

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, Linda L. Ramsey
 Name of the Holding Company Director and Official
Secretary/Treasurer
 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.

Linda L. Ramsey
 Signature of Holding Company Director and Official
February 5, 2020
 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):
December 31, 2019

Month / Day / Year
 N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

FCNB Bancorp, Inc.
 Legal Title of Holding Company

PO Box 209
 (Mailing Address of the Holding Company) Street / P.O. Box

Fayetteville WV 25840
 City State Zip Code

101 N. Court Street, Fayetteville, WV 25840
 Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:
Denise A Light EVP, CEO & Cashier
 Name Title

304-574-1212
 Area Code / Phone Number / Extension

304-574-9038
 Area Code / FAX Number

dlight@fayconatl-bank.com
 E-mail Address

N/A
 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."



FCNB Bancorp, Inc.

**Consolidated Financial Report
December 31, 2019**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
FCNB Bancorp, Inc. and Subsidiary
Fayetteville, West Virginia

Report on Financial Statements

We have audited the accompanying consolidated financial statements of FCNB Bancorp, Inc. and Subsidiary, 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 each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FCNB Bancorp, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Amett Carbis Toothman LLP

Charleston, West Virginia
January 27, 2020

FCNB BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and due from banks	\$ 1,311,356	\$ 1,104,864
Interest bearing deposits with other banks	1,359,266	721,910
Securities available for sale	25,929,212	23,308,419
Loans, less allowance for loan losses of \$738,299 and \$732,440, respectively	61,388,785	60,945,958
Loans held for sale	-	73,700
Bank premises and equipment, net	1,154,149	1,188,176
Accrued interest receivable	341,565	288,297
Other assets	321,045	517,126
Total assets	<u>\$ 91,805,378</u>	<u>\$ 88,148,450</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non interest bearing	\$ 17,074,124	\$ 16,359,405
Interest bearing	62,502,940	60,538,256
Total deposits	79,577,064	76,897,661
Other liabilities	269,541	139,598
Total liabilities	<u>79,846,605</u>	<u>77,037,259</u>
Shareholders' Equity		
Common stock, \$25 par value, 24,000 shares authorized; 12,000 shares issued, outstanding 2019 - 9,615 ; 2018 - 9,625	300,000	300,000
Capital surplus	345,233	345,233
Retained earnings	12,763,871	12,225,244
Less cost of shares acquired for the treasury, 2,385 and 2,375 shares, 2019 and 2018, respectively	(1,580,196)	(1,568,189)
Accumulated other comprehensive income	129,865	(191,097)
Total shareholders' equity	<u>11,958,773</u>	<u>11,111,191</u>
Total liabilities and shareholders' equity	<u>\$ 91,805,378</u>	<u>\$ 88,148,450</u>

See Notes to Consolidated Financial Statements

FCNB BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest income:			
Interest and fees on loans	\$ 3,562,680	\$ 3,403,465	\$ 3,264,427
Interest on interest bearing deposits with other banks	45,709	47,307	18,035
Interest and dividends on securities:			
Taxable	529,161	491,097	470,270
Tax-exempt	57,696	70,692	98,234
Total interest income	<u>4,195,246</u>	<u>4,012,561</u>	<u>3,850,966</u>
Interest expense:			
Interest on deposits	370,025	277,721	207,614
Interest on short-term borrowings	1,670	9,296	14,867
Total interest expense	<u>371,695</u>	<u>287,017</u>	<u>222,481</u>
Net interest income	3,823,551	3,725,544	3,628,485
Provision for loan losses	50,000	47,000	58,000
Net interest income after provision for loan losses	<u>3,773,551</u>	<u>3,678,544</u>	<u>3,570,485</u>
Other income:			
Service charges and fees	294,007	240,291	248,010
Securities gains/(losses)	(12,546)	(20,222)	3,948
Gain (loss) on sale of other assets	11,413	(42,804)	(13,522)
Other	194,829	122,141	118,647
	<u>487,703</u>	<u>299,406</u>	<u>357,083</u>
Other expenses:			
Salaries, wages, and employee benefits	1,407,212	1,433,399	1,498,006
Net occupancy expense of bank premises	107,417	107,160	112,995
Equipment rentals, depreciation and maintenance	143,039	156,674	144,878
Other	1,316,132	1,102,231	1,083,844
	<u>2,973,800</u>	<u>2,799,464</u>	<u>2,839,723</u>
Income before income tax expense	1,287,454	1,178,486	1,087,845
Income tax expense	287,277	260,646	428,021
Net income	<u>\$ 1,000,177</u>	<u>\$ 917,840</u>	<u>\$ 659,824</u>
Basic earnings per common share	<u>\$ 103.99</u>	<u>\$ 94.98</u>	<u>\$ 68.09</u>
Average common shares outstanding	<u>9,618</u>	<u>9,663</u>	<u>9,690</u>

See Notes to Consolidated Financial Statements

FCNB BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income	\$ 1,000,177	\$ 917,840	\$ 659,824
Other comprehensive income (loss)			
Gross unrealized gains (losses) arising during the period	415,406	(292,104)	(120,942)
Adjustments for income tax (expense)/benefit	<u>(103,852)</u>	<u>73,026</u>	<u>37,119</u>
	<u>311,554</u>	<u>(219,078)</u>	<u>(83,823)</u>
Less: Reclassification adjustment for (gains)/losses included in net income	12,546	20,222	(3,948)
Adjustments for income tax expense/(benefit)	<u>(3,138)</u>	<u>(5,052)</u>	<u>1,212</u>
	<u>9,408</u>	<u>15,170</u>	<u>(2,736)</u>
Other comprehensive income/(loss), net of tax	<u>320,962</u>	<u>(203,908)</u>	<u>(86,559)</u>
Comprehensive income	<u>\$ 1,321,139</u>	<u>\$ 713,932</u>	<u>\$ 573,265</u>

See Notes to Consolidated Financial Statements

FCNB BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2019, 2018 and 2017

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2016	\$ 300,000	\$ 345,233	\$ 11,516,969	\$ (1,469,856)	\$ 99,370	\$ 10,791,716
Net income	-	-	659,824	-	-	659,824
Cash dividend declared on common stock (\$42 per share)	-	-	(406,769)	-	-	(406,769)
Net change in treasury stock, 25 shares	-	-	-	(28,491)	-	(28,491)
Change in net unrealized gain (loss) on securities	-	-	-	-	(86,559)	(86,559)
Balance, December 31, 2017	300,000	345,233	11,770,024	(1,498,347)	12,811	10,929,721
Net income	-	-	917,840	-	-	917,840
Cash dividend declared on common stock (\$48 per share)	-	-	(462,620)	-	-	(462,620)
Net change in treasury stock, 60 shares	-	-	-	(69,842)	-	(69,842)
Change in net unrealized gain (loss) on securities	-	-	-	-	(203,908)	(203,908)
Balance, December 31, 2018	300,000	345,233	12,225,244	(1,568,189)	(191,097)	11,111,191
Net income	-	-	1,000,177	-	-	1,000,177
Cash dividend declared on common stock (\$48 per share)	-	-	(461,550)	-	-	(461,550)
Net change in treasury stock, 10 shares	-	-	-	(12,007)	-	(12,007)
Change in net unrealized gain (loss) on securities	-	-	-	-	320,962	320,962
Balance, December 31, 2019	<u>\$ 300,000</u>	<u>\$ 345,233</u>	<u>\$ 12,763,871</u>	<u>\$ (1,580,196)</u>	<u>\$ 129,865</u>	<u>\$ 11,958,773</u>

See Notes to Consolidated Financial Statements

FCNB BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,000,177	\$ 917,840	\$ 659,824
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	80,256	87,499	85,228
Provision for loan losses	50,000	47,000	58,000
Provision for deferred income taxes (benefit)	12,273	(21,831)	99,142
Amortization of security premiums and (accretion) of discounts, net	33,719	39,739	81,461
Securities (gains) /losses	12,546	20,222	(3,948)
(Gain) loss on sale of other real estate and repossessed assets	(11,413)	42,804	13,522
Loss on disposal of equipment	-	-	(7,189)
Loans sold (originated) for sale, net	73,700	(14,700)	(59,000)
(Increase) decrease in accrued interest receivable	(53,268)	2,768	49,042
(Increase) decrease in other assets	(231,252)	292,059	(209,907)
Increase (decrease) in other liabilities	129,943	(123,420)	180,407
Net cash provided by operating activities	<u>1,096,681</u>	<u>1,289,980</u>	<u>946,582</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of securities available for sale	8,388,865	5,471,615	5,254,948
Proceeds from maturities and calls of securities available for sale	-	-	3,918,000
Purchase of securities available for sale	(10,627,971)	(6,848,210)	(4,004,609)
Proceeds from (purchase of) interest bearing deposits with other banks	(637,356)	(429,206)	144,620
Principal collected from (loans made to) customers, net	(421,176)	560,295	(947,545)
Purchases of bank premises and equipment	(46,229)	(96,639)	(88,445)
Proceeds from disposal of bank premises and equipment	-	-	55,510
Proceeds from sale of other real estate	247,832	92,000	153,500
Net cash provided by (used in) investing activities	<u>(3,096,035)</u>	<u>(1,250,145)</u>	<u>4,485,979</u>

Continued

FCNB BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW and savings accounts	1,648,537	2,062,510	(1,368,668)
Proceeds from sales of (payments for maturing) time deposits, net	1,030,866	1,103,192	470,117
Net proceeds/(repayments) from short term borrowings	-	(2,925,000)	(4,075,000)
Net (purchases)/sales in treasury stock	(12,007)	(69,842)	(28,491)
Dividends paid	(461,550)	(462,620)	(406,769)
Net cash (used in) provided by financing activities	<u>2,205,846</u>	<u>(291,760)</u>	<u>(5,408,811)</u>
Increase (decrease) in cash and due from banks	206,492	(251,925)	23,750
Cash and due from banks:			
Beginning	1,104,864	1,356,789	1,333,039
Ending	<u>\$ 1,311,356</u>	<u>\$ 1,104,864</u>	<u>\$ 1,356,789</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest paid to depositors	<u>\$ 362,894</u>	<u>\$ 269,741</u>	<u>\$ 204,615</u>
Interest paid on short-term borrowings	<u>\$ 1,670</u>	<u>\$ 9,296</u>	<u>\$ 14,867</u>
Income taxes paid	<u>\$ 109,479</u>	<u>\$ 363,600</u>	<u>\$ 186,857</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Other real estate and asset repossessions acquired in settlement of loans	<u>\$ 321,105</u>	<u>\$ 89,680</u>	<u>\$ 87,235</u>
Other real estate and asset repossessions donated during the year	<u>\$ 71,651</u>	<u>\$ 24,500</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

FCNB BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of business: FCNB Bancorp, Inc. is a bank holding company incorporated in West Virginia. The wholly owned bank subsidiary, Fayette County National Bank (the Bank), is a commercial bank with operations in Fayette County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Fayette County, West Virginia and the surrounding area.

Basis of presentation: The accounting and reporting policies of FCNB Bancorp, Inc. (the Company) and its wholly owned subsidiary conform to generally accepted accounting principles and to general practices within the banking industry.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of FCNB Bancorp, Inc., and its subsidiary, Fayette County National Bank. All significant intercompany transactions have been eliminated in consolidation.

Accounting estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. For the year ended December 31, 2019, we evaluated subsequent events through January 27, 2020.

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

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

Securities held to maturity - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts. There are no securities classified as held to maturity at December 31, 2019 and 2018.

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

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

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

Other than temporary impairment: Declines in the fair value of available for sale and held to maturity securities that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuers, and (3) the intent and

FCNB BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ability of the company to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value. In addition, the risk of future other than temporary impairment may be influenced by additional bank failures, prolonged recession in the U.S. economy, changes to real estate values, interest deferrals and whether the Federal government provides assistance to financial institutions.

Loans and allowance for loan losses: Loans are stated at the amount of unpaid principal and reduced by an allowance for loan losses.

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

For all loans, interest is accrued daily on the outstanding balances using methods which generally result in a level rate of return.

Certain direct loan origination fees and costs, net, are deferred and amortized as adjustments of the related loan yields over the estimated contractual lives of the loans.

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

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

Loans held for sale: Loans held for sale are those loans the Bank has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

Concentrations of credit risk: Fayette County National Bank predominately grants installment, commercial and residential loans to customers in Fayette County, West Virginia. Although the Bank has a diversified loan portfolio, a substantial portion of its debtor's ability to honor their contracts is dependent upon the mining, whitewater rafting and tourism sectors of the economy as well as commercial 1-4 residential rental properties.

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

FCNB BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Basic earnings per share: Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 9,618, 9,663 and 9,690, for each of the three respective years in the three year period ended December 31, 2019.

Reclassifications: Certain amounts in the consolidated financial statements for 2018 and 2017, as previously presented, have been reclassified to conform to current year classifications.

Significant Authoritative Guidance: *ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10)*. In January 2016, the FASB issued guidance to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments for entities that hold financial assets or owe financial liabilities. The guidance will require: (a) certain equity investments to be measured at fair value with changes recognized in net income; (b) a qualitative assessment to identify impairment of equity investments without readily determinable fair value; (c) elimination of disclosures of the fair value of financial instruments measured at amortized costs and method(s) and significant assumptions used to estimate the fair value; (d) the exit price notion be used when measuring fair value; (e) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability; (f) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (g) clarification of how to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, and for other entities, including not-for-profit entities and employee benefit plans within the scope of Topic 960 through 965 on plan accounting, for fiscal years beginning after December 15, 2018. Early adoption is not permitted except for certain exceptions for public entities.

ASU 2016-02 Leases (Topic 842). In February 2016, the FASB issued guidance related to recognition by a lessee of assets and liabilities on leases with terms of more than 12 months on the balance sheet. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease; however, unlike current U.S. GAAP, which requires that only capital leases be recognized on the balance sheet, the ASU requires that both types of leases be recognized on the balance sheet. The ASU also requires disclosures to help financial statement users better understand the amount, timing,

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and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Lessor accounting remains largely unchanged from current U.S. GAAP, but the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in May 2014. Transition guidance is provided within the ASU and generally requires a retrospective approach. This guidance is effective for public entities with annual reporting periods beginning after December 15, 2018. For all other entities (nonpublic entities), the amendments in these ASUs will be effective for annual reporting periods beginning after December 15, 2019. Early application of the amendments in this guidance is permitted for all entities.

ASU 2016-13 – Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued guidance to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The guidance will require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The guidance will eliminate the probable initial recognition threshold in current GAAP, and instead, reflect an entity's current estimate of all expected credit losses. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. An entity will be able to record reversals of credit losses in current period net income, which, in turn, should align the income statement recognition of credit losses within the reporting period in which changes occur. The guidance affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. This guidance is effective for all public entities that are U.S. Securities Exchange Commission (SEC) filers for fiscal years beginning after December 15, 2019. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topic 960 through 965 on plan accounting, guidance is effective for fiscal years beginning after December 15, 2020. All entities may adopt the amendments in this ASU as of the fiscal years beginning after December 15, 2018.

ASU 2016-15 – Classification of Certain Cash Receipts and Cash Payments (Topic 230). In August 2016, the FASB issued guidance to address eight specific cash flow issues with the objective of reducing the existing diversity in the practice. This guidance is effective for all public entities for fiscal years beginning after December 15, 2017. For all other entities, this guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

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

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ending after December 15, 2017, and for all other entities for fiscal years ending after December 15, 2018. Early adoption is permitted, under certain circumstances and amendments should be applied on a prospective basis.

ASU 2018-02 – Income Statement Reporting Comprehensive Income (Topic 220) - In February 2018, the FASB issued amendments to provide financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The ASU requires financial statement preparers to disclose a description of the accounting policy for releasing income tax effects from AOCI, whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act and information about the other income tax effects that are reclassified. The amendments affect any organization that is required to apply the provisions of Topic 220, *Income Statement—Reporting Comprehensive Income*, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.

ASU 2018-13 – Fair Value Measurement (Topic 820) - In August 2018, the FASB issued amendments that modify the disclosure requirements in Topic 820. The amendments remove the following disclosure requirements: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and for non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In addition, the amendments modify the following disclosure requirements: in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when the restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments also added the following disclosure requirements: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. For all entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact, if any, these adoptions will have on its consolidated financial statement.

Note 2. Restrictions on Cash and Due From Banks

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances approximated \$703,000 at December 31, 2019. The Bank has usable vault cash of \$703,000, therefore, leaving no reserve balance required.

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Note 3. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at December 31, 2019 and 2018, are summarized as follows:

	2019			Carrying Value (Estimated Fair Value)
	Amortized Cost	Unrealized		
		Gains	Losses	
Available for sale:				
Taxable:				
Securities of other U.S. Government agencies and corporations	\$ 22,634,704	\$ 192,617	\$ 26,648	\$ 22,800,673
Certificates of Deposit	1,349,000	17,559	-	1,366,559
Total taxable	<u>23,983,704</u>	<u>210,176</u>	<u>26,648</u>	<u>24,167,232</u>
Tax Exempt:				
Obligations of states and political subdivisions - tax exempt	1,754,872	7,530	422	1,761,980
Total securities available for sale	<u>\$ 25,738,576</u>	<u>\$ 217,706</u>	<u>\$ 27,070</u>	<u>\$ 25,929,212</u>
	2018			
	Amortized Cost	Unrealized		Carrying Value (Estimated Fair Value)
		Gains	Losses	
Available for sale:				
Taxable:				
Securities of other U.S. Government agencies and corporations	\$ 19,847,761	\$ 28,129	\$ 203,162	\$ 19,672,728
Certificates of Deposit	1,149,000	-	24,636	1,124,364
Total taxable	<u>20,996,761</u>	<u>28,129</u>	<u>227,798</u>	<u>20,797,092</u>
Tax Exempt:				
Obligations of states and political subdivisions - tax exempt	2,548,974	10,452	48,099	2,511,327
Total securities available for sale	<u>\$ 23,545,735</u>	<u>\$ 38,581</u>	<u>\$ 275,897</u>	<u>\$ 23,308,419</u>

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The maturities, amortized cost and estimated fair values of securities at December 31, 2019 are summarized as follows:

	2019	
	Available for Sale	
	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	\$ 7,579,535	\$ 7,608,603
Due after 1 year but within 5 years	15,499,161	15,630,323
Due after 5 years but within 10 years	2,634,880	2,665,276
Due after 10 years	25,000	25,010
Total	\$ 25,738,576	\$ 25,929,212

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2019 and 2018.

	2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
Securities of other U.S. Government agencies and corporations	\$ 3,335,601	\$ 24,058	\$ 1,531,886	\$ 2,590	\$ 4,867,487	\$ 26,648
Obligations of states and political subdivisions - tax exempt			299,035	422	299,035	422
Certificates of Deposit	-	-	-	-	-	-
	<u>\$ 3,335,601</u>	<u>\$ 24,058</u>	<u>\$ 1,830,921</u>	<u>\$ 3,012</u>	<u>\$ 5,166,522</u>	<u>\$ 27,070</u>

	2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
Securities of other U.S. Government agencies and corporations	\$ 5,058,121	\$ 57,326	\$ 7,928,427	\$ 145,836	\$ 12,986,548	\$ 203,162
Obligations of states and political subdivisions - tax exempt	564,679	6,287	1,183,946	41,812	1,748,625	48,099
Certificates of Deposit	491,636	4,364	632,728	20,272	1,124,364	24,636
	<u>\$ 6,114,436</u>	<u>\$ 67,977</u>	<u>\$ 9,745,101</u>	<u>\$ 207,920</u>	<u>\$ 15,859,537</u>	<u>\$ 275,897</u>

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

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The Bank has 12 securities in an unrealized loss position as of December 31, 2019. These securities are predominately rated investment grade securities and the unrealized losses are due to overall increases in market interest rates and not due to any underlying credit concerns of the issuers. The Bank has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolios are other-than-temporarily impaired at December 31, 2019.

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

For the Years Ended December 31,	Proceeds From			Gross Realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
2019					
Securities available for sale	\$ 8,388,865	\$ -	\$ -	\$ -	\$ 12,546
2018					
Securities available for sale	\$ 5,471,615	\$ -	\$ -	\$ -	\$ 20,222
2017					
Securities available for sale	\$ 5,254,948	\$ 3,918,000	\$ -	\$ 3,948	\$ -

At December 31, 2019 and 2018, securities with amortized costs of \$16,644,133 and \$16,689,337, respectively, with estimated fair values of \$16,823,451 and \$16,532,750, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Note 4. Loans

Loans are summarized as follows:

	December 31,	
	2019	2018
Commerical, financial and agricultural	\$ 8,869,331	\$ 8,062,831
Real estate- mortgage	47,121,982	48,122,243
Real estate- unimproved/development land	2,497,860	2,578,997
Installment loans	3,883,961	3,169,556
Total loans	62,373,134	61,933,627
Less: Allowance for loan losses	738,299	732,440
Unamortized loan fees and costs, net	246,050	255,229
Loans, net	\$ 61,388,785	\$ 60,945,958

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The following presents contractual loan maturities as of December 31, 2019:

	Within 1 Year	After 1 but Within 5 Years	After 5 Years
Commerical, financial and agricultural	\$ 499,163	\$ 896,981	\$ 7,473,187
Real estate - mortgage	588,787	1,806,168	44,727,027
Installment loans	410,298	2,714,979	758,684
Real estate - Unimproved/Development Land	-	108,533	2,389,327
Total Loans	\$ 1,498,248	\$ 5,526,661	\$ 55,348,225
Loans due after one year with:			
Variable rates	\$ 32,886,723		
Fixed rates	27,988,163		
	\$ 60,874,886		

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2019 and 2018, respectively.

	December 31, 2019	December 31, 2018
Commercial real estate	\$ 232,158	\$ 231,672
Real Estate - mortgage	482,265	764,261
Real Estate - Unimproved/Development Land	7,475	12,184
Total	\$ 721,898	\$ 1,008,117

If interest on non-accrual loans had been accrued, such income would have approximated \$36,000, \$47,500, and \$57,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

In the past the Bank has made loans, in the normal course of business, to its directors, officers and employees and will continue to make such loans in the future. At December 31, 2019 and 2018, outstanding loans of this nature totaled \$802,282 and \$803,793, respectively.

For the years ended December 31, 2019 and 2018, loans made to executive officers, directors and shareholders aggregating \$60,000 or more to any one party totaled \$360,307 and \$488,868, respectively.

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, and current economic trends, among other factors. The loans are analyzed individually by classifying the loans as to credit risk. The Bank internally grades all new commercial loans. In addition, the Bank performs an annual loan review on all non-homogeneous commercial loan relationships with aggregate exposure exceeding \$125,000, at which time these loans are re-graded.

The following definition of risk grades are as follows:

Pass: Loans that are secured by cash and cash equivalents or have characteristics that reduce credit risk in the transaction, as well as minimal documentation exceptions or no identification risk of collection. The loan would not subsequently introduce loan-loss risk. They are loans that do not fit any of the other categories described below.

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Watch: Loans that are generally satisfactory with the exception of supporting documentation, lack of financial information, defined source of repayment, previous slowness but currently paying as agreed. Typically, these loans will have a specific plan of action by the loan office, documented on the Commercial Summary, to correct the deficiencies, provide a plan of repayment, or work the credit out of the Bank.

Special Mention: The assets in this category are currently protected but are potentially weak. Those assets constitute an undue and unwanted credit risk but not to the point of justifying a classification of substandard. Credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard: Loans inadequately protected by the current sound net worth and paying capacity of the obligor, or pledged collateral, if any. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans that will have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where collection or liquidation in full is highly improbable.

Loss: Loans that are considered to be un-collectible and of such little value that their continuance as active assets of the Bank is not warranted. This assignment does not mean that an asset has absolutely no recovery or salvage value, but simply that is not practicable or desirable to defer writing off the basically worthless asset, even though partial recovery may be affected in the future.

The following table presents the recorded investment in loans that are graded based on the risk associated with the loan. For the years ended December 31, 2019 and 2018.

December 31, 2019						
	Commercial		Residential			Real Estate- Unimproved/ Development Land
	Commercial	Real Estate	1-4 Family	Construction	Installment	
Pass	\$ 460,437	\$ 5,970,193	\$ 44,392,941	\$ 501,087	\$ 3,848,007	\$ 1,605,061
Watch	-	1,110,798	1,266,273	-	35,954	65,034
Special Mention	368,952	-	-	-	-	-
Substandard	-	958,951	943,322	-	-	827,765
Doubtful	-	-	18,359	-	-	-
Total	\$ 829,389	\$ 8,039,942	\$ 46,620,895	\$ 501,087	\$ 3,883,961	\$ 2,497,860

December 31, 2018						
	Commercial		Residential			Real Estate- Unimproved/ Development Land
	Commercial	Real Estate	1-4 Family	Construction	Installment	
Pass	\$ 502,825	\$ 4,407,133	\$ 45,128,578	\$ 674,364	\$ 3,095,913	\$ 2,079,158
Watch	507,038	1,197,068	1,095,355	-	58,126	70,650
Special Mention	-	875,068	-	-	-	-
Substandard	-	573,699	994,802	-	1,262	429,189
Doubtful	-	-	229,144	-	14,255	-
Total	\$ 1,009,863	\$ 7,052,968	\$ 47,447,879	\$ 674,364	\$ 3,169,556	\$ 2,578,997

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Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 732,440	\$ 717,275	\$ 726,576
Losses:			
Real estate- mortgage	30,300	13,896	53,566
Installment loans	56,230	43,751	49,978
Total	<u>86,530</u>	<u>57,647</u>	<u>103,544</u>
Recoveries:			
Commerical, financial and agricultural	3,200	4,000	4,000
Real estate- mortgage	2,712	1,100	13,639
Installment loans	36,477	20,712	18,604
Total	<u>42,389</u>	<u>25,812</u>	<u>36,243</u>
Less: Net losses	44,141	31,835	67,301
Provision for loan losses	50,000	47,000	58,000
Balance, end of year	<u>\$ 738,299</u>	<u>\$ 732,440</u>	<u>\$ 717,275</u>

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

Specific Reserve for Loans Individually Evaluated

The Bank identifies loan relationships having aggregate balances of \$125,000 and greater and that may also have credit weaknesses. Such loan relationships are identified primarily through the analysis of internal loan evaluations, past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events; it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. The Bank measures impairment based on the fair value of the loan's collateral, which is generally determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell.

Quantitative Reserve for Loans Collectively Evaluated

Second, the Bank stratifies the loan portfolio into the following loan pools: commercial, commercial real estate, residential 1-4 family, residential construction, consumer and other. Loans within each pool are then further segmented between (1) loans which were individually evaluated for impairment and not deemed to be impaired, (2) smaller-balance homogenous loans.

Quantitative reserves relative to each loan pool are established using an allocation equaling 100% of the respective pool's average 12 month net loan charge-off rate (determined based upon the most recent twelve quarters) which is applied to the aggregate recorded investment in the smaller-balance homogenous pool of loans.

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Qualitative Reserve for Loans Collectively Evaluated

Third, the Bank considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions, and (8) effects of changes in credit concentrations.

For purposes of evaluating impairment, the Bank considers groups of smaller-balance, homogeneous loans to include; mortgage loans secured by residential property, other than those which significantly exceed the bank's typical residential mortgage loan amount (currently those in excess of \$30,000); and installment loans to individuals, exclusive of those loans in excess of \$30,000.

The following tables set forth the Bank's impaired loan information by class of loans:

	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
With no related allowance					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	232,158	232,158	-	231,915	-
Installment	-	-	-	-	-
Residential - 1-4 family	568,571	568,571	-	690,909	14,003
Real Estate Unimproved/ Development Land	-	-	-	200	29
Total with no related allowance	\$ 800,729	\$ 800,729	\$ -	\$ 923,024	\$ 14,032
With a related allowance					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-
Installment	-	-	-	-	-
Residential - 1-4 family	201,962	230,845	28,884	211,727	5,715
Real Estate Unimproved/ Development Land	7,475	10,759	3,283	9,629	-
Total with a related allowance	\$ 209,437	\$ 241,604	\$ 32,167	\$ 221,356	\$ 5,715
Total					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	232,158	232,158	-	231,915	-
Installment	-	-	-	-	-
Residential - 1-4 family	770,533	799,416	28,884	902,636	19,718
Real Estate Unimproved/ Development Land	7,475	10,759	3,283	9,829	29
Total	\$ 1,010,166	\$ 1,042,333	\$ 32,167	\$ 1,144,380	\$ 19,747

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	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
With no related allowance					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	231,672	231,672	-	232,290	-
Installment	-	-	-	-	-
Residential - 1-4 family	630,977	630,977	-	658,461	6,820
Real Estate Unimproved/ Development Land	400	400	-	2,922	-
Total with no related allowance	\$ 863,049	\$ 863,049	\$ -	\$ 893,673	\$ 6,820
With a related allowance					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-
Installment	-	-	-	-	-
Residential - 1-4 family	422,121	476,449	54,328	431,618	6,574
Real Estate Unimproved/ Development Land	11,783	14,982	3,199	14,902	-
Total with a related allowance	\$ 433,904	\$ 491,431	\$ 57,527	\$ 446,520	\$ 6,574
Total					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	231,672	231,672	-	232,290	-
Installment	-	-	-	-	-
Residential - 1-4 family	1,053,098	1,107,426	54,328	1,090,079	13,394
Real Estate Unimproved/ Development Land	12,183	15,382	3,199	17,824	-
Total	\$ 1,296,953	\$ 1,354,480	\$ 57,527	\$ 1,340,193	\$ 13,394

The following table presents the contractual aging of the recorded investment in past due loans as of December 31, 2019 and 2018.

	December 31, 2019						
	Past Due						Recorded Investment ≥ 90 days and Accruing
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	
Commercial	\$ 368,951	\$ -	\$ -	\$ 368,951	\$ 460,438	\$ 829,389	\$ -
Commercial real estate	212,390	-	232,158	444,548	7,595,394	8,039,942	-
Residential 1-4 family	986,053	350,938	571,801	1,908,792	44,712,103	46,620,895	264,118
Construction	-	-	-	-	501,087	501,087	-
Installment	54,232	2,149	-	56,381	3,827,580	3,883,961	-
Real Estate Unimproved/ development land	7,475	27,611	-	35,086	2,462,774	2,497,860	-
Total	\$ 1,629,101	\$ 380,698	\$ 803,959	\$ 2,813,758	\$ 59,559,376	\$ 62,373,134	\$ 264,118

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	December 31, 2018							Recorded Investment ≥ 90 days and Accruing
	Past Due				Total	Current	Total Loans	
	30-59 days	60-89 days	≥ 90 days					
Commercial	\$ -	\$ -	\$ -	-	-	\$ 1,009,863	\$ 1,009,863	\$ -
Commercial real estate	229,241	-	231,672	460,913	6,592,055	7,052,968	-	-
Residential 1-4 family	674,227	611,693	604,816	1,890,736	45,557,143	47,447,879	44,915	-
Construction	-	-	-	-	674,364	674,364	-	-
Installment Real Estate	13,570	19,296	14,255	47,121	3,122,435	3,169,556	14,255	-
Unimproved/development land	24,464	-	400	24,864	2,554,133	2,578,997	-	-
Total	\$ 941,502	\$ 630,989	\$ 851,143	\$ 2,423,634	\$ 59,509,993	\$ 61,933,627	\$ 59,170	

Activity in the allowance for loan losses by loan class during the years ended December 31, 2019 and 2018, are as follows:

2019	Commercial	Commercial Real Estate	Residential 1-4 Family	Residential Construction	Installment	Real Estate-Unimproved/Development Land	Total
Allowance for credit losses:							
Beginning balance	\$ 3,091	\$ 100,980	\$ 361,036	\$ 2,267	\$ 43,192	\$ 221,874	\$ 732,440
Charge-offs	-	-	(30,300)	-	(56,230)	-	(86,530)
Recoveries	3,200	-	2,712	-	36,477	-	42,389
Provision	10,631	1,470	30,073	(559)	19,188	(10,803)	50,000
Ending balance	\$ 16,922	\$ 102,450	\$ 363,521	\$ 1,708	\$ 42,627	\$ 211,071	\$ 738,299
Allowance Related to:							
Individually evaluated for impairment	\$ 15,496	\$ 79,263	\$ 147,070	\$ -	\$ -	\$ 194,989	\$ 436,818
Collectively evaluated for impairment	1,426	23,187	216,451	1,708	42,627	16,082	301,481
Total	\$ 16,922	\$ 102,450	\$ 363,521	\$ 1,708	\$ 42,627	\$ 211,071	\$ 738,299
Loans:							
Individually evaluated for impairment	\$ 368,952	\$ 958,951	\$ 715,921	\$ -	\$ -	\$ 827,765	\$ 2,871,589
Collectively evaluated for impairment	460,437	7,080,991	45,904,974	501,087	3,883,961	1,670,095	59,501,545
Total	\$ 829,389	\$ 8,039,942	\$ 46,620,895	\$ 501,087	\$ 3,883,961	\$ 2,497,860	\$ 62,373,134

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2018	Commercial	Commercial Real Estate	Residential 1-4 Family	Residential Construction	Installment	Real Estate-Unimproved/Development Land	Total
Allowance for credit losses:							
Beginning balance	\$ 4,176	\$ 99,465	\$ 329,438	\$ 1,635	\$ 41,612	\$ 240,949	\$ 717,275
Charge-offs	-	-	(13,896)	-	(43,751)	-	(57,647)
Recoveries	4,000	-	1,100	-	20,712	-	25,812
Provision	(5,085)	1,515	44,394	632	24,619	(19,075)	47,000
Ending balance	\$ 3,091	\$ 100,980	\$ 361,036	\$ 2,267	\$ 43,192	\$ 221,874	\$ 732,440
Allowance Related to:							
Individually evaluated for impairment	\$ -	\$ 80,672	\$ 151,588	\$ -	\$ 3,017	\$ 204,592	\$ 439,869
Collectively evaluated for impairment	3,091	20,308	209,448	2,267	40,175	17,282	292,571
Total	\$ 3,091	\$ 100,980	\$ 361,036	\$ 2,267	\$ 43,192	\$ 221,874	\$ 732,440
Loans:							
Individually evaluated for impairment	\$ -	\$ 1,448,766	\$ 1,482,893	\$ -	\$ 15,517	\$ 429,189	\$ 3,376,365
Collectively evaluated for impairment	1,009,863	5,604,202	45,964,987	674,364	3,154,039	2,149,807	58,557,262
Total	\$ 1,009,863	\$ 7,052,968	\$ 47,447,880	\$ 674,364	\$ 3,169,556	\$ 2,578,996	\$ 61,933,627

For quarterly loan review purposes, the Bank only includes loans risk graded in their system as "substandard" or higher. The above balances for loans individually evaluated for impairment include only such loan balances and related allowances. The Bank does, however, review a larger number of loans on a recurring basis for internal purposes.

The following tables present by class the troubled debt restructurings (TDR) that were restructured during the year ended December 31, 2019 and 2018. Generally, the modifications were extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. All TDRs are evaluated individually for allowance for loan loss purposes:

	2019	
	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings	Number of Contracts	
Commercial	-	\$ -
Commercial real estate	-	\$ -
Installment	-	\$ -
Residential - 1-4 family Real estate - unimproved/development land	-	\$ -
Total	-	\$ -

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	2019	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Commercial	-	\$ -
Commercial real estate	1	232,158
Installment	-	-
Residential - 1-4 family Real estate - unimproved/development land	4	288,911
	-	-
Total	5	\$ 521,069

	2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	-	\$ -	\$ -
Commercial real estate	-	-	-
Installment	-	-	-
Residential - 1-4 family Real estate - unimproved/development land	-	-	-
	-	-	-
Total	-	\$ -	\$ -

	2018	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Commercial	-	\$ -
Commercial real estate	1	231,672
Installment	-	-
Residential - 1-4 family Real estate - unimproved/development land	7	529,904
	-	-
Total	8	\$ 761,576

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Note 6. Bank Premises and Equipment

The major categories of bank premises and equipment and accumulated depreciation at December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 392,660	\$ 392,660
Buildings and improvements	1,775,436	1,772,090
Furniture and equipment	982,224	939,341
	<u>3,150,320</u>	<u>3,104,091</u>
Less accumulated depreciation	1,996,171	1,915,915
Bank premises and equipment, net	<u>\$ 1,154,149</u>	<u>\$ 1,188,176</u>

Depreciation expense for the years ended December 31, 2019, 2018 and 2017, totaled \$80,256, \$87,499 and \$85,228, respectively.

Note 7. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
NOW accounts	\$ 19,699,115	\$ 18,393,518
Money market accounts	7,568,476	8,327,606
Savings accounts	22,901,002	22,513,651
Certificates of deposit	12,334,347	11,303,481
Total	<u>\$ 62,502,940</u>	<u>\$ 60,538,256</u>

Time deposit accounts (including certificates of deposit) in denominations that meet or exceed the FDIC insurance limit of \$250,000 totaled \$1,961,195 and \$2,637,344 as of December 31, 2019 and 2018, respectively. Interest expense on such deposits approximated \$29,000, \$24,000 and \$18,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

The following is a summary of the maturity distribution of certificates of deposit in amounts of \$250,000 or more as of December 31, 2019:

	<u>2019</u>	
	<u>Amount</u>	<u>Percent</u>
Three months or less	\$ 262,346	13.4%
Three through six months	1,080,000	55.1%
Six through twelve months	307,977	15.7%
Over twelve months	310,872	15.8%
Total	<u>\$ 1,961,195</u>	<u>100.0%</u>

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

2020	\$ 9,780,593
2021	1,515,692
2022	666,350
2023 and thereafter	<u>371,712</u>
Total time deposits	<u>\$ 12,334,347</u>

The Bank is a holder of deposits for two local governmental entities approximating \$11,435,871 at December 31, 2019, which represents a concentration.

The Bank is a holder of related party deposits approximating \$1,630,252 and \$1,353,633 at December 31, 2019 and 2018, respectively.

Note 8. Other Borrowings

The Bank has a revolving line of credit with Summit Community Bank that is available for the purchase of Federal Funds with a maximum credit availability of \$2,400,000. Other short-term borrowings consist of lines of credit from the Federal Home Loan Bank (FHLB) under its RepoPlus Program. Borrowings under this arrangement may be granted for terms of 1 to 364 days and may bear interest at both fixed and variable rates set at the time of the funding request with variable rates subject to change each month. Also, included in other borrowings are borrowings from the FHLB under its Mid Term Repo-Fixed and RepoPlus-Fixed Programs that will mature during the year ending December 31, 2019. These lines of credit are secured by a blanket lien on all unpledged and unencumbered assets of the subsidiary bank.

Additional details regarding short-term borrowings during the years ended December 31, 2019 and 2018 are presented below.

	<u>2019</u>	
	<u>Federal Funds Purchased</u>	<u>FHLB Borrowings</u>
Outstanding at year end	\$ -	\$ -
Average amount outstanding during the year	\$ -	\$ 62,055
Maximum amount outstanding at any month end	\$ -	\$ 2,995,000
Weighted average interest rate	-	2.69%
	<u>2018</u>	
	<u>Federal Funds Purchased</u>	<u>FHLB Borrowings</u>
Outstanding at year end	\$ -	\$ -
Average amount outstanding during the year	\$ -	\$ 495,093
Maximum amount outstanding at any month end	\$ -	\$ 3,050,000
Weighted average interest rate	-	1.88%

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Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2019, 2018 and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current:			
Federal	\$ 266,433	\$ 264,204	\$ 312,563
State	8,571	18,273	16,316
	<u>275,004</u>	<u>282,477</u>	<u>328,879</u>
Deferred:			
Federal	10,738	(19,102)	100,906
State	1,535	(2,729)	(1,764)
	<u>12,273</u>	<u>(21,831)</u>	<u>99,142</u>
Total	<u>\$ 287,277</u>	<u>\$ 260,646</u>	<u>\$ 428,021</u>

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2019, 2018 and 2017, is as follows:

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	\$ 270,365	21.0	\$ 248,519	21.0	\$ 369,868	34.0
Increase (decrease) in taxes resulting from:						
State income taxes, net	5,657	0.4	12,536	1.1	10,769	1.0
Tax-exempt interest	(12,116)	(0.9)	(13,698)	(1.2)	(33,400)	(3.1)
Disallowed interest expense	384	0.0	385	0.0	707	0.1
Impact of tax rate change on deferred taxes	-	0.0	-	0.0	120,900	11.1
Other, net	22,987	1.8	12,904	1.1	(40,823)	(3.8)
Applicable income taxes	<u>\$ 287,277</u>	<u>22.3</u>	<u>\$ 260,646</u>	<u>22.0</u>	<u>\$ 428,021</u>	<u>39.3</u>

Deferred income taxes for 2019 and 2018 reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The Tax Cuts and Jobs Act of 2017 (the Act) was enacted on December 22, 2017. Consequent to the passage of the Act, the Bank's deferred tax assets and liabilities were adjusted for the effects of the Act's changes in the tax law and rates. For the year ended December 31, 2017, the Bank recorded a \$120,900 charge to income tax expense to reflect the impact of the Act's tax rate change on the Bank's net deferred tax assets.

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

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As of December 31, 2019 and 2018, the Company had no unrecognized tax benefits. Such benefits would impact the effective tax rate if recognized. The Company is subject to U.S. Federal income tax examinations for returns filed after December 31, 2016. State income tax returns are generally subject to a period of examinations for a period of three to five years.

The tax effects of temporary differences which give rise to the Bank's deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	\$ -	\$ 27,525	\$ -	\$ 23,285
Accretion on tax-exempts	-	251	-	22
Nonaccrual interest	45,968	-	45,805	-
Deferred loan origination fees	59,052	-	61,255	-
Allowance for loan losses	155,265	-	153,859	-
OREO writedown	-	-	-	-
Net unrealized loss/gain on securities	-	60,771	46,219	-
	<u>\$ 260,285</u>	<u>\$ 88,547</u>	<u>\$ 307,138</u>	<u>\$ 23,307</u>

Note 10. Profit-Sharing Plan

The Bank maintains a profit-sharing plan for those employees who meet the eligibility requirements set forth in the plan. The amount of the annual contribution to the plan is at the discretion of the Bank's Board of Directors. The Bank charged \$67,500, \$62,000, and \$60,000, to operations as a contribution to the plan for the years ended December 31, 2019, 2018, and 2017, respectively.

Note 11. Commitments and Contingencies

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

Financial instruments with off-balance sheet risk:

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

	Contract Amount	
	2019	2018
Commitments to extend credit	\$ 2,782,833	\$ 2,826,208
Total	<u>\$ 2,782,833</u>	<u>\$ 2,826,208</u>

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Note 12. Restrictions on Dividends and Capital

The primary source of funds for the dividends paid by FCNB Bancorp, Inc. are dividends received from its subsidiary bank. Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. During 2020, the net retained profits available for distribution as dividends from the Bank without regulatory approval are approximately \$994,000 plus net retained income for the interim periods through the date of declaration.

The FCNB Bancorp, Inc. and subsidiary are subject to various regulatory capital requirements administered by Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require a bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019, that the Company and Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Office of the Comptroller of the Currency categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier 1 (CET1) capital, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company and Bank's actual capital amounts and ratios are presented in the following table:

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	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
CET1						
(to Risk-Weighted Assets)						
FCNB, Inc.	\$ 12,088,638	23.6%	\$ 2,124,090	4.5%	\$ 3,068,130	6.5%
FCNB	\$ 11,767,000	24.3%	\$ 2,124,090	4.5%	\$ 3,068,130	6.5%
Total Capital						
(to Risk-Weighted Assets)						
FCNB, Inc.	\$ 12,826,937	25.2%	\$ 3,776,160	8.0%	\$ 4,720,200	10.0%
FCNB	\$ 12,358,000	25.5%	\$ 3,776,160	8.0%	\$ 4,720,200	10.0%
Tier I Capital						
(to Risk-Weighted Assets)						
FCNB, Inc.	\$ 12,088,638	23.6%	\$ 1,888,080	4.0%	\$ 2,832,120	6.0%
FCNB	\$ 11,767,000	24.3%	\$ 1,888,080	4.0%	\$ 2,832,120	6.0%
Tier I Capital						
(to Average Assets)						
FCNB, Inc.	\$ 12,088,638	12.0%	\$ 3,804,480	4.0%	\$ 576,720	6.0%
FCNB	\$ 11,767,000	12.4%	\$ 3,804,480	4.0%	\$ 5,706,720	6.0%
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
CET1						
(to Risk-Weighted Assets)						
FCNB, Inc.	\$ 11,920,094	23.6%	\$ 2,083,995	4.5%	\$ 3,025,815	6.5%
FCNB	\$ 11,235,000	24.3%	\$ 2,083,995	4.5%	\$ 3,025,815	6.5%
Total Capital						
(to Risk-Weighted Assets)						
FCNB, Inc.	\$ 11,652,534	25.2%	\$ 3,704,880	8.0%	\$ 4,631,100	10.0%
FCNB	\$ 11,815,000	25.5%	\$ 3,704,880	8.0%	\$ 4,631,100	10.0%
Tier I Capital						
(to Risk-Weighted Assets)						
FCNB, Inc.	\$ 10,920,094	23.6%	\$ 1,852,440	4.0%	\$ 2,778,660	6.0%
FCNB	\$ 11,235,000	24.3%	\$ 1,852,440	4.0%	\$ 2,778,660	6.0%
Tier I Capital						
(to Average Assets)						
FCNB, Inc.	\$ 10,920,094	12.0%	\$ 3,638,280	4.0%	\$ 5,457,420	6.0%
FCNB	\$ 11,235,000	12.4%	\$ 3,638,280	4.0%	\$ 5,457,420	6.0%

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Note 13. Fair Value Measurements

ASC Topic 820 "*Fair Value Measurements and Disclosures*" (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

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

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

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

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities, certificate of deposits and municipal bonds. Level 3 securities include local community development bonds.

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Assets at Fair Value on a Recurring Basis

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

Available for Sale Securities	Total at December 31, 2019	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
U.S. Government agencies and corporations	\$ 22,800,673	\$ -	\$ 22,800,673	\$ -
Mortgage Backed securities - U.S. gov't. agencies and corporations	-	-	-	-
Certificates of deposit	1,366,559	-	1,366,559	-
Obligations of state and political subdivisions - tax-exempt	1,761,980	-	1,761,980	-
Total available for sale securities	\$ 25,929,212	\$ -	\$ 25,929,212	\$ -

Available for Sale Securities	Total at December 31, 2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
U.S. Government agencies and corporations	\$ 19,672,728	\$ -	\$ 19,672,728	\$ -
Mortgage Backed securities - U.S. gov't. agencies and corporations	-	-	-	-
Certificates of deposit	1,124,364	-	1,124,364	-
Obligations of state and political subdivisions - tax-exempt	2,511,327	-	2,511,327	-
Total available for sale securities	\$ 23,308,419	\$ -	\$ 23,308,419	\$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. There were no assets recorded at fair value on a nonrecurring basis as of December 31, 2019 and 2018.

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Note 14. Condensed Financial Statements of Parent Company

The investment of the Company in its wholly-owned subsidiary is presented on the equity method of accounting. Information relative to the Company's balance sheets at December 31, 2019 and 2018, and the related statements of income and cash flows for the years ended December 31, 2019, 2018 and 2017, is presented below:

<u>Balance Sheets</u>	<u>2019</u>	<u>2018</u>	
<u>Assets</u>			
Cash	\$ 61,848	\$ 67,405	
Investment in subsidiary, eliminated in consolidation	11,896,925	11,043,786	
Total assets	\$ 11,958,773	\$ 11,111,191	
<u>Liabilities</u>			
	\$ -	\$ -	
<u>Shareholders' equity</u>			
Common stock, \$25.00 par value, authorized and issued 12,000 shares outstanding	300,000	300,000	
Capital surplus	345,233	345,233	
Retained earnings	12,763,871	12,225,244	
Less cost of shares acquired for the treasury, 2,385 shares, 2019; 2,375 shares, 2018	(1,580,196)	(1,568,189)	
Accumulated other comprehensive income	129,865	(191,097)	
Total shareholders' equity	11,958,773	11,111,191	
Total liabilities and shareholders' equity	\$ 11,958,773	\$ 11,111,191	
<u>Statements of Income</u>			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income - dividends from bank subsidiary	\$ 468,000	\$ 456,000	\$ 480,000
Expenses - operating	-	-	-
Income before income taxes and undistributed income	468,000	456,000	480,000
Applicable income tax expense (benefit)	-	-	-
Income before undistributed income	468,000	456,000	480,000
Equity in undistributed income of subsidiary	532,177	461,840	179,819
Net income	\$ 1,000,177	\$ 917,840	\$ 659,819

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<u>Statements of Cash Flows</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,000,177	\$ 917,840	\$ 659,819
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary	(532,177)	(461,840)	(179,819)
Net cash provided by operating activities	<u>468,000</u>	<u>456,000</u>	<u>480,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (purchase)/sales in treasury stock	(12,007)	(69,842)	(28,491)
Dividends paid to shareholders	(461,550)	(462,620)	(406,769)
Net cash (used in) financing activities	<u>(473,557)</u>	<u>(532,462)</u>	<u>(435,260)</u>
Increase (decrease) in cash	(5,557)	(76,462)	44,740
Cash:			
Beginning	67,405	143,867	99,127
Ending	<u>61,848</u>	<u>67,405</u>	<u>143,867</u>

The FCNB Bancorp, Inc. accounts for its investment in its subsidiary by the equity method. During the years ended December 31, 2019, 2018 and 2017, respectively, changes were as follows:

	<u>Number of Shares Owned</u>	<u>Percent of Shares Owned</u>
Fayette County National Bank	12,000	100%
Balance at December 31, 2016		\$ 10,692,589
Add (deduct):		
Net income of subsidiary		659,824
Dividends declared by the bank subsidiary		(480,000)
Change in equity in net unrealized gain (loss) on securities of bank subsidiary		(86,559)
Balance at December 31, 2017		10,785,854
Add (deduct):		
Net income of subsidiary		917,840
Dividends declared by the bank subsidiary		(456,000)
Change in equity in net unrealized gain (loss) on securities of bank subsidiary		(203,908)
Balance at December 31, 2018		11,043,786
Add (deduct):		
Net income of subsidiary		1,000,177
Dividends declared by the bank subsidiary		(468,000)
Change in equity in net unrealized gain (loss) on securities of bank subsidiary		320,962
Balance at December 31, 2019		<u>\$ 11,896,925</u>

Form FR Y-6

**FCNB Bancorp, Inc.
Fayetteville, West Virginia
Fiscal Year Ending December 31, 2019**

Report Item

1: The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate reserve bank an electronic copy is attached.

2a:

FCNB Bancorp, Inc. Fayetteville, West Virginia Incorporated in West Virginia LEI # N/A

100%

The Fayette County National Bank of Fayetteville Fayetteville, West Virginia Incorporated in West Virginia LEI # 2549005QV7K44ND43364
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2b:

Domestic branch listing provided on next page.

Results: A list of branches for your holding company: FCNB BANCORP, INC. (2355759) of FAYETTEVILLE, WV.
 The data are as of 12/31/2019. Data reflects information that was received and processed through 01/07/2020.

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
OK		Full Service (Head Office)	488420	FAYETTE COUNTY NATIONAL BANK OF FAYETTEVILLE, THE	101 NORTH COURT STREET	FAYETTEVILLE	WV	25840	FAYETTE	UNITED STATES	Not Required	Not Required	FAYETTE COUNTY NATIONAL BANK OF FAYETTEVILLE, THE
OK		Full Service	2228657	ANSTED BRANCH	20165 MIDLAND TRAIL	ANSTED	WV	25812	FAYETTE	UNITED STATES	Not Required	Not Required	FAYETTE COUNTY NATIONAL BANK OF FAYETTEVILLE, THE
OK		Full Service	369828	OAK HILL BRANCH	1554 EAST MAIN STREET	OAK HILL	WV	25901	FAYETTE	UNITED STATES	Not Required	Not Required	FAYETTE COUNTY NATIONAL BANK OF FAYETTEVILLE, THE

Form FR Y-6

FCNB Bancorp, Inc.
Fayetteville, West Virginia
Fiscal Year Ending December 31, 2019

Report Item 3: Securities Holders					
(1)(a)(b)(c)			(2)(a)(b)(c)		
Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Stephanie Kelly Ford Fayetteville, WV, USA	USA	40 - 0.416% Common Stock	NONE - N/A		
Kathleen H. Kelly Revocable Inter Vivos Trust Stephanie Kelly Ford, Trustee Fayetteville, WV, USA	USA	756 - 7.863% Common Stock			
Kathleen H. Kelly Oak Hill, WV, USA	USA	40 - 0.416% Common Stock			
Kimberly Kelly LaPrade Fincastle, VA, USA	USA	12 - 0.125% Common Stock			
TOTAL		848 - 8.819% Common Stock			
Gloria King Oak Hill, WV, USA	USA	588 - 6.115% Common Stock			
Charles M. Mahood Fayetteville, WV, USA	USA	720 - 7.488% Common Stock			

Form FR Y-6

**FCNB Bancorp, Inc.
Fayetteville, West Virginia
Fiscal Year Ending December 31, 2019**

Report Item 3: Securities Holders			(2)(a)(b)(c)		
(1)(a)(b)(c)			(2)(a)(b)(c)		
Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Wade Hampton Mahood, Jr. Living Trust Dated 7-12-01 New Smyrna Beach, FL, USA	USA	720 - 7.488% Common Stock	NONE - N/A		
Katherine Chaffin Rye, NY, USA	USA	360 - 3.744% Common Stock			
Thomas Ethan Crosby Crafton, MD, USA	USA	360 - 3.744% Common Stock			
TOTAL		720 - 7.488% Common Stock			

Form FR Y-6

FCNB Bancorp, Inc.
Fayetteville, West Virginia
Fiscal Year Ending December 31, 2019

Report Item 3: Securities Holders					
(1)(a)(b)(c)			(2)(a)(b)(c)		
Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Judith A. Hamilton-Brooks Charlotte, NC, USA	USA	106 - 1.102% Common Stock	NONE - N/A		
Debra L. Hamilton Charleston, WV, USA	USA	241 - 2.506% Common Stock			
James E. Hamilton Beckley, WV, USA	USA	241 - 2.506% Common Stock			
Patricia L. Hamilton Charleston, WV, USA	USA	196 - 2.038% Common Stock			
		Total 784 - 8.152% Common Stock			

Form FR Y-6

FCNB Bancorp, Inc.
Fayetteville, West Virginia
Fiscal Year Ending December 31, 2019

Report Item 3: Securities Holders					
(1)(a)(b)(c)			(2)(a)(b)(c)		
Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-19.		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Marjorie Jurek Raleigh, NC, USA	USA	160 - 1.664% Common Stock	NONE - N/A		
Sarah E. Kelly Washington, D.C., USA	USA	200 - 2.080% Common Stock			
Elizabeth McCarthy Raleigh, NC, USA	USA	160 - 1.664% Common Stock			
Henry Selby Richmond, VA, USA	USA	120 - 1.248% Common Stock			
Barbara Wells Richmond, Va, USA	USA	160 - 1.664% Common Stock			
		Total 800 - 8.32% Common Stock			

