2019 Annual Report

The FARMERS BANK of APPOMATTOX

MEMBER FDIC

Table of Contents

The Farmers Bank Of Appomattox and Subsidiary

As of and for the years ended December 31, 2019 and December 31, 2018

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at a later date to be determined by the Board of Directors. This date and the location and time of the meeting will be communicated to shareholders through normal channels.

Independent Auditor

Yount, Hyde & Barbour, P.C.
50 South Cameron Street
Winchester, VA 22604

Corporate Headquarters

The Farmers Bank of Appomattox
223 Main Street
Appomattox, Virginia 24522

Branches

Concord Branch
Cindy Martin, Manager
10272 Village Highway
Concord, VA 24538

Main Street Branch
Jane Thomas, Operations Manager
223 Main Street
Appomattox, VA 24522

Dillwyn Branch
Stephanie Oliver, Manager
16086 N. James Madison Highway
Dillwyn, VA 23936

Triangle Plaza Branch
Dianne Rudder, Manager
169 Old Courthouse Road
Appomattox, VA 24522

Farmville Branch
Anabelle Rodriguez-Thurston, Manager
1508 South Main Street
Farmville, VA 23901

The Presidents Message

Dear Shareholders,

On behalf of the Board of Directors and management of The Farmers Bank of Appomattox, I am pleased to present our annual report of the financial condition and results of operations of the Bank for the years ended December 31, 2019 and 2018. We had an exceptional year in 2019 marked by improved earnings, a strong capital position and a continued emphasis on the values that make us a premium community bank. Net income for the year ended December 31, 2019 was $2.59 million, a $273 thousand (11.78%) increase compared to 2018. The Bank's return on average assets (ROAA) of 1.11% outperformed the Virginia Bank peer group by 19bps and the Bank's return on average equity (ROAE) of 7.93% was 73 bps better than Virginia peers.

The $217 thousand year over year increase in total interest income outpaced the $169 thousand increase in interest expense and resulted in a $48 thousand improvement in net interest income. Interest and fees on loans grew by 5.42% as a result of net loan growth of $1.38 million and a 15bps improvement in the composite loan yield. Investment interest income declined by $200 thousand as security purchases of $9.83 million lagged behind calls and maturities of $11.34 million. Excess funds were held in federal funds sold in anticipation of loan funding needs. Deposits grew by $3.17 million during 2019 with the primary increase being in certificates of deposit. As we enter 2020, the Bank remains in an environment of uncertain interest rates and strong competition for loans and deposits.

A key driver for the increased earnings in 2019 was a $703 thousand decline in the Bank's loan loss provision resulting from a $495 thousand decrease in net charged off loans. This decrease was enhanced by one commercial loan recovery of $153 thousand. During 2019, noninterest income declined by $111 thousand (9.96%) as fee income from deposit accounts declined. Also the Bank had a gain from the sale of foreclosed property and a large deposit insurance recovery totaling $68 thousand in 2018 that were not received in 2019. Noninterest expense increased by a moderate 4.16% in spite of a net $40 thousand loss resulting from an ATM card skimming fraud. The Bank continues to maintain a favorable efficiency ratio that outperforms peers.

The Presidents Message

Our Bank continues to maintain a very strong capital position that is well above the threshold for being well-capitalized under the Federal Reserve Bank's benchmarks. Stockholders' equity grew by $2.27 million and the Bank's 2019 earnings per share was $2.39, an increase of $0.25 compared to year-end 2018. Management and the Board of Directors realize that 2020 brings much uncertainty. As I write this letter the Coronavirus continues to add volatility to an already uncertain economy. Throughout the coming year, we will continue our strategic initiatives of managed growth, strategic cost containment, sustainability and customer retention.

On December 31, 2019, Jane Kelly our Chief Operations Officer and Corporate Secretary retired after many years of dedicated service to our institution. We will miss Jane and I know you will join with me in wishing her well in her retirement. Thomas L. Rasey, Jr. has been promoted to fill her position and will now be your primary shareholder contact as Corporate Secretary. If you have not met Tom, I hope you will introduce yourself at your next opportunity. We are always ready to help you sign up for electronic delivery of materials or direct deposit of your dividends.

We remain committed to you our shareholders and the communities in which we serve. During the year 2020, I will celebrate my 35th year with the Bank. Banking has changed quite a bit during this period, but our level of commitment and our values have not. We have been viewed as a financial partner throughout these many years and we do not take this honor for granted. We could not have experienced the success that we have today without the support of you, our shareholders.

I remain thankful for all of our dedicated and talented directors, officers and employees that have helped make our Bank so profitable. We are continually striving to introduce new products, services and delivery channels to meet the expectations of today's customer. As always, we remain committed to delivering great value for your investment. We ask you to invite your friends, associates and colleagues to bank with us.

Sincerely,

John R. Caldwell
President and Chief Executive Officer

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY

Five-year Summary of Selected Financial Data
(In Thousands, Except Per Share Data and Selected Ratios)

	Years Ended December 31				
Income statement data	2019	2018	2017	2016	2015
Interest income	$ 9,765	$ 9,548	$ 9,405	$ 8,794	$ 8,501
Interest expense	1,031	862	900	916	1,006
Net interest income	8,734	8,686	8,505	7,878	7,495
Provision for loan losses	69	772	618	300	76
Net interest income after provision for loan losses	8,665	7,914	7,887	7,578	7,419
Noninterest income	1,003	1,114	1,081	1,853	1,266
Noninterest expense	6,606	6,342	6,068	6,448	5,788
Income tax expense	472	369	533	408	671
Net income	$ 2,590	$ 2,317	$ 2,367	$ 2,575	$ 2,226
Per share data:					
Basic earnings per share	$ 2.39	$ 2.14	$ 2.18	$ 2.38	$ 2.05
Cash dividends per share	$ .82	$ .87	$ .83	$ .75	$ .70
Book value at year end	$ 31.00	$ 28.91	$ 28.11	$ 26.98	$ 25.76
Balance sheet data at end of year					
Available-for-sale securities	$ 37,234	$ 36,496	$ 45,610	$ 52,101	$ 59,595
Held to maturity securities	19,477	21,525	22,495	25,622	18,447
Total loans, net	155,061	153,678	151,879	136,671	126,559
Total assets	235,751	229,936	238,234	233,642	222,868
Deposits	199,227	196,056	205,708	202,451	192,680
Stockholders’ equity	33,598	31,327	30,457	29,240	27,914
Selected ratios					
Return on average assets	1.11%	0.98%	0.99%	1.12%	1.01%
Return on average equity	7.93	7.53	7.91	8.83	8.18
Dividend payout ratio	34.30	40.68	38.00	31.57	34.08
Average equity to average assets	14.01	13.02	12.51	12.64	12.36

Common Stock Prices and Dividends Paid

The common stock of the Bank is not listed on a registered exchange. However, the investment firm of Davenport and Company, LLC has agreed to execute trades.

Following are listings of the quarterly high and low sales prices of Bank stock during 2019 and 2018, based on actual sales prices known to the Bank, along with the dividends that were paid during those periods. Prices do not necessarily reflect unreported trades, which may have been at lower or higher prices.

2019	High	Low	Dividends
1st Quarter	$ 29.19	$ 28.60	$ 0.40
2nd Quarter	$ 29.00	$ 26.75	-
3rd Quarter	$ 28.55	$ 26.33	$ 0.42
4th Quarter	$ 27.43	$ 26.50	-

2018	High	Low	Dividends
1st Quarter	$ 32.00	$ 30.00	$ 0.47
2nd Quarter	$ 32.00	$ 30.10	-
3rd Quarter	$ 32.94	$ 30.00	$ 0.40
4th Quarter	$ 31.50	$ 29.60	-

As of December 31, 2019, there were 1,083,660 outstanding shares of Bank common stock, par value $2.00 per share, held by 910 shareholders of record.

The Bank is subject to certain regulatory restrictions pertaining to the amount of dividends that it may pay. The Federal Reserve restricts, without prior approval, the total dividend payments of a member bank in any calendar year to the bank's net income of that year, as defined, combined with its retained net income of the preceding two calendar years, less any required transfers to surplus. At December 31, 2019, retained earnings which are free of such restrictions amounted to approximately $4,544,171. Please reference Note 11 of the Notes to Consolidated Financial Statements for a discussion of dividend restrictions and capital requirements.

Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
The Farmers Bank of Appomattox
Appomattox, Virginia

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of The Farmers Bank of Appomattox and Subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements collectively, the financial statements .

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Farmers Bank of Appomattox and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 10, 2020

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2019 and 2018
(In thousands, except share and per share data)

Assets	2019	2018
Cash and cash equivalents		
Cash and due from banks	$ 4,434	$ 4,794
Federal funds sold	5,798	477
Total cash and cash equivalents	10,232	5,271
Securities		
Available-for-sale, at fair value	37,234	36,496
Held-to-maturity, at amortized cost	19,477	21,525
Loans, net of allowance for loan losses ($1,088 and $1,133)	155,061	153,678
Bank premises and equipment, net	2,667	2,494
Accrued interest receivable	1,017	1,054
Investment in bank-owned life insurance	6,387	6,234
Prepaid pension expense	1,638	1,180
Other real estate owned, net of valuation allowance	148	148
Other assets	1,890	1,856
Total assets	$ 235,751	$ 229,936
Liabilities and Stockholders' Equity		
Deposits		
Demand – noninterest bearing	$ 42,449	$ 39,590
Demand – interest bearing	47,508	48,712
Savings	49,597	51,019
Time:		
Certificates of deposit of $250 and over	7,524	7,784
Other	52,149	48,951
Total deposits	199,227	196,056
Securities sold under repurchase agreements	1,733	1,845
Accrued interest payable	114	87
Deferred income taxes	345	93
Other liabilities	734	528
Total liabilities	202,153	198,609
Stockholders' equity		
Common stock, $2 par value. Authorized 1,600,000 shares: issued and outstanding 1,083,660 shares	2,167	2,167
Additional paid-in capital	1,000	1,000
Retained earnings	31,428	29,726
Accumulated other comprehensive loss	(997)	(1,566)
Total stockholders' equity	33,598	31,327
Total liabilities and stockholders' equity	$ 235,751	$ 229,936

See notes to consolidated financial statements

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2019 and 2018
(In thousands, except per share data)

	2019	2018
Interest income		
Interest and fees on loans	$ 8,107	$ 7,690
Interest on securities		
U.S. Government agencies	297	346
Obligations of states and political subdivisions – nontaxable	694	809
Obligations of states and political subdivisions – taxable	192	307
Corporate obligations	320	323
Mortgage backed securities	66	5
Interest on federal funds sold	89	68
Total interest income	9,765	9,548
Interest expense		
Interest on deposits	1,025	854
Interest on securities sold under repurchase agreements	6	8
Total interest expense	1,031	862
Net interest income	8,734	8,686
Provision for loan losses	69	772
Net interest income after provision for loan losses	8,665	7,914
Noninterest income		
Service charges on deposit accounts	501	540
Gain on sales, calls or maturities of securities	8	14
Net death benefit and income from bank-owned life insurance	153	156
Other	341	404
Total noninterest income	1,003	1,114
Noninterest expense		
Salaries and employee benefits	3,696	3,488
Expenses of premises and equipment	583	566
Other operating expenses	2,327	2,288
Total noninterest expense	6,606	6,342
Income before income tax expense	3,062	2,686
Income tax expense	472	369
Net income	2,590	2,317
Other comprehensive income loss		
Unrealized gains (losses) on available-for-sale securities, net of deferred income tax of $147 and ($136) in 2019 and 2018, respectively.	555	(512)
Reclassification of gains recognized in net income, net of income tax of ($1) and ($5) in 2019 and 2018, respectively.	(7)	(19)
Change in funded status of pension, net of deferred income tax of $6 and $7 in 2019 and 2018, respectively.	21	27
Total other comprehensive income (loss	569	(504)
Comprehensive income	$ 3,159	$ 1,813
Per share data:		
Earnings per share, basic and diluted	$ 2.39	$ 2.14
Cash dividends per share	$ 0.82	$ 0.87

See notes to consolidated financial statements

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2019 and 2018
(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss)	Total Stockholders' Equity
Balances at January 1, 2018	$ 2,167	$ 1,000	$ 28,352	$ (1,062)	$ 30,457
Net income	-	-	2,317	-	2,317
Cash dividends $0.87 per share	-	-	943	-	943
Other comprehensive loss	-	-	-	(504)	(504)
Balances at December 31, 2018	**2,167**	**1,000**	**29,726**	**(1,566)**	**31,327**
Net income	-	-	2,590	-	2,590
Cash dividends ($0.82 per share)	-	-	(888)	-	(888)
Other comprehensive income	-	-	-	569	569
Balances at December 31, 2019	**$ 2,167**	**$ 1,000**	**$ 31,428**	**$ (997)**	**$ 33,598**

See notes to consolidated financial statements

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
In thousands

	2019	2018
Cash flow from operating activities:		
Net income	$ 2,590	$ 2,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of bank premises and equipment	201	181
Net gain on sale, call or maturity of investment securities	(8)	(14)
Net amortization and accretion of premiums and discounts on securities	168	231
Provision for loan losses	69	772
Provision for deferred income taxes	101	131
Net increase in cash surrender value of bank-owned life insurance	(153)	(156)
Net (gain) on the sale of other real estate	(2)	(37)
Net (increase decrease in:		
Accrued interest receivable	37	103
Prepaid pension expense	(431)	(429)
Other assets	(34)	(5)
Net increase (decrease) in:		
Accrued interest payable	27	3
Other liabilities	206	100
Net cash provided by operating activities	2,771	3,197
Cash flow from investing activities:		
Proceeds from sales of available-for-sale securities	$ -	$ 6,081
Proceeds from maturities and calls of available-for-sale securities	9,401	9,044
Proceeds from maturities and calls of held to maturity securities	1,949	1,800
Principal payments from mortgage-backed securities	323	27
Net proceeds from the sale of other real estate	130	460
Purchases of available-for-sale securities	(9,830)	(6,825)
Purchases of held to maturity securities	-	(932)
Net increase in loans	(1,580)	(2,571)
Purchases of bank premises and equipment	(374)	(192)
Net cash provided by investing activities	19	6,892
Cash flow from financing activities:		
Net increase (decrease) in demand deposits and savings accounts	233	(1,798)
Net increase (decrease) in time deposits	2,938	(7,854)
Net increase (decrease) in securities sold under repurchase agreements	(112)	384
Cash dividends paid	(888)	(943)
Net cash provided by (used in) financing activities	2,171	(10,211)
Net increase (decrease in cash and cash equivalents	4,961	(122)
Cash and cash equivalents, beginning of year	5,271	5,393
Cash and cash equivalents, end of year	$ 10,232	$ 5,271

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
In thousands

		2019		2018
Supplemental disclosure of cash flow information				
Interest paid during the period	$	1,004	$	860
Federal income tax paid during the period	$	303	$	131
Supplemental schedule of noncash investing and financing activities				
Transfers from loans to other real estate owned	$	128	$	-
Unrealized gains (losses) on available-for-sale securities, net of an income tax expense (benefit) of $145 and ($141) in 2019 and 2018, respectively	$	694	$	(531)
Unrecognized net actuarial gain loss) in defined benefit plan, net of an income tax expense of $6 and $7 in 2019 and 2018, respectively	$	21	$	27

See notes to consolidated financial statements

Note 1 - Summary of significant accounting policies

The accounting and reporting policies of The Farmers Bank of Appomattox and its wholly owned subsidiary, Farmers Bank Financial Services, Inc., conform to accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. The following is a summary of the more significant accounting policies:

Consolidation

The consolidated financial statements include the accounts of The Farmers Bank of Appomattox and its wholly owned subsidiary collectively, “the Bank”). The wholly owned subsidiary, Farmers Bank Financial Services, Inc., is utilized to account for the Bank’s investment in two insurance companies. All significant intercompany balances and transactions have been eliminated in the consolidation.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and income and expenses for each year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to determination of the allowance for loan losses, valuation of other real estate owned, the fair value of investment securities and pension benefit obligations.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

Securities

The Bank classifies its securities in two categories: 1 debt securities that the Bank has the positive intent and ability to hold to maturity are classified as “held to maturity securities” and reported at amortized cost. Amortization of premiums and accretion of discounts are adjusted on a basis which approximates the level yield method; and (2) debt securities not classified as held to maturity securities are classified as “available-for-sale securities” and reported at fair value, with unrealized gains and losses excluded from net income and reported in a separate component of stockholders’ equity.

Gains or losses on disposition of securities are based on the net proceeds and adjusted carrying values of the securities matured, called or sold, using the specific identification method on a trade date basis. A decline in the market value of any available-for-sale or held to maturity security below cost that is deemed other than temporary is charged to net income, resulting in the establishment of a new cost basis for the security.

The Bank is required to maintain an investment in the capital stock of the Federal Reserve Bank and Community Bankers’ Bank. No ready market exists for this stock, and it has no quoted market value. The Bank’s investment in these stocks is recorded at cost.

Note 1 - Summary of significant accounting policies (continued)

Securities

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell or it is more likely than not it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans and allowance for loan losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and fees on loans and an allowance for loan losses. The allowance for loan losses is a valuation allowance consisting of the cumulative effect of the provision for loan losses, plus any amounts recovered on loans previously charged off, minus loans charged off. The provision for loan losses is charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

Modifications to a borrower's debt agreement are considered troubled debt restructurings "restructurings") if a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be considered. Restructurings are undertaken in order to improve the likelihood of recovery on the loan and may take the form of modifications made with the stated interest rate lower than the current market rate for new debt with similar risk; modifications to the terms and conditions of the loan that fall outside of normal underwriting policies and procedures; or a combination of these modifications. Restructurings can involve loans remaining in nonaccrual status, moving to nonaccrual status, or continuing in accruing status, depending on the individual facts and circumstances of the borrower.

Loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or at the fair value of the collateral less the estimated selling costs, if the loan is collateral dependent. Larger groups of homogeneous loans such as real estate mortgage loans, individual consumer loans and home equity loans are evaluated collectively for impairment. Impairment losses are recorded as a charge to the allowance for loan losses.

Note 1 - Summary of significant accounting policies (continued)

Loans and allowance for loan losses

The allowance for loan losses is an amount management believes will be adequate to absorb probable losses inherent in the loan portfolio. Management determines the adequacy of the allowance based upon reviews of individual credits, delinquencies, current economic conditions, the risk characteristics of the various categories of loans, recent loan loss experience and other pertinent factors. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. It is reasonably possible that management's estimate of loan losses and the related allowance may change materially in the near term. However, the amount of that change cannot be estimated. Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available at the time of their examinations.

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of their contractual due date. Loans are generally placed in non-accrual status if they are 90 or more days past due unless they are in the process of collection. Interest related to non-accrual loans is recognized on the cash basis. Loans in non-accrual status are generally the collectible portion of bankrupt accounts. Loans are generally charged off when the collection of principal and interest is 90 days or more past due and the loan is considered uncollectible.

Loan origination fees and the corresponding loan origination costs are deferred, and the net amount is amortized over the contractual life of the related loans as an adjustment of yield.

Bank premises and equipment

Land is carried at cost, while bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation on bank premises and equipment is charged to expense over the estimated useful lives of the assets which range from three to forty years, principally on the straight-line method. The cost of assets retired and sold and the related accumulated depreciation are eliminated from the accounts and the resulting gains or losses are included in determining net income. Expenditures for maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized.

Other real estate owned

Other real estate owned consists of properties acquired through foreclosure sales or deed in lieu of foreclosure. At the time of the foreclosure, the properties are recorded at the fair value less estimated costs to sell the property, establishing a new cost basis. Subsequently these properties are carried at the lower of cost or fair value less the estimated costs to sell the property. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for loan losses. Subsequent write-downs, if any, are charged to expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale.

Note 1 - Summary of significant accounting policies (continued)

Defined benefit pension plan

The Bank maintains a noncontributory defined benefit pension plan covering substantially all of its employees. The overfunded or underfunded status of the pension plan is recognized as an asset or liability in the statement of financial position, and changes in the funded status are recognized in comprehensive income. The net periodic pension expense includes a service cost component, interest on the projected benefit obligation, a component reflecting the actual return on plan assets, and the effect of deferring and amortizing certain actuarial gains and losses. The Bank's normal funding policy is to contribute to the pension plan amounts necessary to satisfy the Internal Revenue Service's funding standards and to the extent that they are deductible for federal income tax purposes.

Bank-owned life insurance

The Bank has purchased life insurance on key employees. The insurance is recorded at the cash surrender value on the consolidated balance sheet. Income generated from the policies is recorded as non-interest income.

Advertising

The Bank expenses advertising costs as incurred. These costs totaled $22 and $33 in 2019 and 2018, respectively.

Income taxes

Income taxes are recorded using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Note 1 - Summary of significant accounting policies (continued)

Earnings per share

Basic and diluted earnings per share is computed based on the weighted-average number of shares outstanding during each year. The weighted-average number of common shares outstanding was 1,083,660 for 2019 and 2018. The Bank has no potentially dilutive common shares.

Comprehensive income

Accounting Standards Codification ("ASC") 220-10, *Comprehensive Income*, requires the Bank to classify items of "Other Comprehensive Income" (such as net unrealized gains losses) on available-for-sale securities) by their nature in a financial statement and present the accumulated balance of other comprehensive income separately from retained earnings and surplus in the equity section of a statement of financial position. The Bank's other comprehensive income consists of the change in the net unrealized gains (losses) on securities available-for-sale, net of income taxes, and the change in the funded status of the Bank's defined benefit pension plan, net of income taxes.

Fair value measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. Please reference Note 15 addressing fair value measurements. In general, fair values of financial instruments are based on quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use as inputs observable market-based parameters. Any such valuation adjustments are applied consistently over time.

Reclassifications

Certain immaterial reclassifications have been made to prior period balances to conform to the current year presentations. Reclassifications had no impact on prior year net income or stockholders' equity.

Recent accounting pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities that meet the definition of a U.S. Securities and Exchange Commission (SEC) filer, excluding smaller reporting companies, the standard is effective for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years.

Note 1 - Summary of significant accounting policies (continued)

Recent accounting pronouncements

All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Bank is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Bank has engaged an outside vendor to assist management with addressing the compliance requirements, data gathering, archiving, and data analysis.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Bank does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various Transition Resource Group (TRG) Meetings. The effective date of each of the amendments depends on the adoption date of ASU 2016-1, ASU 2016-03, and ASU 2017-12. The Bank is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, "Financial Instruments—Credit Losses Topic 326): Targeted Transition Relief." The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The effective date and transition methodology for the amendments in ASU 2019-05 are the same as in ASU 2016-13. The Bank is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities.

Note 1 - Summary of significant accounting policies (continued)

Recent accounting pronouncements

The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Bank is currently assessing the impact that ASU 2019-11 will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The ASU is based on a consensus of the Emerging Issues Task Force and is expected to increase comparability in accounting for these transactions. ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank does not expect the adoption of ASU 2020-01 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Certain disclosure requirements have been deleted while the following disclosure requirements have been added: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets and the accumulated benefit obligation ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The amendments are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Bank does not expect the adoption of ASU 2020-01 to have a material impact on its consolidated financial statements.

(In thousands, except share and per share data)

Note 2 - Restrictions on cash

To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirements were approximately $2,144 and $2,090 for the specified review weeks in December 2019 and 2018, respectively.

Note 3 - Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values of securities are as follows:

	December 31, 2019			
	Amortized	Gross Unrealized		Fair
	Costs	Gains	Losses	Values
Available-for-sale				
U.S. Government agencies	$ 8,396	$ 126	$ (1)	$ 8,521
Obligations of states and political subdivisions – nontaxable	11,851	243	(4)	12,090
Obligations of states and political subdivisions – taxable	2,568	49	(42)	2,575
Mortgage-backed securities	4,174	64	(26)	4,212
Corporate	9,689	148	(1)	9,836
	$ 36,678	$ 630	$ (74)	$ 37,234
Held to maturity				
U.S. Government agencies	$ 6,500	$ 4	$ (5)	$ 6,499
Obligations of states and political subdivisions – nontaxable	11,984	288	(2)	12,270
Obligations of states and political subdivisions – taxable	993	26	-	1,019
	$ 19,477	$ 318	$ (7)	$ 19,788

	December 31, 2018			
	Amortized	Gross Unrealized		Fair
	Costs	Gains	Losses	Values
Available-for-sale				
U.S. Government agencies	$ 7,386	$ 4	$ (66)	$ 7,324
Obligations of states and political subdivisions – nontaxable	14,279	75	(24)	14,330
Obligations of states and political subdivisions – taxable	2,818	81	-	2,899
Mortgage-backed securities	1,390	13	-	1,403
Corporate	10,761	24	(245	10,540
	$ 36,634	$ 197	$ (335)	$ 36,496
Held to maturity				
U.S. Government agencies	$ 7,499	$ -	$ 273	$ 7,226
Obligations of states and political subdivisions – nontaxable	12,570	36	(293)	12,313
Obligations of states and political subdivisions – taxable	1,456	38	(2)	1,492
	$ 21,525	$ 74	$ (568)	$ 21,031

(In thousands, except share and per share data)

Note 3 – Securities (continued)

The amortized costs and fair values of securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held to Maturity	
	Amortized Cost	Fair Values	Amortized Cost	Fair Values
Due in one year or less	$ 6,705	$ 6,720	$ 2,122	$ 2,136
Due after one year through five years	17,259	17,659	9,732	9,822
Due after five years through ten years	9,761	9,758	7,623	7,830
Due after ten years	2,953	3,097	-	-
	$ 36,678	$ 37,234	$ 19,477	$ 19,788

The amortized costs of securities pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as required or permitted by law were approximately $11,496 and $14,213 (fair value of $11,772 and $14,110) at December 31, 2019 and 2018, respectively.

During 2019 and 2018, the Bank had called and matured securities with amortized costs totaling $11,343 and $10,844, respectively. Gross realized gains on the called and matured securities were $8 and $1, respectively, while there were no gross realized losses. During 2018, the Bank sold available-for-sale securities with amortized costs totaling $6,067. Gross realized gains on these sales were $23, while gross realized losses on these sales were $9.

The following table shows the gross unrealized losses and fair value of the Bank's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2019:						
U. S. Government agencies	$ 1,499	$ 1	$ 1,996	$ 5	$ 3,495	$ 6
Obligations of state and political subdivisions	1,869	(48)	-	-	1,869	(48)
Mortgage-backed securities	2,506	(26)	-	-	2,506	(26)
Corporate	-	-	499	(1)	499	1)
Total	$ 5,874	$ (75)	$ 2,495	$ (6)	$ 8,369	$ (81)

(In thousands, except share and per share data)

Note 3 – Securities (continued)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018:						
U.S. Government agencies	$ 1,999	$ (1)	$ 10,657	$ (338)	$ 12,656	$ (339)
Obligations of state and political subdivisions	7,393	49)	8,655	(270)	16,048	(319)
Corporate	2,944	(105)	4,581	(140)	7,525	(245)
Total	$ 12,336	$ (155)	$ 23,893	$ (748)	$ 36,229	$ (903)

As of December 31, 2019 and 2018, the Bank held $8,369 and $36,229, respectively, in securities with unrealized losses. These unrealized losses are all related to the change in market interest rates and not to the credit quality of the issuers. When analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability and intent to hold debt securities for the foreseeable future and believes these securities will recover their amortized cost, no declines are deemed to be other-than-temporary.

Note 4 - Loans and allowance for loan losses

A summary of loans, net is as follows:

	December 31	
	2019	2018
Commercial loans	$ 15,268	$ 13,818
Real estate construction loans	8,196	6,753
Real estate mortgage loans	93,611	94,352
Consumer loans	39,322	40,118
Total loans, gross	156,397	155,041
Less unearned income and fees	248)	230)
Loans, net of unearned income and fees	156,149	154,811
Less allowance for loan losses	1,088)	1,133)
Loans, net	$ 155,061	$ 153,678

(In thousands, except share and per share data)

Following is a breakdown of real estate mortgage loans:

	December 31	
Real estate mortgage loans:	2019	2018
Commercial mortgage loans	$ 21,652	$ 23,046
1 – 4 family residential mortgages	56,622	55,287
Home equity lines of credit	14,143	14,894
Other mortgages	1,194	1,125
Total real estate mortgage loans	$ 93,611	$ 94,352

Loan origination / Risk management. The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. The primary categories of loans originated by the Bank are real estate mortgage loans, real estate construction and land development loans, commercial loans and consumer loans.

Real estate mortgage loans are primarily underwritten as cash flow loans and secondarily as loans secured by real estate. Commercial real estate mortgage loans are subject to underwriting standards and processes similar to commercial loans where evaluation of the borrower's ability to operate profitably and repay their obligations as agreed is critical to the underwriting process. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

Real estate construction and land development loans are generally based upon estimates of costs and value associated with the complete project. These loans often involve the disbursement of substantial funds, with repayment dependent on the ultimate success of the project. Management is aware that cost estimates may be inaccurate; thus, physical inspections of the property during the construction phase to assess whether the estimated percentage of completeness is in line with the requested loan advance are critical to the loan management process. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or some other interim loan commitment provided while permanent financing is being obtained. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of the property, general economic conditions, and the availability of permanent financing.

Residential real estate mortgage loans are primarily underwritten based on an assessment of the borrower's credit history and estimated ability to repay the mortgage loan based on a comparison of the borrower's verified income and current obligations, including the requested loan. The value of the property securing the loan is generally determined by an independent real estate appraisal. The Bank generally lends up to 80% of the value of the property, thus mitigating the risk associated with these loans. Home equity loans are also underwritten utilizing a maximum loan to value percentage of 80%.

(In thousands, except share and per share data)

Note 4 - Loans and allowance for loan losses (continued)

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Bank's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Management is aware that the cash flows of the borrower may not match projections and collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as inventory or equipment and may incorporate a personal guarantee. Some smaller amount, short-term loans are made on an unsecured basis.

The Bank typically originates consumer loans utilizing an independent, third-party credit bureau report to supplement the underwriting process. Consumer loans are primarily made based on an assessment of the borrower's credit history and the estimated ability to repay the borrower's obligations based on a comparison of the borrower's stated income to existing obligations, including the loan being requested. These loans are generally secured by the asset being purchased, secured by unencumbered assets already owned by the borrower or unsecured. The risk associated with consumer loans is minimized by the relatively small amount of the loans spread among a large number of borrowers.

The Bank maintains an independent loan administration department that reviews all loan documentation for accuracy, completeness, and compliance with Bank policies and procedures. Results of these reviews are presented to management. The loan administration process compliments and reinforces the risk identification and assessment decisions made by lenders.

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers, and their affiliates collectively referred to as "related parties" . These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans in 2019 and 2018 is presented in the following table:

	2019	2018
Balance of related party loans, January 1	$ 1,353	$ 1,410
Principal additions	430	220
Principal reductions	(289)	(277)
Balance of related party loans, December 31	$ 1,494	$ 1,353

(In thousands, except share and per share data)

Note 4 - Loans and allowance for loan losses (continued)

Non-accrual loans, segregated by type of loan, as of December 31, 2019 and 2018, were as follows:

	2019	2018
1-4 family residential real estate mortgages	$ 537	$ 508
Home equity lines of credit	-	10
Other mortgage loans	44	-
Real estate construction loans	122	130
Commercial loans	36	44
Consumer loans	311	395
Total non-accrual loans	$ 1,050	$ 1,087

Had non-accrual loans performed in accordance with their original contract terms, the Bank would have recognized additional interest income, net of income tax, of approximately $47 in 2019 and $37 in 2018.

An age analysis of past due loans, segregated by type of loan, net of unearned income and fees, as of December 31, 2019 and 2018 is as follows:

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
December 31, 2019:						
Real estate mortgage loans:						
Commercial mortgages	$ 176	$ -	$ 176	$ 21,425	$ 21,601	$ -
1-4 family res. Mortgages	1,049	378	1,427	54,899	56,326	-
Home equity lines of credit	364	-	364	13,791	14,155	-
Other mortgages	34	10	44	1,146	1,190	-
Real estate construction loans	1	122	123	8,042	8,165	-
Commercial loans	118	36	154	15,123	15,277	-
Consumer loans	2,251	350	2,601	36,834	39,435	90
Total	$ 3,993	$ 896	$ 4,889	$ 151,260	$ 156,149	$ 90
December 31, 2018:						
Real estate mortgage loans:						
Commercial mortgages	$ -	$ -	$ -	$ 22,990	$ 22,990	$ -
1-4 family res. Mortgages	1,727	466	2,193	52,805	54,998	56
Home equity lines of credit	425	-	425	14,482	14,907	-
Other mortgages	-	-	-	1,121	1,121	-
Real estate construction loans	385	-	385	6,343	6,728	-
Commercial loans	160	44	204	13,625	13,829	-
Consumer loans	2,770	475	3,245	36,993	40,238	102
Total	$ 5,467	$ 985	$ 6,452	$ 148,359	$ 154,811	$ 158

(In thousands, except share and per share data)

Note 4 - Loans and allowance for loan losses (continued)

Loans are considered impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's effective rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The following table provides a breakdown of the Bank's impaired loans by loan type and recorded investment amounts as of December 31, 2019 and 2018. The Bank received interest payments totaling $89 and $108 on these loans during 2019 and 2018, respectively.

	Impaired Loans with no Allowance	Impaired Loans with Allowance	Total Impaired Loans	Related Allowance	Average Impaired Loans
December 31, 2019:					
Real estate mortgage loans:					
Commercial mortgages	$ 38	$ -	$ 38	$ -	$ 77
1-4 family residential mortgages	1,402	104	1,506	18	1,504
Home equity lines of credit	27	-	27	-	40
Other mortgages	44	-	44	-	32
Real estate construction loans	185	-	185	-	201
Commercial loans	22	43	65	7	71
Consumer loans	178	78	256	27	278
Total	$ 1,896	$ 225	$ 2,121	$ 52	$ 2,203
December 31, 2018:					
Real estate mortgage loans:					
Commercial mortgages	$ 44	$ -	$ 44	$ -	$ 47
1-4 family residential mortgages	1,577	109	1,686	22	1,688
Home equity lines of credit	37	-	37	-	37
Other mortgages	36	-	36	-	37
Real estate construction loans	220	-	220	-	227
Commercial loans	58	33	91	6	98
Consumer loans	185	202	387	66	323
Total	$ 2,157	$ 344	$ 2,501	$ 94	$ 2,457

Note 4 - Loans and allowance for loan losses (continued)

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management reviews certain credit quality indicators including (i) commercial loans with an outstanding balance of $200 or greater; (ii) borrowers with outstanding loan balances totaling $500 or greater; (iii) loans which are past due more than 30 days; (iv) loan charge offs and recoveries; (v) non-accrual loans and (vi) the general economic conditions in the Bank's market and surrounding areas. Loans with a total outstanding balance of $500 or more and commercial loans with a balance of $200 or greater are reviewed semi-annually to determine whether the loans should be classified. Management reviews all loans which are past due more than 30 days and two or more payments on a monthly basis. These loans are discussed with the Board of Directors at its monthly meeting. Loan charge offs and recoveries and non-accrual loans are also reported to the Board of Directors on a monthly basis. The local general economic conditions are detailed in a written report presented to the Board of Directors on a quarterly basis. This report is also included in the Bank's quarterly classified loan report. Management utilizes sources such as the local newspapers; local, state and national economic statistics such as unemployment statistics ; and other internet articles to prepare this report.

The Bank utilizes a risk rating matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

Excellent / Satisfactory – These loans range from having minimal to acceptable credit risk.

Watch – These loans have acceptable credit risk but are beginning to develop potential weaknesses that may be temporary in nature but must be watched.

Other Assets Especially Mentioned ("OAEM") – These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard – These loans are inadequately protected by the net worth or paying capacity of the borrower, and repayment may become dependent on liquidation of the underlying collateral. These loans have well-defined weaknesses, with the Bank likely sustaining a loss if the deficiencies are not corrected.

Doubtful – These loans have all of the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

Loss – These loans are in a non-accrual status and in the process of collateral liquidation.

(In thousands, except share and per share data)

Note 4 - Loans and allowance for loan losses (continued)

The following table provides a breakdown of the Bank's loans by risk grade as of December 31, 2019 and 2018.

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
December 31, 2019					
Excellent / Satisfactory	$ 87,108	$ 7,980	$ 14,910	$ 38,449	$ 148,447
Watch	2,531	-	12	356	2,899
OAEM	293	-	-	-	293
Substandard	3,340	185	373	612	4,510
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 93,272	$ 8,165	$ 15,295	$ 39,417	$ 156,149
December 31, 2018					
Excellent / Satisfactory	$ 86,873	$ 6,459	$ 12,581	$ 39,410	$ 145,323
Watch	3,289	49	1,002	120	4,460
OAEM	622	-	92	29	743
Substandard	3,232	220	154	679	4,285
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 94,016	$ 6,728	$ 13,829	$ 40,238	$ 154,811

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent within the existing portfolio of loans. The Bank's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "*Receivables*" and allowance allocations calculated in accordance with ASC Topic 450, "*Contingencies.*" Accordingly, the methodology is based on historical loss experience by type of credit, specific homogeneous risk pools and specific loss allocations with adjustments for current events and conditions. The Bank's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and charge offs and recoveries, among other factors. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond management's control, including, among other things, the performance of the Bank's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Bank's allowance for loan losses consists of three elements: i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Bank.

Note 4 - Loans and allowance for loan losses (continued)

The allowances for loan losses on specific loans are based on a regular analysis and evaluation of the specific loans. On a quarterly basis, borrowers with outstanding loan balances totaling $500 or greater, along with commercial and industrial loans and commercial real estate loans with a balance of $200 or greater are evaluated. Certain of these loans with potential problems are given an internal classification which reflects management's assessment of the borrower's ability to repay the loan, the estimated value of the underlying collateral and the economic environment and industry in which the borrower operates. The regular analysis and evaluation of problem loans is performed by the loan officers and independently reviewed and approved by management. Generally specific allowances are based on the difference between the estimated value of the underlying collateral and the balance of the loan if the loan is deemed collateral dependent. The specific allowances are determined by the Chief Executive Officer.

The Bank also determines specific valuation allowances for certain past due loans and non-accrual loans. Estimated loss ratios are applied to the balances of these loans collectively to determine the amount of the allowance. Loans past due 60 or more days are grouped in pools of similar loans with similar characteristics which currently include consumer, commercial and industrial and real estate loans. The estimated loss ratio is applied to each pool of past due loans less any loans in the pool for which a specific allowance valuation has already been determined. Likewise, non-accrual loans are grouped into pools of secured and unsecured loans, from which non-accrual loans with specific valuation allowances are subtracted prior to application of the historical loss ratios.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans. Management calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of net charged-off loans to the total populations of loans in the pool. The historical loss ratios are updated quarterly based on the charge-off loan totals for the most recent twelve quarters. The historical valuation allowance is established for each pool of similar loans based on the product of the historical loss ratio and the total dollar amount of loans in the pool less those loans in the pool for which a specific valuation allowance has been determined. The Bank's pools of similar loans currently include consumer, commercial and industrial, real estate and real estate construction loans.

A general valuation allowance based on general economic conditions is also calculated. An economic analysis is performed by the Chief Financial Officer based on such factors as the Bank's market area industries; local, state and national unemployment statistics; general local economic conditions; and local real estate market conditions. The Bank has identified five categories of economic conditions ranging from "very good economic conditions" to "major problematic economic conditions," and a loss rate is estimated for each category. The economic allowance is calculated by applying the estimated loss rate to the total loan population less loans for which a specific valuation has been determined.

(In thousands, except share and per share data)

Note 4 - Loans and allowance for loan losses (continued)

The following table details activity in the allowance for loan losses by loan category for the years ended December 31, 2019 and 2018. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
Balance, December 31, 2018	$ 273	$ 15	$ 124	$ 721	$ 1,133
Charged-off loans	(6)	-	(12)	(371)	(389)
Loan recoveries	4	-	160	111	275
Provision for loan losses	(8)	1	(194)	270	69
Balance, December 31, 2019	$ 263	$ 16	$ 78	$ 731	$ 1.088
Allowance for loan losses allocated to:					
Loans individually evaluated for Impairment	$ 18	$ -	$ 7	$ 27	$ 52
Loans collectively evaluated for Impairment	245	16	71	704	1,036
Allowance for loan losses, Dec. 31, 2019	$ 263	$ 16	$ 78	$ 731	$ 1,088

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
Balance, December 31, 2017	$ 262	$ 11	$ 123	$ 572	$ 968
Charged-off loans	(1)	-	(154)	(518)	(673)
Loan recoveries	9	-	-	57	66
Provision for loan losses	3	4	155	610	772
Balance, December 31, 2018	$ 273	$ 15	$ 124	$ 721	$ 1,133
Allowance for loan losses allocated to:					
Loans individually evaluated for Impairment	$ 22	$ -	$ 6	$ 66	$ 94
Loans collectively evaluated for Impairment	251	15	118	655	1,039
Allowance for loan losses, Dec. 31, 2018	$ 273	$ 15	$ 124	$ 721	$ 1,133

(In thousands, except share and per share data)

Note 4 - Loans and allowance for loan losses (continued)

The Bank's total loans related to each balance in the allowance for loan losses by loan type and disaggregated on the basis of the Bank's impairment methodology as of December 31, 2019 and 2018 were as follows:

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
December 31, 2019:					
Loans individually evaluated for Impairment	$ 1,615	$ 185	$ 65	$ 256	$ 2,121
Loans collectively evaluated for Impairment	91,657	7,980	15,230	39,161	154,028
Total loans evaluated for impairment	$ 93,272	$ 8,165	$ 15,295	$ 39,417	$156,149
December 31, 2018:					
Loans individually evaluated for Impairment	$ 1,803	$ 220	$ 91	$ 387	$ 2,501
Loans collectively evaluated for Impairment	92,213	6,508	13,738	39,851	152,310
Total loans evaluated for impairment	$ 94,016	$ 6,728	$ 13,829	$ 40,238	$154,811

Note 5 – Troubled Debt Restructurings

ASC 310-40-20 defines a troubled debt restructuring as a restructuring of debt where a creditor for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The concession is granted by the creditor in an attempt to protect as much of its investment as possible. The concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. Troubled debt restructurings include modification of the terms of a debt, such as a reduction of the stated interest rate for the remaining original life of the debt, an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, or a reduction of accrued interest.

Management reviews all restructured loans that occur during the year for identification as troubled debt restructurings. Management identified as troubled debt restructurings certain loans for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology (ASC 450-20). Upon identifying the reviewed loans as troubled debt restructurings, management also identified them as impaired under the guidance in ASC 310-10-35.

(In thousands, except share and per share data)

Note 5 – Troubled Debt Restructurings continued

Modification Categories. The Bank offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification – A modification in which the interest rate is changed.

Term Modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification as described above.

Combination Modification – Any other type of modification, including the use of multiple categories above.

The following tables present troubled debt restructurings as of December 31, 2019 and 2018:

	December 31, 2019			
	Number of Contracts	Accrual Status	Non-Accrual Status	Total Modifications
Real estate mortgage loans:				
Commercial mortgages	1	$ 38	$ -	$ 38
1-4 Family residential mortgages	6	305	203	508
Home equity lines of credit	-	-	-	-
Other mortgages	-	-	-	-
Real estate construction loans	-	-	-	-
Commercial loans	1	29	-	29
Consumer loans	21	159	25	184
Total	29	$ 531	$ 228	$ 759

	December 31, 2018			
	Number of Contracts	Accrual Status	Non-Accrual Status	Total Modifications
Real estate mortgage loans:				
Commercial mortgages	1	$ 46	$ -	$ 46
1-4 Family residential mortgages	9	424	206	630
Home equity lines of credit	-	-	-	-
Other mortgages	-	-	-	-
Real estate construction loans	-	-	-	-
Commercial loans	1	33	-	33
Consumer loans	23	227	30	257
Total	34	$ 730	$ 236	$ 966

(In thousands, except share and per share data)

Note 5 – Troubled Debt Restructurings continued

During the years ended December 31, 2019 and 2018, the Bank had 5 and 14 newly restructured loans with pre-modification balances totaling $43 and $252 and post-modification balances totaling $39 and $249, respectively. During the years ended December 31, 2019 and 2018, 1 newly restructured loan with a balance of $10 and 1 newly restructured loan with a balance of $22, respectively, defaulted within the first 12 months following modification.

Loans secured by 1-4 family residential properties in process of foreclosure totaled $207 at December 31, 2019, while there were none at December 31, 2018.

Note 6 - Bank premises and equipment

A summary of bank premises and equipment stated at cost, less accumulated depreciation, follows:

	December 31	
	2019	2018
Land	$ 465	$ 465
Buildings and improvements	3,776	3,565
Equipment, furniture and fixtures	2,640	2,477
	6,881	6,507
Less accumulated depreciation	4,214)	4,013)
Net bank premises and equipment	$ 2,667	$ 2,494

The bank incurred depreciation expense of $201 and $181 in the years ended December 31, 2019 and 2018, respectively.

Note 7 – Bank-owned life insurance

At December 31, 2019 and 2018, the Bank owned life insurance policies on key employees with total insurance in force of $16,503 and $16,546, respectively. Generally accepted accounting standards require that these policies be recorded at the cash surrender value, net of surrender charges and/or early termination charges. As of December 31, 2019 and 2018, the BOLI cash surrender value was $6,387 and $6,234, respectively, resulting in other income of $153 and $156 in 2019 and 2018, respectively. The increases in the cash surrender values resulted in an annualized net yield of 2.37% (3.00% on a pre-tax equivalent basis) in 2019 and 2.49% (3.15% on a pre-tax equivalent basis) in 2018.

In thousands, except sha re and per share data)

Note 8 - Pension plans

Effective January 1, 2012, the Bank amended its defined benefit pension plan the "Plan") converting it to a cash-balance pension plan whereby benefits earned by participants under the plan through December 31, 2011 were converted to an opening account balance for each participant. The opening balance was calculated based on IRS mandated assumptions for lump sum payouts. Eligibility under the cash-balance plan is the same as the previous defined benefit pension plan except the vesting period was shortened from five years to three years. Benefits under the cash-balance plan are computed based on graduated earnings rates determined by employees' years of credited service as of December 31, 2011, plus interest at rates pre-set by management and the cash-balance plan administrators. As with the previous defined benefit pension plan, assets are invested in a balanced fund, fixed income fund and equity fund administered by the Virginia Bankers Association. As of December 31, 2011, no new entrants will be allowed into the Plan.

The Bank complies with ASC 715, *Compensation – Retirement Benefits,* which requires management to present in the statement of financial position the funded status of the plan as an asset overfunded) or liability underfunded) with any unrecognized actuarial gain loss), prior service costs, or transition amount from the adoption of ASC 715, shown as an adjustment to the accumulated other comprehensive income.

Because plan assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses both investment and non-investment) typically paid from plan assets to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The plan's weighted-average asset allocations at December 31, 2019 and 2018, by asset category, are as follows:

	December 31,	
	2019	2018
Mutual Funds - Fixed Income	59%	59%
Mutual Funds - Equity	41%	41%
Total	100%	100%

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 50% fixed income and 50% equities. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the Plan's investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the Trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

(In thousands, except share and per share data)

Note 8 - Pension plans (continued)

The investment strategy for plan assets is to provide allocation models with varying degrees of investment return and risk consistent with sound funding objectives and participant demographics utilizing various types of assets such as large cap stocks, S&P 500 index fund, small and mid-cap stocks, cash equivalents and short term bonds. The performance goal for the investments of the plan is to exceed the investment benchmarks over the most recent 3- and 5-year periods while taking less risk than the market.

Plan investments are stated at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The following table presents the fair value of the net assets, by asset category, at December 31, 2019 and 2018:

Description of Assets:	2019	2018
Mutual Funds / Equity	$ 2,788	$ 2,342
Mutual Funds / Fixed Income	4,051	3,347
Total plan assets	$ 6,839	$ 5,689

All of the plan assets are considered to be Level 1 assets, within the fair value hierarchy, as of December 31, 2019 and 2018. Level 1 assets are those with quoted prices in active markets for identical assets or liabilities.

Other disclosures for the year ended December 31, 2019 and 2018:

Change in benefit obligation

	2019	2018
Projected benefit obligation – beginning of year	$ 4,509	$ 4,822
Service cost	118	138
Interest cost	171	163
Actuarial (gain) loss	605	(431)
Benefits paid	(202)	(183)
Projected benefit obligation – end of year	$ 5,201	$ 4,509

Change in plan assets

	2019	2018
Fair value of assets – beginning of the year	$ 5,689	$ 5,539
Actual return (loss) on plan assets	852	(167)
Employer contribution	500	500
Benefits paid	(202)	(183)
Fair value of assets – end of the year	$ 6,839	$ 5,689
Deferred asset (gain) loss	$ (513)	$ 514

In thousands, except share and per share data)

Note 8 – Pension plans (continued)

Funded status

		2019		2018
Projected benefit obligation – end of year	$	5,201)	$	(4,509)
Fair value of assets – end of year		6,839		5,689
Funded status at the end of the year	$	1,638	$	1,180

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

		2019		2018
Net (gain) loss	$	(109)	$	(111)
Amortization of prior service cost		82		77
Total amount recognized	$	27	$	(34)

The following tables set forth the disclosures regarding the defined benefit plan:

Components of net periodic benefit costs

		2019		2018
Service cost	$	118	$	138
Interest cost		171		163
Expected return on plan assets		(339)		(347)
Net amortization of prior service cost		82		77
Recognized net actuarial loss		202		194
Net periodic benefit cost	$	70	$	71

The end of year weighted-average assumptions are:

	2019	2018
Discount rate used for net periodic pension cost	4.25%	3.50%
Discount rate used for disclosure	3.25%	4.25%
Expected return on plan assets	6.50%	6.50%
Rate of compensation increase for disclosure	3.00%	3.00%
Rate of compensation increase for net periodic pension cost	3.00%	3.00%
Expected future interest crediting rate	3.00%	3.00%

(In thousands, except share and per share data)

Note 8 – Pension plans (continued)

Additional disclosure information

Accumulated benefit obligation, December 31, 2019	$ 5,201
Vested benefit obligation, December 31, 2019	$ 5,090

The projected benefit payments for the next ten years are as follows:

Year	Amount
2020	$ 1,174
2021	322
2022	355
2023	498
2024	618
2025 – 2029	2,805

401(k) plan

In addition to the defined benefit plan described above, the Bank also sponsors a 401(k) defined contribution plan. The Bank makes a matching contribution to the plan in the amount of 100% of the first 3% and 50% of the next 3% of the elective contributions made by the participants. Participants have the right to contribute up to the maximum allowed under section 401(g) of the Internal Revenue Code.

Effective January 1, 2012, the Bank made supplemental contributions to the 401(k) accounts of salaried employees with a minimum of 14 years of credited service as of December 31, 2011. These supplemental contributions were made to help compensate for the projected loss of pension benefits for these employees due to the transition to the cash-balance defined benefit plan. The supplemental contribution will be paid at the end of each year from 2012 through 2018 in which the employee remains in a salaried status with a minimum of 1,000 hours of credited service for that year.

The Bank also made supplemental contributions to the 401(k) accounts of employees hired January 1, 2012 or later who were not eligible for participation in the cash-balance defined benefit plan. The supplemental contribution was equal to 2.0% of the employee salary and will be paid at the end of each year, beginning December 31, 2012. The Bank's expense for all 401(k) contributions totaled $114 and $209 for 2019 and 2018, respectively.

(In thousands, except share and per share data)

Note 9 - Income taxes

Income tax expense attributable to income before income tax expense is summarized as follows:

	December 31, 2019	December 31, 2018
Current federal income tax expense	$ 371	$ 238
Deferred federal income tax expense (benefit)	101	131
Total	$ 472	$ 369

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 21% for 2019 and 2018 to income before income tax expense as a result of the following:

	December 31, 2019	December 31, 2018
Income tax expense at the statutory rate	$ 643	$ 564
Increase (reduction) in income tax expense resulting from		
Tax-exempt interest	(145)	(169)
Disallowance of interest expense	5	5
Bank-owned life insurance	(32)	(33)
Other	1	2
Total	$ 472	$ 369

(In thousands, except share and per share data)

Note 9 - Income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31	
	2019	2018
Deferred tax assets		
Loans, due to allowance for loan losses and net unearned fees	$ 160	$ 170
Other real estate, due to valuation allowances	12	12
Pension valuation adjustment	382	387
Unrealized loss on available-for-sale securities	-	29
Other	132	122
Total gross deferred tax assets	686	720
Deferred tax liabilities		
Bank premises and equipment due to differences in depreciation	107	93
Prepaid pension, due to actual pension contribution in excess of accrual for financial reporting purposes	725	635
Unrealized gain on available-for-sale securities	117	-
Loan costs	82	85
Total gross deferred tax liabilities	1,031	813
Net deferred tax (liability)	$ (345)	$ (93)

The Bank did not recognize any interest or penalties related to income tax during the years ended December 31, 2019 and 2018, and did not accrue interest or penalties as of December 31, 2019 and 2018. The Bank does not have an accrual for uncertain tax positions as of December 31, 2019 and 2018, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2016 and thereafter are subject to future examination by tax authorities.

Note 10 - Securities sold under repurchase agreements and time deposits

The Bank offers to its larger commercial customers a cash management service known as securities sold under repurchase agreements. These cash management accounts are administered by the Bank and pay a set interest rate determined by management. These accounts are secured by a pledge on a portion of the Bank's investments, which remain under management's control. The Bank had $1,733 and $1,845 outstanding in cash management accounts as of December 31, 2019 and 2018, respectively. The maximum month-end outstanding balances were $2,935 and $4,178 during 2019 and 2018, respectively, and the average outstanding balances were $2,434 and $3,168 during these periods.

(In thousands, except share and per share data)

Note 10 - Securities sold under repurchase agreements and time deposits (continued)

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

Year Ending	Amount
2020	$ 32,999
2021	11,854
2022	6,983
2023	4,539
2024	3,298
	$ 59,673

The Bank's time deposits include accounts with balances of $250 or more of $7,524 and $7,784 as of December 31, 2019 and 2018, respectively.

In the ordinary course of business, certain directors, executive officers, and their affiliates (collectively referred to as "related parties") of the Bank have maintained deposit accounts with the Bank. These deposits were opened on substantially the same terms, including interest rates for interest-bearing accounts, as those prevailing at the time for comparable transactions with other unaffiliated persons. Balances for these deposits as of December 31, 2019 and 2018 were $1,079 and $1,831, respectively.

The Bank had unused lines of credit with correspondent banks totaling $11,500 at both December 31, 2019 and 2018.

Note 11 - Dividend restrictions and capital requirements

The Bank is subject to certain regulatory restrictions pertaining to the amount of dividends that it may pay. The Federal Reserve restricts, without prior approval, the total dividend payments of a member bank in any calendar year to the bank's net income of that year, as defined, combined with its retained net income of the preceding two calendar years, less any required transfers to surplus. At December 31, 2019, retained earnings which are free of such restrictions amounted to approximately $4,544.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Note 11 - Dividend restrictions and capital requirements (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 risk-based capital (as defined in the regulations), to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Effective January 1, 2015, the final rule implementing the Basel Committee on Banking Supervision's capital guidelines for U. S. banks (Basel III rules) began its phase-in. All requirements of the Basel III rules were phased in over a multi-year schedule, and became fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier 1 ratio is calculated and utilized in the assessment of capital for all institutions. Management believes, as of December 31, 2019 and 2018, the Bank met all capital adequacy requirements to which it is subject.

In July 2013, the Federal Reserve issued final rules to include technical changes to its market risk capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). The Basel III Final Rules establish a capital conservation buffer of 2.5%, which is added to the 4.5% CET1 to risk-weighted assets to increase the ratio to at least 7.0%. The Basel III Final Rules also establish risk weightings that applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans. The Basel III Final Rules became effective January 1, 2015, and the Basel III Final Rules capital conservation buffer was phased in from 2015 to 2019.

Now fully phased in, the Basel III Final Rules require banks to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of a least 6.0%, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation; (iii) a minimum ratio of total capital (Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0% plus the capital conservation buffer effectively resulting in a minimum total capital ratio of 10.5% upon full implementation, and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures, computed as the average for each calendar quarter.

(In thousands, except share and per share data)

Note 11 - Dividend restrictions and capital requirements (continued)

As of December 31, 2019, the most recent notification from the Federal Reserve Bank of Richmond categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total capital (to risk-weighted assets)	$ 35,682	21.65%	$ 13,187	8.0%	$ 16,484	>10.0%
Tier 1 capital (to risk-weighted assets)	$ 34,594	20.99%	$ 9,890	6.0%	$ 13,187	>8.0%
Common equity Tier 1 capital (to risk-weighted assets)	$ 34,594	20.99%	$ 7,418	4.5%	$ 10,714	>6.5%
Tier 1 capital (leverage) (to average assets)	$ 34,594	14.69%	$ 9,421	4.0%	$ 11,776	>5.0%
December 31, 2018						
Total capital (to risk-weighted assets)	$ 34,026	19.79%	$ 13,757	8.0%	$ 17,196	>10.0%
Tier 1 capital (to risk-weighted assets)	$ 32,893	19.13%	$ 10,317	6.0%	$ 13,757	>8.0%
Common equity Tier 1 capital (to risk-weighted assets)	$ 32,893	19.13%	$ 7,738	4.5%	$ 11,177	>6.5%
Tier 1 capital (leverage) (to average assets)	$ 32,893	14.16%	$ 9,294	4.0%	$ 11,618	>5.0%

Note 12 – Revenue Recognition

On January 1, 2018, the Bank adopted ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606)* and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606.

Note 12 – Revenue Recognition (continued)

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, merchant income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business checking accounts), monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Fees, Exchange, and Other Service Charges

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Bank's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Bank's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or at the end of the month.

Other

Other noninterest income consists of other recurring revenue streams such as safety deposit box rental fees and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Bank determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

(In thousands, except share and per share data)

Note 13 – Noninterest expense - Other operating expenses

Major items included in the other operating expenses component of noninterest expense are as follows:

	2019	2018
Office supplies	$ 83	$ 84
Data processing	778	753
Virginia franchise tax	261	245
Audit fees	136	113
Board expense	81	94
FDIC assessments	30	68
Marketing and advertising costs	22	33
Other	936	898
	$ 2,327	$ 2,288

Note 14 - Financial instruments with off-balance-sheet risk

The Bank is not a party to derivative financial instruments with off-balance-sheet risks such as futures, forwards, swaps and options. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank requires collateral or other security to support financial instruments when it is deemed necessary. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty and the Bank's access to the collateral. Types of collateral may include marketable securities, real estate and business equipment.

Note 14 - Financial instruments with off-balance-sheet risk (continued)

Financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amounts at December 31	
	2019	2018
Commitments to extend credit	$ 29,208	$ 24,083
Standby letters of credit	$ 563	$ 394

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is generally less than that involved in extending loans to customers because the Bank generally holds deposits equal to the commitment. Management does not anticipate any material losses as a result of these transactions.

The Bank's business activity is with customers located in the Counties of Appomattox, Buckingham, Campbell, and Prince Edward, Virginia. Accordingly, operating results are closely correlated with the economic trends within the counties and influenced by the significant industries within the region, including agriculture, timber and logging, and light manufacturing. In addition, the ultimate collectability of the Bank's loan portfolio is susceptible to changes in the market conditions within the region.

Note 15 – Fair Value Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Note 15 – Fair Value Measurements (continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – observable inputs other than the quoted prices included in Level 1.
- Level 3 – unobservable inputs.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Fair Value on a Recurring Basis

Securities Available-for-Sale
Fair values of securities, excluding restricted investments in Federal Reserve Bank stock, and Community Bankers' Bank stock are based on quoted prices available in an active market. If quoted prices are available, these securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Bank's securities are considered to be Level 2 securities.

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

The following table summarizes the Bank's financial assets that were measured at fair value on a recurring basis during 2019 and 2018.

		Carrying Value at December 31, 2019		
Description	Balance as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agency securities	$ 8,521	$ -	$ 8,521	$ -
Municipal securities	14,665	-	14,665	-
Mortgage-backed securities	4,212	-	4,212	-
Corporate securities	9,836	-	9,836	-
Total available-for-sale securities	$ 37,234	$ -	$ 37,234	$ -

		Carrying Value at December 31, 2018		
Description	Balance as of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agency securities	$ 7,324	$ -	$ 7,324	$ -
Municipal securities	17,229	-	17,229	-
Mortgage-backed securities	1,403		1,403	
Corporate securities	10,540	-	10,540	-
Total available-for-sale securities	$ 36,496	$ -	$ 36,496	$ -

Fair Value on a Non-recurring Basis

<u>Impaired loans</u>

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable.

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, in situations where the collateral is a house or building in the process of construction, the appraisal is more than 12 months old, management has determined the fair value of the collateral is further impaired below the appraised value, or the appraisal is not based solely on market comparables adjusted for observable inputs, the value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other real estate owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell in accordance with ASC 820. Real estate acquired through foreclosure is transferred to OREO. The measurement of loss associated with OREO is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. The value of OREO property is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2).

Any fair value adjustments are recorded in the period incurred and expensed against current earnings. However, in situations where the collateral is a house or building in the process of construction, the appraisal is more than 12 months old, management has determined the fair value of the collateral is further impaired below the appraised value, or the appraisal is not based solely on market comparables adjusted for observable inputs, the value is considered Level 3.

The following tables summarize the Bank's impaired loans and OREO measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018:

		Carrying Value at December 31, 2019		
Description	Balance as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 173	$ -	$ -	$ 173
Other real estate owned	$ 148	$ -	$ -	$ 148

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

		Carrying Value at December 31, 2018		
Description	Balance as of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 250	$ -	$ -	$ 250
Other real estate owned	$ 148	$ -	$ -	$ 148

The following table sets forth information regarding the quantitative inputs used to value assets classified as Level 3:

	Quantitative information about Level 3 Fair Value Measurements at December 31, 2019			
Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Weighted Average Discount
Assets:				
Impaired Loans				
Residential Real Estate	$ 86	Discounted appraised value	Estimation of selling costs	5.0%
Commercial	36	Business financial statement	Adjustment for marketability of collateral	37.5%
Consumer	51	NADA Retail Value of vehicle	Adjustment for condition of the vehicle	10.0%
Total Impaired Loans	$ 173			
Other Real Estate Owned				
Residential vacant land	$ 148	Sales comparison approach	Estimation of selling costs	10.0%
Total Other RE Owned	$ 148			

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

	Quantitative information about Level 3 Fair Value Measurements at December 31, 2018				
Description		Fair Value	Valuation Technique(s)	Unobservable Inputs	Weighted Average Discount
Assets:					
Impaired Loans					
Residential Real Estate	$	87	Discounted appraised value	Estimation of selling costs	5.0%
Commercial		27	Business financial statement	Adjustment for marketability of collateral	37.5%
Consumer		136	NADA Retail Value of vehicle	Adjustment for condition of the vehicle	10.0%
Total Impaired Loans	$	250			
Other Real Estate Owned					
Residential vacant land	$	148	Sales comparison approach	Estimation of selling costs	10.0%
Total Other RE Owned	$	148			

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

The estimated fair values, and related carrying or notional amounts, of the Bank's financial instruments and their placement in the fair value hierarchy as of December 31, 2019 and December 31, 2018 are as follows:

		Approximate Fair Value by Valuation Hierarchy		
As of December 31, 2019	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and due from banks	$ 4,434	$ 4,434	$ -	$ -
Federal funds sold	5,798	5,798	-	-
Securities				
Available-for-sale	37,234	-	37,234	-
Held to maturity	19,477	-	19,788	-
Loans, net	155,061			154,483
Accrued interest receivable	1,017	-	1,017	
Bank-owned life insurance	6,387	-	6,387	-
Total financial assets	$ 229,408	$ 10,232	$ 64,426	$ 154,483
Financial liabilities				
Deposits	$ 199,227	$ -	$ 139,553	$ 58,093
Securities sold under repurchase Agreements	1,733	-	1,733	-
Accrued interest payable	114	-	114	-
Total financial liabilities	$ 201,074	$ -	$ 141,400	$ 58,093

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

		Approximate Fair Value by Valuation Hierarchy		
As of December 31, 2018	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and due from banks	$ 4,794	$ 4,794	$ -	$ -
Federal funds sold	477	477	-	-
Securities				
Available-for-sale	36,496	-	36,496	-
Held to maturity	21,525	-	21,032	-
Loans, net	153,678	-	-	152,236
Accrued interest receivable	1,054	-	1,054	-
Bank-owned life insurance	6,234	-	6,234	-
Total financial assets	$ 224,258	$ 5,271	$ 64,816	$ 152,236
Financial liabilities				
Deposits	$ 196,056	$ -	$ 139,320	$ 56,702
Securities sold under repurchase Agreements	1,845	-	1,845	-
Accrued interest payable	87	-	87	-
Total financial liabilities	$ 197,988	$ -	$ 141,252	$ 56,702

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance-sheet and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment; a significant liability that is not considered a financial liability is accrued pension benefits. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 15 – Fair Value Measurements (continued)

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment.

Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

(In thousands, except share and per share data)

Note 16 – Accumulated Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive income (loss) were as follows:

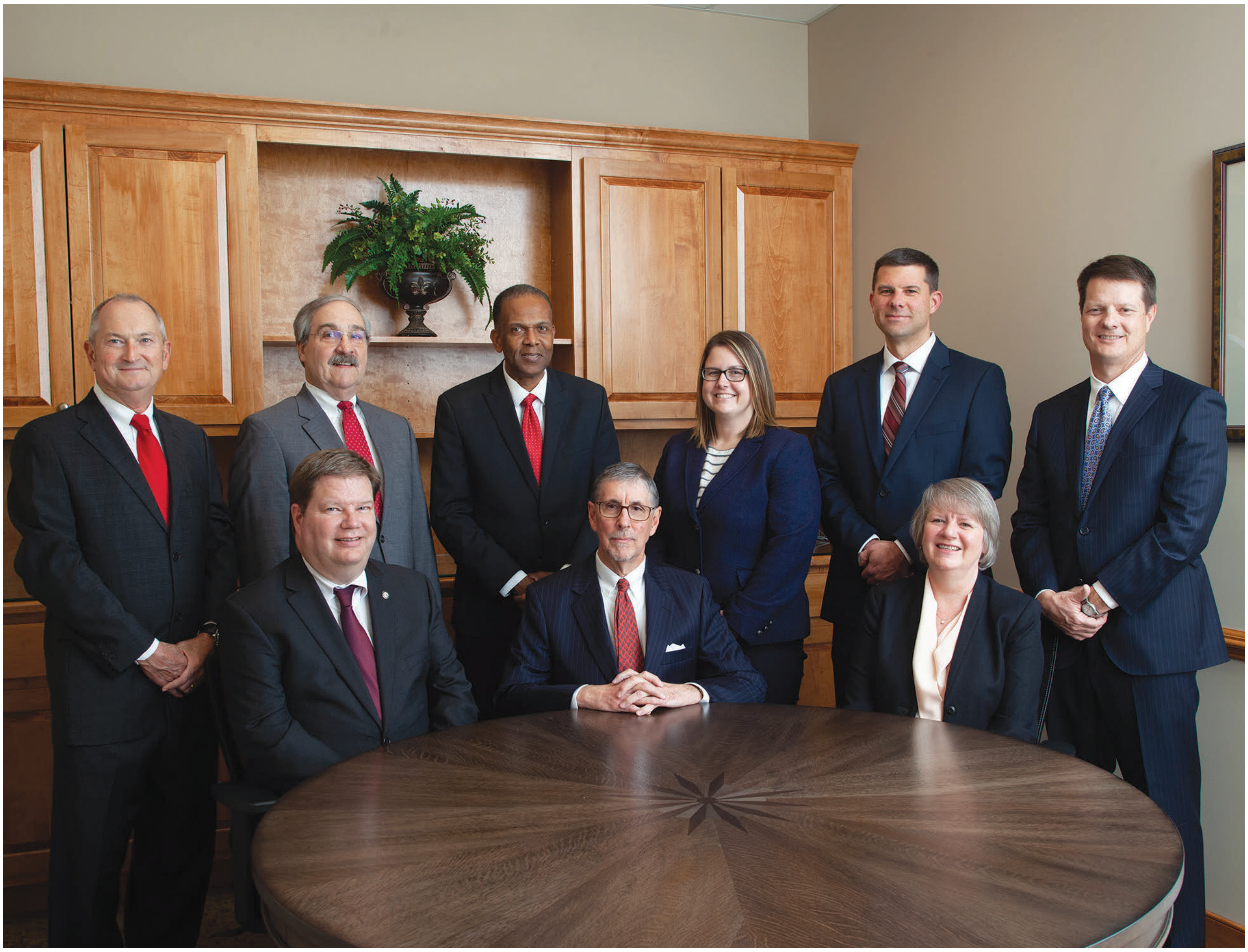
	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Change in Unfunded Pension Liability	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017	$ 422	$ (1,484)	$ (1,062)
Unrealized loss on securities available-for-sale, net of deferred tax of $136	(512)		(512)
Reclassification adjustment for gain on sale of securities, net of tax of $5[1]	(19)		(19)
Change in pension plan assets and benefit obligations, net of deferred tax of $23[2]		88	88
Amortization of prior service cost, net of deferred tax of $16[2]		(61)	(61)
Balance at December 31, 2018	$ (109)	$ (1,457)	$ (1,566)
Unrealized gain on securities available-for-sale, net of deferred tax of $148	555		555
Reclassification adjustment for gain on sale of securities, net of tax of ($1)[1]	(7)		(7)
Change in pension plan assets and benefit obligations, net of deferred tax of $23[2]		86	86
Amortization of prior service cost, net of deferred tax of $17[2]		(65)	(65)
Balance at December 31, 2019	$ 439	$ (1,436)	$ (997)

(1) Included on income statement in "Gains on sales, calls and maturities of securities"
(2) Included on income statement in "Salaries and employee benefits"

Note 17 – Subsequent Events

Management has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2019 consolidated financial statements. This evaluation was through March 10, 2020, the date the consolidated financial statements were available to be issued. Management noted that on February 11, 2020, the Board of Directors declared a cash dividend of $0.50 per share payable March 6, 2020 to shareholders of record as of February 27, 2020.

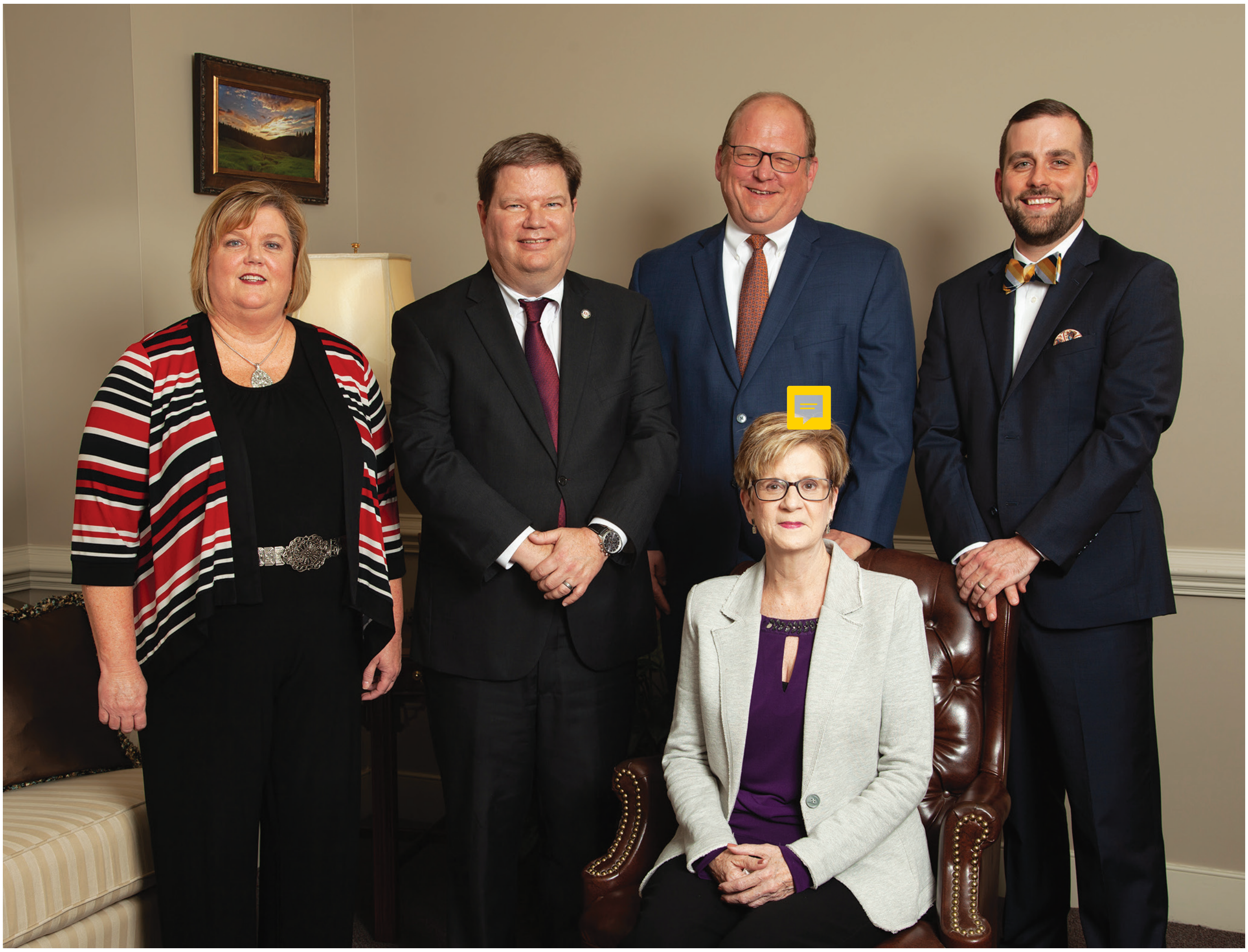
The Board of Directors



L-R Standing: Benjamin H. Johnson, Luther C. Thomas, Alfred L. Jones, III, Allison F. Gobble, Christopher J. Dillon, R. Kinckle Robinson

L-R Seated: John R. Caldwell, Douglas M. Webb, Laurie S. Harris

The Executive Officers



L-R Standing: Dawn S. Tolley, John R. Caldwell, Bruce S. Drinkard, Thomas L. Rasey, Jr.

Seated: Jane H. Kelly

2019 Farmers Bank Management

Executive Officers

John R. Caldwell	President & Chief Executive Officer
Dawn S. Tolley	Executive Vice President & Chief Financial Officer
Bruce S. Drinkard	Senior Vice President & Chief Lending Officer
Jane H. Kelly	Senior Vice President, Chief Operations Officer, Cashier & Corporate Secretary
Thomas L. Rasey, Jr.	Senior Vice President & Operations Officer

Officers

Betty G. Craft	First Vice President, Branch Administrator & HR Officer
Kenneth A. Shorter	First Vice President & Chief Information Technology Officer
Leila A. Paulette	First Vice President & Chief Compliance Officer
Brian D. Wilkerson	First Vice President & Chief Retail Lending Officer
Sandra L. Clapp	Vice President, Accounting Officer II
Stephanie L. Oliver	Vice President, Regional & Buckingham Branch Manager
Dianne Rudder	Vice President & Triangle Plaza Branch Manager
Cindy Martin	Vice President & Concord Branch Manager
Anabelle Rodriguez-Thurston	Vice President & Longwood Village Branch Manager
Jane Thomas	Vice President & Retail Operations Manager, Main
Kris McFadden	Vice President, Mortgage Loan Officer & Main Office Lending Manager
Robin B. Harvey	Vice President & Assistant Operations Officer
Katherine Kraince	Assistant Vice President, Payroll & Benefits Officer
Taylor Bradshaw	Assistant Vice President, Loan Department Supervisor
Jessica Hall	Assistant Vice President, Loan Officer II
Curtis Hancock	Assistant Vice President, Information Technology Specialist
Kelly Smith	Assistant Vice President, Operations Specialist & Bank Security Officer
Kaitlyn Dill	Assistant Vice President, BSA, OFAC, CIP & CDD Officer
Lisa Warner	Assistant Vice President & Assistant Branch Manager, Buckingham
Judy Bolt	Bank Officer & Assistant Branch Manager, Farmville
Christopher Peters	Bank Officer & Assistant Branch Manager, Triangle Plaza
Lacie Page	Bank Officer & Assistant Branch Manager, Concord
Tara Almond	Bank Officer, Indirect Lending
Uwana Litchford	Bank Officer, Accounting Officer
Cassandra Reed	Bank Officer, Real Estate Review & HMDA Officer

2019 Employees

Main Office

Michelle Ashley
Alysia Baker
Janet Baker
James Bollinger
Michelle Christian
Whitney Drew
Cody Drinkard
Liz Ferguson
Penny Franklin
Rachel Franklin
Emily Hedrick
Michael Inglett
Joan Jamerson
Alexa Layne
Michael Lewis
Glenda Martin
Brooklyn McCormick
Tara Nelson
Sarah Overstreet
Charity Oxner
Gwen Phelps
Sue Ranson
Kincaid Robinson
Lauren Sadler
Nick Servis
Sonny Smith
Mary Sue Stanley
Mary Staples
Bryant Tolley
Keelyn Wheeler
Samantha Williams
Lynn Wilmoth

Triangle Plaza Branch

Robin Branch
Del Chambers
Cindy Mayberry
Keri Rees
Teresa Wilson
Betty Wingfield

Concord Branch

Hope Bondurant
Sarah Glover
Sommar Moore
Doris Tyree

Buckingham Branch

Sherri Martin
Ellen McGarry
Jackie Murphy

Farmville Branch

Kimberly Coleman
Michelle Kole
Danielle Scruggs

VBA Bank Day Students with Rep. Denver Riggleman, III

Our Loan Officers – Ready to Serve You

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