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, Richard Morris
Name of the Holding Company Director and Official

Director, VP
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

3/27/20
Date of Signature

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

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
12/31/2019
Month / Day / Year

No LEI
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Calhoun Bankshares, Inc
Legal Title of Holding Company

PO Box 430
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Grantsville	West Virginia	26147

443 High St, Grantsville, WV
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Christopher Arden	CFO

304-354-6116
Area Code / Phone Number / Extension

304-354-7855
Area Code / FAX Number

carden@calhounbanks.com
E-mail Address

www.calhounbanks.com
Address (URL) for the Holding Company's web page

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 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)

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)

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)

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)

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)

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)

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)

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)

Form FR Y-6

Calhoun Bankshares, Inc.
P.O. Box 430
443 High St
Grantsville, WV 26147

Fiscal Year Ended December 31, 2019

Report Item:

1. The bank holding company prepares an annual report for its securities holders. Two copies will be mailed under separate cover when they are completed.

2a. Organization Chart:

Calhoun Bankshares, Inc.
No LEI
P.O. Box 430
443 High St
Grantsville, WV 26147
Incorporated in WV

100% owner of:

Calhoun County Bank, Inc.
LEI – 54930001GYIWKBD35H65
P.O. Box 430
443 High St
Grantsville, WV 26147
Incorporated in WV

2b. Domestic Branch Listing
Submitted via email on March 24, 2020.

Results: A list of branches for your depository institution: CALHOUN COUNTY BANK, INC. (ID_RSSD: 498625).
This depository institution is held by CALHOUN BANKSHARES, INC. (1357046) of GRANTSVILLE, WV.
The data are as of 12/31/2019. Data reflects information that was received and processed through 03/05/2020.

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)	498625	CALHOUN COUNTY BANK, INC.	443 HIGH STREET	GRANTSVILLE	WV	26147	CALHOUN	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	
OK		Full Service	1162660	ARNOLDSBURG BRANCH	860 ARNOLDSBURG ROAD	ARNOLDSBURG	WV	25234	CALHOUN	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	
OK		Full Service	2529895	ELIZABETH BRANCH	ROUTE 14	ELIZABETH	WV	26143	WIRT	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	
OK		Full Service	2639646	GLENVILLE BRANCH	904 NORTH LEWIS STREET	GLENVILLE	WV	26351	GILMER	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	

Form FR Y-6
Calhoun Bankshares Inc
December 31, 2019

Report Item 3: Shareholders

(1)(a)(b)(c) and (2)(a)(b)(c)

Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/19			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/19		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) # and % of each class of voting securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) # and % of each class of voting securities
Estate of Francis Cain David Cain & Susan Hall, Trustees Big Bend, WV USA	USA	31678 shares - 10.82% Common Stock	Donald Gunn Mount Zion, WV 2615'	USA	16111 Shares - 5.5% Common Stock

Form FR Y-6
Calhoun Bankshares, Inc
December 31, 2019

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name & Address	(2) Principal Occupation	(3)(a) Title & Position with Bank Holding Co.	(3)(b) Title & Position with Subsidiaries	(3c) Title & Position with other businesses	(4)(a) % voting shares in Bank Holding Co.	(4)(b) % voting shares in Subsidiaries	(4c) 25% or more voting securities other Co.
David Cain Big Bend, WV USA	Employee : Cain Oil & Gas	Director	None	Employee - Cain Oil & Gas	1.270%	None	N/A
Roy Henderson Glenville, WV USA	Retired	Director	None	N/A	0.800%	None	N/A
Richard Morris Grantsville, WV USA	Self Employed: Oil & Gas / Farming	Vice President & Director	None	President, Morris Oil & Gas / Partner - Hilltop Farms	1.350%	None	100% - Morris Oil & Gas
James L. Bennett Mineral Wells, WV USA	Retired	President & Chairman of the Board	None	N/A	0.420%	None	N/A
Larry Chapman Glenville, WV USA	Store Owner	Director	None	Owner, Glenville Western Auto	1.100%	None	100% Glenville Western Auto
Leslie Maze Elizabeth, WV USA	Attorney	Director	None	Owner, Leslie Maze Attorney At Law	0.300%	None	100% Leslie Maze Attorney At Law
Estate of Francis Cain David Cain & Susan Hall, Trustees Big Bend, WV USA	Estate	None	None	None	10.820%	None	100% - Cain Oil & Gas

CALHOUN BANKSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

December 31, 2019

CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

Consolidated Balance Sheets 3

Consolidated Statements of Income 4

Consolidated Statements of Comprehensive Income 5

Consolidated Statements of Changes in Shareholders' Equity 6

Consolidated Statements of Cash Flows 7

Notes to Consolidated Financial Statements 8

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Calhoun Bankshares, Inc. and Subsidiary
Grantsville, West Virginia

We have audited the accompanying consolidated financial statements of Calhoun Bankshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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 of 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 Calhoun Bankshares, Inc. and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Blacksburg, Virginia
April 15, 2020

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and amounts due from banks	$ 2,573,556	$ 2,763,895
Interest bearing deposits in other banks	1,366,669	3,481,029
Federal funds sold	6,377,000	2,628,000
Total cash and cash equivalents	10,317,225	8,872,924
Time deposits in other banks	2,241,000	3,237,000
Investment securities		
Available-for-sale securities	9,064,118	8,941,891
Other equity investments	316,600	254,100
Total investment securities	9,380,718	9,195,991
Loans receivable	124,422,856	113,757,834
Less: allowance for loan losses	(1,549,413)	(1,362,088)
Net loans receivable	122,873,443	112,395,746
Premises and equipment, net	4,350,019	4,479,713
Other real estate owned and repossessed assets, net	175,000	212,500
Interest receivable	430,870	398,205
Cash surrender value of life insurance	3,469,347	3,372,575
Deferred tax assets	660,131	739,389
Other assets	139,714	149,405
	9,225,081	9,351,787
Total assets	$154,037,467	$143,053,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	$ 42,181,088	$ 40,089,247
Interest bearing	89,430,685	82,386,128
Total deposits	131,611,773	122,475,375
Borrowings	4,500,000	3,000,000
Other liabilities	1,713,651	2,079,579
Total liabilities	137,825,424	127,554,954
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 3,000,000 shares authorized, 306,850 shares issued; 293,584 and 294,858 shares outstanding as of December 31, 2019 and 2018, respectively	306,850	306,850
Additional paid in capital	566,110	562,070
Retained earnings	16,359,351	15,726,468
Accumulated other comprehensive loss	(633,097)	(768,327)
Treasury stock at cost; 13,266 and 11,992 shares as of December 31, 2019 and 2018, respectively	(387,171)	(328,567)
Total stockholders' equity	16,212,043	15,498,494
Total liabilities and stockholders' equity	$154,037,467	$143,053,448

The Notes to Consolidated Financial Statements are an integral part of these statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 6,578,169	$ 5,901,783
Interest and dividends on investment securities	290,771	261,075
Interest on deposits at other financial institutions	113,006	77,908
Interest on federal funds sold	17,330	7,930
Total interest and dividend income	6,999,276	6,248,696
INTEREST EXPENSE		
Interest and deposits	961,950	500,047
Interest on borrowings	113,671	39,899
	1,075,621	539,946
NET INTEREST INCOME	5,923,655	5,708,750
Provision for loan losses	240,000	140,000
Net interest income after provision for loan losses	5,683,655	5,568,750
NONINTEREST INCOME		
Service charges and fees on deposits	300,867	339,362
Other service charges, commission and fees	427,427	402,573
Increase in cash surrender value – bank owned life insurance	96,772	92,702
Other income	18,048	28,130
Total other income	843,114	862,767
EXPENSES		
Salaries and employee benefits	2,536,630	2,655,814
Occupancy and equipment expense	434,224	320,752
Equipment, software, and network maintenance	174,967	139,597
Legal and professional fees	110,017	134,000
Marketing expense	68,022	38,075
Regulatory fees	112,454	137,362
Foreclosed property cost	24,480	33,321
Data processing expense	397,397	344,145
Directors fees	109,119	112,625
Office supplies and postage	76,173	69,013
Other expenses	1,247,440	806,769
Total other expenses	5,290,923	4,791,473
Income before income tax expense	1,235,846	1,640,044
INCOME TAX EXPENSE	281,209	389,176
Net income	$ 954,637	$ 1,250,868
EARININGS PER SHARE	$ 3.26	$ 4.26

The Notes to Consolidated Financial Statements are an integral part of these statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
NET INCOME	$ 954,637	$ 1,250,868
OTHER COMPREHENSIVE INCOME, net of tax		
Change in net pension liability, net of tax effect of $19,011 and $(81,627) for 2019 and 2018, respectively	(61,862)	230,703
Change in unrealized gain (loss) on available-for-sale securities, net of tax effect of $(69,735) and $7,637 for 2019 and 2018, respectively	197,092	(34,214)
TOTAL OTHER COMPREHENSIVE INCOME	135,230	196,489
COMPREHENSIVE INCOME, net of tax	$ 1,089,867	$ 1,447,357

The Notes to Consolidated Financial Statements are an integral part of these statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
BALANCE, December 31, 2017	$ 306,850	$ 549,740	$ 14,784,256	$ (964,816)	$ (402,456)	$ 14,273,574
Net income	-	-	1,250,868	-	-	1,250,868
Comprehensive income	-	-	-	196,489	-	196,489
Sales of 2,547 shares Treasury stock	-	12,330	-	-	99,189	111,519
Acquisition of 550 shares Treasury stock	-	-	-	-	(25,300)	(25,300)
Dividends on common stock ($1.05) per share	-	-	(308,656)	-	-	(308,656)
BALANCE, December 31, 2018	306,850	562,070	15,726,468	(768,327)	(328,567)	15,498,494
Net income	-	-	954,637	-	-	954,637
Comprehensive income	-	-	-	135,230	-	135,230
Sales of 3,565 shares Treasury stock	-	4,040	-	-	174,210	178,250
Acquisition of 4,839 shares Treasury stock	-	-	-	-	(232,814)	(232,814)
Dividends on common stock ($1.10) per share	-	-	(321,754)	-	-	(321,754)
BALANCE, December 31, 2019	$ 306,850	$ 566,110	$ 16,359,351	$ (633,097)	$ (387,171)	$ 16,212,043

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Net income	$ 954,637	$ 1,250,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	240,000	140,000
Provision for deferred income taxes	58,638	59,953
Losses on other real estate owned	12,590	2,298
Writedowns on other real estate owned	11,000	-
Depreciation	218,815	143,598
Loss on disposition of property and equipment	12,902	11,742
Amortization and accretion of securities, net	14,141	35,061
(Increase) decrease in interest receivable	(32,665)	2,449
Increase in cash surrender value life insurance	(96,772)	(96,104)
Stock awards	25,500	32,200
Donation of Bank building	183,807	-
Decrease in other assets	9,691	4,063
Increase (decrease) in borrowings and other liabilities	(465,257)	168,010
Net cash provided by operating activities	1,147,027	1,754,138
INVESTING ACTIVITIES		
Net (increase) decrease in time deposits in other banks	996,000	-
Proceeds from maturities and calls of available-for-sale securities	618,811	658,387
Proceeds from principal payments of available-for-sale securities	1,000,000	1,000,000
Purchases of available-for-sale securities	(1,500,000)	-
(Purchases) proceeds from redemption of other securities	(62,500)	200
Proceeds from sale of other real estate owned	228,910	116,401
Net decrease in loans	(10,932,697)	(9,708,683)
Purchases of premises and equipment	(285,830)	(2,723,643)
Net cash used in investing activities	(9,937,306)	(10,657,338)
FINANCING ACTIVITIES		
Net increase in deposits	9,136,398	8,593,232
Net increase in FHLB advances	1,500,000	-
Dividends paid	(321,754)	(308,656)
Acquisition of treasury stock	(232,814)	(25,300)
Proceeds from sale of treasury stock	152,750	79,319
Net cash provided by financing activities	10,234,580	8,338,595
Increase (decrease) in cash and cash equivalents	1,444,301	(564,605)
CASH, beginning	8,872,924	9,437,529
CASH, ending	$ 10,317,225	$ 8,872,924
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	$ 1,026,549	$ 521,204
Income taxes	$ 40,600	373,840
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans	$ 215,000	$ 186,199

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Nature of operations

Calhoun Bankshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Calhoun County Bank, Inc. (the "Bank"). Calhoun County Bank is a community bank with operations in Grantsville, West Virginia. The Bank provides banking services to domestic markets with the primary market areas being Calhoun, Gilmer, and Wirt counties, and the secondary market area being all of the contiguous counties. To a large extent, the operations of the Company and its Subsidiary Bank, such as loan portfolio management and deposit growth, are directly affected by the market area economy.

Basis of presentation and consolidation

The consolidated financial statements of the company are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The consolidated financial statements include the accounts of Calhoun Bankshares and its wholly owned subsidiary, Calhoun County Bank, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Adoption of new accounting standards

During 2019, the Company adopted accounting standards update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively "ASC 606"), which (1) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (2) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The majority of the Company's revenue is from interest income, including loans and securities that are outside the scope of the standard. The services that fall within the scope of the standard are presented within noninterest income on the consolidated statements of income and are recognized as revenue as the Company satisfies its obligations to the customer. The revenue that falls within the scope of ASC 606 is primarily related to service charges on deposit accounts, other service charges and fees, insurance commissions, and miscellaneous fees. ASC 606 did not result in a change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. The Company also earns fees from its customers for transaction-based services. Such services include safe deposit box, ATM, stop payment, and wire transfer fees. In each case, these service charges and fees are recognized as income at the time or within the same period that the Company's performance obligation is satisfied.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Adoption of new accounting standards (Continued)

In March 2017, ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)* was issued by the Financial Accounting Standards Board (FASB). The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under *Topic 715* to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments were effective for annual periods beginning after December 15, 2018. The Company adopted this standard in 2019.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value estimates, periodic costs and balance sheet accruals for the defined benefit pension plan, the valuation of other real estate owned (OREO), and deferred tax assets. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The loans of the Bank are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Note 1. Summary of Significant Accounting Policies (Continued)

Presentation of cash flows

For purposes of the consolidated statements of cash flows, cash and due from banks includes cash on hand, non-interest bearing funds at correspondent banks, and federal funds sold.

Securities available-for-sale are carried at fair value, with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. The cost of securities sold is determined on the specific identification method. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the contractual terms of the securities.

Other equity investments include the Company's investment in stock of CBB Financial Corporation and the Federal Home Loan Bank of Pittsburgh (FHLB), which are restricted equity securities carried at cost because no ready market exists since it is restricted as to their marketability.

Declines in the fair value of individual securities below their cost that are other than temporary results in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Gains and losses on sales of securities are determined on the specific identification method.

Loans receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income on the cash basis, according to management's judgment as to the collectability of principal. Interest accrual resumes when the loan is no longer past due and the borrower, in management's opinion, is able to meet future payments as they become due. A loan is considered past due if the required principal and interest payment has not been received as of the contractual due date.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for loan losses

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb probable losses inherent in the portfolio, and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries, and other pertinent factors such as regulatory guidance and general economic conditions. The allowance is established through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a quarterly basis by management.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired for which an allowance is established when the fair value of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools, and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the prior 12 consecutive quarters.

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting practices; experience, ability, and depth of lending management and staff; national and local economic trends; and conditions such as unemployment rates, housing statistics, banking industry conditions, and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective, as it requires significant estimates including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change.

Loan charge-off policies

Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 180 days past due for open-end loans or 120 days past due for closed-end loans, unless the loan is well-secured and in the process of collection. All other loans are generally charged down to the net realizable value when the loan is 90 days past due and/or when current information confirms all or part of a specific loan to be uncollectible.

Bank premises, furniture, and equipment

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation expense is computed using the straight-line method for buildings ranging from 15 to 40 years, and land improvements over a 15-year life. Furniture and equipment is depreciated on the declining balance method based on estimated useful lives of 5 to 20 years depending on the nature of the asset. Maintenance and repairs are expensed as incurred, whereas major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Other real estate owned (OREO)

Foreclosed assets held for resale acquired in satisfaction of mortgage obligations and in foreclosure proceedings are recorded at the fair market value of the property less estimated costs to sell. Properties carried in foreclosed assets held for resale are assessed at least annually for decline in market value, and future cash flows and provisions for impairment losses are charged to income as identified. Holding costs, including repairs and maintenance expenditures, are charged to operating expense as incurred, with major improvements that increase the value of the property capitalized. Gains and losses on sales are recognized in the year the sale transaction is complete. The amounts reflected in the consolidated statements of financial position are net of general valuation allowances.

Advertising

It is the Company's policy to expense advertising cost as incurred. Advertising expense for the years ended December 31, 2019 and 2018 was $68,022 and $38,075, respectively.

Income taxes

The Company accounts for income taxes using the deferred method under which the tax effects of the transactions reported in the consolidated financial statements consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, the timing of recognition of deferred compensation and pension costs, valuation adjustments on foreclosed property, and accumulated depreciation. Deferred tax assets and liabilities represent the future tax return consequences of those differences which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated income tax returns with its wholly owned subsidiaries. Any interest or penalties assessed by income taxing authorities would be reflected as interest expense and other operating expenses, respectively, in the consolidated statements of income.

Net income per common share

Net income per common share amounts are computed based on the weighted average number of common shares outstanding during the period.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Comprehensive income

Accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and the unrecognized actuarial loss of the pension plan, are reported as a separate component of the shareholders' equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income.

	2019	2018
Unrecognized actuarial loss of the pension plan	$ (812,787)	$ (740,046)
Effect of income tax expense	212,422	201,543
	(600,365)	(538,503)
Unrealized (gains) losses on available-for-sale securities	(44,313)	(311,170)
Effect of income tax expense	11,581	81,346
	(32,732)	(229,824)
Total accumulated other comprehensive income	$ (633,097)	$ (768,327)

Reclassifications

Certain amounts in the 2018 consolidated financial statements were reclassified to conform to the 2019 presentation. These reclassifications had no effect on shareholders' equity or results of operations as previously presented.

Subsequent events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 15, 2020, the date the consolidated financial statements were available to be issued.

In February 2020 the Company approved entering into a Supplemental Executive Retirement Plan agreement with The President and CEO, with the annual benefit payable for 15 years post retirement.

The Company evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the coronavirus (COVID-19), economic uncertainties have arisen which could impact the Company, though such impact is unknown at this time.

(Continued)

Note 2. Cash Concentrations and Restrictions on Cash

At December 31, 2019 and during the year, the Company had interest bearing and non-interest deposits due from other banks and Federal Funds sold to other banks in excess of the limits of depository insurance. The Bank is required to maintain average reserve balances with the Federal Reserve Bank. At December 31, 2019 and 2018, the reserve requirement approximated $780,000 and $805,000, respectively.

Note 3. Investment Securities

The carrying amounts of investment securities as shown in the consolidated statements of financial position and their approximate fair values as of December 31, 2019 and 2018 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
Available-for-sale				
U.S. government agencies	$ 6,183,723	$ 1,216	$ (44,305)	$ 6,140,634
Mortgage-backed	2,924,708	8,390	(9,614)	2,923,484
	$ 9,108,431	$ 9,606	$ (53,919)	$ 9,064,118

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2018				
Available-for-sale				
U.S. government agencies	$ 5,682,693	$ -	$ (175,371)	$ 5,507,322
Mortgage-backed	3,570,368	-	(135,799)	3,434,569
	$ 9,253,061	$ -	$ (311,170)	$ 8,941,891

Investment securities with a carrying amount of $3,631,131 and $3,638,808 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Note 3. Investment Securities (Continued)

The amortized cost and estimated fair value of securities as of December 31, 2019, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 999,871	$ 998,582
After one year through five years	3,815,358	3,798,504
After five years through 10 years	1,775,763	1,755,069
After 10 years	2,517,439	2,511,963
	$ 9,108,431	$ 9,064,118

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The tables below show gross unrealized losses and fair value at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2019	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government agencies	$ 2,468,935	$ (30,263)	$ 3,485,829	$ (14,042)	$ 5,954,764	$ (44,305)
Mortgage-backed	417,049	(968)	1,740,460	(8,646)	2,157,509	(9,614)
	$ 2,885,984	$ (31,231)	$ 5,226,289	$ (22,688)	$ 8,112,273	$ (53,919)

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2018	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government agencies	$ -	$ -	$ 5,507,322	$ (175,371)	$ 5,507,322	$ (175,371)
Mortgage-backed	-	-	3,434,569	(135,799)	3,434,569	(135,799)
	$ -	$ -	$ 8,941,891	$ (311,170)	$ 8,941,891	$ (311,170)

No sales of available-for-sale securities occurred during 2019 or 2018.

Note 3. Investment Securities (Continued)

The Company's unrealized losses on investments were caused by interest rate fluctuations. The severity and duration of these unrealized losses will change with interest rates and the economy. Because the securities are governments and their agencies and the Company has the ability and intent to hold them for a period of time sufficient to allow for an anticipated recovery, they are not considered to be other than temporarily impaired. The Company had 20 and 26 securities at December 31, 2019 and 2018, respectively, that were in a loss position.

Note 4. Loans Receivable and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio as of December 31, 2019 and 2018:

	2019	2018
Construction and land development	$ 1,123,749	$ 902,379
Commercial	4,992,448	8,084,619
Commercial real estate	15,578,966	14,805,152
Residential real estate	79,803,414	72,740,950
Consumer	22,924,278	17,224,734
Less allowance for loan losses	(1,549,413)	(1,362,088)
Total loans	$ 122,873,443	$ 112,395,746

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (1) the residential real estate loan portfolio; (2) the consumer loan portfolio; (3) the commercial real estate loan portfolio; (4) the commercial loan portfolio; and (5) the construction and land development portfolio. The residential mortgage loan segment is made up of fixed rate and adjustable rate single-family amortizing term loans, which are primarily first liens, as well as home equity lines of credit. The consumer loan segment consists of loans secured by automobiles, consumer goods, savings accounts, overdraft loans, other types of secured consumer loans, and unsecured personal loans. Overdrafts on deposit accounts at December 31, 2019 and 2018 of $41,841 and $31,407, respectively, were reclassified into total consumer loans for purposes of these disclosures. The commercial real estate segment consists of loans made for the acquisition of commercial properties, both owner-occupied and those held for lease and for financing the activities of commercial customers but, in all cases, is secured by commercial real estate. The commercial segment consists of loans made for financing the activities of commercial customers but secured by assets other than real estate.

(Continued)

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. The loan portfolio consists primarily of loans within the Bank's primary market area; therefore, monitoring the status of individual borrowers and consequently monitoring the risk in the loan portfolio is based upon real-time knowledge of the individual borrowers, local employment information, and commercial activities. Loans are reviewed on a regular basis with a focus on larger loans, along with loans which have experienced past payment or financial deficiencies. Certain loans, including loans which are experiencing payment or financial difficulties, loans in industries for which economic trends are negative, and loans which are of heightened concern to management based upon their knowledge of local business environment are included on the Company's "watch list." Certain loans classified as "watch list," Special Mention, and Substandard, and loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine if they are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include the expected future cash flow from the borrower, current payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily using the present value of expected future cash flows unless the loan is collateral dependent. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

(Continued)

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2019 and 2018:

	2019						
	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Total Recorded Investment	Average Recorded Investment	Unpaid Principal Balance	Interest Income Recognized
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial	70,031	57,455	13,468	83,499	88,987	83,499	4,595
Commercial real estate	130,078	48,500	928,124	1,058,202	1,281,241	1,058,202	76,661
Residential real estate	648,323	172,199	288,805	937,128	958,319	937,128	75,681
Consumer	17,363	370	-	17,363	20,138	17,363	1,434
	$ 865,795	$ 278,524	$ 1,230,397	$ 2,096,192	$ 2,348,685	$ 2,096,192	$ 158,371

	2018						
	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Total Recorded Investment	Average Recorded Investment	Unpaid Principal Balance	Interest Income Recognized
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial	1,283,171	193,881	76,952	1,360,123	1,424,970	1,360,123	36,267
Commercial real estate	129,924	45,409	1,042,226	1,172,150	721,955	1,172,150	25,429
Residential real estate	700,903	172,828	602,385	1,303,288	1,319,632	1,303,288	45,267
Consumer	-	-	9,074	9,074	10,977	9,074	990
	$ 2,113,998	$ 412,118	$ 1,730,637	$ 3,844,635	$ 3,477,534	$ 3,844,635	$ 107,953

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

There are certain impaired loans whose payments are being applied to reduce the principal balance of the loan because the recovery of principal is not determinable. The unpaid principal balance reflects the balance as if the payments were applied in accordance with the terms of the original contractual agreement, whereas the recorded investment reflects the outstanding principal balance for financial reporting purposes. In addition, the recorded investment in a loan may be reduced by partial charge-offs which would not be reflected in the unpaid principal balance.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company's loan rating process includes both internal and external oversight. The Company's loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination. Loans are graded on a 9-point scale with a grade of 5 or above classified as "Pass" rated credits. The following is a description of the general characteristics of risk grades 6 through 9:

6 – Special Mention: This is an early warning assessment reserved for loans currently adequately protected, but portraying potential weaknesses that may not be tolerable over the intermediate to long term. These loans may possess deteriorating financial characteristics, significant legal or documentation exceptions as measured by the loan policy, or any other items noted which are worthy of immediate attention and/or correction.

7 – Substandard: These loans have well-defined weaknesses that could lead to impairment of the loan. These loans have had serious deterioration of borrower or guarantor financial condition, which could result in the Bank not collecting all principal and interest in a timely manner as defined by the loan agreement.

8 – Doubtful: These loans have characteristics such that collection of principal is highly unlikely. While the possibility of loss is high, sufficient contingencies exist to warrant deferral of charge-off pending the outcome of the contingency. Possibilities still exist which may strengthen or enhance the collection process. Generally, these loans are on non-accrual status.

9 – Loss: These loans are judged to be uncollectible and of such value that carrying the loan as an asset is not warranted. Loans in this category may still have recoverability of some or all principal, however it is not practical or desirable to defer such a charge-off pending recovery.

The Company engages an external consultant to conduct loan reviews on a semi-annual basis. Generally, the external consultant reviews all commercial relationships that equal or exceed $250,000 and adversely classified commercial credits. Detailed reviews, including plans for resolution, are completed on loans classified as Substandard on a quarterly basis.

(Continued)

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

The Company's process requires the review and evaluation of an impaired loan to be updated at least quarterly. The following tables present the classes of the loan portfolio summarized by the Pass category, as well as the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of December 31, 2019 and 2018.

	Credit Quality Indicators as of December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$ 1,123,749	$ -	$ -	$ -	$ 1,123,749
Commercial real estate	13,127,761	1,393,002	1,058,203	-	15,578,966
Residential real estate	78,630,991	966,868	177,174	28,381	79,803,414
Consumer	22,876,744	47,534	-	-	22,924,278
Commercial	4,927,838	52,320	12,290	-	4,992,448
	$ 120,687,083	$ 2,459,724	$ 1,247,667	$ 28,381	$ 124,422,855

	Credit Quality Indicators as of December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$ 902,379	$ -	$ -	$ -	$ 902,379
Commercial real estate	12,386,364	1,246,638	1,172,150	-	14,805,152
Residential real estate	71,677,194	714,720	349,036	-	72,740,950
Consumer	17,186,945	28,715	9,074	-	17,224,734
Commercial	6,660,694	1,256,470	167,455	-	8,084,619
	$ 108,813,576	$ 3,246,543	$ 1,697,715	$ -	$ 113,757,834

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2019 and 2018:

	Past Due Loans as of December 31, 2019						
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing	Total Loans on Non-Accrual
Construction and land development	$ 1,123,749	$ -	$ -	$ -	$ 1,123,749	$ -	$ -
Commercial real estate	14,832,732	745,610	624	-	15,578,966	-	-
Commercial	4,859,384	105,488	-	27,576	4,992,448	-	27,576
Residential real estate	77,785,471	1,245,123	278,341	494,479	79,803,414	160,628	494,731
Consumer	22,494,561	372,544	35,651	21,522	22,924,278	61,867	-
	$ 121,095,897	$ 2,468,765	$ 314,616	$ 543,577	$ 124,422,855	$ 222,495	$ 522,307

	Past Due Loans as of December 31, 2018						
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing	Total Loans on Non-Accrual
Construction and land development	$ 902,379	$ -	$ -	$ -	$ 902,379	$ -	$ -
Commercial real estate	14,585,782	219,370	-	-	14,805,152	-	-
Commercial	6,414,090	85,354	80,061	1,505,114	8,084,619	56,577	1,115,717
Residential real estate	71,080,322	844,847	512,814	302,967	72,740,950	302,967	423,316
Consumer	17,063,926	124,966	34,265	1,577	17,244,734	4,281	-
	$ 110,046,499	$ 1,274,537	$ 627,140	$ 1,809,658	$ 113,757,834	$ 363,825	$ 1,539,033

The classes described above provide the starting point for the Allowance for Loan and Lease Losses (ALLL) analysis. Management tracks the historical net charge-off activity by loan class. A historical charge-off factor is calculated and applied to each class. Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. Other qualitative factors are also considered.

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

Management has identified a number of qualitative factors that it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources. The Company's qualitative factors consist of: levels and trends in delinquency; levels and trends in nonaccrual; trends in volumes and terms; changes in risk selection and underwriting; experience, ability and depth of loan staff; national and local trends; external factors; and changes in credit concentrations.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALLL. The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALLL that is representative of the risk found in the components of the portfolio at any given date.

(Continued)

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following tables summarize the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2019 and 2018. Activity in the allowance is presented for the 12 months ended December 31, 2019 and 2018:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
ALLL balance at December 31, 2018	$ 314,249	$ 161,639	$ 750,975	$ 135,225	$ -	$ 1,362,088
Charge-offs	-	-	(111,662)	(56,361)	-	(168,023)
Recoveries	46,000	-	46,976	22,372	-	115,348
Provision	9,630	30,050	156,101	44,219	-	240,000
ALLL balance at December 31, 2019	$ 369,879	$ 191,689	$ 842,390	$ 145,455	$ -	$ 1,549,413
Ending ALLL for all loans						
Individually evaluated for impairment	$ 57,455	$ 48,500	$ 172,199	$ 370	$ -	$ 278,524
Collectively evaluated for impairment	312,424	143,189	670,191	145,085	-	1,270,889
Total ALLL evaluated for impairment	$ 369,879	$ 191,689	$ 842,390	$ 145,455	$ -	$ 1,549,413
Loans						
Individually evaluated for impairment	$ 83,499	$ 1,058,202	$ 937,128	$ 17,363	$ -	$ 2,096,192
Collectively evaluated for impairment	4,908,949	14,520,764	79,990,035	22,906,915	-	122,326,663
	$ 4,992,448	$ 15,578,966	$ 80,927,163	$ 22,924,278	$ -	$ 124,422,855

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
ALLL balance at December 31, 2017	$ 68,826	$ 64,042	$ 271,207	$ 107,917	$ 753,071	$ 1,265,063
Charge-offs	(6,836)	-	(45,234)	(39,356)	-	(91,426)
Recoveries	6,000	-	21,739	20,712	-	48,451
Provision	246,259	97,597	503,263	45,952	(753,071)	140,000
ALLL balance at December 31, 2018	$ 314,249	$ 161,639	$ 750,975	$ 135,225	$ -	$ 1,362,088
Ending ALLL for all loans						
Individually evaluated for impairment	$ 193,881	$ 45,409	$ 172,828	$ -	$ -	$ 412,118
Collectively evaluated for impairment	120,368	116,230	578,147	135,225	-	949,970
Total ALLL evaluated for impairment	$ 314,249	$ 161,639	$ 750,975	$ 135,225	$ -	$ 1,362,088
Loans						
Individually evaluated for impairment	$ 1,360,123	$ 1,172,150	$ 1,303,288	$ 9,074	$ -	$ 3,844,635
Collectively evaluated for impairment	6,724,496	13,633,002	72,340,041	17,215,660	-	109,913,199
	$ 8,084,619	$ 14,805,152	$ 73,643,329	$ 17,224,734	$ -	$ 113,757,834

From time to time, the Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

When the Company modifies a loan and subsequently if the loan goes into default, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through a charge-off to the allowance. Segment and class status are determined by the loan's classification at origination.

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

Loan modifications that are considered TDRs completed during the years ending December 31, 2019 and 2018 are as follows:

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
December 31, 2018			
Loan category			
Residential real estate	1	$ 16,755	$ 17,627
	1	$ 16,755	$ 17,627

No TDRs were completed in 2019. The TDRs that were completed in 2018 were modified by capitalizing the accrued interest to the loan balance and extending the term.

As of December 31, 2019, none of the loan modifications classified as TDRs during 2018 subsequently defaulted, and there were no commitments to lend additional funds to borrowers owing receivables whose terms have been modified in TDRs.

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by adjusting the loan grades of such loans. Defaults resulting in charge-offs affect the historical loss experience ratios which are a component of the allowance calculation. Additional, specific reserves may be established on restructured loans evaluated individually.

No consumer mortgage loans secured by residential real estate properties were in formal foreclosure procedures as of December 31, 2019. Foreclosed properties as of December 31. 2019 included two residential real estate properties totaling $175,000.

The Company conducts its business through four offices located in Calhoun County, West Virginia, and surrounding counties. At December 31, 2019 and 2018, the majority of the Company's loan portfolio was secured by properties located in this region. The Company does not believe it has significant concentrations of credit risk to any one group of borrowers given its underwriting and collateral requirements

Note 5. Premises and Equipment

A summary of premises and equipment at December 31, 2019 and 2018 is as follows:

	2019	2018
Bank premises	$ 5,334,042	$ 6,711,367
Equipment, furniture, and fixtures	1,675,505	1,609,370
	7,009,547	8,320,737
Less accumulated depreciation	(2,659,528)	(3,841,024)
Bank premises and equipment, net	$ 4,350,019	$ 4,479,713

Depreciation expense related to premises and equipment was $218,815 and $143,598 for the years ended December 31, 2019 and 2018, respectively.

During 2018, the Company closed their main branch in Grantsville, after construction of their new main branch in Grantsville was completed. During 2019, the property was donated to the Town of Grantsville. The carrying value at the time was $183,807.

Note 6. Deposits

Deposit account balances at December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Non-interest bearing checking	$ 42,181,088	$ 40,089,247
Interest bearing checking	8,172,017	7,912,681
Savings deposits	33,049,727	31,722,353
Passbook IRA	7,962,253	7,714,104
Certificates of deposit	40,246,690	35,036,990
Total deposits	$ 131,611,773	$ 122,475,375

Note 6. Deposits (Continued)

Scheduled maturities of certificates of deposit and individual retirement accounts at December 31, 2019 were as follows:

Maturities	
2020	$ 21,157,070
2021	14,721,857
2022	2,324,113
2023	1,357,233
2024 and thereafter	8,648,670
	$ 48,208,943

Included in time deposits are certificates of deposits of $250,000 or more totaling $11,046,824 and $9,777,662 at December 31, 2019 and 2018, respectively

Included in regular certificates of deposit are $5,024,633 and $4,001,439 as of December 31, 2019 and 2018, respectively, of certificates of deposit issued and obtained through the Certificate of Deposit Account Registry Service (CDARS) program.

Note 7. Borrowings

The Bank has obtained an unsecured, uncommitted, borrowing facility for the purpose of federal funds in the amount of $3,000,000 from Community Bankers Bank (CBB). Any borrowings bear an interest rate which is determined at the time of each advance. Request for advances under the facility is subject to CBB's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings outstanding as of December 31, 2019 and 2018, respectively.

(Continued)

Note 7. Borrowings (Continued)

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available short-term borrowings from collateralized advances. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and may be subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 – 4 family mortgages made by the Bank and other eligible collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately $13,487,200 based on qualifying loan collateral. The borrowings outstanding are as follows:

December 31, 2019	Amount	Interest Rate	Maturity Date
Advance	$ 2,000,000	2.598 %	April 30, 2020
Advance	1,500,000	2.481	May 24, 2021
Advance	1,000,000	2.794	August 21, 2020
Ending balance	$ 4,500,000		
December 31, 2018			
Advance	$ 1,000,000	2.607 %	July 3, 2019
Advance	1,000,000	2.654	July 17, 2019
Advance	1,000,000	2.795	August 21, 2020
Ending balance	$ 3,000,000		

Note 8. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated statements of financial position.

Note 8. Financial Instruments with Off-Balance-Sheet Risk (Continued)

Financial instruments whose contract amount represents credit risk are as follows:

	2019	2018
Commitments to extend credit	$ 5,273,294	$ 4,547,996
Standby letters of credit	530,000	580,000
	$ 5,803,294	$ 5,127,996

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate, accounts receivable, inventory, property and equipment, and income-producing commercial properties. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Generally all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary.

Note 9. Income Taxes

The Company records income taxes using an asset and liability approach that requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

Note 9. Income Taxes (Continued)

The amount reflected as income taxes represents federal and state income taxes on consolidated financial statement income. Certain items of income and expense, primarily the provision for loan losses, timing of the recognition of deferred compensation and pension costs, and valuation adjustments of foreclosed property and depreciation are reported in different accounting periods for income tax purposes. The provision for income taxes was comprised the following:

	2019	2018
Current tax expense	$ 261,996	$ 329,223
Deferred tax expense	19,213	59,953
Income tax expense	$ 281,209	$ 389,176

Deferred income tax assets and liabilities are the result of timing differences in recognition of revenue and expense for income tax and financial statement purposes. Deferred income tax assets and liabilities comprised the following at December 31:

	2019	2018
Deferred tax assets		
Deferred compensation plans	$ 178,549	$ 193,411
Allowance for loan losses	317,803	268,846
Supplemental executives and directors benefit plan	167,905	180,972
Interest no non-accrual loans	5,124	7,745
Accumulated depreciation	-	8,207
Unrealized losses on investment securities available-for-sale	11,581	81,316
Other items	29,148	-
	710,110	740,497
Deferred tax liabilities		
Other items	(1,377)	(1,108)
Net deferred tax asset	$ 660,131	$ 739,389

The Company recognizes interest and penalties related to tax as part of the tax provision. With respect to the realization of deferred tax assets, management believes that a valuation allowance is not necessary.

Note 10. Related Party Transactions

The Bank has granted loans to its officers and directors and to their associated interests. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability.

A summary of the activity with respect to related party loans for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Balance, January 1	$ 1,257,812	$ 1,356,561
Borrowings	110,379	237,937
Repayments	(199,885)	(336,686)
Balance, December 31	$ 1,168,306	$ 1,257,812

The Bank held related party deposits of $710,249, and $1,296,000 at December 31, 2019 and 2018, respectively.

Note 11. Limitations on Dividends

The primary source of funds of the dividends paid by Calhoun Bankshares, Inc. are dividends received from Calhoun County Bank, Inc. The approval of its regulatory agencies would be required if the total of all dividends declared by the subsidiary in any calendar year was greater than its net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years.

Note 12. Defined Benefit Pension Plan

The Company has a defined benefit plan covering full-time employees hired before March 14, 2013. Benefits are based on final average earnings and years of service. The Company's funding policy is to contribute an amount annually that satisfies the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and that is tax deductible under the *Internal Revenue Code*. Plan assets are held by a trust and are mostly invested in a variety of equity-based and fixed income-based mutual funds.

GAAP require an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Total recorded pension liability included in other liabilities as of December 31, 2019 and 2018 was $683,179 and $661,142, respectively.

(Continued)

Note 12. Defined Benefit Pension Plan (Continued)

The following table sets forth the benefit obligation, the fair value of plan assets, the funded status of the pension plan, the amounts recognized in the Company's consolidated financial statements, and the assumptions used.

	2019	2018
Accumulated benefit obligation	$ 2,071,255	$ 1,777,375
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,287,800	$ 2,667,295
Service cost	101,592	137,007
Interest cost	96,826	99,641
Actuarial (gain) loss	260,557	(137,555)
Benefit payments	(180,456)	(145,114)
Plan amendments	-	(333,474)
Benefit obligation at end of year	$ 2,566,319	$ 2,287,800
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 1,626,658	$ 1,627,455
Actual return on plan assets	272,237	(81,951)
Contributions	180,000	240,000
Benefits paid	(180,456)	(145,114)
Administrative expenses	(15,299)	(13,372)
Fair value of plan assets at end of year	$ 1,883,140	$ 1,626,658
Funded status	$ (683,179)	$ (661,142)
Amounts recognized in the balance sheets consist of funded status of pension plan	$ (683,179)	$ (661,142)
Amounts recognized in accumulated other comprehensive loss		
Transition obligation, net of tax	$ -	$ -
Prior service cost	-	-
Net actuarial loss	(812,787)	(740,046)
	$ (812,787)	$ (740,046)

The Company expects approximately $32,879, before tax, of accumulated other comprehensive loss will be recognized as a portion of net periodic benefit costs in 2020. The Company expects approximately $180,000 to be contributed to the plan in 2020.

(Continued)

Note 12. Defined Benefit Pension Plan (Continued)

The following table details the actuarial assumptions used in determining the projected benefit obligations and net benefit cost of the pension plan for 2019 and 2018:

	2019	2018
Discount rate	3.50 %	4.25 %
Expected long-term rate of return on plan assets	6.00	6.00
Expected rate of return of compensation increase	3.50	3.50

To develop the expected long-term rate of return on assets assumption, the Company, with input from the plan's actuaries and investment advisors, considered the historical returns and the future long-term expectations for returns for each asset class, as well as the target asset allocation of the plan's portfolio. This resulted in the selection of the corresponding long-term rate of return assumptions used for the plan's assets.

Components of net periodic pension costs are as follows:

	2019	2018
Service cost	$ 101,592	$ 137,007
Interest cost	96,826	99,641
Expected return on plan assets	(102,001)	(112,304)
Recognized loss	32,879	49,288
Net periodic cost (benefit)	129,296	173,632
Total pension costs	$ 129,296	$ 173,632

The components of net periodic benefit cost other than the service cost component are included in the line item "other expenses" on the consolidated statements of income.

The primary objectives of the plan's investment policy are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, achieve asset returns that are competitive with like institutions employing similar investment strategies, and meet expected future benefits in both the short-term and long-term. The investment policy provides for a range of investment allocations to allow for flexibility in responding to market conditions. The investment policy is periodically reviewed by the plan and a third-party fiduciary for investment matters.

(Continued)

Note 12. Defined Benefit Pension Plan (Continued)

The Company's asset allocations in the pension plan as of December 31, 2019 and 2018 were:

	2019	2018
Asset category		
Cash and cash equivalents	13.0 %	20.0 %
Preferred stocks	0.0	1.0
Mutual funds	87.0	79.0
	100.0 %	100.0 %

The assets of the plan are managed by one plan trustee. The investments of the plan are priced to market by the trustee using fair values for securities based on quoted market prices, where available. If quoted market prices are not available, the trustee uses proprietary fair value models and measurements from other pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and as to bonds, the terms and conditions including calls and prepayment options, among other things.

The following table reflects expected future benefit payments:

Year ending December 31,		
2020	$	17,585
2021		36,119
2022		41,513
2023		40,180
2024		38,788
2025 – 2029		485,817
	$	660,002

Note 13. Other Employee Benefit Plans

The Company has a non-qualified executive and director supplemental retirement and life insurance plan with certain executive officers and directors that provides an income benefit payable at projected normal retirement age or death. Provisions charged to the consolidated statements of income and the cumulative liability under the plans is computed using a 6% present value discount. The liability accrued under these plans at December 31, 2019 and 2018 was $642,451 and $692,451, respectively, which is included in other liabilities in the accompanying consolidated statements of financial position. The cost of these plans included in the consolidated statements of income was $36,311 and $85,420 for the years ended December 31, 2019 and 2018, respectively.

The Company also maintains life insurance for certain directors and officers. At December 31, 2019 and 2018, the cash surrender value of these insurance contracts was $3,469,347 and $3,372,575, respectively.

In addition to the above pension plan, the Company has adopted a contributory 401(k) retirement plan, whereby eligible participants may make contributions, up to 15% of compensation, and the Company will match up to 6% of this limit during the plan year for eligible employees hired after March 13, 2013, and will match $0.35 on the dollar up to 6% of compensation for eligible employees who were hired prior to Match 13, 2013. The Company may make additional discretionary contributions to eligible participants unrelated to participant contributions. During 2019 and 2018, the Company made approximately $44,375 and $37,316, respectively, of matching contributions in each year to eligible participants.

During 2013, the Company adopted a Stock Award Incentive Plan, the purpose of which is to assist in recruiting and retaining individuals who provide services to the Company and to enable such individuals to participate in the future success of the Company. Any employee of the Company or members of the Board of Directors are eligible to participate in the plan. Stock awards under the plan are made as determined solely by an Administrator appointed by the Board of Directors. Stock awards under the plan are without cost to the recipient and are considered taxable compensations at the date of the award based on the fair value of the stock at the date of the award and recorded as expense by the Company. At the option of the Administrator, benefits of any stock issues under the plan may include vesting provisions and restrictions on transfer of the stock during the vesting period. In 2018, stock awards of 700 shares were approved and issued. In 2019, stock awards of 510 shares were approved and issued.

(Continued)

Note 14. Regulatory Capital Requirements

Federal banking agencies have adopted regulations that substantially amend the capital regulations applicable to the Bank. These regulations implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the Federal Reserve Bank (FRB). These new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increase the leverage and Tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios, and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer limited the ability of the Bank to pay dividends, repurchase shares, or pay discretionary bonuses. The Company is exempt from consolidated capital requirements as those requirements do not apply to certain companies with assets under $1 billion.

Under the new capital regulations, the minimum capital ratios are: (1) CET1 capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6% of risk-weighted assets; (3) a total capital ratio of 8% of risk-weighted assets; and (4) a leverage ratio of 4%. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions. The FRB's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, the ratios to be considered well capitalized are: (1) CET1 ratio of 6.5%; (2) a Tier 1 capital ratio of 8%; (3) a total capital ratio of 10%; and (4) a leverage ratio of 5%.

In addition to the minimum CET1, Tier 1, and total capital ratios, the Bank has to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets, increasing each year until fully implemented to 2.5% in January 2019. Management believes as of December 31, 2019, the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized; although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. Prompt corrective action provisions are not applicable to holding companies.

(Continued)

Note 14. Regulatory Capital Requirements (Continued)

The Bank's actual and required capital amounts (in thousands) and ratios at December 31, 2019 and 2018 were as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019						
Total risk-based capital (to risk weighted assets)	$ 16,793	17.12%	$ 7,848	8.00%	$ 9,809	10.00%
Tier I capital (to risk weighted assets)	15,563	15.87	5,886	6.00	7,848	8.00
Tier I leverage (to adjusted total assets)	15,563	10.03	6,206	4.00	7,757	5.00
CETI (to risk weighted assets)	15,563	15.87	4,414	4.50	6,376	6.50

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2018						
Total risk-based capital (to risk weighted assets)	$ 16,137	17.58%	$ 7,343	8.00%	$ 9,179	10.00%
Tier I capital (to risk weighted assets)	14,987	16.33	5,507	6.00	7,343	8.00
Tier I leverage (to adjusted total assets)	14,987	10.75	5,592	4.00	6,989	5.00
CETI (to risk weighted assets)	14,987	16.33	4,131	4.50	5,966	6.50

(Continued)

Note 15. Fair Value Measurements

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

> **Level 1** Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
>
> **Level 2** Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets, or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, such as interest rates, volatilities, prepayment speeds; and credit risks, or inputs that are derived principally from or corroborated by market data by correlation or other means.
>
> **Level 3** Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

<u>Recurring – investment securities</u>

Fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions among other things.

<u>Non-recurring – loans</u>

The Company does not record loans at fair value on a recurring basis. However, from time to time a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, recent appraisal value and /or tax assessed value, liquidation value, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Fair value is based upon independent market prices or appraised values of the collateral which the Company considers as nonrecurring Level 3. Disclosed in the tables below is the recorded investment in impaired loans that require a specific allowance.

(Continued)

Note 15. Fair Value Measurements (Continued)

Non-recurring – foreclosed assets/repossessions

Foreclosed assets and repossessions are adjusted to fair value upon transfer of the loans to foreclosed assets and repossessions. Subsequently, foreclosed assets and repossessions are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices or appraised values of the collateral which the Company considers as nonrecurring Level 3.

The following tables summarize the valuation of the Company's assets and liabilities that were measured at fair value as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy. The amount reflected as fair value of impaired loans is net of specific reserves.

	Fair Value Measurement of Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019:				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities				
U.S. government agencies	$ 6,140,634	$ -	$ 6,140,634	$ -
Mortgage backed	2,923,484	-	2,923,484	-
	$ 9,064,118	$ -	$ 9,064,118	$ -
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ 1,817,668	$ -	$ -	$ 1,817,668
Foreclosed real estate owned and repossessed assets	175,000	-	-	175,000
	$ 1,992,668	$ -	$ -	$ 1,992,668

Note 15. Fair Value Measurements (Continued)

Non-recurring – foreclosed assets/repossessions (Continued)

	Fair Value Measurement of Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018:				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities				
U.S. government agencies	$ 5,507,322	$ -	$ 5,507,322	$ -
Mortgage backed	3,434,569	-	3,434,569	-
	$ 8,941,891	$ -	$ 8,941,891	$ -
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ 3,432,517	$ -	$ -	$ 3,432,517
Foreclosed real estate owned and repossessed assets	212,500	-	-	212,500
	$ 3,645,017	$ -	$ -	$ 3,645,017

Note 15. Fair Value Measurements (Continued)

For Level 3 assets and liabilities measured at fair value as of December 31, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range
Other real estate owned	$ 175,000	Discounted appraised value	Discounted for selling costs and age of appraisals	Up to 3%
Impaired loans	$ 1,817,668	Discounted appraised value and net present value	Discounted for selling costs and age of appraisals	7% – 65%

	Fair Value December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Range
Other real estate owned	$ 212,500	Discounted appraised value	Discounted for selling costs and age of appraisals	Up to 3%
Impaired loans	$ 3,432,517	Discounted appraised value and net present value	Discounted for selling costs and age of appraisals	7% – 65%

Note 16. Restricted Investments

Restricted investments consist of investments in the Federal Home Loan Bank of Pittsburgh (FHLB) and West Virginia Bankers' Title Insurance Company. Investments are carried at face value and the level of investment is dictated by the level of participation with each institution. Amounts are restricted as to transferability.

Note 17. Revenue Recognition

The Company's revenue from contracts with customers in the scope of ASC *Topic 606* is recognized within noninterest income excluding OREO gains and losses.

Note 17. Revenue Recognition (Continued)

A description of the Company's noninterest income is as follows:

Deposit Accounts

The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month representing the period over which the Company satisfies the performance obligation. The Company also earns fees from its customers for transaction-based services. Such services include safe deposit box, ATM, stop payment, and wire transfer fees. In each case, these service charges and fees are recognized as income at the time or within the same period that the Company's performance obligation is satisfied.

Noninterest Income

The following table illustrates the Company's total noninterest income segregated by revenues within the scope of *Topic 606* and those which are within the scope of other ASC topics:

	2019	2018
Service charges	$ 300,867	$ 339,362
ATM exchange fees	347,736	328,835
Safe deposit box rental	12,021	14,673
Wire Transfer Fee	4,003	5,990
Revenues from contracts with customers	664,627	688,860
Noninterest income within scope of other ASC topics	178,487	173,907
Total noninterest income	$ 843,114	$ 862,767

Note 18. Recent Accounting Pronouncements and Changes

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 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. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC *Topic 606*, *Revenue from Contracts with Customers.* ASU 2016-02 will be effective for fiscal years beginning after December 15, 2020 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. This ASU is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments*, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts, and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. ASU 2016-13 will be effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the potential impact of ASU 2016-13 on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities*, which provides guidance on 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. ASU 2017-08 was effective for fiscal years beginning after December 15, 2019 and the Company is currently evaluating the potential impact, if any, it will have on the consolidated financial statements.

Other accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's consolidated financial statements.