicated the timing to the entity or announced the timing publicly; and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments also added the following disclosure requirements: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. For all entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

Note 2. Securities

The carrying values, unrealized gains, unrealized losses and estimated fair values of securities at December 31, 2018 and 2017, are summarized as follows:

	2018			
	Carrying Value (Amortized Cost)	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to maturity:				
Taxable:				
Mortgage backed securities- U.S. Government agencies and corporations	$ 270	$ -	$ 3	$ 267
Total	$ 270	$ -	$ 3	$ 267

	2017			
	Carrying Value (Amortized Cost)	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to maturity:				
Taxable:				
Mortgage backed securities- U.S. Government agencies and corporations	$ 314	$ -	$ 2	$ 312
Total	$ 314	$ -	$ 2	$ 312

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	2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for Sale:				
Taxable:				
U.S. Government agencies and corporations	$ 4,975,164	$ -	$ 11,102	$ 4,964,062
Mortgage backed securities- U.S. Government agencies and corporations	20,142,279	12,655	595,659	19,559,275
Small business administration guaranteed loan pool certificate	9,101,064	2,321	127,868	8,975,517
Municipals	1,109,549	-	25,391	1,084,158
Tax exempt:				
Municipals	12,073,158	34,893	109,711	11,998,340
Total	$47,401,214	$ 49,869	$ 869,731	$46,581,352

	2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for Sale:				
Taxable:				
U.S. Government agencies and corporations	$ 1,987,883	$ -	$ 6,333	$ 1,981,550
Mortgage backed securities- U.S. Government agencies and corporations	23,179,887	27,846	358,747	22,848,986
Small business administration guaranteed loan pool certificate	10,345,234	13,606	80,215	10,278,625
Municipals	1,122,075	-	15,632	1,106,443
Tax exempt:				
Municipals	15,107,524	179,165	28,455	15,258,234
Total	$51,742,603	$220,617	$ 489,382	$51,473,838

Impairment of securities is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank has 83 and 59 securities in an unrealized loss position as of December 31, 2018 and 2017, respectively. These securities are predominately rated as investment grade securities (AA or better) and the unrealized losses are due to overall increases in market rates and not due to any underlying credit concerns of the issuers. The Bank has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolios are other-than-temporarily impaired at December 31, 2018 and 2017.

Provided below is a summary of securities held to maturity and available for sale which were in an unrealized loss position at December 31, 2018 and 2017, respectively.

	2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government agencies and corporations	$ 3,976,094	$ 4,234	$ 987,969	$ 6,868	$ 4,964,063	$ 11,102
Mortgage backed securities- U.S. Government agencies and corporations	903,004	12,515	17,529,472	583,144	18,432,476	595,659
Small business administration guaranteed loan pool certificate	1,508,618	1,831	7,382,710	126,037	8,891,328	127,868
Municipals	-	-	1,084,158	25,391	1,084,158	25,391
Tax-exempt:						
Municipals	3,454,760	40,178	5,424,102	69,533	8,878,862	109,711
	$ 9,842,476	$ 58,758	$ 32,408,411	$ 810,973	$ 42,250,887	$ 869,731

	2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government agencies and corporations	$ 985,156	$ 2,553	$ 996,094	$ 3,780	$ 1,981,250	$ 6,333
Mortgage backed securities- U.S. Government agencies and corporations	9,311,798	94,967	12,655,742	263,780	21,967,540	358,747
Small business administration guaranteed loan pool certificate	2,308,575	6,595	6,308,169	73,620	8,616,744	80,215
Municipals	896,624	10,611	209,820	5,021	1,106,444	15,632
Tax-exempt:						
Municipals	1,737,811	10,550	2,488,702	17,905	4,226,513	28,455
	$ 15,239,964	$ 125,276	$ 22,658,527	$ 364,106	$ 37,898,491	$ 489,382

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The maturities, carrying values and estimated fair values of securities at December 31, 2018, are summarized as follows:

	2018			
	Held to Maturity		Available for Sale	
	Carrying Value (Amortized Cost)	Estimated Fair Value	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	$ -	$ -	$ 9,028,931	$ 8,999,707
Due after 1 but within 5 years	-	-	26,902,186	26,314,697
Due after 5 but within 10 years	270	267	10,107,054	9,911,105
Due after 10 years	-	-	1,363,043	1,355,843
	$ 270	$ 267	$ 47,401,214	$ 46,581,352

Mortgage backed obligations of U.S. Government agencies and corporations, included in securities at December 31, 2018 and 2017, respectively, have contractual maturities ranging from 1 to 28 years. These securities are reflected in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 1 to 13 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The proceeds from sales, calls and maturities of securities, and principal payments received on mortgage backed obligations and the related gross gains and losses realized are as follows:

	Proceeds from			Gross Realized	
For the Year Ended December 31, 2018	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities held to maturity	$ -	$ -	$ 44	$ -	$ -
Securities available for sale	1,545,477	3,676,002	6,853,763	13,192	-
	$ 1,545,477	$ 3,676,002	$ 6,853,807	$ 13,192	$ -

	Proceeds from			Gross Realized	
For the Year Ended December 31, 2017	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities held to maturity	$ -	$ -	$ 222	$ -	$ -
Securities available for sale	1,050,987	3,292,609	6,492,913	42,634	-
	$ 1,050,987	$ 3,292,609	$ 6,493,135	$ 42,634	$ -

	Proceeds from			Gross Realized	
For the Year Ended December 31, 2016	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities held to maturity	$ -	$ -	$ 759	$ -	$ -
Securities available for sale	7,444,987	3,845,053	7,427,360	87,059	-
	$ 7,444,987	$ 3,845,053	$ 7,428,119	$ 87,059	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2018 and 2017, securities with an amortized cost of $23,901,990 and $19,877,432, respectively, with estimated fair values of $23,427,255 and $19,643,648 respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Included in the subsidiary bank's investment in obligations of state and political subdivisions at December 31, 2018, were securities totaling $7,715,000, $3,805,000, and $1,965,000, which were issued by the State of Texas, the State of West Virginia, and the Commonwealth of Pennsylvania, respectively. At December 31, 2017, the bank held securities totaling $5,115,000, $4,515,000, and $1,965,000, which were issued by the State of Texas, the State of West Virginia, and the Commonwealth of Pennsylvania, respectively.

There were no significant concentrations to any one political subdivision within these states.

Note 3. Loans

Loans are summarized as follows:

	December 31,	
	2018	**2017**
Commercial, financial and agricultural	$ 30,938,185	$ 31,061,749
Real estate - mortgage	26,499,204	26,351,664
Installment loans	8,688,195	9,728,777
Total loans	66,125,584	67,142,190
Less:		
Allowance for loan losses	(667,819)	(670,880)
Loan origination (fees) costs, net	(33,759)	(16,017)
Loans, net	$ 65,424,006	$ 66,455,293

The following presents loan maturities as of December 31, 2018:

	Within 1 Year	After 1 But Within 5 Years	After 5 Years
Commercial, financial and agricultural	$ 1,052,035	$ 6,932,865	$ 22,953,285
Real estate - mortgage	273,922	1,598,857	24,626,425
Installment loans	489,949	6,378,214	1,820,032
Total loans	$ 1,815,906	$ 14,909,936	$ 49,399,742
Loans due after one year with:			
Variable rates	$ 15,603,842		
Fixed rates	48,705,836		
	$ 64,309,678		

Historically, non-accrual loans are included in the above balance of net loans; however, the Bank had no non-accrual loans outstanding at any point in 2018 or 2017. Additionally, the Bank did not incur any lost interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the contractual aging of the recorded investment in past due loans by class as of December 31, 2018 and 2017.

	December 31, 2018						
	Past Due						Recorded Investment ≥ 90 days and Accruing
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	
Residential real estate	$ 360,269	$ 60,431	$ 50,049	$470,749	$26,028,455	$26,499,204	$ 50,049
Commercial	-	-	-	-	24,315,519	24,315,519	-
Commercial real estate	-	-	-	-	6,622,666	6,622,666	-
Consumer							
Auto	26,494	9,879	-	36,373	3,919,701	3,956,074	-
Other	22,482	16,360	13,617	52,459	4,679,662	4,732,121	13,617
Total	$ 409,245	$ 86,670	$ 63,666	$559,581	$65,566,003	$66,125,584	$ 63,666

	December 31, 2017						
	Past Due						Recorded Investment ≥ 90 days and Accruing
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	
Residential real estate	$ 498,771	$ 118,315	$ -	$617,086	$25,734,578	$26,351,664	$ -
Commercial	-	-	-	-	23,326,371	23,326,371	-
Commercial real estate	-	-	-	-	7,735,378	7,735,378	-
Consumer							
Auto	86,633	-	-	86,633	4,673,755	4,760,388	-
Other	42,395	-	-	42,395	4,925,994	4,968,389	-
Total	$ 627,799	$ 118,315	$ -	$746,114	$66,396,076	$67,142,190	$ -

For purposes of evaluating impairment, the Bank will deem a loan to be impaired when, based on current circumstances and events; it is probable that the bank will be unable to collect all amounts due, including principle and interest, according to the original contractual terms of the loan.

For purposes of evaluating impairment, the subsidiary bank considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the subsidiary bank's typical residential mortgage loan amount (currently those in excess of $100,000), and installment loans to individuals, exclusive of those loans in excess of $50,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present information about impaired loans as of December 31, 2018 and 2017:

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With no related allowance					
Residential real estate	$ 157,095	$ 131,416	$ -	$ 144,255	$ 7,383
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer					
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with no related allowance	$ 157,095	$ 131,416	$ -	$ 144,255	$ 7,383
With a related allowance					
Residential real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer					
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with a related allowance	$ -	$ -	$ -	$ -	$ -
Residential real estate	$ 157,095	$ 131,416	$ -	$ 144,255	$ 7,383
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 157,095	$ 131,416	$ -	$ 144,255	$ 7,383

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With no related allowance					
Residential real estate	$ 157,095	$ 140,997	$ -	$ 149,046	$ 6,565
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer					
Auto	18,719	16,556	-	17,638	1,169
Other	-	-	-	-	-
Total with no related allowance	$ 175,814	$ 157,553	$ -	$ 166,684	$ 7,734
With a related allowance					
Residential real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer					
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with a related allowance	$ -	$ -	$ -	$ -	$ -
Residential real estate	$ 157,095	$ 140,997	$ -	$ 149,046	$ 6,565
Commercial	-	-	-	-	-
Consumer	18,719	16,556	-	17,638	1,169
Total	$ 175,814	$ 157,553	$ -	$ 166,684	$ 7,734

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Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, and current economic trends, among other factors.

The Bank analyzes loans individually by classifying the loans as to credit risk. Risk ratings provide a means for measuring the adequacy of loan loss reserves, and call attention to credits requiring special administrative supervision. The Bank internally grades loans at the time of loan origination. In addition, loan officers review a sample of loans monthly. The following definitions are used for loan risk grades:

Excellent: Borrowers with strong financial condition, including debt to income at 30 or below; LTV within policy guidelines; credit score above 700 on all applicants; and borrowers have performed in the past without exception.

Good: Borrowers with strong financial condition, including debt to income within policy guidelines; LTV within policy guidelines; credit score 651 or above on all applicants; and borrowers have performed in the past without exception.

Acceptable: Loans that have an exception to policy in one or more of the following areas: debt to income, loan to value, or credit score. Current financial information is needed on the borrower.

Watch: Borrowers that have handled past debts satisfactory with the bank, but in recent months have either been late, delinquent or made sporadic payments. The financial condition of the borrower has deteriorated.

OLEM: Loans that have potential weaknesses that deserve management's close attention. Financial condition of the borrower shows weakness or marked deterioration that collateral or other financial capacity appears to protect.

Substandard: Loans that are inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged.

Doubtful: Poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure the ability to collect.

Loss: Loans that are deemed uncollectible and will be charged off.

The following tables present the recorded investment in commercial and commercial real estate loans which are generally evaluated based upon the internal risk ratings defined above at December 31, 2018 and 2017. Loans classified as Pass below include loans rated as Watch or better.

	2018	
	Commercial	Commercial Real Estate
Pass	$ 24,315,519	$ 6,622,666
OLEM	-	-
Substandard	-	-
Doubtful	-	-
Total	$ 24,315,519	$ 6,622,666

	2017	
	Commercial	Commercial Real Estate
Pass	$ 23,326,371	$ 7,735,378
OLEM	-	-
Substandard	-	-
Doubtful	-	-
Total	$ 23,326,371	$ 7,735,378

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the recorded investment in consumer, residential real estate, and home equity loans, which are generally evaluated based on the aging status of the loans and payment activity at December 31, 2018 and 2017:

	2018	
	Performing	Nonperforming
Consumer		
Auto	$ 3,956,074	$ -
Other	4,732,121	-
Residential real estate	26,499,204	-
Total	$ 35,187,399	$ -

	2017	
	Performing	Nonperforming
Consumer		
Auto	$ 4,760,388	$ -
Other	4,968,389	-
Residential real estate	26,351,664	-
Total	$ 36,080,441	$ -

In the past the Bank has made loans, in the normal course of business, to its directors, officers and employees and will continue to make such loans in the future. At December 31, 2018 and 2017, outstanding loans of this nature totaled $1,746,770 and $1,656,511, respectively.

The following presents the activity with respect to loans to executive officers and directors aggregating $60,000 or more during 2018 and 2017.

	2018	2017
Balance, beginning	$ 1,133,844	$ 1,279,971
Additions	230,115	328,275
Amounts collected	(152,371)	(474,402)
Balance, ending	$ 1,211,588	$ 1,133,844

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2018, 2017 and 2016, is as follows:

	2018	2017	2016
Balance, beginning of year	$ 670,880	$ 664,600	$ 679,521
Losses:			
Consumer loans	23,083	70,537	23,695
Overdrafts	15,712	22,041	22,485
Total	38,795	92,578	46,180
Recoveries:			
Commercial	-	-	-
Residential real estate	-	492	4,672
Consumer loans	599	52,167	1,048
Overdrafts	6,384	7,485	7,224
Total	6,983	60,144	12,944
Net losses	31,812	32,434	33,236
Provision for loan losses	28,751	38,714	18,315
Balance, end of year	$ 667,819	$ 670,880	$ 664,600

The allowance for loan losses is maintained at a level considered adequate to provide for the estimate of probable credit losses inherent in the loan portfolio. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Loans are charges against the allowance for loan losses when it is believed that collectability is unlikely.

Future adjustments may be necessary if there are significant changes in conditions.

The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology with respect to each of these components in order to evaluate the overall adequacy of the allowance for loan losses is as follows:

Specific Reserve for Loans Individually Evaluated

The Bank identifies loan relationships that are past due ninety days or more in principal or interest payments, loans that were classified during the last examination, and other loans, in the opinion of the lending staff, that may pose a potential loss. Such loan relationships are identified primarily through the analysis of internal loan evaluations, watch-list and past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – such that, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. Substantially all of the Company's impaired loans are, and historically have been, collateral dependent, meaning repayment of the loan is expected to be provided solely from the sale of the loan's underlying collateral. For such loans, impairment is measured based on the fair value of the loan's collateral, which is generally determined utilizing appraisals that are one year old or less. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quantitative Reserve for Loans Collectively Evaluated

The Bank stratifies the loan portfolio into the following five loan pools: residential real estate; commercial; commercial real estate; automotive; and installment.

Quantitative reserves relative to each loan pool are calculated by applying a percentage that equates the three year average net loan charge-off rate to the aggregate recorded investment in loans.

Qualitative Reserve for Loans Collectively Evaluated

The Bank considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) changes in national and local economic and business conditions and developments, including the condition of various market segments; (2) changes in the nature and volume of the portfolio; (3) changes in the experience, ability, and depth of lending management and staff; (4) changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans, troubled debt restructuring and other loan modifications; (5) changes in the levels and trends in charge-offs and recoveries; (6) changes in the quality of the institution's loan review system and the degree of oversight by the institution's board of directors; and the experience, ability, and depth of lending management and other relevant staff; (7) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; (8) the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions current portfolio; (9) change in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery trends; (10) other analytical procedures that identify divergent trends.

Activity in the allowance for loan losses by loan class during the years ended December 31, 2018 and 2017 is as follows:

	2018					
	Residential Real Estate	Commercial	Commercial Real Estate	Consumer Auto	Consumer Other	Total
Allowance for loan losses:						
Beginning balance	$ 244,937	$ 93,798	$ 87,410	$ 119,106	$ 125,629	$ 670,880
Charge-offs	-	-	-	11,233	27,562	38,795
Recoveries	-	-	-	599	6,384	6,983
Provision	18,388	10,187	(5,395)	(1,578)	7,149	28,751
Ending balance	$ 263,325	$ 103,985	$ 82,015	$ 106,894	$ 111,600	$ 667,819
Allowance related to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	263,325	103,985	82,015	106,894	111,600	667,819
Total	$ 263,325	$ 103,985	$ 82,015	$ 106,894	$ 111,600	$ 667,819
Loans:						
Individually evaluated for impairment	$ 131,416	$ -	$ -	$ -	$ -	$ 131,416
Collectively evaluated for impairment	26,367,788	24,315,519	6,622,666	3,956,074	4,732,121	65,994,168
Total	$ 26,499,204	$ 24,315,519	$ 6,622,666	$ 3,956,074	$ 4,732,121	$ 66,125,584

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2017					
	Residential Real Estate	Commercial	Commercial Real Estate	Consumer Auto	Consumer Other	Total
Allowance for loan losses:						
Beginning balance	$ 277,414	$ 96,742	$ 69,838	$ 101,181	$ 119,425	$ 664,600
Charge-offs	-	-	-	56,503	36,075	92,578
Recoveries	492	-	-	49,242	10,410	60,144
Provision	(32,969)	(2,944)	17,572	25,186	31,869	38,714
Ending balance	$ 244,937	$ 93,798	$ 87,410	$ 119,106	$ 125,629	$ 670,880
Allowance related to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	244,937	93,798	87,410	119,106	125,629	670,880
Total	$ 244,937	$ 93,798	$ 87,410	$ 119,106	$ 125,629	$ 670,880
Loans:						
Individually evaluated for impairment	$ 140,997	$ -	$ -	$ -	$ -	$ 140,997
Collectively evaluated for impairment	26,210,667	23,326,371	7,735,378	4,760,388	4,968,389	67,001,193
Total	$ 26,351,664	$ 23,326,371	$ 7,735,378	$ 4,760,388	$ 4,968,389	$ 67,142,190

Included in impaired loans are troubled debt restructurings of $131,416 and $140,997 as of December 31, 2018 and December 31, 2017, respectively.

The following tables present by class the troubled debt restructurings (TDRs) that were restructured during the years ended December 31, 2018 and 2017. All TDRs are evaluated individually for allowance for loan loss purposes. There were no delinquencies in TDRs during 2018 and 2017.

	2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential	0	$ -	$ -

	2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential	2	$ 109,343	$ 104,846

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Bank Premises and Equipment

The major categories of bank premises and equipment and accumulated depreciation at December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Land	$ 202,424	$ 202,424
Buildings and improvements	2,214,189	2,174,573
Furniture and equipment	855,143	870,355
	3,271,756	3,247,352
Less accumulated depreciation	2,330,063	2,257,415
Bank premises and equipment, net	$ 941,693	$ 989,937

Depreciation expense for the years ended December 31, 2018, 2017 and 2016, totaled $105,779, $105,661, and $109,375, respectively.

Note 6. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2018 and 2017, respectively.

	2018	2017
NOW and Super NOW accounts	$ 7,560,501	$ 8,584,101
Savings accounts	36,447,976	34,238,596
Certificates of deposit	29,185,903	29,875,020
Total	$ 73,194,380	$ 72,697,717

Time certificates of deposit in denominations in excess of the federal depository (FDIC) limit of $250,000 or more totaled $4,170,446 and $2,880,371 at December 31, 2018 and 2017, respectively. Interest paid on such certificates totaled $30,675, $23,231, and $22,267 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following is a summary of the maturity distribution of certificates of deposit in amounts of $250,000 or more as of December 31, 2018:

	2018	
	Amount	Percent
Three months or less	$ -	0.0%
Three through six months	580,759	13.9%
Six through twelve months	1,552,543	37.3%
Over twelve months	2,037,144	48.8%
Total	$ 4,170,446	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2018, the scheduled maturities of certificates of deposit are as follows:

2019	$ 14,664,671
2020	5,924,146
2021	3,347,282
2022	1,496,748
2023 and thereafter	3,753,056
	$ 29,185,903

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these deposits and transactions were on the same terms as those for comparable deposits and transactions with nonrelated parties. Aggregate deposit transactions with related parties were approximately $6,343,972 and $7,034,057 at December 31, 2018 and 2017, respectively. As of December 31, 2017, the Bank was a holder of deposits for one related party totaling $6,648,452, which represented a concentration.

Note 7. Short-Term Borrowings

The Bank is a member of Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank obtained an Open Repo Plus (OREP) line from the FHLB for an amount equal to 50% of the maximum borrowing capacity available, calculated as a percentage of collateral pledged to the FHLB, to finance loan growth and/or meet liquidity needs. Any advances bear interest at the interest rate posted by the FHLB on the day of the advance and are subject to change daily. This line of credit is secured by a blanket lien on all unpledged and unencumbered assets of the Bank and is open-ended. The Bank did not utilize this line of credit in 2018 or 2017.

Securities sold under agreements to repurchase mature the next business day. The securities underlying the repurchase agreements are under the Bank's control and secure the total outstanding balances.

The following provides additional details of borrowings under Repurchase Agreements:

	2018	2017
Average amount outstanding during year	$ 1,935,805	$ 1,405,715
Maximum amount outstanding at any month end	$ 2,358,000	$ 2,323,000
Balance at year end	$ 1,411,000	$ 2,291,000
Weighted average interest rate	0.67%	0.21%

The Bank has approximately $3,006,905 in securities pledged against the short-term borrowings at December 31, 2018.

Note 8. Long-Term Borrowings

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank obtained borrowings from the FHLB under various lending programs to finance growth and/or meet liquidity needs as necessary. All such borrowings are secured by a lien on all unpledged and unencumbered assets of the Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the Company's long-term borrowings at December 31, 2018 and 2017 follows:

	2018	2017
Note payable, dated August 2013, to FHLB at 2.45%. Interest due monthly. The borrowing matures August 2019.	$ 1,000,000	$ 1,000,000
Note payable, dated August 2013, to FHLB at 1.94%. Interest due monthly. This borrowing matured August 2018.	-	1,000,000
	$ 1,000,000	$ 2,000,000

Aggregate maturities required on long-term borrowings which are due in future years is as follows:

Years Ending December 31,	
2019	$ 1,000,000
	$ 1,000,000

The loan agreements contain various general restrictions, all of which were complied with during the year ended December 31, 2018. The Bank has available funding from the Federal Home Loan Bank of Pittsburgh of $31,804,850.

Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2018, 2017 and 2016, are as follows:

	2018	2017	2016
Current:			
Federal	$ 213,833	$ 319,512	$ 211,857
State	55,186	33,066	29,180
	269,019	352,578	241,037
Deferred	(10,698)	(53,327)	(4,790)
Total	$ 258,321	$ 299,251	$ 236,247

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2018, 2017 and 2016, is as follows:

	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	$306,936	21.0	$505,974	34.0	$387,729	34.0
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(75,728)	(5.2)	(183,791)	(12.3)	(162,363)	(14.2)
Disallowed interest expense	2,994	0.2	3,622	0.2	3,251	0.3
State income taxes, net of Federal tax benefit	53,847	3.7	21,824	1.5	19,259	1.7
ESOP dividends paid	(13,168)	(0.9)	(19,493)	(1.3)	(17,300)	(1.5)
Impact on tax rate change on deferred taxes	-	0.0	(29,339)	(2.0)	-	0.0
Other, net	(16,560)	(1.1)	454	0.0	5,671	0.5
Applicable Income taxes	$258,321	17.7	$299,251	20.1	$236,247	20.8

Deferred income taxes for 2018 and 2017 reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The Tax Cuts and Jobs Act of 2017 (the Act) was enacted on December 22, 2017. Consequent to the passage of the Act, the Bank's deferred tax assets and liabilities were adjusted for the effects of the Act's changes in the tax law and rates. For the year ended December 31, 2017, the Bank recorded a $29,339 change to income tax expense to reflect the impact of the Act's tax rate change on the Bank's net deferred tax assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences which give rise to the Bank's deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	2018		2017	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	$ -	$ 52,835	$ -	$ 59,847
Allowance for loan losses	8,396	-	9,131	-
Deferred loan fees and costs	973	-	-	3,448
Net unrealized gains and losses on securities	172,171	-	56,441	-
Total	$ 181,540	$ 52,835	$ 65,572	$ 63,295

Realization of future tax benefits related to deferred tax assets is dependent on many factors, including the Bank's ability to generate regular taxable income.

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the adequacy of the valuation allowance and will recognize these benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

The Company had no unrecognized tax benefits. Such benefits would impact the effective tax rate if recognized. The Company is subject to U.S. Federal income tax examinations for the returns filed after December 31, 2015. State income tax returns are generally subject to a period of examinations for a period of three to five years. There were no unrecognized tax benefits at December 31, 2018 or 2017.

Note 10. Employee Benefit Plans and Profit Sharing Plans

The Bank sponsors a leveraged employee stock ownership plan (ESOP) that covers all employees who are age 20 and older and have been credited with 1,000 hours of service for the plan year ending on that anniversary date. The Plan requires establishment of an employee stock ownership trust which borrows funds from time to time from other banks to purchase unissued bank stock for the employees. Dividends on allocated shares are credited to each participant account with total dividends recorded as a reduction of retained earnings.

As the debt is repaid, shares are released from collateral and allocated to each active participant based on their compensation as defined in the plan. In addition, each participant's account is credited with an allocation of (a) the Bank's contribution, (b) Plan earnings and (c) forfeitures of terminated participants' non-vested accounts. Allocations are based on participant account balances as defined in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account, subject to vesting provisions.

Annual contributions of approximately $12,000, $12,000 and $48,700 to the ESOP are included in the statements of income for the years ended December 31, 2018, 2017 and 2016, respectively. The amount of contributions to the Plan is at the discretion of the Bank's Board of Directors.

The allocated ESOP were 35,833 for each of the three years ended December 31, 2018.

Under the profit-sharing thrift plan, which includes 401(k) provisions for all employees of the Bank who have attained age twenty and have been credited with 1,000 hours of service per Plan year. Participants are permitted to contribute up to the maximum dollar amount allowed by the Internal Revenue Service, which is $18,500 for 2018. Participants are also permitted

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to make rollover contributions. The Bank may make matching contributions, discretionary matching contributions equal to a uniform percentage of the participant's salary deferrals, and discretionary profit sharing contributions.

Participant contributions and employer matching contributions are fully vested upon payment while employer profit sharing contributions are subject to certain vesting requirements if an employee terminates prior to normal retirement age. Employer profit sharing contributions are fully vested after six years. Plan participants are entitled to receive Plan benefits upon termination of employment, death, disability or retirement at an age not earlier than 55 with ten years of service, with age 65 being normal retirement age.

Contributions charged to operations for this Plan and included in the financial statements for the years ended December 31, 2018, 2017 and 2016, totaled $27,592, $35,978, and $43,672, respectively.

Note 11. Commitments and Contingencies

The Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, these matters will not have a material adverse effect on the financial statements.

Lease obligation:

The Bank leases the Oak Hill branch facility under an operating lease with an initial term of ten years commencing on December 15, 1998. In 2017, the term of the lease was extended for an additional five years. Total minimum lease payments of $30,000, $27,000, and $27,000 were charged to expense for each of the years ended December 31, 2018, 2017 and 2016, respectively. Total future minimum lease payments under the lease are as follows:

Years Ending December 31,	Amount
2019	$ 30,000
2020	30,000
2021	30,000
2022	30,000
2023 and thereafter	30,000
	$ 150,000

Financial instruments with off-balance sheet risk:

The Bank is a party of financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

	Contract Amount	
	2018	2017
Commitments to extend credit	$ 4,532,376	$ 5,249,089

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit 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. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Note 12. Restrictions on Dividends and Capital

Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. During 2019, the net retained profits available for distribution as dividends without regulatory approval are approximately $1,049,000, plus net retained income for the interim periods through the date of declaration.

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the subsidiary 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 regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require a bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), Common Equity Tier I (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

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 adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, 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 institution's category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's (MHBS, Inc.) and the Bank's (BMH) actual capital amounts and ratios are presented below (in thousands):

	Actual		Adequacy Purposes		Actions Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2018:						
CET1 (to Risk-Weighted Assets):						
MHBS, Inc.	$ 15,438	28.1%	$ 2,477	4.5%	$ 3,577	6.5%
BMH	$ 16,615	30.2%	$ 2,477	4.5%	$ 3,577	6.5%
Total Capital (to Risk Weighted Assets):						
MHBS, Inc.	$ 16,106	29.3%	$ 4,403	8.0%	$ 5,504	10.0%
BMH	$ 17,283	31.4%	$ 4,403	8.0%	$ 5,504	10.0%
Tier I Capital (to Risk Weighted Assets):						
MHBS, Inc.	$ 15,438	28.1%	$ 2,201	4.0%	$ 3,302	6.0%
BMH	$ 16,615	30.2%	$ 2,201	4.0%	$ 3,302	6.0%
Tier I Capital (to Average Assets):						
MHBS, Inc.	$ 15,438	12.5%	$ 4,930	4.0%	$ 6,163	5.0%
BMH	$ 16,615	13.5%	$ 4,930	4.0%	$ 6,163	5.0%

	Actual		For Capital Adequacy Purposes		Under Prompt Corrective Actions Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2017:						
CET1 (to Risk-Weighted Assets):						
MHBS, Inc.	$ 15,763	28.4%	$ 2,497	4.5%	$ 3,607	6.5%
BMH	$ 16,149	29.1%	$ 2,497	4.5%	$ 3,607	6.5%
Total Capital (to Risk Weighted Assets):						
MHBS, Inc.	$ 16,434	29.6%	$ 4,439	8.0%	$ 5,549	10.0%
BMH	$ 16,820	30.3%	$ 4,439	8.0%	$ 5,549	10.0%
Tier I Capital (to Risk Weighted Assets):						
MHBS, Inc.	$ 15,763	28.4%	$ 2,219	4.0%	$ 3,329	6.0%
BMH	$ 16,149	29.1%	$ 2,219	4.0%	$ 3,329	6.0%
Tier I Capital (to Average Assets):						
MHBS, Inc.	$ 15,763	12.6%	$ 5,007	4.0%	$ 6,259	5.0%
BMH	$ 16,149	12.9%	$ 5,007	4.0%	$ 6,259	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Fair Value Measurements

ASC Topic 820 – *"Fair Value Measurements"* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes 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 (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Accordingly, securities available-for-sale is recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available for Sale Securities: Investment securities available for sale is recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities and municipal bonds.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

	Balance	Fair Value Measurements Using:		
Available for sale securities	**December 31, 2018**	**Level 1**	**Level 2**	**Level 3**
U.S. Government sponsored agencies and corporations	$ 4,964,062	$ -	$ 4,964,062	$ -
Mortgage backed securities:				
Government sponsored agencies and corporations	19,559,275	-	19,559,275	-
Small Business Administration guaranteed loan pool certificates	8,975,517	-	8,975,517	-
Municipals	1,084,158	-	1,084,158	-
Tax-exempt municipals	11,998,340	-	11,998,340	-
Total available for sale securities	$ 46,581,352	$ -	$46,581,352	$ -

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Available for sale securities	Balance December 31, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
U.S. Government sponsored agencies and corporations	$ 1,981,550	$ -	$ 1,981,550	$ -
Mortgage backed securities:				
Government sponsored agencies and corporations	22,848,986	-	22,848,986	-
Small Business Administration guaranteed loan pool certificates	10,278,625	-	10,278,625	-
Municipals	1,106,443	-	1,106,443	-
Tax-exempt municipals	15,258,234	-	15,258,234	-
Total available for sale securities	$ 51,473,838	$ -	$51,473,838	$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. There are no assets measured at fair value on a nonrecurring basis at December 31, 2018 and 2017.

Note 14. Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions the Company used in estimating our fair value disclosures for financial instruments.

Cash and due from banks: The carrying values of cash and due from banks approximate their estimated fair value.

Interest bearing deposits with other banks: The carrying values of interest bearing deposits with other banks approximates their estimated fair value.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices. If not available, estimated fair values are based on quoted market prices of comparable securities.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair value of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Short-term borrowing: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowing: The fair values of long-term borrowings are estimated by discounted scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values of these instruments are not shown below.

The carrying values and estimated fair values of the Company's financial instruments are summarized below:

	2018		2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 3,244,755	$ 3,244,755	$ 3,473,079	$ 3,473,079
Interest bearing deposits with other banks	3,370,961	3,370,961	1,740,615	1,740,615
Federal funds sold	588,000	588,000	28,000	28,000
Securities available for sale	46,581,352	46,581,352	51,473,838	51,473,838
Securities held to maturity	270	267	314	312
Loans	65,424,006	65,864,829	66,455,293	66,316,025
Accrued interest receivable	505,050	505,050	527,308	527,308
	$119,714,394	$120,155,214	$ 123,698,447	$123,559,177
Financial liabilities:				
Deposits	$102,246,301	$102,680,106	$ 104,353,947	$104,772,129
Short-term borrowings	1,411,000	1,411,000	2,291,000	2,291,000
Long-term borrowings	1,000,000	1,000,000	2,000,000	2,000,000
Accrued interest payable	51,042	51,042	35,993	35,993
	$104,708,343	$105,142,148	$ 108,680,940	$109,099,122

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Condensed Financial Statements of Parent Company

Mount Hope Bankshares, Inc. was formed for the sole purpose of becoming a bank holding company, and through an exchange of common stock, acquired all of the stock of Bank of Mount Hope, Inc. The investment of the Company in its wholly-owned subsidiary is presented on the equity method of accounting. Information relative to the Company's balance sheet at December 31, 2018 and 2017 and the related statements of income and cash flows for the years ended December 31, 2018, 2017 and 2016 is presented below:

	December 31	
Balance Sheet	**2018**	**2017**
Assets		
Cash	$ 118,584	$ 37,819
Investment in bank subsidiary, eliminated in consolidation	15,967,538	15,937,412
Total assets	$ 16,086,122	$ 15,975,231
Liabilities and Shareholders' Equity		
Shareholders' Equity		
Common stock, $2 par value, 387,500 shares authorized and issued, outstanding at 2018 - 375,440; 2017 - 375,440	$ 775,000	$ 775,000
Capital surplus	910,263	910,263
Retained earnings	15,313,870	14,767,612
Less cost of shares acquired for the treasury, 2018 - 12,060; 2017 - 12,060	(265,320)	(265,320)
Accumulated other comprehensive income	(647,691)	(212,324)
Total shareholders' equity	16,086,122	15,975,231
Total liabilities and shareholders' equity	$ 16,086,122	$ 15,975,231

	December 31,		
	2018	**2017**	**2016**
Statements of Income			
Income - dividends from bank subsidiary	$ 778,125	$ 620,000	$ 550,250
Expenses - operating	40,339	11,045	14,349
Income before income taxes and undistributed income	737,786	608,955	535,901
Applicable income tax expense (benefit)	-	-	-
Income before undistributed income	737,786	608,955	535,901
Equity in undistributed income of subsidiaries	465,493	579,952	368,230
Net income	1,203,279	1,188,907	904,131

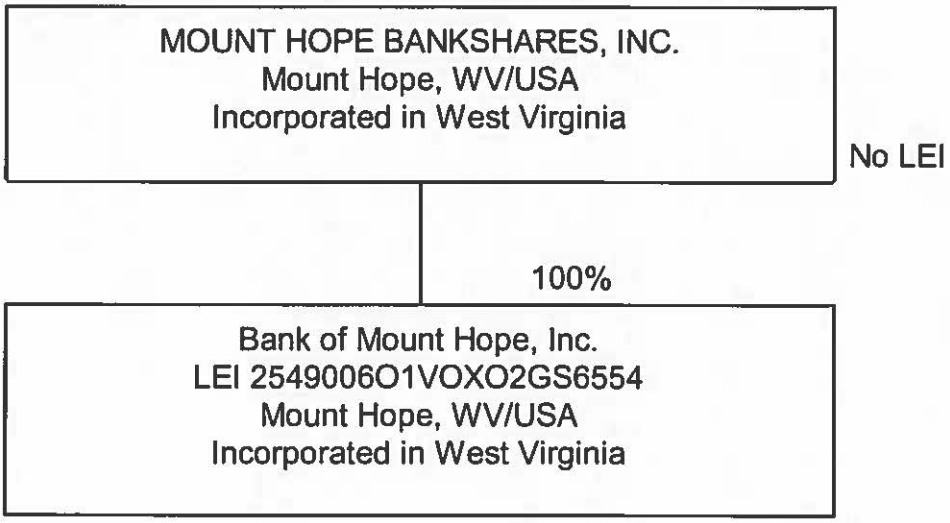
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of Cash Flows	December 31, 2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	1,203,279	1,188,907	904,131
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(465,493)	(579,952)	(368,230)
Net cash provided by operating activities	737,786	608,955	535,901
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders	(657,021)	(600,704)	(533,125)
Net cash (used in) financing activities	(657,021)	(600,704)	(533,125)
Increase (decrease) in cash	80,765	8,251	2,776
Cash:			
Beginning	37,819	29,568	26,792
Ending	$ 118,584	$ 37,819	$ 29,568

Mount Hope Bankshares, Inc., accounts for its investments in its bank subsidiary by the equity method. During the periods ended December 31, 2018, 2017, and 2016, respectively, changes were as follows:

Number of shares owned - Bank of Mount Hope, Inc.	387,500
Percentage of shares owned - Bank of Mount Hope, Inc.	100%
Balance at December 31, 2015	$ 15,372,456
Add (deduct):	
Equity in net income	368,230
Change in equity in unrealized gain (loss) on securities	(413,090)
Balance at December 31, 2016	15,327,596
Add (deduct):	
Equity in net income	579,952
Change in equity in unrealized gain (loss) on securities	29,864
Balance at December 31, 2017	15,937,412
Add (deduct):	
Equity in net income	465,493
Change in equity in unrealized gain (loss) on securities	(435,367)
Balance at December 31, 2018	$ 15,967,538

2: Organizational Chart



2.b. Domestic branch listing provided to the Federal Reserve Bank via email on 2/28/2019.

Results: A list of branches for your depository institution: BANK OF MOUNT HOPE, INC. (ID_RSSD: 352820).
This depository institution is held by MOUNT HOPE BANKSHARES, INC. (3186428) of MOUNT HOPE, WV.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	352820	BANK OF MOUNT HOPE, INC.	602 MAIN STREET	MOUNT HOPE	WV	25880	FAYETTE	UNITED STATES	Not Required	Not Required	BANK OF MOUNT HOPE, INC.	352820	
OK		Full Service	354927	BECKLEY BRANCH	204 PINEWOOD DRIVE	BECKLEY	WV	25801	RALEIGH	UNITED STATES	Not Required	Not Required	BANK OF MOUNT HOPE, INC.	352820	
OK		Full Service	3285349	OAK HILL BRANCH	835 EAST MAIN STREET	OAK HILL	WV	25901	FAYETTE	UNITED STATES	Not Required	Not Required	BANK OF MOUNT HOPE, INC.	352820	

3.1: Securities Holders

Current Shareholders with ownership, control, or holdings of 5% or more with power to vote as of December 31, 2018			
(1)(a) Name & Address (City, State/USA)	**(1)(b) Country of Citzenship or Incorporation**	**(1)(c) Number & Percentage of each class of Voting Securities**	
		#	**%**
Phyllis Bonifacio or Lloyd D. Bonifacio or Floyd D. Bonifacio JTWROS Mount Hope, WV	USA	19,452	5.18%
Bank of Mount Hope, Inc. E.S.O.P. Mount Hope, WV/USA E.E. Bibb, III, Trustee Beckley, WV	USA	35,833	9.54%
Ben M. Susman Beckley, WV	USA	50,031	13.33%
Dixie Susman or Ben Susman JT Ten WROS		2,000	0.53%
Retirement Accounts		6,634	1.77%
E.S.O.P. Account (2017)		9,975	2.66%
Sally M. Susman with POA Ben Susman*		99,477	26.50%
RBC-Sally Susman IRA with POA Ben Susman*		4,000	1.07%
Total Ben M. Susman Votes		172,117	45.84%
Sally M. Susman * Beckley, WV	USA	99,477	26.50%
Irrevocable Unified Credit Trust Sally Susman Trustee		18,143	4.83%
Retirement Accounts*		4,000	1.07%
Total Sally Susman Votes		**121,620**	**32.39%**

* Shares owned by Sally M. Susman but voted by Ben M. Susman as Power of Attorney.

4: Insiders

(1) Names & Address (City, State, Country)	(2) Principal Occupation, if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) i 25% or more o voting securities are held (List names of companies and percentage of voting securities held)
F. T. Graff, Jr. Charleston WV/USA	Attorney, Bowles Rice LLP of Counsel	Director	Director, Bank of Mount Hope	Please see attached	2.39%	None	Graff-Lane Properties, LLC 50%; HFS, LLC 45%, TOF, LLC 33.33%, Two Hands Ventures LLC 50%
Samuel M Jasper Fayetteville WV/USA	Business Owner	Director	Director, Bank of Mount Hope	Owner, Jasper Leasing; President, SamLin Farm LLC	1.86%	None	Jasper Leasing, 100% SamLin Farms LLC, 100%
Michael Lively Oak Hill WV/USA	Jim Lively Insurance	Director	Director Bank of Mount Hope	President, Premier Financial Corp., Member, Whistle Stop Ice Cream Shop, LLC, Vice President, Jim Lively Insurance Inc. Member, Mason Property, LLC	.87%	None	Premier Financial Corporation, 33.3%; Whistle Stop Ice Cream Shop, LLC, 50%; Mason Property, LLC, 33.3%
John Shonk IV Surf Side SC/USA	Retired	Director	Director Bank of Mount Hope	Director, Shonk-DEL LLC; Director, Shonk Land Company; Director, GASCO Limited Partnership; Director, REALCO LLC; Director, GASCO, Inc.; Director, Laurel Fork, LLC; Director, WV Mineral Properties, LLC	.46%	None	None
Ben M. Susman Beckley WV/USA	President, Bank of Mount Hope	President/Director	President & Director, Bank of Mount Hope	None	45.84%	None	None

(1) Names & Address (City, State, Country)	(2) Principal Occupation, if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) i 25% or more o voting securities are held (List names of companies and percentage of voting securities held)
Bradley Wartella Beckley WV/USA	Sr Vice President, Bank of Mount Hope	Director/Vice President	Director/Secretary & Senior Vice President, Bank of Mount Hope	None	2.42%	None	None

ATTACHMENT

F. T. Graff, Jr.
Charleston, WV/USA

(3)(c) Title & Position with Other Businesses (include names of other businesses)

Bowles Rice LLP of Counsel
Former Director-United Bankshares, Inc.
Chairman of the Board/President, Chemical Alliance Zone (non-profit)
Member Emeritus, West Virginia Roundtable (non-profit)
Trustee, Wehrle Foundation (non-profit)
Trustee, Mason Family Irrevocable Trust (non profit)
President, Graff-Lane Properties, LLC
Director, Fahlgren, Inc
Trustee, Anne Patricia Bright Trusts
Trustee, Elizabeth Morrison Bright Trusts
Trustee, Sarah Townsend Bright Trusts
Manager and Owner, HFS, LLC
Manager and Owner, TOF, LLC
Manager and Owner, Two Hands Ventures, LLC