ANNUAL Report 2019

Bridging our past to our future.

PCB
Pendleton Community Bank

ABI
Allegheny Bancshares Inc

INSIDE

OUR
Mission

Pendleton Community Bank, an Independent Community Bank, is dedicated to PROVIDING products and services that facilitate financial success of our customers, ENCOURAGING professional success for our team members, and STIMULATING economic growth in our communities, thereby enhancing the value of "YourBank".

Bridging our past. . .
to our future.

Dear Shareholder,

Bridging our Past to our Future. . . In many of my communications to you, our stakeholders, I've elaborated on strategic growth, organic growth, and looking to the future. Clearly 2019 was a year that we bridged the successes and strengths of our past to the future and to the many opportunities that lay ahead for us. 2019 was a year that we saw the transition of our Wardensville Loan Production Office into a full-service facility, further strengthening our footprint in Hardy County. We also completed our first "whole bank" acquisition with the purchase of The Bank of Mt Hope, that further expanded our footprint and added three additional financial centers to our organization. Not only did this acquisition grow our overall number of office locations, we increased our asset size by approximately $126 million which will provide for additional earnings in 2020 and beyond.

To support this growth, we continued to add personnel in strategic locations and appointed two new directors to the organization. Dennis Wenger (from our Harrisonburg market) joined the organization on August 15, 2019 and Mike Lively (from our Southern Region), was added January 1, 2020. Both individuals bring additional expertise and market knowledge and are recommended by the Board as part of the slate of directors being voted upon at our Annual Meeting.

As you may or may not be aware, we lost one of our directors earlier this year. It saddens me to inform you that Richard Phares who served as a director from November 13, 1969 until May 31, 2018 and having moved to a Director Emeritus on June 1, 2019 passed away on February 13, 2020. His dedication and service to our organization played a large part of positioning us where we are today and will not be forgotten.

LETTER TO Shareholders

As noted, we experienced a large increase in asset size with the purchase of The Bank of Mt. Hope. In addition, we continued to enjoy organic growth and ended the year with total assets of $442,126,135. This level represents an increase of $134,596,030 (43.8%) over year-end 2018. A breakdown of this growth reflects total deposit growth of $126,075,423 and net loans in the amount of $84,184,391. There was also an increase in total capital in 2019. In addition to net earnings,

additional capital was provided at the bank level via subordinated debt in an amount sufficient to support the acquisition and growth going forward.

We ended the year with net earnings down from 2019; however, this decrease was attributable to costs associated with the merger and not reflective of decreased operating earnings. In fact, looking solely at operating earnings exclusive of the impact of the merger, we were reflecting an increase over 2018's level. I'm confident that the acquisition will begin to be accretive to net earnings in 2020 and sets the stage for increased earnings and earnings per share going forward. You will find highlights of 2019's operating results in this report; and, as always, a full set of financials are included for your review. I trust you will agree with me that 2019 was a successful year and one that bridges our successful past to an even brighter future.

In closing, it is always an honor to present this communication to you, and this year is no exception. Truly, 2019 was a historical year and one that would not have been possible without the continued support of you, our customers and stakeholders, and the unwavering support of our Board of Directors and team. I thank each for their respective contributions and am honored to have the opportunity to lead such a distinguished organization.

William A. Loving, Jr., CLBB
President/CEO

A YEAR OF **Growth**

As the banking landscape in our country continues to change and shift, Pendleton Community Bank has remained committed to consistently delivering extraordinary customer service, while also improving technology and expanding our footprint into other geographic areas.

As 2019 unfolded, the bank rolled out a new website – yourbank.bank – that offered a more secure banking method and improved access to online banking opportunities. The modern design also enhances the overall online experience for our customers and is a great tool to attract the growing culture of remote banking.

This year, Pendleton Community Bank was ripe for growth with the addition of four more financial centers to our family. We are excited for what the future holds for our new Wardensville full-service facility, as well as for our new locations in southern West Virginia with the acquisition of The Bank of Mount Hope offices in Beckley, Mount Hope, and Oak Hill.

Expanding our footprint in West Virginia with four new locations.

INVESTED IN OUR **Community**

Community banks are an integral part of Main Street; they reinvest local dollars back into the community and help create local jobs. As an independent community bank since 1925, Pendleton Community Bank officers and team members from all ten of our financial centers are deeply committed to their local communities and make it a top priority to be actively involved in activities and events that promote the well-being of the places we live, work and play.

Whether it's reading to school children, sponsoring academic achievement programs, financing playground equipment or participating in fundraising efforts, Pendleton Community Bank is proud to partner with our neighbors to help improve the quality of life for all. By investing in our community, Pendleton Community Bank is ensuring a better future for generations to come.


I SURVIVED
FOR BRAINS
the 2019 ZOMBIE


PCB
Pendleton Community Bank

BOARD OF Directors

From left to right

Chad Branson
Associate Broker –
Old Dominion Realty

William Bosley, OD
Doctor of Optometry

Dennis Wenger
President – Skyline Roofing /
Vice President – Stone Hill
Construction, Inc.

John E Glover, DDS
Vice Chair / Dentist

Carole Hartman
Chair / Farmer

William Loving, Jr., CLBB
President / CEO

Roger Champ
Secretary / Contractor

Mike Lively
Vice President Commercial
Insurance, Jim
Lively Insurance, Inc.

Joseph Brennskag
Enrolled Agent – Mountain State
Tax Services

William Beard, Jr.
Farmer

Laura Simpson Evick
Attorney

The Board of Directors would like to extend their deepest appreciation for the dedication and service of Richard Phares, who passed away on February 13, 2020. The loss of our friend will be felt not just in banking, but in all walks of life. Richard tirelessly served with distinction and dedication on the board and was instrumental in the success of this institution and the betterment of the community. Richard began serving on the Board of Directors of Pendleton Community Bank on November 13, 1969 and tirelessly worked to support the goals and objectives of the bank. Richard retired from the Board of Directors and was elected to become a Director Emeritus on June 1, 2018. The Board of Directors want to express their deepest appreciation for the dedication and service Richard demonstrated over the years.

Born May 16, 1928, in Circleville, WV, Richard was the son of Elmer Phares and Myrtle Sponaugle Phares. On November 10, 1952, he married Ruth M. Sites Phares, who passed away on January 4, 1998. Richard was a Korean War Veteran of the US ARMY, having served as a tank commander. Richard and Ruth operated the store and post office in Onego starting in 1959. In addition to being the postmaster, Richard was a farmer, business owner, and served on the Board of Directors of Pendleton Community Bank for 50 years. He participated in many community organizations.

Richard is survived by three daughters: Dr. Pamela K. Kulback and husband Steve of Birmingham, Alabama, Kimberely L. Godwin and husband John of Morgantown, WV, and Sonnee D. Shomo and husband Chad of Swoope, Virginia; two sons, Jerry R. Phares and wife Kitty of Petersburg, WV, Richard C. Phares, Jr. of Riverton, WV; five grandsons, Jerry Richard Phares, Jr. and wife Stacy of Pasadena, Maryland, Stephen J. Kulback and wife Mary Katherine of Wilmette, Illinois, Jon Richard Godwin and wife Amanda of Morgantown, WV, Richard C. Phares III of Riverton, WV, and Charles Wesley Godwin and wife Samantha of Athens, Ohio; one granddaughter, Kristina Phares and husband Stacy Vance of Berlin, Pennsylvania; two great-granddaughters, Kaitlyn Phares and Ashley Phares of Pasadena, Maryland; three great-grandsons Lincoln James Godwin, Thomas Brady Kulback, and Gabriel Wesley Godwin; two sisters, Mary June Bennett of Circleville, WV, Dottie Warner and husband Jerry of Franklin, WV; one brother, Raymond "Eddie" Phares and wife Rose of Circleville, WV; and his long time companion Rheba Helmick. In addition to his parents Elmer and Myrtle, Richard is proceeded in death by a sister, Ina Lee Hedrick, and one brother, James Phares.

RICHARD PHARES

Director from 1969 to 2018

SPECIAL **Tribute**

OUR **Team**

William A Loving, Jr., CLBB, *President/CEO*
L. Kirk Billingsley, CPA, SR *VP–Finance/CFO*
Sheldon Arbaugh, SR *VP–West Virginia Area Executive*
Josh Byers, SR *VP–Chief Credit Officer*
Jonah Pence, SR *VP–Virginia Area Executive*
Cindy Rader, *VP–Mortgage*
Erin Sites, CPA, *VP–Assistant CFO*
Amanda Smith, *VP–Market Manager*
Kristan Foster, *VP–Market Manager*
Danielle Sisson, *VP–Operations/Acting CIO*
Kathy Parker, *VP–Executive Assistant/Investor Relations/Ethics Officer*
Monika Eckard, CPA, *VP–Human Resources/Affirmative Action Officer*
Mark Williams, *VP–Director of Compliance*
Robert Williams III, *VP–Agricultural Lending*
Tim Cash, *VP–Business Development Officer*
Bradley Wartella, *VP–Business Development Officer*
Rhonda Tredway, *VP–Business Development Officer*
Tammy Smith, *AVP–Electronic Branch Manager*
Tammy Clutter, *AVP–Loan Operations*
Debra Terry, *AVP–Admin Support*
Darla Jones, *Collections Officer*
Evelyn Simmons, *Accounting Assistant/BSA Auditor*
Brittany Mitters, *Credit Analyst*
Laura Roadcap, *Internal Auditor*
Lori Nelson-Roberson, *Loan Review/Compliance Assistant*
Stephanie Butler, *Operations Manager*
Clay Richardson, *Public Relations Coordinator*
Eric Hartman, *Network Administrator*
Natasha Simmons, *BSA Assistant*

"This year's superior performance would not have been possible without the coordinated and dedicated efforts of all of PCB's team members Thank you for the part you played in our success."

-William A. Loving, Jr., CLBB
President/CEO

Holly Beachler
Sarah Burns
Rebekah Byers
Tammy Davis
Samantha Farley
Kim Fox
Jessica Hedrick
Joy Hersey
Emily Hull
Debbie Propst
Samantha Puchany
Kimberly Reyes
Judy Snyder
Lisa Sponaugle
Stacey Stowers
Trina Whitt
Diana Williams

Beckley FINANCIAL CENTER
Susie Bishop
Ruth Harper
Khara Meadows
Donna Miller
Tiffany Prince
Vickie Warren, *Universal Banker*

Franklin FINANCIAL CENTER
Dayne Davis, *AVP-Financial Center Manager/Business Development Officer*
Jessica Alt
Jessica Basagic, *Universal Banker*
Missy Bennett
Reyenne Colaw
Trish Flynn
Claire Heavner
Teresa Heavner, *Universal Banker*
Nancy Mallow
Nicole Marsh
Katelyn Scott
Jamie Varner

Harrisonburg West FINANCIAL CENTER
Katie Jackson, *AVP-Financial Center Manager*
Patsy Campbell
Sheri Cave
Kathy Dove
Craig Orndorff, *Universal Banker*
Sharon Stickley
Denise Streets

Harrisonburg Downtown FINANCIAL CENTER
Katie Sinnett, *Financial Center Manager*
Allison Bowser
Melissa Elliott
Faith Anderson Harper
Susan Payne, *Universal Banker*
Teri Stearn
Stephanie Walker
Carly Watson

Marlinton FINANCIAL CENTER
Selina King, *AVP-Financial Center Manager*
Kendall Beverage, *Business Development Officer/Security Officer*
Lauren Dunbrack, *Universal Banker*
Rebekah Friel
Steven Gravely
Anita Mallow
Ashley Moore

Moorefield FINANCIAL CENTER
Melinda Biser, *Financial Center Manager*
Margaret Shriver, *Universal Banker*
Joey Vetter, *AVP–Business Development Officer*
Brionna Hartman
Christina Hefner
Diana Hernandez
Sabrina Varner
Lana Watson
Meghan Wright
Kelcy Young

Mount Hope FINANCIAL CENTER
Leigh Richardson, *Regional Financial Center Manager*
Brenda Kirby
Susan Mullins
Samantha Pugh
Duwan Romage
Linda Walker

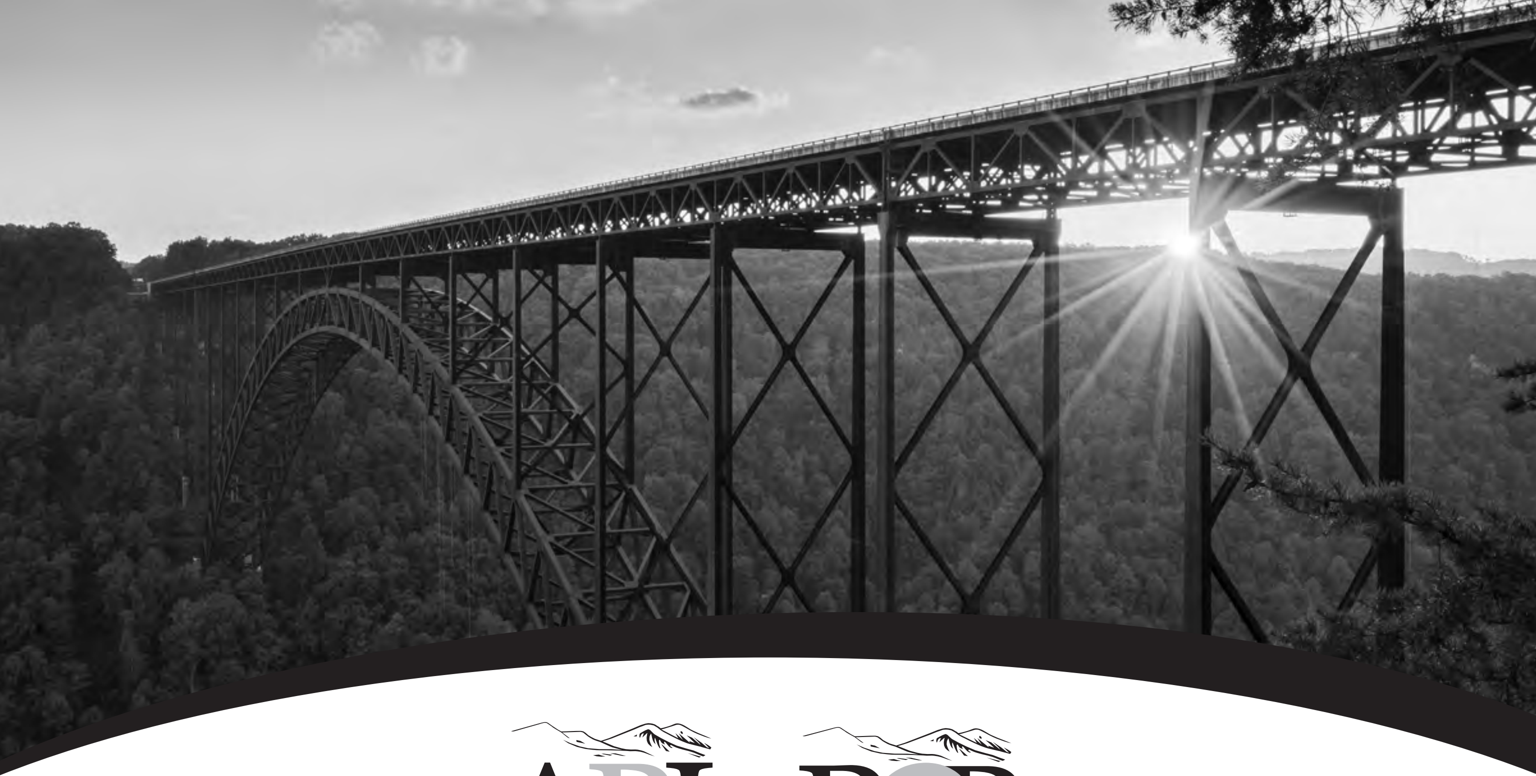
Oak Hill FINANCIAL CENTER
Michelle Bickford
Yvette Britt-Boggess
Kimberly Butner
Christopher Mabes
Brittany Raynes
Melissa Smith

Petersburg FINANCIAL CENTER
Christina Branham, *Financial Center Manager*
Tony Calhoun
Casey Goldizen
Donna Idleman
Crystal Merrick
Misty Taylor

Wardensville FINANCIAL CENTER
Luke Kesner, *AVP Financial Center Manager*
Ashley Delawder
Carolyn Hefner
Joan Mathias
Nick Yoder, *Universal Banker*

	Years ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands except per share data)				
RESULTS OF OPERATIONS					
Interest income	$ 16,452	$ 13,896	$ 12,730	$ 12,238	$ 12,070
Interest expense	(2,540)	(1,672)	(1,062)	(996)	(1,141)
Net Interest Income	13,912	12,224	11,668	11,242	10,929
Provisions for loan losses	(540)	(370)	(450)	(720)	(900)
Noninterest income	2,961	2,441	2,350	2,407	2,231
Noninterest expenses	(12,079)	(9,608)	(8,759)	(8,400)	(7,711)
Income taxes	(841)	(862)	(1,493)	(1,312)	(1,280)
Net Income	$ 3,413	$ 3,825	$ 3,316	$ 3,217	$ 3,269
PROFITABILITY RATIOS					
Return on Average Assets	1.08%	1.27%	1.16%	1.17%	1.22%
Return on Average Equity	8.55%	10.10%	9.05%	8.93%	9.60%
PER COMMON SHARE					
Net Income	$4.07	$4.54	$3.90	$3.74	$3.80
Cash Dividends Declared	2.12	2.00	1.88	1.80	1.78
Book Value	48.10	45.51	43.33	41.40	40.27
Last Reported Market Price	70.00	70.00	72.00	72.00	72.00
AT YEAR END					
Assets	$442,126	$307,530	$288,858	$276,381	$269,459
Deposits	389,730	263,655	245,880	236,542	230,171
Loans, Net	325,233	241,353	225,636	212,396	205,668
Long-term Debt	7,944	2,144	2,334	2,515	2,687
Stockholders' Equity	39,984	38,008	36,360	35,109	34,598
Equity to Assets Ratio	9.04%	12.36%	12.59%	12.70%	12.84%

FINANCIAL **Highlights**



Allegheny Bancshares Inc

Pendleton Community Bank

2019 Financials

Allegheny Bancshares Inc

Pendleton Community Bank

INDEX TO **Financial Statements**

Yount Hyde & Barbour
Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Allegheny Bancshares, Inc.
Franklin, West Virginia

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Allegheny Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income, 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 Allegheny Bancshares, Inc. and its 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.

Roanoke, Virginia
March 3, 2020

ALLEGHENY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 8,922,607	$ 5,934,431
Fed funds sold	9,498,246	- -
Interest bearing deposits in banks	6,063,476	4,336,432
Investment securities available for sale, at fair value	67,493,032	37,148,157
Restricted equity securities	280,895	228,095
Loans receivable, net of allowance for loans losses of $2,990,314 in 2019 and $2,685,984 in 2018	325,233,453	241,353,392
Bank premises and equipment, net	7,073,899	5,549,609
Interest receivable	1,797,304	1,290,297
Goodwill	4,479,823	1,086,732
Core deposit intangible, net	1,150,500	5,911
Bank owned life insurance	8,926,911	8,711,294
Other real estate owned, net of valuation allowance of $207,500 in 2019 and $214,000 in 2018	687,175	681,500
Other assets	518,814	1,204,255
Total Assets	$ 442,126,135	$ 307,530,105
LIABILITIES		
Deposits		
Noninterest bearing	$ 96,860,614	$ 61,183,662
Interest bearing		
Demand	57,234,143	46,863,803
Savings	121,353,091	71,942,711
Time deposits over $250,000	17,424,560	10,708,825
Other time deposits	96,857,816	72,955,800
Total Deposits	389,730,224	263,654,801
Securities sold under agreements to repurchase	1,457,799	1,013,491
Subordinated debt	6,000,000	- -
Long-term debt	1,944,274	2,144,185
Accrued expenses and other liabilities	3,009,857	2,709,759
Total Liabilities	402,142,154	269,522,236
STOCKHOLDERS' EQUITY		
Common stock; $1 par value, 2,000,000 shares authorized, 784,554 shares issued in 2019 and 2018	784,554	784,554
Class A Common stock; $1 par value, 2,000,000 shares authorized, 108,872 shares issued in 2019 and 2018	108,872	108,872
Class B Common stock, $1 par value, 2,000,000 shares authorized, 6,574 shares issued in 2019 and 2018	6,574	6,574
Additional paid in capital	900,000	900,000
Retained earnings	41,617,602	39,980,775
Accumulated other comprehensive income (loss)	553,026	(12,999)
Common Treasury stock (at cost, 65,502 shares and 61,723 shares, respectively)	(3,794,527)	(3,567,787)
Class A Treasury stock (at cost, 3,185 shares)	(191,100)	(191,100)
Class B Treasury stock (at cost, 17 shares)	(1,020)	(1,020)
Total Stockholders' Equity	39,983,981	38,007,869
Total Liabilities and Stockholders' Equity	$ 442,126,135	$ 307,530,105

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Interest Income:		
Loans and fees	$ 15,095,824	$ 12,832,813
Interest bearing deposits in banks	241,475	147,538
Investment securities – taxable	548,429	336,966
Investment securities – nontaxable	566,095	579,045
Total Interest Income	16,451,823	13,896,362
Interest Expense:		
Interest on deposits	2,323,943	1,537,760
Interest on borrowings	215,930	134,105
Total Interest Expense	2,539,873	1,671,865
Net Interest Income	13,911,950	12,224,497
Provision for loan losses	540,000	370,000
Net Interest Income After Provision for Loan Losses	13,371,950	11,854,497
Noninterest Income:		
Service charges, fees and commissions	1,357,287	1,195,420
Increase in cash value of bank owned life insurance	215,617	205,371
Gain (Loss) on sale of available for sale securities, net	48,036	(939)
Other income	1,339,976	1,040,842
Total Noninterest Income	2,960,916	2,440,694
Noninterest Expense:		
Salaries and benefits	5,992,050	5,055,581
Occupancy expenses	734,884	698,049
Equipment expenses	1,418,260	1,160,642
Director’s fees	379,310	294,924
Core deposit intangible amortization	35,411	9,824
Losses on sale and writedowns of other real estate owned, net	46,496	99,281
Merger related expenses	953,871	- -
Other expenses	2,518,550	2,289,693
Total Noninterest Expenses	12,078,832	9,607,994
Income before Income Taxes	4,254,034	4,687,197
Income Tax Expense	840,585	862,075
Net Income	$ 3,413,449	$ 3,825,122
Net Income per share of Common, basic and diluted	$ 4.07	$ 4.54
Net Income per share of Common Class A, basic and diluted	$ 4.28	$ 4.77
Net Income per share of Common Class B, basic and diluted	$ 4.48	$ 5.00
Cash dividends paid per share of Common	$ 2.12	$ 2.00
Cash dividends paid per share of Common Class A	$ 2.23	$ 2.10
Cash dividends paid per share of Common Class B	$ 2.33	$ 2.20
Weighted Average Shares Outstanding, Common	720,444	723,984
Weighted Average Shares Outstanding, Common Class A	105,687	105,699
Weighted Average Shares Outstanding, Common Class B	6,557	6,557

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net Income	$ 3,413,449	$ 3,825,122
Other Comprehensive Income (Loss)		
Unrealized gains (losses) arising during the period on available for sale securities	764,523	(322,346)
Adjustments for income tax (expense) benefit	(160,550)	67,693
	603,973	(254,653)
Reclassification adjustment for net (gains) loss included in net income	(48,036)	939
Adjustment for income tax expense (benefit)	10,088	(198)
	(37,948)	741
Total other comprehensive income (loss)	566,025	(253,912)
Total comprehensive income	$ 3,979,474	$ 3,571,210

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities:		
Net Income	$ 3,413,449	$ 3,825,122
Adjustment to reconcile net income to net cash		
provided by operating activities:		
Provision for loan losses	540,000	370,000
Depreciation and amortization	573,022	540,104
Core deposit intangible amortization	35,411	9,824
Net amortization of securities	290,675	351,596
(Gain) Loss on sale of available for sale securities, net	(48,036)	939
Loss on sale of bank premises and equipment	(1,606)	- -
Deferred income tax benefit	(125,472)	(153,393)
Increase in bank owned life insurance	(215,617)	(205,371)
Loss on sale and writedowns of other real estate owned	46,496	99,281
Net change in:		
Interest receivable	(21,827)	(37,360)
Other assets	632,290	95,013
Accrued expense and other liabilities	(202,687)	295,674
Net Cash Provided by Operating Activities	4,916,098	5,191,429
Cash Flows from Investing Activities:		
Net change in Fed Funds sold	(8,732,246)	- -
Net change in interest bearing deposits in banks	(1,727,044)	(1,141,656)
Proceeds from sales, calls and maturities of available		
for sale securities	23,451,960	2,168,747
Purchase of available for sale securities	(11,865,066)	(4,716,801)
Purchase of restricted investments	- -	(154,600)
Purchase of bank owned life insurance	- -	(1,200,000)
Proceeds from redemption of restricted investments	600	154,000
Proceeds from sale bank property	178,512	- -
Proceeds from sale of other real estate owned	415,639	116,819
Purchase of bank premises and equipment	(1,330,910)	(607,593)
Net changes in loans	(19,966,733)	(16,087,454)
Cash paid in bank acquisition	(21,775,520)	- -
Cash acuired in bank acquisition	16,071,037	- -
Net Cash (Used in) Investing Activities	(25,279,771)	(21,468,538)
Cash Flows from Financing Activities:		
Net change in:		
Demand and savings deposits	21,144,298	17,128,994
Time deposits	(1,038,484)	646,115
Securities sold under agreements to repurchase	(550,692)	(856,433)
Proceeds of issuance of subordinated debt	6,000,000	- -
Curtailments of long-term borrowings	(199,911)	(190,158)
Purchase of treasury stock	(226,740)	(241,200)
Cash dividends paid	(1,776,622)	(1,682,030)
Net Cash Provided by Financing Activities	23,351,849	14,805,288
Cash and Cash Equivalents		
Net increase (decrease) in cash and cash equivalents	2,988,176	(1,471,821)
Cash and cash equivalents, January 1	5,934,431	7,406,252
Cash and cash equivalents, December 31	$ 8,922,607	$ 5,934,431
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 2,247,955	$ 1,615,280
Income taxes	$ 932,627	$ 739,900
Supplemental Schedule of Noncash Investing and Financing Activities:		
Other real estate acquired in settlement of loans	$ 467,810	$ 76,500
Unrealized gains (losses) gains on securities available for sale	$ 716,487	$ (321,407)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Total	Common Stock	Class A Common Stock	Class B Common Stock
Balance December 31, 2017	$ 36,359,889	$ 784,554	$ 108,872	$ 6,574
Net Income	3,825,122	- -	- -	- -
Other Comprehensive Loss	(253,912)	- -	- -	- -
Purchase of Treasury Stock	(241,200)	- -	- -	- -
Dividends Paid	(1,682,030)	- -	- -	- -
Balance December 31, 2018	$ 38,007,869	$ 784,554	$ 108,872	$ 6,574
Net Income	3,413,449	- -	- -	- -
Other Comprehensive Income	566,025	- -	- -	- -
Purchase of Treasury Stock	(226,740)	- -	- -	- -
Dividends Paid	(1,776,622)	- -	- -	- -
Balance December 31, 2019	$ 39,983,981	$ 784,554	$ 108,872	$ 6,574

Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Treasury Stock	Class A Treasury Stock	Class B Treasury Stock
$ 900,000	$ 37,837,683	$ 240,913	$ (3,327,787)	$ (189,900)	$ (1,020)
- -	3,825,122	- -	- -	- -	- -
- -	- -	(253,912)	- -	- -	- -
- -	- -	- -	(240,000)	(1,200)	- -
- -	(1,682,030)	- -	- -	- -	- -
$ 900,000	$ 39,980,775	$ (12,999)	$ (3,567,787)	$ (191,100)	$ (1,020)
- -	3,413,449	- -	- -	- -	- -
- -	- -	566,025	- -	- -	- -
- -	- -	- -	(226,740)	- -	- -
- -	(1,776,622)	- -	- -	- -	- -
$ 900,000	$ 41,617,602	$ 553,026	$ (3,794,527)	$ (191,100)	$ (1,020)

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Allegheny Bancshares ("Company") is a bank holding company and operates under a charter issued by the state of West Virginia. The Company owns all of the outstanding stock of Pendleton Community Bank ("Bank"), which operates under a charter issued by the State of West Virginia and provides commercial banking services to customers located primarily in Pendleton County, West Virginia and adjacent counties. As a state chartered bank, the Bank is subject to regulation by the Department of Banking for the State of West Virginia and the Federal Deposit Insurance Corporation. The Bank is engaged in the general commercial banking business offering a full range of banking services focused primarily towards serving individuals, small businesses, the agricultural industry, local government entities, and the professional community.

The Bank's primary trade area includes the West Virginia localities of Pendleton, Grant, Hardy and Pocahontas counties, including the towns of Franklin, Marlinton, Moorefield, Petersburg, and in January 2020 our newest full service branch opened in Wardensville. In Virginia, the Bank has two full service offices, one in downtown Harrisonburg, Virginia and one just outside the city of Harrisonburg.

On October 1st, 2019, the Company completed its acquisition of Mount Hope Bankshares, Inc. ("Mount Hope") pursuant to the terms and conditions of the Agreement and Plan of Merger, dated May 9, 2019 between the Company and Mount Hope ("Merger Agreement"). Immediately after the merger of Mount Hope into the Company, Allegheny Bancshares, Inc., Mount Hope's wholly-owned bank subsidiary ("Bank of Mount Hope"), merged with and into the Bank. Pendleton Community Bank provided banking services to its customers from three banking offices located in Mount Hope, Fayettville, and Beckley, West Virginia. Refer to Note 2 for further details on the merger.

The accounting and reporting policies of the Company and its subsidiary conform to the U.S. generally accepted accounting principles and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

Classes of Commons Stock –The Company has three classes of common stock as follows: Common Stock, Class A Common Stock and Class B Common Stock. Common Stock has full voting rights on any and all matters that come before a vote of the Company's shareholders.

Class A Common Stock shareholders receive a 5% premium over the dividend paid on Common Stock, and Class A shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class A Common Stock will have a liquidation preference over Common Stock and Class B Common Stock.

Class B Common Stock shareholders receive a 10% premium over the dividend paid on Common Stock, and Class B shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class B Common Stock will have a liquidation preference over Common Stock, but after Class A Common Stock.

Consolidation Policy – The consolidated financial statements include Allegheny Bancshares, Inc. and Pendleton Community Bank. All significant intercompany balances and transactions have been eliminated.

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate in connection with foreclosures or in satisfaction of loans. In connection with the determination for the allowances for loan loss and foreclosed real estate, management obtains independent appraisals for significant properties.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

While management uses available information to recognize loan losses, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term.

Cash and Cash Equivalents – Cash and cash equivalents as used in the consolidated balance sheets and consolidated cash flow statements is defined as cash on hand and noninterest bearing funds at correspondent institutions. The Company is required by the Federal Reserve to maintain a reserve balance based upon a percentage of deposits. The Company can meet this requirement through cash on hand, balances held with its correspondent bank, and cash held on reserve with Federal Reserve Bank. At December 31, 2019 and 2018, no balance was required to be on reserve with the Federal Reserve Bank.

Investment Securities – Investment securities which the Company intends to hold for indefinite periods of time, including investment securities used as part of the Company's asset/liability management strategy, are classified as available for sale. These investment securities are carried at fair value.

Interest and dividends on securities and amortization of premiums and accretion of discounts on securities are reported as interest income using the effective interest method. Gains and losses on the sale of investment securities are determined using the specific identification method.

Declines in the fair value of available-for-sale securities below their cost that are determined to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent of the Bank to sell the security, (2) whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and (3) whether the Bank expects to recover the security's entire amortized cost basis regardless of the Bank's intent to sell the security. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans – Loans are intended to be held until maturity and are shown on the consolidated balance sheets net of the allowance for loan losses. Interest is computed by using an effective interest method which generally results in level rates of return on principal. Interest income generally is not recognized on loans classified as nonaccrual loans. Payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received. Loans will remain in nonaccrual status unless the loans are brought current per the loan contract and financial conditions have improved to a point that the likelihood of further loss is remote.

In the normal course of business, to meet the credit needs of its customers, the Company has made commitments to extend credit. These commitments represent a credit risk, which is not recognized in the Company's consolidated balance sheets. The Company uses the same credit policies in making commitments as it does for other loans. Commitments to extend credit are generally made for a period of one year or less and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the contract or notional amounts do not necessarily represent future cash requirements. See Note 21 for lending commitments as of December 31, 2019 and 2018.

The accrual of interest on all loans is discontinued when in management's opinion the borrower may be unable to meet payments as they become due. These loans are considered nonaccrual loans, and all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income.

Allowance for Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the non-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

During these evaluations, particular characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Commercial loans not secured by real estate, carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.
- Loans secured by commercial real estate also carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor is unable to finish the project as planned due to financial pressures unrelated to the project.
- Residential real estate loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Non profit and tax exempt loans are predominately loans made either to municipalities, or to emergency service organizations such as rescue squads or fire departments. These organizations rely on tax collections in the case of municipalities and often contributions for the rescue organizations. These loans are typically secured by equipment and sometimes real estate. The inherent risk is economic downturn that can hurt contributions or tax receipts.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all loans or commitments that are either demonstrating signs of becoming problematic or currently considered problem loans. Changes to the report must have the concurrence of the Chief Credit Officer and the Chief Executive Officer.

Occurrence of any of the following criteria is a basis for adding a loan to the watch list report.
- Loans classified as substandard, doubtful or loss by bank examiners, external auditors or loan review based upon financial trends.
- Loans on nonaccrual status.
- Loans more than 90 days delinquent.
- Loans judgmentally selected by executive management or the Board of Directors, due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

When a loan is added to the watch list report, the Chief Credit Officer and the Chief Executive Officer will assess the need for updated valuations. Upon receipt of current value updates, if necessary, these individuals along with the Chief Financial Officer will estimate the need for a specific loss to be allocated in the Bank's loan loss allowance.

The following guidance has been given as an aid to loan officers in detecting problem loans.
- Financial Statement Analysis – As customer financial statements are received, they should be immediately analyzed to see if there are any significant changes in financial position or operating results.
- Delayed Financial Statements – If we are having problems getting financial statements from a customer, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. We carefully review each loan as soon as it becomes past due.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- Marital Difficulties – Marital difficulties often cause businesses financial stress and are a major cause of problem loans.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the customer becomes uncooperative.
- Other Red Flags – The following are additional red flags which could mean a problem situation is developing: more than two extension payments within the past 12 months, illness or death of a principal or key employee, overdrafts, unexpected renewals or unanticipated new borrowing, deteriorating financial ratios, irresponsible behavior on the part of a borrower or cancellation of insurance.

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful or substandard or loans exceeding 90 days past due that exceed $100,000. For such loans, that are also classified as impaired, an allowance is established when the collateral value less estimated costs to sell, or observable market price (or discounted cash flows) of the impaired loan is lower than that carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors including current economic conditions and volume and mix of the existing loan portfolio.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. Credits are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

Risk Grades 1 through 4 (Pass): There are five different risk grades considered to be "Pass" grades. The first four grades are considered those performing credits that presently are considered lesser risk to the Bank. Credits in the Risk Grade 1 category are virtually risk-free and are well-collateralized by deposit accounts held by the Bank. The repayment program is well-defined and achievable and repayment sources are numerous. Risk Grade 2 is reserved for loans secured by readily marketable collateral, or loans within guidelines to borrowers with liquid financial statements with excellent sources of repayment, no significant identifiable risk of collection, and conformity in all respects to Bank policy guidelines, underwriting standards, and Federal and State regulations. A Risk Grade of 3 is reserved for the Bank's loans that are considered average credit risk, meet all the loan policy guidelines, and with no apparent weakness. These loans have no significant identifiable risk of collection. Generally, loans assigned this grade have documented historical cash flow that meets or exceeds required minimum Bank guidelines or that can be supplemented with verifiable cash flow from other sources as well as adequate secondary sources to liquidate debt. Finally, debts with a Risk Grade of 4 are loans considered to be slightly more than average credit risk. They meet the credit guidelines; however, they have certain characteristics which call into question the borrower's financial well-being. It may be elevated debt to income ratio, high loan to value ratio, balance sheet weakness or a cash flow weakness that is deemed to be temporary in nature. These are credits that may require more frequent monitoring.

Risk Grade 5 – Special Mention: The fifth and lowest pass grade is given to this level of risk. These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. These loans are not adversely classified and do not expose the Bank to a sufficient risk to warrant adverse classification. Failure to properly monitor such loans or to correct deficiencies could result in greater credit risk in the future.

Risk Grade 6 – Substandard: A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the possibility that the institution may sustain some loss if the deficiencies are not corrected. Loans in this category are characterized by deterioration in the quality exhibited by any number of well-defined weaknesses requiring corrective action.

Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins, and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak, and the loan may have exhibited excessive overdue status or extensions and renewals.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Risk Grade 7 – Doubtful: Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of current existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as a loss because certain events may occur which would salvage the debt.

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Risk Grade 8 – Loss: Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are in excess of $100,000.

In connection with the evaluation of the collectability of all classes of loans which are greater than 90 days past due as to principal or interest for nonaccrual status, any amounts not deemed well secured or otherwise collectible shall be recommended for charge-off at that time. Additionally, charge-off consideration shall be given to loans evaluated in connection with the Bank's loan review policy and procedures and loans identified for repossession or foreclosure or those that meet the criteria for classification as an in-substance foreclosure. In any event, it shall be the policy of the Bank to charge-off amounts deemed uncollectible in the periods when identified. All charge-off amounts are approved by the Board of Directors.

Troubled Debt Restructuring – In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider. The related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Other Real Estate Owned – Asset acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value, less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Physical possession of residential real estate collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of a foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar loan agreement. Subsequent to foreclosure, management periodically performs valuations, and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in valuation allowance are included in other operating expenses.

Bank Premises and Equipment – Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets principally on a straight-line method.

For buildings and improvements the estimated useful lives are between 10 and 50 years, the estimated lives for furniture and equipment are 5 to 10 years.

Bank Owned Life Insurance – The Company has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other amounts due that are probable at settlement.

Goodwill – The Company follows FASB ASC 350-20, *Intangibles-Goodwill and Other* which gives the Company the option to qualitatively determine whether they can bypass the two-step goodwill impairment test. The Company continues to perform the two step process under ASC 350-20. Provisions within this statement require at least annual impairment review or more often if certain impairment conditions exist. The Goodwill resulted from a branch acquisition in 2009 in addition to the acquisition of the Mount Hope Bankshares in 2019.

Income Taxes – Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

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 which, based on all available evidence, management believes 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 benefits 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 sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with the unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income. At December 31, 2019 and 2018, the Company has not identified and recorded any uncertain tax positions.

Net Income per Share – Basic earnings per common share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The Bank had no potential common shares during the calendar years 2019 and 2018. Earnings per common share is computed using the two-class method. The Class A Common shares carry a 5% dividend preference over common shares, and Class B shares carry a 10% dividend preference over Common shares.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 19. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumption or in market conditions significantly affect the estimates.

Advertising – The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2019 and 2018 was $322,978 and $255,624, respectively.

Mergers and Acquisitions **–** Business combinations are accounted for under ASC 805, "Business Combinations", using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company relies on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Under the acquisition method of accounting, the Company identifies the acquirer and the closing date and applies applicable recognition principles and conditions. Acquisition –related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants, and advertising costs. The Company accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. These acquisition related costs have been and will be included within the Consolidated Statements of Income classified within the noninterest expense caption.

Comprehensive Income – Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

Recent Accounting Pronouncements

During February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application is permitted. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued 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. In November 2018, the FASB issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, which modified the effective date for the amendments in this ASU No. 2016-13 to fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this ASU are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

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 Company 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 TRG Meetings. The effective date of each of the amendments depends upon the adoption date of ASU 2016-01, ASU 2016-13, and ASU 2017-12. The Company is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

During 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 Company is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

During November 2019, the FASB issued ASU 2019-10, "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) – Effective Dates." This ASU finalizes various effective date delays for standards on current expected credit losses (CECL), leases, and hedging for private companies, not-for-profit organizations, and certain smaller reporting companies. The effective dates for each of the standards for non-public business entities are now as follows:

- CECL (ASU No. 2016-13): Fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Earlier application is permitted.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Leases (ASU No. 2016-02): Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Earlier application is permitted.
- Derivatives and Hedging (ASU No. 2017-12): Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption, including adoption in an interim period, is permitted.

During 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. The effective date and transition methodology for the amendments in ASU 2019-11 are the same as in ASU 2016-13. The Company is currently assessing the impact that ASU 2019-11 will have on its consolidated financial statements.

During 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. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

Adoption of New Accounting Standards:

On January 1, 2019, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers" and all subsequent amendments, collectively "ASC 606." ASC 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize gains or losses from the transfer of nonfinancial assets such as other real estate. The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented in non-interest income in the consolidated statements of income and are recognized as revenue when the Company satisfies its obligation to the customer. Services within scope include deposit service charges, interchange income, and the sale of other real estate.

Subsequent Events:

The Company evaluated subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 3, 2020, the date financial statements were available to be issued. Based on the evaluation, the Company did not identify any other recognized or non-recognized subsequent events that would have required adjustment to or disclosure to the audited financial statements.

Reclassifications – Some items in prior year financial statements were reclassified to conform to the current presentation. Reclassifications were insignificant and had no effect on prior year net income or stockholders' equity.

NOTE 2 ACQUISITION OF MOUNT HOPE BANKSHARES, INC.

On October 1, 2019, the Company completed its acquisition of Mount Hope with and into the Company was effected pursuant to the terms and conditions of the Merger Agreement. Immediately after the merger, Bank of Mount Hope, Mount Hope's wholly owned bank subsidiary, merged with and into the Bank. Pursuant to the Merger Agreement, holders of shares of Mount Hope received $58.00 in cash for each share of Mount Hope's common stock. Each share of the Company's common stock outstanding immediately prior to the merger remained outstanding and was unaffected by the merger. The cash paid to the shareholders of Mount Hope ($21,775,520) was paid for by the Bank from its own funds and from a $6,000,000 capital contribution from the Company. The Company issued $6,000,000 in subordinated debt to facilitate this transaction. See note 14 for information regarding this debt.

The transaction was accounted for using the acquisition method of accounting and accordingly, assets acquired, and liabilities assumed, were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition.

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the merger date are summarized in the following table (dollar in thousands):

Consideration Paid:		
Cash paid to Shareholders	$	21,776
Assets acquired:		
Cash and cash equivalents		16,071
Fed Funds Sold		766
Investment securities		41,511
Loans Receivable		64,453
Premises and equipment		943
Core deposit intangible		1,180
Interest receivable		485
Other assets		780
Total assets		126,189
Liabilities assumed:		
Deposits		105,969
Deferred taxes		340
Accrued interest payable and other liabilities		1,497
Total liabilities		107,806
Net assets acquired		18,383
Goodwill resulting from merger with Mount Hope	$	3,393

In many cases the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at approximate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The Company acquired the $64,877,000 loan portfolio at a fair value discount of $424,000. The estimated fair value of the performing portion of the portfolio was $63,247,000. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB Accounting Standards Codification ("ASC") 310-20.

NOTE 2 ACQUISITION OF MOUNT HOPE BANKSHARES, INC. (CONTINUED)

The estimated fair value of the purchased credit impaired portfolio was $1,128,553. The total fair value mark of $179 consists of a credit discount of $21,254 and other fair value adjustments premium of $21,433. Contractual payments on these loans were $2,128,374 at time of acquisition. Purchased credit impaired loans are accounted for in accordance with FASB ASC 310-30.

In accordance with GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by Mount Hope.

In connection with the acquisition of Mount Hope, the Company acquired an investment portfolio with a fair value of $41,457,921. The fair value of the investment portfolio was determined by taking into account market prices obtained from independent valuation sources.

In connection with the acquisition of Mount Hope, the Company recorded a deferred income tax asset of $339,668 related to tax attributes of Mount Hope, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting.

In connection with the acquisition of Mount Hope, the Company acquired premises and equipment with a fair value of $943,309. Leases assumed were determined to be at fair value and required no acquisition related adjustment.

The fair value of savings and transaction deposit accounts acquired from Mount Hope was assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on segments: retail, individual retirement accounts, and brokered.

For each segment, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each segment is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment of $146,292 will be accreted to reduce interest expense over the life of the portfolio of these deposits which is 60 months.

A core deposit intangible of $1,180,000 was recognized in connection with the acquisition of Mount Hope. This intangible will be amortized over a 10 year period on a straight line basis.

Direct costs related to the acquisition were expensed as incurred. During 2019, the Company incurred $953,871 acquisition related expenses.

NOTE 3 INVESTMENT SECURITIES:

The amortized cost and fair values of securities are as follows (in thousands):

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasury securities	$ 2,001	$ 4	$ - -	$ 2,005
Mortgage backed obligations of federal agencies	23,378	159	93	23,444
Government sponsored enterprises	3,273	27	- -	3,300
SBA guaranteed loan pool certificates	7,174	7	38	7,143
Obligations of states and political subdivisions	30,963	672	34	31,601
Total	$ 66,789	$ 869	$ 165	$ 67,493

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Mortgage backed obligations of federal agencies	$ 6,321	$ 4	$ 154	$ 6,171
Government sponsored enterprises	4,799	1	33	4,767
Obligations of states and political subdivisions	26,042	276	108	26,210
Total	$ 37,162	$ 281	$ 295	$ 37,148

For the years ended December 31, 2019 and 2018, proceeds from sales, calls and maturities of securities available for sale amounted to $23,451,960 and $2,168,747, respectively. Gross gains on sale of investment securities totaled $100,130 in 2019 and $0 in 2018. Gross losses on sale of securities totaled $52,094 in 2019 and $939 in 2018.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position at December 31. The unrealized losses on the Company's investment securities were caused primarily by increase in interest rates, but the Company feels that no material impairment of value is due to deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and believes it is more likely than not that it will hold those investments until a recovery of fair value, which may be maturity, the Company feels that unrealized losses are temporary. The Company has 50 investments that have unrealized losses at December 31, 2019 and it considers them to be temporarily impaired.

NOTE 3 INVESTMENT SECURITIES (CONTINUED):

	Less than 12 Months				12 Months or Greater			
December 31, 2019	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
Description of Securities:								
U.S. Treasury securities	$	--	$	--	$	--	$	--
Mortgage backed obligations of federal agencies		10,264		87		719		6
Government sponsored enterprises		--		--		500		--
SBA guaranteed loan pool certificates		4,050		38		--		--
Obligations of states and political subdivisions		8,309		34		--		--
Total	$	22,623	$	159	$	1,219	$	6

	Less than 12 Months				12 Months or Greater			
December 31, 2018	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
Description of Securities:								
Mortgage backed obligations of federal agencies	$	--	$	--	$	5,141	$	154
Government sponsored enterprises		998		4		2,722		29
Obligations of states and political subdivisions		2,333		20		2,785		88
Total	$	3,331	$	24	$	10,648	$	271

A maturity schedule of securities in thousands as of December 31, 2019, by contractual maturity, is shown below. Actual maturities may differ because borrowers may have the right to call or prepay obligations.

	Amortized Cost		Fair Value	
Due:				
In one year or less	$	6,543	$	6,589
After one year through five years		7,300		7,386
After five years through ten years		30,808		31,138
Over ten years		22,138		22,380
	$	66,789	$	67,493

The carrying value of securities pledged by the Company to secure deposits, repurchase agreements and for other purposes amounted to $36,411,549 and $27,606,151 at December 31, 2019 and 2018, respectively. The fair value of these pledged securities approximates the carrying value.

NOTE 4 RESTRICTED EQUITY SECURITIES:

Restricted equity securities are considered restricted due to lack of marketability. They consist of stock in the Federal Home Loan Bank (FHLB), stock in Federal Agricultural Mortgage Corporation (Farmer Mac) and stock in ICBA Reinsurance Company, LTD. Investment in the FHLB stock is determined by the level of the Bank's participation with FHLB's various products and is collateral against outstanding borrowings from that institution. The FHLB stock is carried at cost of $264,400 at December 31, 2019. The Farmer Mac stock and the ICBA Reinsurance Company stock is the level of stock required to participate in their programs. The Farmer Mac stock is carried at its cost of $14,000 and the ICBA Reinsurance Company stock is carried at its cost of $2,495 at December 31, 2019. Management evaluates these restricted securities for other-than-temporary impairment on an annual basis, and more often when conditions warrant.

NOTE 5 LOANS RECEIVABLE:

Loans receivable outstanding as of December 31, are summarized in thousands:

	2019	2018
Real Estate:		
Commercial:		
Construction and land development	$ 29,411	$ 28,093
Agriculuture	27,420	23,410
Other commercial	48,525	43,592
Residential:		
Construction	9,883	5,611
Consumer residential	138,028	100,171
Non Real Estate:		
Commercial and industrial	40,049	19,431
Consumer	18,778	11,522
Nonprofit and tax exempt loans	16,129	12,209
Total Loans	328,223	244,039
Less Allowance for Loan Losses	2,990	2,686
Loans Receivable	$ 325,233	$ 241,353

Demand deposit accounts that are overdrawn have been reclassified as a loan since they represent an amount owed to the Bank. The amount of overdrawn accounts included in the loan balance are $295,047 and $231,228 at December 31, 2019 and 2018, respectively, and are included in the non-real estate consumer loan balance above.

Substantially all of our 1-4 family mortgages as well as our multi-family residential mortgages are covered under a blanket lien with the Federal Home Loan Bank for borrowings.

Loans accounted for on a nonaccrual basis were $2,859,063 and $2,635,926 at December 31, 2019 and 2018 (0.87% and 1.08% of total loans), respectively. Accruing loans which are contractually past due 90 days or more as to principal or interest totaled$1,396,401 and $439,531 December 31, 2019 and 2018 (0.43% and 0.18% of total loans, respectively). Past due status is determined based on the contractual terms of the loan agreement.

The past due and nonaccrual status of loans as of year-end were as follows (in thousands):

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded Investment >90 Days and Accruing
Real Estate:								
Commercial:								
Construction and land development	$ 109	$ 7	$ 2,007	$ 2,123	27,288	$ 29,411	$ 2,781	$ 532
Agriculture	211	- -	- -	211	27,209	27,420	- -	- -
Other commercial	214	- -	- -	214	48,311	48,525	- -	- -
Residential:								
Construction	- -	- -	- -	- -	9,883	9,883	- -	- -
Consumer residential	1,672	533	804	3,009	135,019	138,028	- -	804
Non Real Estate:								
Commercial and industrial	133	78	117	328	39,721	40,049	78	39
Consumer	86	6	21	113	18,665	18,778	- -	21
Non profit and tax exempt loans	190	- -	- -	190	15,939	16,129	- -	- -
Total	$ 2,615	$ 624	$ 2,949	$ 6,188	$ 322,035	$ 328,223	$ 2,859	$ 1,396

NOTE 5 LOANS RECEIVABLE (CONTINUED):

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded Investment >90 Days and Accruing
Real Estate:								
Commercial:								
Construction and								
land development	$ 124	$ 1,730	$ 925	$ 2,779	25,314	$ 28,093	$ 2,636	$ 15
Agriculture	- -	- -	- -	- -	23,410	23,410	- -	- -
Other commercial	1,406	- -	- -	1,406	42,186	43,592	- -	- -
Residential:								
Construction	- -	- -	- -	- -	5,611	5,611	- -	- -
Consumer residential	697	916	408	2,021	98,150	100,171	- -	408
Non Real Estate:								
Commercial and industrial	12	- -	- -	12	19,419	19,431	- -	- -
Consumer	58	- -	17	75	11,447	11,522	- -	17
Non profit and tax exempt loans	239	- -	- -	239	11,970	12,209	- -	- -
Total	$ 2,536	$ 2,646	$ 1,350	$ 6,532	$ 237,507	$ 244,039	$ 2,636	$ 440

Impaired loans, which include TDRs of $7,669,906 and $7,364,933 as of December 31, 2019 and 2018 respectively, were as follows:

December 31, 2019 With no related allowance: *(Dollars in Thousands)*	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
Commercial:					
Construction and					
land development	$ 3,025	$ 3,025	$ - -	$ 3,126	$ 44
Agriculture	358	358	- -	346	21
Other commercial	2,031	2,031	- -	2,286	128
Residential:					
Construction	- -	- -	- -	- -	- -
Consumer residential	1,811	1,811	- -	2,140	117
Non Real Estate:		- -	- -		
Commercial and industrial	372	372	- -	389	22
Consumer	- -	- -	- -	- -	- -
Non profit and tax exempt loans	- -	- -	- -	- -	- -
Total	$ 7,597	$ 7,597	$ - -	$ 8,287	$ 332

December 31, 2018 With no related allowance: *(Dollars in Thousands)*	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
Commercial:					
Construction and					
land development	$ 1,864	$ 1,864	$ - -	$ 1,878	$ 66
Agriculture	328	328	- -	392	22
Other commercial	2,045	2,045	- -	2,091	125
Residential:					
Construction	- -	- -	- -	- -	- -
Consumer residential	1,836	1,836	- -	1,966	105
Non Real Estate:			- -		
Commercial and industrial	524	524	- -	508	29
Consumer	- -	- -	- -	- -	- -
Non profit and tax exempt loans	- -	- -	- -	13	- -
Total	$ 6,597	$ 6,597	$ - -	$ 6,848	$ 347

NOTE 5 LOANS RECEIVABLE (CONTINUED):

December 31, 2019 With an allowance recorded: *(Dollars in Thousands)*	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
Commercial:					
Construction and land development	$ 898	$ 898	$ 292	$ 889	$ 2
Agriculture	- -	- -	- -	- -	- -
Other commercial	1,261	1,261	107	1,278	70
Residential:					
Construction	183	183	24	183	10
Consumer residential	907	907	325	653	25
Non Real Estate:					
Commercial and industrial	229	229	61	204	9
Consumer	78	78	78	80	5
Non profit and tax exempt loans	- -	- -	- -	- -	- -
Total	$ 3,556	$ 3,556	$ 887	$ 3,287	$ 121

December 31, 2018 With an allowance recorded: *(Dollars in Thousands)*	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
Commercial:					
Construction and land development	$ 2,613	$ 2,613	$ 831	$ 2,538	$ 44
Agriculture	- -	- -	- -	130	- -
Other commercial	1,449	1,449	174	1,425	91
Residential:					
Construction	183	183	24	183	11
Consumer residential	861	861	382	745	44
Non Real Estate:					
Commercial and industrial	39	39	5	39	2
Consumer	82	82	82	84	6
Non profit and tax exempt loans	- -	- -	- -	- -	- -
Total	$ 5,227	$ 5,227	$ 1,498	$ 5,144	$ 198

The recorded investment is defined as the principal balance, less principal payments on nonaccrual loans and charge-offs.

Troubled Debt Restructurings

Included in certain loan categories in the impaired loans table above are troubled debt restructurings (“TDRs”) that were classified as impaired. TDRs at December 31, 2019 are comprised of 27 loans totaling $7,669,906. A restructured loan is considered in default when it becomes 90 days past due. Three of these 27 loans, two of which are residential real estate loans in the amount of $229,377, were considered in default at December 31, 2019, along with a commercial construction and land development loan in the amount of $1,306,141. This commercial construction and development loan in the amount of $1,306,141, while not technically in default at year end, was classified as nonaccrual during 2018, and was in default in 2019, and was again restructured. The remaining TDRs, were performing in accordance with their restructured terms, and are not on nonaccrual status. This compares with 19 loans totaling $1,725,203 in restructured loans at December 31, 2018. The amount of the valuation allowance related to total TDRs was $478,269 and $729,785 as of December 31, 2019 and December 31, 2018, respectively. There were no charge-offs of restructured loans during 2019 or 2018.

The 27 loans totaling $7,669,906 in TDRs at December 31, 2019 are represented by two commercial construction and development loans, two agricultural land loans, six commercial real estate loans, thirteen consumer real estate loans, three commercial and industrial loans and one consumer loan.

NOTE 5 LOANS RECEIVABLE (CONTINUED):

During the year 2019, one consumer residential loan in the amount of $116,000 that had previously been restructured went into default. During 2018, two previously restructured loans went into default. The following table shows these loans that subsequently defaulted during 2018 in thousands:

Class of Loan	Number of Contracts	For the Year Ended December 31, 2018 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	1	$ 1,725	$ 1,725
Agriculture	- -	- -	- -
Other commercial	- -	- -	- -
Residential Real Estate:			
Construction	- -	- -	- -
Consumer Residential	1	112	112
Non Real Estate:			
Commercial and industrial	- -	- -	- -
Consumer	- -	- -	- -
Non profit and tax exempt entities	- -	- -	- -
Total	2	$ 1,837	$ 1,837

During 2019 the bank restructured 5 loans that were considered to be troubled debt restructurings. These loans totaled $759,932 one of which was an agricultural land loan, two that were residential real estate loans, and two that were commercial real estate loans. These modifications included rate adjustments, revisions to the amortization schedule, and capitalizing interest, or any combination thereof. The following table presents by class of loan, information related to TDR loans acquired and modified during 2019 in thousands:

Class of Loan	Number of Contracts	For the Year Ended December 31, 2019 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	- -	$ - -	$ - -
Agriculture	1	37	37
Other commercial	2	361	361
Residential Real Estate:			
Construction	- -	- -	- -
Consumer Residential	2	362	362
Non Real Estate:			
Commercial and industrial	- -	- -	- -
Consumer	- -	- -	- -
Non profit and tax exempt entities	- -	- -	- -
Total	5	$ 760	$ 760

NOTE 5 LOANS RECEIVABLE (CONTINUED):

During 2018 the bank restructured 5 loans that were considered to be troubled debt restructurings. These loans totaled $3,487,746, one of which was a commercial construction and development loan, two that were residential real estate loans, and two that were commercial real estate loans. These modifications included rate adjustments, revisions to the amortization schedule, and capitalizing interest, or any combination thereof. The following table presents by class of loan, information related to loans modified in a TDR during 2018 in thousands:

		For the Year Ended December 31, 2018	
Class of Loan	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	1	$ 561	$ 570
Agriculture	- -	- -	- -
Other commercial	2	2,663	2,690
Residential Real Estate:			
Construction	- -	- -	- -
Consumer Residential	2	227	228
Non Real Estate:			
Commercial and industrial	- -	- -	- -
Consumer	- -	- -	- -
Non profit and tax exempt entities	- -	- -	- -
Total	5	$ 3,451	$ 3,488

Management considers troubled debt restructurings and subsequent defaults in restructured loans in the determination of the adequacy of the Company’s allowance for loan losses. When identified as a TDR, a loan is evaluated for potential loss based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the estimated fair value of the collateral, less any selling costs if the loan is collateral dependent. Loans identified as TDRs frequently are on non-accrual status at the time of the restructuring and, in some cases, partial charge-offs may have already been taken against the loan and a specific allowance may have already been established for the loan. As a result of any modification as a TDR, the specific reserve associated with the loan may be increased. Additionally, loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future defaults. If loans modified in a TDR subsequently default, the Company evaluates the loan for possible further impairment. As a result, any specific allowance may be increased, adjustments may be made in the allocation of the total allowance balance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Management exercises significant judgment in developing estimates for potential losses associated with TDRs.

NOTE 6 ALLOWANCE FOR LOAN LOSSES:

The following table presents, as of December 31, 2019 and 2018, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) in thousands:

December 31, 2019

	Real Estate Secured					Non Real Estate			
	Commercial			Residential					
	Construction and Land Development	Agricultural	Other Commercial	Construction	Consumer Residential	Commercial & Industrial	Consumer	Non Profit & Tax Exempt	Total
Beginning Balance	$ 1,325	$ 31	$ 501	$ 31	$ 637	$ 29	$ 120	$ 12	$ 2,686
Charge-offs	(75)	- -	- -	- -	(61)	- -	(162)	- -	(298)
Recoveries	- -	- -	- -	- -	- -	- -	62	- -	62
Provision	(331)	(18)	406	15	138	59	255	16	540
Ending Balance	$ 919	$ 13	$ 907	$ 46	$ 714	$ 88	$ 275	$ 28	$ 2,990
Ending Balance individually valued for impairment	292	- -	107	24	325	61	78	- -	887
Ending balance collectively evaluated for impairment	627	13	800	22	389	27	197	28	2,103
Loans:									
Ending Balance individually evaluated for impairment	3,923	358	3,292	183	2,718	601	78	- -	11,153
Ending balance collectively evaluated for impairment	25,488	27,062	45,233	9,700	135,310	39,448	18,700	16,129	317,070
Total Loans	$ 29,411	$ 27,420	$ 48,525	$ 9,883	$ 138,028	$ 40,049	$ 18,778	$ 16,129	$ 328,223

December 31, 2018

	Real Estate Secured					Non Real Estate			
	Commercial			Residential					
	Construction and Land Development	Agricultural	Other Commercial	Construction	Consumer Residential	Commercial & Industrial	Consumer	Non Profit & Tax Exempt	Total
Beginning Balance	$ 1,052	$ 53	$ 618	$ 61	$ 667	$ 96	$ 47	$ 34	$ 2,628
Charge-offs	(156)	- -	- -	- -	(124)	(14)	(127)	- -	(421)
Recoveries	- -	38	- -	- -	1	- -	70	- -	109
Provision	429	(60)	(117)	(30)	93	(53)	130	(22)	370
Ending Balance	$ 1,325	$ 31	$ 501	$ 31	$ 637	$ 29	$ 120	$ 12	$ 2,686
Ending Balance individually valued for impairment	831	- -	174	24	382	5	82	- -	1,498
Ending balance collectively evaluated for impairment	494	31	327	7	255	24	38	12	1,188
Loans:									
Ending Balance individually evaluated for impairment	4,105	328	3,628	183	2,502	996	82	- -	11,824
Ending balance collectively evaluated for impairment	23,988	23,082	39,964	5,428	97,669	18,435	11,440	12,209	232,215
Total Loans	$ 28,093	$ 23,410	$ 43,592	$ 5,611	$ 100,171	$ 19,431	$ 11,522	$ 12,209	$ 244,039

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Loans by credit quality indicators as of December 31, 2019 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 24,895	$ 1,256	$ 3,260	$ - -	$ 29,411
Agriculture	27,062	358	- -	- -	27,420
Other commercial	44,836	2,137	1,552	- -	48,525
Residential Real Estate:					
Construction	9,700	- -	183	- -	9,883
Consumer Residential	131,741	4,444	1,843	- -	138,028
Non Real Estate:					
Commercial and industrial	39,168	265	610	6	40,049
Consumer	18,658	120	- -	- -	18,778
Non Profit and Tax Exempt Entities	16,129	- -	- -	- -	16,129
Total	$ 312,189	$ 8,580	$ 7,448	$ 6	$ 328,223

Loans by credit quality indicators as of December 31, 2018 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 23,547	$ 37	$ 4,509	$ - -	$ 28,093
Agriculture	22,945	428	37	- -	23,410
Other commercial	40,001	254	3,337	- -	43,592
Residential Real Estate:					
Construction	5,428	- -	183	- -	5,611
Consumer Residential	93,640	4,545	1,967	19	100,171
Non Real Estate:					
Commercial and industrial	18,532	576	316	7	19,431
Consumer	11,377	97	44	4	11,522
Non Profit and Tax Exempt Entities	12,209	- -	- -	- -	12,209
Total	$ 227,679	$ 5,937	$ 10,393	$ 30	$ 244,039

NOTE 7 OTHER REAL ESTATE OWNED:

Changes in other real estate owned for 2019 were as follows (in thousands):

	Other Real Estate Owned	Valuation Allowance	Net
Balance at the beginning of the year	$ 896	$ (214)	$ 682
Additions	468	- -	468
Loss on sales and writedowns, net	(19)	(28)	(47)
Sales	(450)	34	(416)
Balance at the end of the year	$ 895	$ (208)	$ 687

Changes in other real estate owned for 2018 were as follows (in thousands):

	Other Real Estate Owned	Valuation Allowance	Net
Balance at the beginning of the year	$ 1,042	$ (221)	$ 821
Additions	77	- -	77
Loss on sales and writedowns, net	(55)	(44)	(99)
Sales	(168)	51	(117)
Balance at the end of the year	$ 896	$ (214)	$ 682

The major classifications of other real estate owned in the consolidated balance sheets at December 31, 2019 and December 31, 2018 were as follows (in thousands):

	December 31, 2019	December 31, 2018
Commercial Real Estate:		
Construction and land development	$ 585	$ 518
Other commercial	- -	116
Residential Real Estate:		
Residential	102	48
	$ 687	$ 682

NOTE 8 BANK PREMISES AND EQUIPMENT:

(In thousands)	December 31, 2019	December 31, 2018
Bank buildings and improvements	$ 8,853	$ 7,520
Furniture and equipment	4,785	4,105
	13,638	11,625
Less accumulated depreciation	6,564	6,075
Bank premises and equipment	$ 7,074	$ 5,550

Depreciation expense on these premises and equipment totaled $573,022 and $540,104 for the years ended December 31, 2019 and 2018, respectively.

NOTE 9 GOODWILL AND OTHER INTANGIBLES:

The Company follows FASB ASC 350-20 *Goodwill and Other Intangible Assets,* which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within ASC 350-20 require the Company to discontinue any amortization of goodwill and intangible assets with indefinite lives, and require at least annual impairment review or more often if certain impairment conditions exist. With the purchase in 2009 of two Citizens National Bank branches there was $1,086,732 of goodwill recorded. And as shown in Note 2, the acquisition of Bank of Mount Hope, we recorded an additional $3,393,091 of Goodwill. Goodwill was evaluated for impairment as of March 31, 2019 and it was determined that no impairment existed. After the merger at December 31, 2019 with the addition of Goodwill from acquisition of Mount Hope, Goodwill was again evaluated for impairment by management. It again was determined that no impairment existed.

Core deposit intangibles resulting from the purchase of the two Citizens National Bank branches purchase in 2009, of $293,143 and the Mount Hope acquisition in October of 2019, of $1,180,000 are both being amortized over 10 years.

The changes in the carrying amount of goodwill and intangibles for the Twelve months ended December 31, 2019, are as follows (dollars in thousands):

	Goodwill	Intangibles
Balance December 31, 2018	$ 1,087	$ 6
Additions	3,393	1,180
Amortization	- -	(35)
Impairment	- -	- -
Balance, December 31, 2019	$ 4,480	$ 1,151

Goodwill and intangible assets at December 31, 2019 and 2018 are as follows (dollar in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
December 31, 2019			
Core deposit intangibles	$ 1,473	$ (322)	$ 1,151
Goodwill	4,480	- -	4,480
December 31, 2018			
Core deposit intangibles	$ 293	$ (287)	$ 6
Goodwill	1,087	- -	1,087

Amortization expense of core deposit intangibles for the years ended December 31, 2019 and 2018 were $35,411 and $9,824 respectively. As of December 31, 2019, the estimated future amortization expense of core deposit intangibles is as follows (in thousands):

NOTE 9 GOODWILL AND OTHER INTANGIBLES (CONTINUED):

Year	Amount
2020	$ 118
2021	118
2022	118
2023	118
2024	118
Thereafter	561
Total	$ 1,151

NOTE 10 BANK OWNED LIFE INSURANCE:

The Bank, in an effort to attract and retain employees, offers a variety of benefits to full time employees. The costs of these benefits continue to grow faster than inflation. In order to offset some of these costs and to offer other benefits the Bank has invested in a Bank Owned Life Insurance (BOLI) contract. Earnings on these contracts are tax exempt.

NOTE 11 TIME DEPOSITS:

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

2020	$ 59,077
2021	25,567
2022	12,488
2023	11,404
2024	5,103
Thereafter	643
Total	$ 114,282

NOTE 12 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:

Securities sold under agreements to repurchase generally mature within one day from the transaction date, unless classified as a term repurchase agreement. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company has a total of $2,451,123 and $1,767,459, at December 31, 2019 and 2018, respectively, in market value of securities pledged to secure these agreements. The weighted average interest rate on these agreements was 1.04% during 2019. The highest month end balance during 2019 was $1,725,172. For 2018, the highest month end balance was $1,625,674 and the average interest rate was 0.89%.

NOTE 13 LINES OF CREDIT:

The Bank has lines of credit with correspondent banks totaling $15,400,000. At December 31, 2019 and 2018 the Bank had no outstanding balances on these lines. These lines of credit are unsecured. The lenders may withdraw these lines at their discretion and without notice.

NOTE 14 LONG-TERM DEBT:

The Company has borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB). The interest rates on all of the notes payable as of December 31, 2019 and December 31, 2018 were fixed at the time of the advance, and ranged from 4.58% to 5.61%. The FHLB notes are secured by FHLB Stock, as well as investment securities and mortgage loans. The weighted average interest rate is 5.31% at December 31, 2019. The Company has additional available borrowing capacity from the FHLB of $111,045,626.

The Company borrowed $6,000,000 during 2019 to facilitate the acquisition of the Bank of Mount Hope. This debt is payable to two different banks, interest rate is fixed at 5.75% and will be paid back with quarterly payments of interest only for first 39 months, and then beginning on April 1, 2023, quarterly principal payments of $400,000 will be due in addition to the interest payments. This debt is subordinated to all "Senior Indebtedness" which means obligations to its general creditors or other indebtedness of the company for money borrowed arising from off-balance sheet guarantees and obligations associated with derivative products such as interest rate contracts.

Repayments of long-term debt are due monthly. Interest expense of $201,117 and $123,211 was incurred on these debts in 2019 and 2018, respectively. The maturities of long-term debt as of December 31, 2019 are as follows:

	FHLB	Subordinated Debt	Total
2020	$ 210,167	$ - -	$ 210,167
2021	183,760	- -	183,760
2022	180,308	- -	180,308
2023	189,360	1,200,000	1,389,360
2024	198,870	1,600,000	1,798,870
Thereafter	981,809	3,200,000	4,181,809
Total	$ 1,944,274	$ 6,000,000	$ 7,944,274

NOTE 15 DIVIDEND LIMITATIONS:

The principal source of funds of Allegheny Bancshares, Inc., is dividends paid by its subsidiary bank. The Code of West Virginia imposes certain restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits of the current year and the combined retained profits of the previous two years. As of January 1, 2020, the Bank could pay dividends of up to $2,941,525 without permission of the authorities. Dividends paid by the Bank to the Company totaled $3,276,622 in 2019 and $1,932,030 in 2018.

NOTE 16 INCOME TAXES:

The current and deferred components of income tax expense are as follows (in thousands):

	2019	**2018**
Current component of income tax expense	$ 627	$ 1,015
Deferred income tax expense	214	(153)
Income tax expense	$ 841	$ 862

A reconciliation between the provision for income taxes and the amount computed by multiplying income by the statutory federal income tax rate is as follows (in thousands):

NOTE 16 INCOME TAXES (CONTINUED):

	2019	2018
Income taxes computed at the applicable		
Federal income tax rate	$ 893	$ 984
Increase (decrease) resulting from:		
Tax exempt interest income	(264)	(270)
Non-deductible interest expense	7	8
State tax expense, net of federal taxes	132	135
Non-deductible expenses associated with merger	55	- -
Other	18	5
Income tax expense	$ 841	$ 862

The net deferred tax asset arising from temporary differences in thousands as of December 31 is summarized as follows:

	2019	2018
Deferred Tax Asset:		
Provision for loan losses	$ 458	$ 387
Accrued expenses on long term benefits	514	406
Allowance for other real estate owned	51	52
Unrealized loss on securities available for sale	- -	4
Net unamortized CD premium	34	- -
Interest on nonaccrual loans	181	144
Total Assets	1,238	993
Deferred Tax Liabilities:		
Unrealized gain on securities available for sale	147	- -
Depreciation	488	327
Intangible amortization	471	172
Other	46	43
Total Liabilities	1,152	542
Net Deferred Tax Asset	$ 86	$ 451

NOTE 17 EMPLOYEE BENEFITS:

Defined Contribution Plan: The Bank has a defined contribution plan with 401(k) provisions that is funded with discretionary contributions by the bank that covers substantially all full time employees at the bank. There is a one year waiting period prior for admission to the plan. Contributions to the plan are based on a percentage of each employee's salary plus matching contributions. Investment of employee balances is done through the direction of each employee. Plan contributions by the employer are fully invested in the year of contribution. The amount of contributions by the Company into employees' accounts in the plan was $285,554 and $236,319 for the years ending December 31, 2019 and 2018, respectively.

Supplemental Retirement Agreement: The Bank has a non-qualified Supplemental Retirement Agreement ("SERP") with the CEO, that provides for the payment of a monthly supplemental executive retirement benefit equal to annual payments of $105,051 for a 15 year period. Such benefit shall be payable for a period of fifteen years, or under certain circumstances prior to age 65. For each full calendar year the CEO completes with the Bank without separation of service, the CEO shall be credited with 8.33% of this benefit, toward 100% after 12 years. The SERP assumes a 6.25% discount rate. The Company has incurred an employee benefit expense of $140,177 and $126,934 during 2019 and 2018 respectively for this plan. At December 31, 2019 and 2018, the total amount accrued for this obligation was $1,040,443 and $870,266 respectively. The plan is unfunded. However, life insurance has been acquired on the life of the CEO in amounts sufficient to discharge the obligations of this agreement.

Director Deferred Fee Plan: The Bank adopted a Deferred Fee Plan (DFP) for its directors beginning February 13, 2013. This plan allows the directors to defer any or all of their director fees into this DFP where it will earn interest

at a rate as set forth in the plan document. Currently this rate is 6%. In addition to the amounts contributed by the directors, the Bank can also contribute each year on behalf of the directors, the total expense for the bank including discretionary contributions and accrued interest on the deferred account balances totaled $66,203 and $58,842 for 2019 and 2018, respectively. Liability recorded under this plan at yearend totaled $781,556 for 2019 and $626,779 for 2018.

Survivor Income Plan: The Bank adopted a Survivor Income Agreement with certain key management employees in January 2008. The bank will provide death benefits to the employee's beneficiary in the amount ranging from $150,000 to $550,000 for pre separation of duty death benefit and an amount half of that for post separation of duty death benefit. There is a vesting schedule based upon employee reaching normal retirement age (age 62) combined with ten 10 years of service. Expense to the bank totaled $62,227 and $61,813 for 2019 and 2018 respectively. Liability recorded under this plan at yearend totaled $193,169 for 2019 and $168,712 for 2018.

NOTE 18 RELATED PARTY TRANSACTIONS:

During the year, officers, directors, principal stockholders and their affiliates (related parties) were customers of and had transactions with the Company in the ordinary course of business. In management's opinion, these transactions were made on substantially the same terms as those prevailing for other customers for comparable transactions and did not involve more than normal risks.

Deposits for officers and directors totaled $2,428,404 and $3,056,645 for year end 2019 and 2018, respectively.

Loan activity to related parties is as follows (in thousands):

	2019	2018
Beginning of Year	$ 6,148	$ 5,775
Additional borrowings	1,912	1,497
Repayments	(453)	(1,124)
End of Year	$ 7,607	$ 6,148

NOTE 19 FAIR VALUE:

FASB ASC 820-10, *Fair Value Measurements*, provides a definition of fair value for accounting purposes, establishes a framework for measuring fair value and expands related financial disclosures. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This statement establishes a hierarchy that prioritizes the use of fair value inputs used in valuation methodologies into the following three levels.

Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 – Valuation is based upon significant inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

At December 31, 2019 and 2018, the Company had no liabilities subject to fair value. The following is a description of valuation methodologies used for assets recorded at fair values.

NOTE 19 FAIR VALUE (CONTINUED)

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, when available. If quoted prices are not available, fair values are measured using independent pricing models. Level 1 securities include those traded by dealers or brokers in an active market.

The Company has no Level 1 securities at December 31, 2018 or 2017. For the Company, our Level 2 securities include securities issued by government sponsored entities, mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include other equities that do not have an active market.

Impaired Loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made when due in accordance with the contractual terms of the loan agreement are considered impaired. If a loan is considered impaired, an allowance for loan loss is established in accordance with FASB ASC 310-10 *Accounting by Creditors for Impairment of a Loan*, by utilizing market price (if available), or at the fair value of the loans' collateral less selling costs (if the loan is collateral dependent). The fair value is determined by the measurement of the fair value of the underlying collateral less estimated costs to sell.

Typically the collateral value is determined by applying a discount to an appraisal that was performed at or about the date of the loan. Due to the age of appraisals, the age of the related comparative property sales used for appraisals and the changing market conditions of real estate, he Company considers its impaired loans to be Level 3 assets which are measured on a nonrecurring basis.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at the lower of carrying value or fair value less estimated holding costs and cost to sell. We believe that the fair value component in its valuation follows the provisions of FASB ASC 820-10. Due to age of some appraisals, the age of the related comparative property sales used for appraisals and changing real estate market conditions, the Company considers its OREO to be Level 3 assets and is measured on a nonrecurring basis.

The following table presents the recorded amount of assets measured at fair value (in thousands of dollars):

	Level 1	Level 2	Level 3	Balance 2019
Assets recorded at fair value on a recurring basis:				
U.S. Treasury Securities	$ - -	$ 2,005	$ - -	$ 2,005
Mortgage backed obligations of federal agencies	- -	23,444	- -	23,444
Government sponsored enterprises	- -	3,300	- -	3,300
Mortgage backed obligations of federal agencies	- -	7,143	- -	7,143
Obligations of states and political subdivisions	- -	31,601	- -	31,601
Total	$ - -	$ 67,493	$ - -	$ 67,493
Assets recorded at fair value on a nonrecurring basis:				
Impaired loans	$ - -	$ - -	$ 2,669	$ 2,669
Other real estate owned	- -	- -	687	687
Total	$ - -	$ - -	$ 3,356	$ 3,356

	Level 1	Level 2	Level 3	Balance 2018
Assets recorded at fair value on a recurring basis:				
Mortgage backed obligations of federal agencies	$ - -	$ 6,171	$ - -	$ 6,171
Government sponsored enterprises	- -	4,767	- -	4,767
Obligations of states and political subdivisions	- -	26,210	- -	26,210
Total	$ - -	$ 37,148	$ - -	$ 37,148
Assets recorded at fair value on a nonrecurring basis:				
Impaired loans	$ - -	$ - -	$ 3,729	$ 3,729
Other real estate owned	- -	- -	682	682
Total	$ - -	$ - -	$ 4,411	$ 4,411

NOTE 19 FAIR VALUE (CONTINUED)

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2019 (in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired Loans	$ 2,669	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-40% (14%)
Other Real Estate Owned	$ 687	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-46% (24%)

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2018 (in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired Loans	$ 3,729	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-40% (14%)
Other Real Estate Owned	$ 682	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-60% (24%)

NOTE 20 REGULATORY MATTERS:

In August, 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement (“the Statement”), in compliance with The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (“EGRRCPA”). The Statement, among other things, exempts bank holding companies that fall below a certain asset threshold from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements. The interim final rule expands the exemption to bank holding companies with consolidated total assets of less than $3 billion. Prior to August 2018, the statement exempted bank holding companies with consolidated total assets of less than $1 billion. As a result of the interim final rule, the Company qualifies as of August, 2018 as a small bank holding company and is not subject to regulatory capital requirements on a consolidated basis.

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

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective on January 1, 2015 (subject to a phase-in period continuing through January 1, 2019 for certain provisions). Basel III Capital Rules established quantitative measures to ensure capital adequacy. The rules set forth minimum amounts and ratios for Common Equity Tier 1 capital (“CET1”), Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined). Management believes as of December 31, 2019, the Bank meets all capital adequacy requirements to which it is subject.

NOTE 20 REGULATORY MATTERS (CONTINUED):

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital Risk Weighted Assets	$ 42,323	13.50%	$ 25,073	8.000%	$ 31,341	10.00%
Tier I Capital Risk Weighted Assets	39,333	12.55%	18,805	6.000%	25,073	8.00%
Tier I Common Equity	39,333	12.55%	14,104	4.500%	20,372	6.50%
Tier I Capital Average Assets	39,333	8.86%	17,753	4.000%	22,191	5.00%

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total Capital Risk Weighted Assets	$ 39,566	16.73%	$ 18,941	8.000%	$ 23,676	10.00%
Tier I Capital Risk Weighted Assets	36,880	15.60%	14,206	6.000%	18,941	8.00%
Tier I Common Equity	36,880	15.60%	10,654	4.500%	15,390	6.50%
Tier I Capital Average Assets	36,880	11.92%	12,391	4.000%	15,488	5.00%

NOTE 21 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK:

The Company makes commitments to extend credit in the normal course of business and issue standby letters of credit to meet the financing needs of their customers. The amount of the commitments represents the Company's exposure to credit loss that is not included in the consolidated balance sheet.

The Company uses the same credit policies in making commitments and issuing letters of credit as used for the loans reflected on the consolidated balance sheet. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

As of December 31, 2019 and 2018, the Company had outstanding the following commitments (in thousands):

	2019	2018
Home equity lines of credit	$ 16,231	$ 12,460
Commitments to fund commercial real estate and construction	11,600	9,996
Other unused commitments	25,007	20,798
Performance standby letters of credit	317	592
	$ 53,155	$ 43,846

NOTE 22 CONCENTRATIONS:

The Bank operates as a community bank in the areas that it serves. As such, the loan portfolio consists of commercial, residential real estate and consumer loans to individuals and businesses located primarily in the areas surrounding our ten offices. In addition, the collateral for our loans is secured primarily by real estate and personal property located in this same area.

NOTE 23 PARENT CORPORATION ONLY CONDENSED FINANCIAL STATEMENTS:

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	December 31, 2019	December 31, 2018
ASSETS		
Cash	$ 283,812	$ 30,022
Investment in subsidiary	45,515,589	37,960,037
Other assets	276,579	17,810
Total Assets	$ 46,075,980	$ 38,007,869
LIABILITIES		
Other Liabilities	$ 91,999	$ - -
Subordinated Debt	$ 6,000,000	$ - -
Total Liabilities	$ 6,091,999	$ - -
STOCKHOLDERS' EQUITY	39,983,981	38,007,869
Total Liabilities and Stockholders' Equity	$ 46,075,980	$ 38,007,869

NOTE 23 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

STATEMENTS OF INCOME
FOR THE YEARS ENED DECEMBER 31, 2019 AND 2018

	December 31,	
	2019	**2018**
INCOME		
Dividends from subsidiary	$ 3,276,622	$ 1,932,030
Gain on sale of securities	- -	- -
Total Income	3,276,622	1,932,030
EXPENSES		
Merger expenses	953,871	- -
Professional fees	62,854	53,870
Annual shareholder meeting	16,998	18,246
Interest expense	86,250	
Other expenses	5,308	4,600
Total Expenses	1,125,281	76,716
INCOME BEFORE INCOME TAX BENEFIT AND UNDISTRIBUTED INCOME OF SUBSIDIARY	2,151,341	1,855,314
Income tax benefit	272,581	17,810
UNDISTRIBUTED INCOME OF SUBSIDIARY	989,527	1,951,998
NET INCOME	$ 3,413,449	$ 3,825,122
COMPREHENSIVE INCOME	$ 3,979,472	$ 3,571,953

NOTE 23 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENED DECEMBER 31, 2019 AND 2018

	December 31, 2019	December 31, 2018
OPERATING ACTIVITIES		
Net income	$ 3,413,449	$ 3,825,122
Adjustments:		
Undistributed subsidiary income	(989,527)	(1,951,998)
Increase (Decrease) in other liabilities	91,999	
Decrease (Increase) in other assets	(258,769)	12,429
Net Cash Provided by Operating Activities	2,257,152	1,885,553
INVESTING ACTIVITIES		
Capital invested in subsidiary bank	(6,000,000)	- -
Net (Used in) Investing Activities	(6,000,000)	- -
FINANCING ACTIVITIES		
Purchase of treasury stock	(226,740)	(241,200)
Issuing subordinated Debt	6,000,000	
Cash dividends paid	(1,776,622)	(1,682,030)
Net Cash Provided by (used in) Financing Activities	3,996,638	(1,923,230)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALEN	253,790	(37,677)
Cash and equivalents, January 1	30,022	67,699
Cash and equivalents, December 31	$ 283,812	$ 30,022

ALLEGHENY BANCSHARES, INC.
ANNUAL DISCLOSURE STATEMENT

December 31, 2019

This **ANNUAL DISCLOSURE STATEMENT** is being provided by the management of the bank. The information is the representation of management and is correct in all material respects to the best of management's knowledge.

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

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PCB
Pendleton Community Bank

2019 Financials

ANNUAL **Report** 2019