QUEENSTOWN BANCORP OF MARYLAND, INC.

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2019
AUDITED FINANCIAL STATEMENTS

ROWLES
& Company, LLP
Certified Public Accountants

To the Board of Directors and Stockholders
Queenstown Bancorp of Maryland, Inc. and Subsidiary
Queenstown, Maryland

Report of Independent Auditors

We have audited the accompanying consolidated financial statements of Queenstown Bancorp of Maryland, Inc. (the "Company") and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Prior Period Consolidated Financial Statements

The consolidated financial statements of Queenstown Bancorp of Maryland, Inc. and Subsidiary as of and for the year ended December 31, 2018, were audited by other auditors, whose report dated March 27, 2019, expressed an unmodified opinion on those statements.

Rowles & Company, LLP

Baltimore, Maryland
March 9, 2020

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AUDITED FINANCIAL STATEMENTS

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QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2019	**2018**
ASSETS		
Cash and due from banks	$ 5,371	5,875
Interest bearing deposits with banks	40,935	46,652
Total cash and cash equivalents	46,306	52,527
Securities available-for-sale (at fair value)	15,327	15,542
Federal Home Loan Bank stock (at cost)	432	432
Loans	395,909	381,897
Less allowance for loan losses	(5,752)	(5,966)
Loans, net	390,157	375,931
Premises and equipment, net	5,799	5,461
Bank owned life insurance	11,472	11,141
Other real estate	89	50
Deferred income taxes	1,163	1,616
Accrued interest receivable	1,590	1,628
Prepaid expenses	297	333
Other assets	490	350
TOTAL ASSETS	$473,122	465,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$105,530	104,778
Interest bearing deposits	299,383	296,988
Total deposits	404,913	401,766
Accrued expenses and other liabilities	2,595	2,297
Total liabilities	407,508	404,063
Common stock - $10 par value; shares authorized 10,000,000, shares issued and outstanding 1,192,281 and 1,188,081 , respectively	11,923	11,881
Additional paid in capital	309	184
Retained earnings	53,368	49,127
Accumulated other comprehensive income (loss)	14	(244)
Total stockholders' equity	65,614	60,948
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$473,122	465,011

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share information)

	Years Ended		
	2019	**2018**	**2017**
INTEREST INCOME:			
Interest and fees on loans	$ 20,284	19,458	19,227
Interest and dividends on investment securities	435	376	252
Other interest income	884	1,224	801
Total interest income	21,603	21,058	20,280
INTEREST EXPENSE:			
Interest on deposits	2,455	2,157	2,158
Net interest income	19,148	18,901	18,122
Provision for loan losses	-	300	600
Net interest income after provision for loan losses	19,148	18,601	17,522
NONINTEREST INCOME:			
Service charges on deposit accounts	594	634	621
Other income	772	572	481
Net gain (loss) on sales of other real estate	51	53	167
Total noninterest income	1,417	1,259	1,269
NONINTEREST EXPENSES:			
Salaries and employee benefits	6,573	6,207	6,051
Data processing and electronic banking expenses	1,047	865	778
Occupancy expense	638	707	628
Equipment expenses	351	345	347
FDIC insurance premiums	62	137	189
Other real estate expenses	19	141	126
Other expenses	1,633	1,551	1,471
Total noninterest expenses	10,323	9,953	9,590
Income before income taxes	10,242	9,907	9,201
Income tax expense	2,722	2,679	3,956
Net income	$ 7,520	7,228	5,245
Basic net income per common share	$ 6.31	5.99	4.20
Diluted net income per common share	$ 6.28	5.98	4.20
Basic weighted average common shares outstanding	1,191,168	1,205,830	1,249,663
Diluted weighted average common shares outstanding	1,197,659	1,208,487	1,249,852

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended 2019	2018	2017
Net income	$ 7,520	7,228	5,245
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	356	(244)	36
Other comprehensive income (loss), before tax	356	(244)	36
Income tax effect	(98)	67	(14)
Other comprehensive income (loss), net of tax	258	(177)	22
Total comprehensive income	$ 7,778	7,051	5,267

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands, except per share information)

	Common Stock Shares	Common Stock Par Value	Additional paid- in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balances at January 1, 2017	1,259,330	$ 12,593	139	42,846	(78)	55,500
Net Income	-	-	-	5,245	-	5,245
Other comprehensive income, net of tax	-	-	-		22	22
Reclassification of remaining tax effects on deferred tax assets on securities available for sale	-	-	-	11	(11)	-
Stock repurchases	(33,205)	(332)		(830)	-	(1,162)
Stock option compensation	-	-	15	-	-	15
Cash dividends ($1.25 per share)	-	-	-	(1,545)	-	(1,545)
Balances at December 31, 2017	1,226,125	12,261	154	45,727	(67)	58,075
Net Income	-	-	-	7,228	-	7,228
Other comprehensive (loss), net of tax	-	-	-	-	(177)	(177)
Stock repurchases	(38,514)	(385)		(1,155)	-	(1,540)
Stock options exercised	470	5	11	-	-	16
Stock option compensation	-	-	19	-	-	19
Cash dividends ($2.25 per share)	-	-	-	(2,673)	-	(2,673)
Balances at December 31, 2018	1,188,081	11,881	184	49,127	(244)	60,948
Net Income				7,520		7,520
Other comprehensive income, net of tax					258	258
Stock options exercised	4,200	42	106	-	-	148
Stock option compensation			19			19
Cash dividends ($2.75 per share)				(3,279)		(3,279)
Balances at December 31, 2019	1,192,281	$ 11,923	309	53,368	14	65,614

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended		
	2019	2018	2017
OPERATING ACTIVITIES:			
Net Income	$ 7,520	7,228	5,245
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	45	67	90
Depreciation and amortization	372	368	376
Net (gain) loss on sales of other real estate	(51)	(53)	(167)
Provision for loan losses	-	300	600
Deferred tax expense (benefit)	355	(585)	455
Stock option compensation	19	19	15
Net changes in:			
Accrued interest receivable	38	(131)	(48)
Accrued expenses and other liabilities	298	205	248
Prepaid expenses	36	(17)	6
Other operating activities	17	432	111
Net cash provided by operating activities	8,649	7,833	6,931
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(2,327)	(4,968)	(4,830)
Proceeds from calls and maturities of securities available-for-sale	1,000	-	500
Prinicipal payments received on securities available-for-sale	1,854	1,471	2,444
Net (increase) decrease in loans	(14,982)	(4,435)	5,689
Purchases of FHLB stock	-	(2)	(14)
Purchases of bank owned life insurance	-	(5,000)	-
Purchases of premises and equipment	(710)	(469)	(180)
Purchases and improvements of other real estate	-	-	(32)
Proceeds from sales of other real estate	279	1,289	1,531
Net cash (used) provided by investing activities	(14,886)	(12,114)	5,108
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	3,147	(2,786)	(789)
Purchases of common stock	-	(1,540)	(1,151)
Stock options exercised	148	16	-
Dividends paid	(3,279)	(2,673)	(1,545)
Net cash (used) provided by financing activities	16	(6,983)	(3,485)
Net (decrease) increase in cash and cash equivalents	(6,221)	(11,264)	8,554
Cash and cash equivalents at beginning of year	52,527	63,791	55,237
Cash and cash equivalents at end of year	$46,306	52,527	63,791
Supplemental disclosures:			
Interest payments	$ 2,435	2,121	2,185
Income tax payments	2,503	3,173	3,497
Noncash investing and financing activities:			
Transfers to other real estate	266	-	1,311

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Dollars in thousands, except per share information)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company, which includes Queenstown Bancorp of Maryland, Inc. and its wholly owned subsidiary, Queenstown Bank of Maryland (the Bank), conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2019.

Basis of Presentations

The consolidated financial statements include the accounts of Queenstown Bancorp of Maryland, Inc. and its subsidiary, Queenstown Bank of Maryland, with all significant intercompany transactions eliminated.

Nature of Operations

The Company provides a full range of banking services to individuals and businesses through its main office and five branches in Queen Anne's County and one branch each in Talbot County and Caroline County Maryland. Its primary deposit products are certificates of deposit and demand, savings, and money market accounts. Its primary lending products are commercial and consumer loans and real estate mortgages. The Company's loan portfolio has a concentration of residential and commercial real estate loans in Queen Anne's County and the surrounding area.

Use of Estimates

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

Securities

At the purchase date, the Company classifies securities as held to maturity or available for sale. Interest and dividend income on securities are recognized in interest income on the accrual basis. Premiums and discounts on securities are amortized as an adjustment to yield using the interest method.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Federal Home Loan Bank stock is carried at cost and is restricted as to marketability.

Securities classified as available-for-sale are used as part of the Company’s asset/liability management strategy. Sales may occur in response to changes in interest rate conditions, balance sheet composition or other economic factors. All debt securities classified as available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the stockholders’ equity section of the Consolidated Balance Sheets.

Gains or losses realized from the sale of securities are determined by specific identification and are included in noninterest income. The Company evaluates each investment security in an unrealized loss position for other than temporary impairment. If management determines that all contractual obligations from an investment may not be received, then other than temporary impairment would be recognized. The unrealized loss for other than temporary impairment on debt and equity securities are reported in current period earnings.

Loans

Loans are stated at their principal balance outstanding net of deferred loan fees and costs. Overdrafts are included in loans outstanding. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. The Company places loans, except for consumer, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. Interest received on impaired loans placed on nonaccrual status is generally applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income. For all other loans, loan balances are charged off when it becomes evident that such balances are not fully collectible. For loans secured by real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged off. Accrual of interest resumes when the loan is brought current and the borrower demonstrates the ability to service the debt on a current basis.

Loans are considered impaired, based upon current information and circumstances, if it is probable that the Company will not collect all principal and interest payments according to contractual terms. Restructured loans, meeting the definition of troubled debt restructurings, are considered impaired loans. Impaired loans do not include large groups of smaller balance homogeneous loans that are evaluated collectively for impairment such as consumer installment loans. The impairment of a loan is measured by the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the repayment is expected to be provided by the collateral.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized over the contractual life of the loan as an adjustment to the loan's yield.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management’s judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance is determined by management’s evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnification. As a result, these judgments are inherently subjective and involve material estimates that may be susceptible to significant change. The allowance is increased by the loan loss provision charged to operating expenses and reduced by charge-offs, net of recoveries. The provision for loan losses is based on the ongoing review of the loan portfolios, past loss experience and current economic conditions which could impact the borrowers’ repayment performance.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. The Company's policy is to provide for depreciation of physical properties over their estimated useful lives or the lease term (whichever is shorter) as a charge to operations at straight-line rates. Expenditures for maintenance, repairs and minor renewals are charged to operations; expenditures for betterments are charged to the property accounts. Upon retirement or other disposition of properties, the carrying value and the related accumulated depreciation or amortization are removed from the accounts.

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Credit Risk

The Company issues financial or standby letters of credit that represent conditional commitments to fund transactions by the Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with the Company's credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and carried at the lower of fair value minus estimated costs of disposal or cost. Fair value is based on independent appraisals and other relevant factors. At the time of acquisition any excess of loan balance over fair value is charged to the allowance for loan losses.

Income Taxes

Deferred income taxes are calculated by applying enacted statutory tax rates to temporary differences consisting of all significant items which are reported for tax purposes in different years than for accounting purposes. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on considerations of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Per Share Data

Basic net income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year presented. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock plus the assumed conversions of common stock equivalents outstanding using the treasury method.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the independent auditors' report, the date these consolidated financial statements were available to be issued. No subsequent events were identified that would affect the presentation of the consolidated financial statements.

Statement of Cash Flows

For purposes of reporting cash flows, cash equivalents are composed of cash and due from banks and interest bearing deposits with banks.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. However, 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 stockholders' equity section of the consolidated balance sheet. Such items, along with net income, are componets of comprehensive income.

2. SECURITIES

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

	December 31, 2019			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 2,864	3	5	2,862
U.S. government sponsored agencies	2,000	-	-	2,000
Residential mortgage-backed	9,992	71	55	10,008
Obligations of states and political subdivisions	452	5	-	457
Totals	$ 15,308	79	60	15,327

	December 31, 2018			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S government agencies	$ 3,405	2	13	3,394
U.S. government sponsored agencies	3,000	-	56	2,944
Residential mortgage-backed	9,019	40	319	8,740
Obligations of states and political subdivisions	455	9	-	464
Totals	$ 15,879	51	388	15,542

The table below shows our securities' gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018.

	Less than 12 months		12 months or more		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2019						
U.S government agencies	$ 1,586	1	326	4	1,912	5
Residential mortgage backed	3,598	20	1,750	35	5,348	55
Totals	$ 5,184	21	2,076	39	7,260	60
As of December 31, 2018						
U.S government agencies	$ 1,873	7	534	6	2,407	13
U.S. government sponsored agencies	996	4	1,948	52	2,944	56
Residential mortgage backed	430	1	6,585	318	7,015	319
Totals	$ 3,299	12	9,067	376	12,366	388

The residential mortgage backed portfolio at December 31, 2019 is composed of GNMA, FNMA, or FHLMC mortgage backed securities.

The unrealized losses that exist are generally the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will decline over time and recover as these securities approach maturity.

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

	Available-for-Sale	
	Amortized Cost	Fair Value
As of December 31, 2019		
Due after one through five years	$ 2,000	2,000
Due after five years through ten years	1,367	1,369
Due after ten years	1,949	1,950
	5,316	5,319
Residential mortgage-backed securities	9,992	10,008
Totals	$ 15,308	15,327

There were no sales of securities in 2019, 2018 nor 2017.

At December 31, 2019 and 2018, securities with a carrying value of $10,497 thousand and $6,625 thousand respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law.

3. LOANS

At December 31, 2019 and 2018, loans are as follows:

	2019	2018
Real estate:		
Construction and land development	$ 30,011	23,763
Secured by farmland	36,192	38,265
Commercial	119,378	114,768
Residential	185,586	177,873
Commercial and agricultural	17,590	19,624
Consumer	7,152	7,604
Totals	$ 395,909	381,897

Unamortized net deferred loan costs amounted to $529 thousand and $487 thousand at December 31, 2019 and 2018.

A summary of current, past due, and nonaccrual loans as of December 31, 2019 and 2018 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2019					
Real estate:					
Construction and land development	$ 29,337	-	674	-	30,011
Secured by farmland	31,910	3,512	-	770	36,192
Commercial	117,920	137	-	1,321	119,378
Residential	182,020	2,280	633	653	185,586
Commercial and agricultural	17,518	51	21	-	17,590
Consumer	7,073	79	-	-	7,152
Totals	$ 385,778	6,059	1,328	2,744	395,909

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Totals
As of December 31, 2018					
Real estate:					
Construction and land development	$ 23,731	-	-	32	23,763
Secured by farmland	35,763	1,475	229	798	38,265
Commercial	113,465	955	-	348	114,768
Residential	174,899	1,299	183	1,492	177,873
Commercial and agricultural	18,967	106	551	-	19,624
Consumer	7,574	30	-	-	7,604
Totals	$ 374,399	3,865	963	2,670	381,897

Loans on which the accrual of interest has been discontinued totaled $2,670 and $3,452 thousand at December 31, 2019 and 2018 respectively. Interest that would have been accrued on these loans totaled $175 thousand and $128 thousand for the years ended December 31, 2019 and 2018 respectively. At December 31, 2019 residential mortgages in the process of foreclosure total $322 thousand.

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

Changes in the allowance for credit losses for the year ended December 31, 2019 and 2018 were as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2019						
Beginning Balance	$ 136	1,046	4,547	210	27	5,966
Provision for loan losses	15	1,177	(1,081)	(123)	12	-
Net charge-offs:						
Charge-offs	(3)	(214)	(81)	-	(48)	(346)
Recoveries	-	35	64	9	24	132
Net (charge-offs) recoveries	(3)	(179)	(17)	9	(24)	(214)
Ending balance	$ 148	2,044	3,449	96	15	5,752
As of December 31, 2018						
Beginning Balance	$ 504	1,291	2,995	464	43	5,297
Provision for loan losses	(406)	(516)	1,451	(226)	(3)	300
Net charge-offs:						
Charge-offs	-	(52)	(5)	(66)	(42)	(165)
Recoveries	38	323	106	38	29	534
Net (charge-offs) recoveries	38	271	101	(28)	(13)	369
Ending balance	$ 136	1,046	4,547	210	27	5,966

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

The process for calculating the adequacy of the allowance for loan losses encompasses loss estimates attributable to specific troubled credits identified during the credit review process and estimates of losses inherent in other loans not reviewed specifically. The process of determining the level of the allowance for loan losses involves classifying the loans according to characteristics of loss risk for nonperforming and criticized loans and by type of loan for all other loans. For nonaccrual loans, loans over 89 days past due accruing and any other criticized loans according to the Company's loan rating system, the loans are first reviewed for specific loss measurement. Measurement of the specific loss component is based on expected future cash flows, collateral values and other relevant factors impacting the borrower's ability to pay. The Company utilizes a loan rating system which is applied to all loans but is particularly designed for monitoring loss characteristics of the real estate and commercial loan portfolios. Loan ratings are continually monitored by the loan officer and the credit review department in accordance with the loan rating guidelines established in the loan policy. Factors considered in assigning loan ratings include borrower specific cash flows and financial condition analyses, collateral values, payment status and other relevant data impacting repayment ability. Loss allocations assigned to the various loan type pools are continually monitored and adjusted for adequacy based on trends in portfolio charge-offs and recoveries, trends in portfolio delinquencies and impaired loans, changes in the risk profile of the pools, and changes in trends within the local economy.

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions to a borrower experiencing financial difficulty are considered trouble debt restructured loans. All restructurings that constitute concessions to a troubled borrower are considered impaired loans that may either be in accruing status or non-accruing status. Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for loan losses are evaluated for impairment giving consideration to the impact of the modified loan terms and the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Non-accruing restructured loans may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from the restructured category in the year subsequent to the restructuring if their revised terms are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk. At December 31, 2019 restructured loans totaled $7,687 thousand, of which $5,545 thousand were accruing and $2,142 thousand were non-accruing. Restructured loans at December 31, 2018 totaled $8,276 thousand, of which $6,926 thousand were accruing and $1,350 thousand were non-accruing.

The following table provides information with respect to impaired loans as of and for the years ended December 31, 2019 and 2018.

	2019	2018
Impaired loans with a valuation allowance	$ 2,479	4,892
Impaired loans without a valuation allowance	6,760	5,668
Total impaired loans	$ 9,239	10,560
Allowance for loan losses applicable to impaired loans	$ 201	574
Allowance for loan losses applicable to other loans	5,551	5,392
Total allowance for loan losses	$ 5,752	5,966
Average recorded investment in impaired loans	$ 9,526	10,333

The following table provides information on impaired loans by loan category as of December 31, 2019 and 2018:

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
As of December 31, 2019				
With a related allowance recorded:				
Real estate – residential	1,769	1,771	162	2,062
Real estate – commercial & farmland	710	716	39	1,251
Totals	$ 2,479	2,487	201	3,313
As of December 31, 2019				
Without a related allowance recorded:				
Real estate – construction	$ 673	674	-	404
Real estate – residential	3,412	4,073	-	3,769
Real estate – commercial & farmland	2,077	2,216	-	1,609
Commercial & Agricultural	598	598	-	431
Totals	$ 6,760	7,561	-	6,213
As of December 31, 2018				
With a related allowance recorded:				
Real estate – construction	$ 32	61	6	16
Real estate – residential	2,356	2,432	255	2,745
Real estate – commercial & farmland	1,792	1,792	233	1,374
Commercial & Agricultural	712	712	80	356
Totals	$ 4,892	4,997	574	4,491
As of December 31, 2018				
Without a related allowance recorded:				
Real estate – construction	$ 136	668	-	574
Real estate – residential	4,126	4,805	-	3,801
Real estate – commercial & farmland	1,142	1,246	-	1,335
Commercial & Agricultural	264	264	-	132
Totals	$ 5,668	6,983	-	5,842

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2019 and 2018. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2019					
Pass	$ 29,291	182,454	149,921	17,103	378,769
Criticized accrual	720	2,479	3,558	487	7,244
Criticized nonaccrual	-	653	2,091	-	2,744
Total	$ 30,011	185,586	155,570	17,590	388,757
As of December 31, 2018					
Pass	$ 23,654	173,753	147,089	18,985	363,481
Criticized accrual	77	2,628	4,798	639	8,142
Criticized nonaccrual	32	1,492	1,146	-	2,670
Totals	$ 23,763	177,873	153,033	19,624	374,293

At December 31, 2019 and 2018 the allocation of the allowance for loan losses summarized on the basis of impairment methodology was as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2019						
Individually evaluated for impairment	$ -	162	39	-	-	201
Collectively evaluated for impairment	148	1,882	3,410	96	15	5,551
Total	$ 148	2,044	3,449	96	15	5,752
As of December 31, 2018						
Individually evaluated for impairment	$ 6	255	233	80	-	574
Collectively evaluated for impairment	130	791	4,314	130	27	5,392
Totals	$ 136	1,046	4,547	210	27	5,966

The recorded investment in loans summarized based on impairment methodology as of December 31, 2019 and 2018 was as follows:

		Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Total
As of December 31, 2019							
Individually evaluated for impairment	$	673	5,181	2,787	598	-	9,239
Collectively evaluated for impairment		29,338	180,405	152,783	16,992	7,152	386,670
Total	$	30,011	185,586	155,570	17,590	7,152	395,909
As of December 31, 2018							
Individually evaluated for impairment	$	168	6,482	2,934	976	-	10,560
Collectively evaluated for impairment		23,595	171,391	150,099	18,648	7,604	371,337
Total	$	23,763	177,873	153,033	19,624	7,604	381,897

Information on troubled debt restructurings for the year ended December 31, 2019 and 2018 is as follows:

	Number of contracts		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment
As of December 31, 2019					
Real estate – residential accrual	19	$	5,056	$	4,254
Real estate – commercial accrual	2		893		693
Commercial & Agricultural- accrual	2		825		598
Real estate – residential nonaccrual	2		234		90
Real estate- commercial nonaccrual	3		1,452		1,282
Real estate – farmland nonaccrual	1		818		770
Totals	29	$	9,278	$	7,687
As of December 31, 2018					
Real estate – residential accrual	19	$	5,118	$	4,577
Real estate – commercial accrual	5		2,345		2,085
Commercial & Agricultural accrual	1		274		264
Real estate – residential nonaccrual	4		891		552
Real estate – farmland nonaccrual	1		818		798
Totals	30	$	9,446	$	8,276

The troubled debt restructured loans above have been re-amortized. During 2019, there was one loan modified as a TDR with a balance of approximately $551 thousand, as compared to the same period in 2018, there were five loans totaling approximately $3,087 thousand modified in a TDR. At December 31, 2019 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring. Information on the payment status of troubled debt restructurings is as follows:

		2019	2018
Current	$	5,545	5,810
30-89 days past due accruing		-	1,116
90 days or more past due accruing		-	-
Nonaccruals		2,142	1,350
Totals	$	7,687	8,276

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31	
	2019	2018
Land	$ 1,908	1,908
Leasehold improvements	161	161
Buildings and land improvements	6,559	6,330
Furniture and equipment	2,878	2,398
	11,506	10,797
Accumulated depreciation and amortization	(5,708)	(5,336)
Premises and equipment – net	$ 5,798	5,461

Depreciation expense was $372 thousand, $368 thousand and $376 thousand for each of the years ended December 31, 2019, 2018 and 2017, respectively.

Rent expense applicable to operating leases amounted to $34 thousand for 2019, $39 thousand for 2018, and $42 thousand for 2017. The Bank has lease obligations for branch locations. Future minimum lease payments subsequent to 2019 are $22 thousand for 2020.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2019 and 2018, by type of account is as follows:

	2019	2018
Savings and money market	$ 102,457	100,754
Interest bearing demand	49,335	38,443
Time deposits of less than $100,000	63,555	66,463
Time deposits of $100,000 through $250,000	56,401	60,178
Time deposits of more than $250,000	27,635	31,150
Total interest bearing deposits	$ 299,383	296,988

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

2020	$ 71,677
2021	56,816
2022	13,776
2023	2,436
2024	2,886
	$ 147,591

Interest on deposits for the years ended December 31, 2019, 2018 and 2017 consisted of the following:

	2019	2018	2017
Savings and money market	$ 167	167	153
Interest bearing demand	186	122	69
Time deposits more than $ 250,000	472	575	600
Other time deposits	1,631	1,293	1,336
Total interest on deposits	$ 2,456	2,157	2,158

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and federal funds purchased from correspondent banks. There were no short-term borrowings outstanding during 2019 and 2018.

At December 31, 2019, credit available under the FHLB credit facility approximates $86 million with letters of credit issued for the benefit of public funds depositors of $32 million outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $432 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans plus home equity loans as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $211 million at December 31, 2019.

8. STOCKHOLDERS' EQUITY

The Board of Directors has approved plans authorizing the Company to purchase shares of its common stock. Purchased shares will be used for corporate purposes including issuance under the Company’s stock based compensation plans. The number of shares remaining available for purchase under the plans was 111,641 shares at December 31, 2019.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were $3,130 thousand for 2019.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2019, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2019, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Company's and Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Amount	Actual Ratio	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
As of December 31, 2019				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 70,166	19.27%	8%	
Bank	70,138	19.26%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	65,600	18.02%	6%	
Bank	65,572	18.01%	6%	8%
Common equity tier I				
Company (consolidated)	65,600	18.02%	4.50%	
Bank	65,572	18.01%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	65,600	13.89%	4%	
Bank	65,572	13.88%	4%	5%
As of December 31, 2018				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 65,611	18.64%	8%	
Bank	65,582	18.64%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	61,192	17.39%	6%	
Bank	61,163	17.38%	6%	8%
Common equity tier I				
Company (consolidated)	61,192	17.39%	4.50%	
Bank	61,163	17.38%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	61,192	12.95%	4%	
Bank	61,163	12.95%	4%	5%

9. INCOME TAXES

The Tax Cut and Jobs Act enacted in December 2018 reduced the federal corporate marginal income tax rate from 34% to 21% effective January 1, 2019. As a result of the Tax Act, the fourth quarter of 2017 included a one-time charge recorded as income tax expense relating to the re-measurement of the Company’s deferred tax assets.

Applicable income taxes on net income for 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
Current income tax expense:			
Federal	$1,642	2,273	2,775
State	725	991	726
	2,367	3,264	3,501
Deferred income tax (benefit) expense:			
Federal	268	(395)	442
State	87	(190)	13
	355	(585)	455
Total income tax expense	$2,722	2,679	3,956

Components of deferred income tax expense (benefit) for 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
Federal rate reduction	$ -	-	400
Provision for loan losses	432	(517)	45
Loan fees and costs	11	(15)	53
Deferred compensation	(77)	(78)	(80)
Depreciation and amortization	86	48	(6)
Interest income	(105)	(29)	(8)
Other real estate owned sales	-	6	55
Stock option compensation	8	-	(4)
Total deferred income tax (benefit) expense	$ 355	(585)	455

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2019, 2018, and 2017 follows:

	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	$ 2,151	21.0%	2,080	21.0%	3,128	34.0%
Increase (decrease) resulting from						
Tax-exempt interest income	(16)	-0.2%	(20)	-0.2%	(48)	-0.5%
Bank owned life insurance income	(64)	-0.6%	(36)	-0.4%	(38)	-0.4%
State income tax, net of federal income tax benefit	641	6.3%	633	6.4%	488	5.3%
Federal deferred tax rate reduction	-	0.0%	-	0.0%	400	4.3%
Other	10	0.1%	22	0.2%	26	0.3%
Total income taxes	$ 2,722	26.6%	2,679	27.0%	3,956	43.0%

Significant components of the Company's deferred tax assets and liabilities at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets:		
Allowances for credit losses	$ 715	1,147
Deferred compensation	530	453
Interest income	190	84
Stock options	19	27
Other real estate losses	73	73
Others	3	3
Unrealized loss on securities available-for-sale	-	93
Total deferred tax assets	1,530	1,880
Deferred tax liabilities:		
Accumulated depreciation and amortization	216	130
Loan fees and costs	146	134
Unrealized gain on securities available-for-sale	5	-
Total deferred tax liabilities	367	264
Net deferred tax assets	$1,163	1,616

Management has determined that no valuation allowance is required as it is more likely than not that the net deferred tax assets will be fully realizable in future years. The Company remains subject to examination of income tax returns for the years ending after December 31, 2015.

10. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFIT AGREEMENTS

The Company has a Section 401(k) profit sharing plan which covers substantially all employees who meet certain service requirements. Employer contributions to the plan include a discretionary contribution and matching contributions of a percentage of employee elective salary deferral contributions. Employer contributions included in operating expenses for 2019, 2018 and 2017 were $161 thousand, $144 thousand, and $142 thousand, respectively.

The Company has provided additional retirement benefits as well as pre-retirement death benefits to selective executives through deferred compensation agreements. The deferred compensation plan agreements provide for monthly benefit payments for fifteen years after retirement. Benefit payments were $68 thousand, $55 thousand, and $22 thousand, for 2019, 2018 and 2017, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the employees' retirement dates. Benefit accruals included in operating expenses for 2019, 2018 and 2017 were $287 thousand, $243 thousand, and $152 thousand, respectively. The accrued liability for deferred compensation agreements were $1,671 thousand at December 31, 2019 and $1,446 thousand at December 31, 2018.

The Company provides retirement benefits to directors. The agreements provide for annual benefit payments for ten years after retirement. Benefit payments were $11 thousand in 2019. There were no benefit payments in 2018. The Company is accruing the present value of these benefits over the remaining number of years to the directors' retirement dates. Benefit accruals included in operating expenses for 2019, 2018 and 2017, were $64 thousand, $95 thousand and $72 thousand, respectively.

11. STOCK-BASED COMPENSATION

The Company has a qualified incentive stock option plan for officers and employees and a nonqualified stock option plan for directors. The total number of shares of Common Stock that may be optioned is 126,000 for the incentive plan and 63,000 for the nonqualified plan. Information with respect to the options granted is as follows:

	2019		2018		2017	
	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price
Balance, January 1	51,530	$ 41.15	43,600	$ 43.34	46,640	$ 48.13
Options granted	-	-	15,000	40.00	13,000	34.00
Options exercised	(4,200)	35.14	(470)	34.00	-	-
Options forfeited	(1,000)	40.00	-	-	-	-
Options expired	(8,000)	54.00	(6,600)	53.50	(16,040)	49.70
Balance, December 31	38,330	$ 39.05	51,530	$ 41.15	43,600	$ 43.34
Options exercisable, December 31	24,730	$ 39.79	31,730	$ 43.34	33,200	$ 46.26

Stock options outstanding at December 31, 2019 were as follows:

	Issued and Outstanding Options			Exercisable (Vested) Options		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$0.00 through $34.99	17,930	5.35	$ 34.00	12,730	4.54	$ 34.00
$35.00 through $54.99	20,400	5.53	$ 43.49	12,000	3.60	$ 45.93
Totals:	38,330	5.45	$ 39.05	24,730	4.08	$ 39.79

The maximum term of stock options granted under the plans is 10 years.

Stock based compensation costs were $19 thousand for the years ended December 31, 2019 and 2018, and $15 thousand for the year ended December 31, 2017.

The fair value of stock option awards granted on or after January 1, 2006 was determined by using a lattice option-pricing model utilizing a range of assumptions related to dividend yield, volatility, risk-free interest rate, and employee exercise behavior. Dividend yield is based on historical experience and expected future dividend actions. Expected volatility is based on a blend of historical stock price volatility and volatility of similarly publicly traded bank stocks. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant. The Company estimated forfeitures based on historical data.

There were no options granted in 2019.

The fair value of the stock options granted for the year ended December 31, 2018 was estimated at $5.89 per option on the date of grant based on the following assumptions:

Dividend yield	3.50%
Volatility	20.00%
Risk free interest rate	2.59%
Expected life--years	6

As of December 31, 2019, the total remaining unrecognized compensation cost related to the issuance of stock options was $73 thousand, which will be amortized over the expected life of these options. The total intrinsic value of outstanding stock options was $611 thousand at December 31, 2019. The total intrinsic value of exercisable stock options was $376 thousand at December 31, 2019.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes extensions of credit to its directors and their associates and several of its policy making officers on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other customers. Extensions of credit outstanding, both direct and indirect, to directors and policy making officers were $5,489 thousand at December 31, 2019 and $10,475 thousand at December 31, 2018. New or additional extensions of credit during 2019 were $864 thousand. Credit reductions and retirements were $5,850 thousand during 2019. Deposit balances of directors and policy making officers were $3,228 thousand and $1,739 thousand at December 31, 2019 and 2018 , respectively. Operating expense payments to vendors considered related parties were $10 thousand and $47 thousand for the years ended December 31, 2019 and 2018, respectively.

13. RESTRICTED CASH BALANCES

The Federal Reserve requires banks to maintain certain minimum cash balances consisting of vault cash and deposits in the Federal Reserve Bank or in other commercial banks. The amount of such reserves are based on percentages of certain deposit types and at December 31, 2019 totaled $3,054 thousand. The company has balances due from correspondent banks in excess of FDIC insured deposit limits. These correspondent banks meet the regulatory definitions of well capitalized financial institutions.

14. FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit losses in the event of nonperformance by the other party to these financial instruments are represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Included in other liabilities are allowances for losses on unfunded credit commitments of $37 thousand and $135 thousand at December, 2019 and December 2018 respectively. There were no provisions for losses on unfunded letters of credit in 2019, 2018 and 2017.

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 commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2019 is as follows:

Commitments to extend credit	$46,426 thousand
Standby letters of credit	$3,897 thousand

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a substantial portion of the Company's financial instuments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

- Cash and due from banks and federal funds sold: The carrying amounts reported are considered to approximate their fair values.
- Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.
- Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.
- Deposits: The fair value disclosed for deposits with no defined maturity are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.
- Borrowings: The fair value is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments as December 31, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Total Cash and due from banks	$ 5,371	5,371	$ 5,875	5,875
Interest bearing deposits with banks	40,935	40,935	46,652	46,652
Investment securities:				
Available-for-sale	15,327	15,327	15,542	15,542
Federal Home Loan Bank stock	432	432	432	432
Loans, net of allowance	390,157	393,276	375,931	377,206
Accrued interest receivable	1,590	1,590	1,628	1,628
Financial liabilities:				
Deposits	404,913	404,351	401,766	398,166
Accrued interest payable	268	268	248	248

15. FAIR VALUE MEASUREMENTS

The Company has adopted the Financial Accounting Standard Board's ("FASB") guidance on *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

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

Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of assets or liabilities)

The following table presents fair value measurements on a recurring basis as of December 31, 2019 and 2018:

2019

	Level 1	Level 2	Level 3	Fair Value
U.S. government agencies securities	$ -	2,862	-	2,862
U.S. government sponsored agencies	-	2,000	-	2,000
Residential mortgage- backed securities	-	10,008	-	10,008
Obligations of states and political subdivisions	-	457	-	457
Totals	$ -	15,327	-	15,327

2018

	Level 1	Level 2	Level 3	Fair Value
U.S. government agencies securities	$ -	3,394	-	3,394
U.S. government sponsored agencies	-	2,944	-	2,944
Residential mortgage- backed securities	-	8,740	-	8,740
Obligations of states and political subdivisions	-	464	-	464
Totals	$ -	15,542	-	15,542

Securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. The following table presents fair value measurements on a non-recurring basis as of December 31, 2019 and 2018:

2019

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	-	9,038	9,038
Other real estate	-	-	89	89
Totals	$ -	-	9,127	9,127

2018

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	-	9,986	9,986
Other real estate	-	-	50	50
Totals	$ -	-	10,036	10,036

Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are derived as follows:

Level 3 inputs are independent appraisals and other available market evaluations used by management in estimating fair value.

In accordance with the provisions of ASC 360, foreclosed real estate were adjusted to their fair values, resulting in an impairment charge, which was included in earnings for the year 2018. There were no impairment charges relating to foreclosed real estate in 2019. Foreclosed real estate assets have been valued using a market approach. The fair values were determined using independent appraisals and other available market evaluations, which the Bank considers to be level 3 inputs. Appraised values are discounted, where appropriate, to reflect selling costs.