M&F Bancorp, Inc.

2019

ANNUAL REPORT

2019 Annual Report

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This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of M&F Bancorp, Inc. These forward looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of M&F Bancorp, Inc. and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like “expect,” “anticipate,” “estimate,” and “believe,” variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements, including but not limited to, the financial success or changing conditions or strategies of M&F Bancorp, Inc.’s customers or vendors, fluctuations in interest rates, actions of government regulators, the availability of capital and personnel or general economic conditions.

M&F Bancorp, Inc.

Chairman and President's Letter

To Our Fellow Shareholders:

2019 was the best year of performance for M&F Bancorp, Inc., (the "Company") and M&F Bank (the "Bank") in more than a decade. Consolidated earnings for 2019 topped $1.0 million compared to $466,000 during 2018, and the Company paid its first common stock dividend since 2014. We were successful in executing our strategic plan to provide access to capital to small and medium businesses in our markets. During 2019, we continued to make positive progress in all areas of the Company and the Bank. Overall, we experienced positive increases in assets, loans, deposits and fee income, excluding the Bank Enterprise Award ("BEA"). The Company's delinquency rate was 0.76%, which was the lowest level in more than 10 years. The Company's Tier 1 Leverage Capital ratio was 8.43%, and Total Risk Based Capital ratio was 12.50%. We believe that the Bank is sound, healthy and meets the regulatory definition of well-capitalized.

Some key highlights over the past year:

- Paid a common stock dividend of $0.06 cents per common share
- Significantly improved net income over the past 3 years
- Produced 4.10% growth in total loans
- Invested $41 million in loans into the communities served
- Improved the Company's risk profile with historically low asset quality metrics
- New Money Service Business line of business increased non-interest income by $131,000
- Parrish Street branch was completely renovated with a contemporary look and feel

As noted above, we had a number of major highlights in 2019. Total loans were $181.6 million as of December 31, 2019 versus $174.4 million in 2018. Total deposits were $238.0 million as of December 31, 2019 versus $233.0 million in December 31, 2018. Total assets as of December 31, 2019 were $265.5 million versus $257.2 million in 2018. We finished the year with $22.2 million in capital versus $19.9 million in 2018. During 2019, we distributed a $0.06 common stock dividend to our shareholders. Also during 2019, we received our eighth BEA from the U.S. Treasury, which is a testament to our commitment to serve low/moderate income communities within our footprint.

During 2019, the Company's major goals were to increase loan volume and profitability. Our Sales Team made significant strides in making loans to small and medium sized businesses of all types. This helps the Bank spread the risk and better align with the growth in the markets served. Further, we continued a Bank-wide sales training methodology, which translated into better engagement with our existing customers and potential new customers. We were focused on our core business and selling solutions to meet customer needs versus selling just products and services. Additionally, in an effort to connect with the communities that the bank serves, we are pleased to report that our City Advisory Boards and statewide Millennial Advisory Board helped us drive hundreds of new relationships into the Bank.

We remain committed to our mission as a true community bank, which includes providing high quality banking services to the entire community and reinvesting into our local economies. As always, we thank you for your trust and confidence, and we hope we can count on your continued support as we move into 2020.

In closing, we are proud of the improved results and our team. We know we have to achieve increased profitability on a go forward basis. The achievements highlighted were not accomplished without a tremendous amount of focus and discipline from the Board and our management team.

Thank you for your continued support.

Sincerely,

James A. Stewart
Chairman of the Board

James H. Sills, III
President and Chief Executive Officer

Independent Auditor's Report

To the Board of Directors and Shareholders
M&F Bancorp, Inc. and Subsidiary
Durham, North Carolina

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of M&F Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (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 M&F Bancorp, Inc. and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raleigh, North Carolina
February 27, 2020

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except for share)	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 8,379	$ 2,654
Interest-bearing cash	9,946	9,531
Total cash and cash equivalents	18,325	12,185
Interest-bearing time deposits	4,436	3,206
Investment securities available-for-sale, at fair value	43,655	50,753
Other invested assets	254	254
Loans, net of unearned income and deferred fees	181,594	174,449
Allowance for loan losses ("ALLL")	(1,960)	(2,079)
Loans, net	179,634	172,370
Interest receivable	679	699
Bank premises and equipment, net	2,606	2,391
Cash surrender value of bank-owned life insurance	9,243	8,985
Deferred tax assets and taxes receivable, net	4,013	4,735
Operating lease right-of-use ("ROU") asset	1,062	-
Other assets	1,575	1,605
TOTAL ASSETS	$ 265,482	$ 257,183
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	$ 180,379	$ 179,824
Noninterest-bearing deposits	57,649	53,196
Total deposits	238,028	233,020
Other borrowings	587	678
Operating lease liabilities	1,085	-
Other liabilities	3,609	3,596
Total liabilities	243,309	237,294
COMMITMENTS AND CONTINGENCIES (Notes 9, 10, 11, 15 and 17)		
Stockholders' equity:		
Series C Junior Participating Preferred Stock- $0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Common stock, no par value, 10,000,000 shares authorized; 2,031,337 shares issued and outstanding	8,732	8,732
Retained earnings	15,286	14,360
Accumulated other comprehensive loss	(1,845)	(3,203)
Total stockholders' equity	22,173	19,889
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 265,482	$ 257,183

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except for share and per share data)	For the Years Ended December 31, 2019	2018
Interest income:		
Loans, including fees	$ 8,983	$ 7,948
Investment securities available-for-sale, including dividends		
Taxable	1,016	1,131
Interest-bearing time deposits	81	56
Other	335	328
Total interest income	10,415	9,463
Interest expense:		
Deposits	1,649	1,236
Borrowings	12	6
Total interest expense	1,661	1,242
Net interest income	8,754	8,221
Less provision for (reversal of) loan losses	(189)	26
Net interest income after provision for (reversal of) loan losses	8,943	8,195
Noninterest income:		
Service charges on deposit accounts	1,204	1,089
Other service charges, commisions and fees	502	410
Rental income	4	-
Cash surrender value of life insurance	258	252
Realized gain on sale of loan	-	19
Realized net gain on disposal of Bank premises and equipment	48	-
Other income	164	468
Total noninterest income	2,180	2,238
Noninterest expense:		
Salaries and employee benefits	5,209	5,153
Occupancy and equipment	1,241	1,172
Directors' fees	149	183
Marketing	179	233
Professional fees	600	541
Information technology	1,100	1,379
FDIC deposit insurance	82	179
OREO expenses (income), net	2	(4)
Delivery expenses	116	120
Other	1,135	902
Total noninterest expense	9,813	9,858
Income before income tax expense	1,310	575
Income tax expense	304	109
Net income	$ 1,006	$ 466
Basic and diluted income per share of common stock:	$ 0.50	$ 0.23
Weighted average shares of common stock outstanding:		
Basic and diluted	2,031,337	2,031,337

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)	For the Years Ended December 31, 2019	2018
Net income	$ 1,006	$ 466
Other comprehensive income (loss):		
Investment securities:		
Unrealized holding gains (losses) on investment securities available-for-sale	1,784	(690)
Tax effect	(410)	158
Net of tax amount	1,374	(532)
Defined benefit pension plans:		
Net actuarial losses	(21)	(294)
Tax effect	5	68
Net of tax amount	(16)	(226)
Other comprehensive income (loss), net of tax	1,358	(758)
Comprehensive income (loss)	$ 2,364	$ (292)

See notes to consolidated financial statements

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

(Dollars in thousands except for share data)	Number of Shares	Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances as of December 31, 2017	2,031,337	$ 8,732	$ -	$ 13,894	$ (2,445)	$ 20,181
Net income	-	-	-	466	-	466
Other comprehensive loss, net of tax	-	-	-	-	(758)	(758)
Balances as of December 31, 2018	2,031,337	$ 8,732	-	$ 14,360	$ (3,203)	$ 19,889
Net income	-	-	-	1,006	-	1,006
Effect of adoption of lease accounting standard - ASC 842	-	-	-	41	-	41
Other comprehensive income, net of tax	-	-	-	-	1,358	1,358
Dividends declared on common stock ($0.06 per share)	-	-	-	(121)	-	(121)
Balances as of December 31, 2019	2,031,337	$ 8,732	$ -	$ 15,286	$ (1,845)	$ 22,173

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Years Ended December 31, 2019	2018
Cash flows from operating activities:		
Net income	$ 1,006	$ 466
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (reversal of) loan losses	(189)	26
Depreciation and amortization	351	334
Amortization of discounts/premiums on investment securities available-for-sale, net	313	334
Increase in cash surrender value of bank-owned life insurance	(258)	(252)
Net gains on disposal of Bank premises and equipment	(48)	-
Gain on sale of OREO	-	(5)
Proceeds from sale of loan	-	155
Net gain on sale of loan	-	(19)
Net changes in:		
Accrued interest receivable and other assets	541	(83)
Other liabilities	(118)	40
Net cash provided by operating activities	1,598	996
Cash flows from investing activities:		
Activity in available for sale securities:		
Maturities and calls	7,150	-
Principal collections	5,518	5,711
Purchases	(4,099)	-
Proceeds from maturities of interest-bearing time deposits	245	1,235
Purchases of interest-bearing time deposits	(1,475)	(1,231)
FHLB stock purchases	(399)	-
FHLB stock redemptions	399	2
Net increase in loans	(7,075)	(20,852)
Purchases of Bank premises and equipment	(572)	(288)
Proceeds from sale of Bank premises and equipment	54	-
Proceeds from sale of OREO	-	109
Net cash used in investing activities	(254)	(15,314)
Cash flows from financing activities:		
Net increase in deposits	5,008	2,577
Proceeds from other borrowings	124	125
Repayments of other borrowings	(215)	(216)
Cash dividends	(121)	-
Net cash provided by financing activities	4,796	2,486
Net increase (decrease) in cash and cash equivalents	6,140	(11,832)
Cash and cash equivalents as of the beginning of the period	12,185	24,017
Cash and cash equivalents as of the end of the period	$ 18,325	$ 12,185

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

(Dollars in thousands)	For the Years Ended December 31, 2019	2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during period for:		
Interest	$ 1,686	$ 1,200
Income taxes	-	(257)
Noncash Transactions:		
Net unrealized gains (losses) on investment securities available-for-sale, net of deferred	1,374	(532)
Adjustments related to defined benefit plans, net of deferred income tax	(16)	(226)
Initial recognition of operating lease ROU assets	1,213	-
Initial recognition of operating lease liabilities	1,223	-

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - M&F Bancorp, Inc. (the "Company") is a bank holding company, and the parent company of Mechanics and Farmers Bank (the "Bank"), a state chartered commercial bank incorporated in North Carolina ("NC") in 1907, which began operations in 1908. The Bank has seven branches in NC: two in Durham, two in Raleigh, and one each in Charlotte, Greensboro and Winston-Salem. The Company, headquartered in Durham, operates as a single business segment and offers a wide variety of consumer and commercial banking services and products almost exclusively in NC.

Basis of Presentation - The Consolidated Financial Statements include the accounts and transactions of the Company and the Bank, the wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - The cash and cash equivalents are comprised of highly liquid short-term investments that are carried at cost, which approximates market value, and cash held at the Federal Reserve Bank of Richmond ("FRB"). The Board of Governors of the Federal Reserve (the "Federal Reserve") and banking laws in NC require banks to maintain average balances in relation to specific percentages of their customers' deposits as a reserve. As of December 31, 2019 and 2018, the Bank, held deposits as shown:

(Dollars in thousands)	Federal Reserve Required Average	Excess	Bank Federal Funds Sold	Core Deposits	Total
December 31, 2019	$ 2,018	$ 7,657	$ -	$ 8,650	$ 18,325
December 31, 2018	$ 1,865	$ 7,350	$ -	$ 2,970	$ 12,185

As of December 31, 2019 and 2018, the Bank did not hold any deposits at other financial institutions in excess of the federally insured balances.

Interest-bearing Time Deposits in Banks – Interest-bearing time deposits in banks mature within five years and are carried at cost.

Investment Securities - Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity securities" and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling in the near term are classified as "trading securities" and reported at fair value with unrealized gains and losses included in consolidated earnings. Debt securities not classified as either held to maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value with unrealized gains and losses excluded from consolidated earnings and reported as a separate component of consolidated stockholders' equity and as an item of other comprehensive income. The unrealized gain or loss of a security is identified and removed from other comprehensive income when a security is sold, matured, or called. Equity securities are reported at fair value and changes in fair value included in consolidated earnings. The initial classification of securities is determined at the date of purchase. Gains and losses on sales of investment securities, computed based on specific identification of the adjusted cost of each security, are included in noninterest income at the time of sale. Premiums and discounts on debt securities are recognized in interest income using the interest method over the period to maturity, or when the debt securities are called.

Declines in the fair value of individual held to maturity and available-for-sale securities below their costs that are other-than-temporary result in write-downs of the individual securities to their respective fair value. There were no credit write-downs in consolidated earnings as realized losses. Transfers of securities between classifications, of which there were none in 2019 or 2018, are accounted for at fair value. No securities were classified as trading or held to maturity as of December 31, 2019 and 2018.

Other Invested Assets - Other invested assets are investments in Federal Home Loan Bank of Atlanta (the "FHLB") stock carried at historical cost, as adjusted for any other-than-temporary impairment loss. As of December 31, 2019 and 2018, the Company's investments in FHLB stock were $0.3 million.

Loans - Loans are stated at the amount of unpaid principal, net of deferred loan origination fees and costs. Loans (net) are reduced by the ALLL. Nonrefundable loan fees associated with the origination or acquisition of loans are deferred and recognized as an adjustment of the loan yield over the life of the loan using the effective interest method. Interest on loans is accrued on the daily balances of unpaid principal outstanding. Interest income is accrued and credited to income only if deemed collectible. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded in income when collected.

Non-Performing Loans and Leases - Generally, all classes of loans and leases are placed on non-accrual status upon becoming contractually past due 90 days or more as to principal or interest (unless loans are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), or where substantial doubt about full repayment of principal or interest is evident.

When a loan or lease is placed on non-accrual status, regardless of class, the accrued and unpaid interest receivable is reversed and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. Loans may be returned to accrual status when all principal and interest amounts contractually due (including any arrearages) are reasonably assured of repayment within a reasonable period, the borrower has demonstrated payment performance for a minimum of six months in accordance with the original or revised contractual terms of the loan, and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For closed-end consumer loans, the entire outstanding balance of the loan is charged-off during the month that the loan becomes 120 days past due as to principal or interest. Consumer loans with non- real estate collateral are written down to the value of the collateral, less estimated costs to sell, if repossession of collateral is assured and in process. For residential mortgage and home equity loan classes, a partial charge-off is recorded at 120 days past due as to principal or interest for the amount that the loan balance exceeds the fair value of the collateral less estimated costs to sell.

Impaired Loans - A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan, including scheduled interest payments. Impaired loans include all classes of commercial non-accruing loans and Troubled Debt Restructurings ("TDRs").

For all classes of commercial loans, a quarterly evaluation of specific individual commercial borrowers with identified weaknesses is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk.

When a loan has been identified as being impaired, the amount of impairment is measured 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. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs and unamortized premiums or discounts), impairment is recognized by creating or adjusting an existing allocation of the ALLL, or by recording a partial charge-off of the loan to its estimated fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Loans Modified as a TDR - Loans are considered to have been modified as a TDR when the Company makes certain concessions to a borrower experiencing financial difficulty. Concessions to the borrower at modification may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period.

Generally accepted accounting principles ("GAAP") does not provide specific guidance on when a loan may be returned to accrual status. Federal banking regulators have provided guidance that interest on impaired loans, including TDRs, should only be recorded when there has been a sustained period of repayment performance, the loan is well secured, and collection under any revised terms is assessed as probable. The Company follows this Federal banking regulators guidance.

One TDR totaling $0.2 million paid off during 2018. One loan totaling $1.3 million and four loans totaling $4.5 million were removed from TDR status during the years ended December 31, 2019 and 2018, respectively. Factors influencing the decision to remove the TDR status following an underwriting and loan modification subsequent to the initial TDR determination date included: 1) the borrowers are no longer experiencing financial difficulties, and 2) the terms of the loan are similar to market interest rates for new debt with similar credit risk and characteristics, and 3) the terms are no less favorable to the Company than those it would offer for such new debt, i.e., no concession granted.

Income Recognition on Impaired and Nonaccrual Loans - Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity, or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if full repayment of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period of time, and the borrower has demonstrated payment performance for a minimum of six months in accordance with the contractual terms involving payments of cash or cash equivalents.

In the case where a nonaccrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the remaining loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charged off balances have been fully recovered.

Reserve for Credit Losses - The Company's reserve for credit losses is comprised of two components, the allowance for loan losses and the reserve for unfunded commitments (the "Unfunded Reserve").

Allowances for Loan Losses - The ALLL is a valuation allowance, which is established through a provision for loan losses charged to expense. When management believes that the collectability of the principal is unlikely, loans are charged against the ALLL. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL is management's estimate of probable losses that are inherent in the loan portfolio. The ALLL is based on regular quarterly assessments. The methodologies for measuring the appropriate level of the ALLL include the combination of a quantitative historical loss history by loan type and a qualitative analysis for loans not classified as impaired or TDRs, and a specific allowance method for impaired and TDR loans. The qualitative analysis is patterned after the guidelines provided under the Securities Exchange Commission ("SEC") Staff

Accounting Bulletin 102 and the Federal Financial Institutions Examination Council ("FFIEC") Interagency Policy Statement on the Allowance for Loan and Lease Losses and include the following:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in national economic and business conditions and developments and the effect of unemployment on African Americans, who are the majority of our customers;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in trends of the volume and severity of past due and classified loans; and changes in trends in the volume of non-accrual loans, troubled debt restructurings and classified loans;
- Changes in the quality of the loan review system and the degree of oversight by the Bank's Board of Directors;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of external factors such as competition and legal and regulatory requirements.

Management has developed, from historical loan and economic information, quantitative drivers for certain qualitative factors. Management has identified which factors, by nature, are subjective, such as lending policies, competition, and regulatory requirements. The quantitative drivers, to which different weights are assigned based on management's judgment, are reviewed and updated quarterly. The quantitative loss history was based on a five-year rolling look back period at December 31, 2019 and 2018.

A specific ALLL is established for loans identified as impaired or TDRs, based on significant conditions or circumstances related to the specific credits. The specific allowance amounts are determined by a method prescribed by Accounting Standards Codification ("ASC") 310, *Receivables*. Loans identified as impaired are accounted for in accordance with one of three valuations: (i) the present value of future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price, or (iii) the fair value of the collateral, if the loan is collateral dependent, less estimated liquidation costs. A loan is considered impaired when it is probable that not all amounts due (principal and interest) will be collectible according to the original 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. The significance of payment delays and payment shortfalls are considered on a loan-by-loan 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.

For commercial business, faith-based non-profit, real estate and certain consumer loans, the measurement of loan impairment is based on the present value of the expected future cash flows, discounted at the loan's effective interest rate, or on the fair value of the loan's collateral if the loan is collateral dependent. Most consumer loans are smaller balance and homogeneous, and are evaluated for impairment on a collective basis, applying the quantitative loss history and the qualitative factors. Impairment losses are included in the ALLL through a charge to the provision for loan losses.

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company's risk rating system was developed to aid in the risk management process by grouping credits with similar risk profiles into pass, special mention, substandard or doubtful categories. Credit risk ratings are applied individually to all classes of loans and leases. Internal credit reviews and external contracted credit review examinations are used to determine and validate loan risk grades. The credit review system takes into consideration factors such as: borrower's background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, market value and volatility of the market value of collateral; lien position; and the financial strength of guarantors.

The process of assessing the adequacy of the ALLL is necessarily subjective. Further, and particularly in periods of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management's current estimate of what constitutes a reasonable ALLL.

The Company and the Bank are subject to periodic examination by their federal and state regulators, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

Reserve for Unfunded Commitments - The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unfunded loans with available balances, new commitments to lend that are not yet funded, and standby and commercial letters of credit. The process used to determine the Unfunded Reserve is consistent with the process for determining the ALLL, as adjusted for estimated funding probabilities and historical five-year rolling look back quantitative loan loss factor at December 31, 2019 and 2018. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense. The balances of $19 thousand and $21 thousand for December 31, 2019 and 2018, respectively, were reflected in other liabilities on the Consolidated Balance Sheets.

Bank Premises and Equipment, Net - Premises and equipment are stated at cost less accumulated depreciation and amortization. For financial reporting purposes, depreciation and amortization are computed by the straight-line method and are charged to operations over the estimated useful lives of the assets, which range from 30-50 years for premises; generally 6-10 years for furniture and equipment, and 3-5 years for information technology equipment and software. Leasehold improvements are amortized over the terms of the respective leases or the useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to operations as incurred. The Bank reviews

long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If the sum of the expected cash flows attributable to an asset is less than the stated amount of the asset, an impairment loss is recognized in the current period and charged to operations. Upon disposition, the asset and related accumulated depreciation and/or amortization are relieved, and any gains or losses are reflected in operations.

Cash Surrender Value of Life Insurance - The Bank maintains life insurance on certain current and former officers and directors, of which the Bank is owner and beneficiary. The cash surrender value of the policies at December 31, 2019 and 2018 was $9.2 million and $9.0 million, respectively. Income from the policies and changes in the net cash surrender value, excluding additional purchases or withdrawals, are recorded in noninterest income.

OREO - OREO, which represents real estate acquired through foreclosure, or the transfer of the deed in lieu of foreclosure in satisfaction of commercial and consumer real estate collateralized loans, is initially recorded at fair value less estimated holding and selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of the foreclosure are charged to the ALLL. Any subsequent operating expenses or income, reduction in estimated fair values, and gains or losses on disposition of such properties are charged or credited to non-interest income or non-interest expense. Valuations are periodically performed by management, and any subsequent write-downs due to the carrying value of a property exceeding its estimated fair value less estimated costs to sell are charged against other non-interest expense. As of December 31, 2019 and 2018, there were no foreclosed properties included in OREO on the Consolidated Balance Sheets. OREO excludes bank-owned property held for Company use at December 31, 2019 and 2018. At December 31, 2019, there were no loans collateralized by residential real estate in the process of foreclosure.

Leases – The Company determines if an arrangement is a lease at inception. Operating leases are included in ROU assets and lease liabilities on our Consolidated Balance Sheets. Finance leases are included in bank premises and equipment and other borrowings on our consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, the Company may account for the lease and non-lease components as a single lease component.

Revenue from Contract with Customers – All of the Company's revenues that are within the scope of ASC 606 are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

	For the Years Ended December 31,	
	2019	**2018**
Noninterest income:		
Service charges on deposit accounts	$ 1,204	$ 1,089
Other service charges, commission and fees	502	$ 410
Rental income (1)	4	-
Cash surrender value of life insurance (1)	258	252
Realized gain on sale of loan (1)	-	19
Realized net gain on disposal of Bank premises and equipment	48	-
Other income (2)	164	468
Total noninterest income	$ 2,180	$ 2,238

(1) Not within the scope of ASC 606
(2) Portions within the scope of ASC 606, but not material

There were no impairment losses recognized on any receivables or contract assets arising from the Company's contracts with customers during the years ended December 31, 2019 and 2018. While the Company has noninterest income related to rental income, changes in cash surrender value of life insurance and sales of investments, these are not within the scope of ASC 606.

The service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan fees. The revenues generated from each of these contracts are recognized when a performance obligation is met and each obligation is associated with a transaction tied to the account or the opening of the account. Given each of these accounts are transactional and the contract is a day-to-day contract, the performance obligations on these accounts occurs when the contract provision is triggered on the account, which results in the related service charge. Based on the Company's analysis, there are no fees generated for opening account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

As of December 31, 2019 and 2018, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered. In addition, during the years ended December 31, 2019 and 2018, the Company did not recognize revenue that was included in any contract liabilities and no revenues were recognized related to performance obligations satisfied in prior reporting periods.

The Company analyzes its payment streams associated with contracts with customers on a quarterly basis. As of December 31, 2019 and 2018, the nature of the performance obligations within the contracts generating these service charges on deposit and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, it was determined that there are no significant judgements associated with the recognition of revenue associated with these contracts.

Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2019 and 2018.

Earnings Per Share - Earnings per share are calculated on the basis of the weighted average number of shares of common stock outstanding for the purpose of computing the basic earnings per share and the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents, such as stock options, for the purpose of computing diluted earnings per share. As of December 31, 2019 and 2018, there were no stock options outstanding.

Advertising Costs - Advertising is expensed as incurred.

Income Taxes - Provisions for income taxes are based on amounts reported in the Consolidated Statements of Operations (after exclusion of non- taxable income such as interest on state and municipal securities) and include changes in deferred income taxes. Deferred tax asset and liability balances reflect temporary differences at the tax rate expected to be in effect when taxes will become payable or receivable. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements that will result in taxable or deductible amounts in future years. The effect of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if the Company determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

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 ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more- likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation process, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of income. The Company does not have an accrual for uncertain tax positions as of December 31, 2019 and 2018, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on tax law. The Company's federal and state income tax returns are subject to review and examination by government authorities.

Comprehensive Income (Loss) - Comprehensive income (loss) is the change in the Company's equity during the period from transactions and other events and circumstances from non-owner sources. Total comprehensive income (loss) consists of net income and other comprehensive income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive loss are comprised of net unrealized gains and losses on certain investments in debt securities and post-retirement plans. Information concerning the Company's other comprehensive income (loss) and accumulated comprehensive loss as of and for the years ended December 31, 2019 and 2018 are presented in the Consolidated Statements of Comprehensive Income (Loss).

Fair Values of Financial Instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Company's assumptions (unobservable inputs). GAAP requires fair value measurements to be separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets.

Under GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The Company did not have any changes in leveling inputs in 2019.

These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U.S. Government agency securities ("U.S. Agencies"), U.S. Government sponsored residential mortgage backed securities ("MBS") and State and Municipal Bonds ("Municipals").

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to change in the near term relate to the determination of the ALLL and the provision for loan losses, the evaluation of other-than-temporary impairment of investment securities, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other accounting for incentive compensation, and post-retirement benefits. Actual results could differ from those estimates.

Reclassification of Prior Year Presentation – Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. Adjustments have been made to the Consolidated Statements of Operations for the year ended December 31, 2018 to segregate "Other service charges, commissions and fees" from "Service charges on deposit accounts" in the amount of $0.4 million, and to reclassify $44 thousand in ATM service charges for non-Bank customers to "Other income."

Significant Group Concentrations - Most of the Bank's activities are with customers located within the state of NC. The Bank does have concentrations with respect to loans to and deposits from faith-based non-profit organizations as outlined in Note 6 to the Consolidated Financial Statements.

New Accounting Pronouncements –

In June 2016, the FASB issued guidance (ASU 2016-13) to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption was permitted for all organizations for periods beginning after December 15, 2018.

The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, the Company did not elect that option. The Company is evaluating the impact of the ASU on our consolidated financial statements. The Company expects the ASU will result in an increase in the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. The majority of the increase results from longer duration portfolios. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on held-to-maturity debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In August 2018, the FASB amended the Compensation – Retirement Benefits – Defined Benefit Plan Topic of the ASC. The amendments remove, modify, and add certain disclosure requirements for employers that sponsor defined benefit pension plans or other postretirement plan. The amendments are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement of financial instruments. The amendments related to credit losses will be effective for the Company for reporting periods beginning after December 15, 2020. The amendments related to hedging became effective January 1, 2019. The amendments related to recognition and measurement of financial instruments will be effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL). The new effective dates will be for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022 including interim periods within those years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. INVESTMENT SECURITIES

The main objectives of the Company's investment strategy are to provide a source of liquidity while managing our interest rate risk, and to generate an adequate level of interest income without taking undue risks. The Company's investment policy permits investments in various types of securities, certificates of deposit and federal funds sold in compliance with various restrictions in the policy. As of December 31, 2019 and 2018, all investment securities were classified as available-for-sale.

The Company's available-for-sale securities totaled $43.7 million and $50.8 million as of December 31, 2019 and 2018, respectively. In the normal course of business, the Company pledges securities to the FRB and to public housing authorities in NC and the NC Department of State Treasurer ("State Treasurer") as collateral for public deposits. The following table shows the amounts pledged:

(Dollars in thousands)	December 31, 2019	December 31, 2018
Pledged to FRB	$ 1,260	$ 1,258
Pledged to public housing authorities	2,208	2,605
Pledged to the State Treasurer	21,483	20,391

The Company's investment portfolio consists of the following securities:

- U.S. Government agency securities ("U.S. Agencies")
- U.S. Government sponsored residential mortgage backed securities ("MBS"), and
- Municipal securities ("Municipals")

The amortized cost, gross unrealized gains and losses and fair values of investment securities at December 31, 2019 and 2018 were:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. Agencies	$ 11,165	$ 1	$ (12)	$ 11,154
MBS	30,995	4	(257)	30,742
Municipals	1,755	8	(4)	1,759
Total	$ 43,915	$ 13	$ (273)	$ 43,655
December 31, 2018				
U.S. Agencies	$ 18,315	$ -	$ (642)	$ 17,673
MBS	32,694	-	(1,351)	31,343
Municipals	1,788	-	(51)	1,737
Total	$ 52,797	$ -	$ (2,044)	$ 50,753

There were no sales of securities available-for-sale for the years ended December 31, 2019 and 2018, and as a result no aggregate gross realized gains or losses were realized.

The amortized cost and estimated market values of securities as of December 31, 2019 and 2018 by contractual maturities with the exception of MBS, which reflects projected cash flow streams, are shown below. Actual maturities may differ, because borrowers may have the right to call or prepay MBS, collateralized mortgage obligations, agency securities, and municipal bonds with or without call or prepayment penalties. Certain mortgage-backed securities have adjustable interest rates and will reprice within the various maturity ranges. These repricing schedules are not reflected in the following table.

(Dollars in thousands)	As of December 31, 2019			
	Fair Value		Amortized Cost	
U.S. Agencies				
Due within one year	$	3,154	$	3,165
Due after one year through five years		8,000		8,000
Total U.S. Agencies	$	11,154	$	11,165
MBS				
Due within one year	$	5,857	$	5,912
Due after one year through five years		14,299		14,417
Due after five years through ten years		7,692		7,750
Due after ten years		2,894		2,916
Total MBS	$	30,742	$	30,995
Municipals				
Due within one year	$	714	$	713
Due after one year through five years		546		539
Due after five years through ten years		499		503
Total Municipals	$	1,759	$	1,755

(Dollars in thousands)	As of December 31, 2018			
	Fair Value		Amortized Cost	
U.S. Agencies				
Due within one year	$	6,896	$	7,150
Due after one year through five years		8,866		9,165
Due after five years through ten years		1,911		2,000
Total U.S. Agencies	$	17,673	$	18,315
MBS				
Due within one year	$	4,666	$	4,855
Due after one year through five years		12,872		13,417
Due after five years through ten years		8,886		9,276
Due after ten years		4,919		5,146
Total MBS	$	31,343	$	32,694
Municipals				
Due after one year through five years	$	1,258	$	1,281
Due after five years through ten years		479		507
Total Municipals	$	1,737	$	1,788

As of December 31, 2019 and 2018, the fair value of securities with gross unrealized losses by length of time that the individual securities have been in an unrealized loss position is as follows:

(Dollars in thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
U.S. Agencies	$ -	$ -	$ 5,153	$ (12)	$ 5,153	$ (12)
MBS	4,445	(5)	24,997	(252)	29,442	(257)
Municipals	499	(4)	-	-	499	(4)
Total	$ 4,944	$ (9)	$ 30,150	$ (264)	$ 35,094	$ (273)

(Dollars in thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
U.S. Agencies	$ -	$ -	$ 17,673	$ (642)	$ 17,673	$ (642)
MBS	-	-	31,343	(1,351)	31,343	(1,351)
Municipals	-	-	1,737	(51)	1,737	(51)
Total	$ -	$ -	$ 50,753	$ (2,044)	$ 50,753	$ (2,044)

All securities owned as of December 31, 2019 and 2018 were investment grade. The Company evaluates securities for other-than- temporary impairment, at least on a quarterly basis. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and extent to which the fair value has been less than cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2019 and 2018, the Company held 45 and 54 investment positions, respectively, with unrealized losses of $0.3 million and $2.0 million, respectively. These investments were in U.S. Agencies, MBS and municipals. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management has determined that all declines in the market value of available-for-sale securities are not other-than-temporary, and will not be likely required to sell.

3. FHLB STOCK

To be a member of the FHLB System, the Bank is required to maintain an investment in capital stock of the FHLB. Periodically, the FHLB recalculates the Bank's required level of holdings, and the Bank either buys more stock or redeems a portion of the stock at cost. The carrying value of FHLB stock, which is included in other invested assets, as of December 31, 2019 and 2018 was $0.3 million. No ready market exists for the FHLB stock, and it has no quoted market value; however, management believes that the cost approximates the market value as of December 31, 2019 and 2018. Management has reviewed its investment in FHLB stock for impairment and does not believe it is impaired as of December 31, 2019 or 2018. The FHLB of Atlanta in which the Company owns stock has been profitable in each of the years ended December 31, 2019 and 2018.

4. RECONCILIATIONS OF BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing net income (loss) by the weighted average number shares of common stock outstanding for the period. Basic EPS excludes the dilutive effect that could occur if any options or warrants to purchase shares of common stock were exercised. Diluted EPS is computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding for the period plus the number of additional shares of common stock that would have been outstanding if the potentially dilutive common shares had been issued. There are no stock options or warrants outstanding for any of the periods being reported.

5. ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net income and all other changes to the Company's equity, with the exception of transactions with stockholders. The Company's other comprehensive loss and accumulated other comprehensive loss are comprised of unrealized gains and losses on certain investments in debt securities and defined benefit plan adjustments.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT
For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Plans	Total
Balance as of December 31, 2017	$ (1,042)	$ (1,403)	$ (2,445)
Other comprehensive loss	(532)	(226)	(758)
Net current-period other comprehensive loss	(532)	(226)	(758)
Balance as of December 31, 2018	$ (1,574)	$ (1,629)	$ (3,203)
Balance as of December 31, 2018	$ (1,574)	$ (1,629)	$ (3,203)
Other comprehensive income (loss)	1,374	(16)	1,358
Net current-period other comprehensive income (loss)	1,374	(16)	1,358
Balance as of December 31, 2019	$ (200)	$ (1,645)	$ (1,845)

All amounts are net of tax.

There were no reclassification adjustments from accumulated other comprehensive loss.

6. LOANS AND ALLL

The ALLL is management's estimate of losses inherent in the loan portfolio. The provision for loan losses is the amount charged against earnings to establish an adequate ALLL. Loan losses and recoveries are charged to or credited to the ALLL, rather than reported as a direct expense or recovery. The loan portfolio is segmented into three parts for the ALLL calculation: impaired commercial loans and smaller balance homogenous loans in the process of foreclosure, TDRs (collectively referred to as "impaired loans"), and all other loans.

For all classes of commercial loans, a quarterly evaluation of specific individual borrowers is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk through the loan classification process. The ALLL attributed to impaired loans and TDRs considers all available evidence based on significant conditions or circumstances related to the specific credits. The specific allowance amounts are determined by a method prescribed by ASC 310. The loans identified as impaired and TDRs are accounted for in accordance with one of three valuations: (i) the present value of future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price, or (iii) the fair value of the collateral, if the loan is collateral dependent, less estimated liquidation costs. Factors considered by management in determining impairment include payment status, collateral value, alternate use of special purpose real estate which could adversely impact resale, 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. The significance of payment delays and payment shortfalls are considered on a loan-by-loan 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. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Most consumer loans are evaluated for impairment on a collective basis, because these loans are for smaller balances and are homogeneous. Any loans, including commercial loans, not specifically identified as impaired or TDRs, are collectively evaluated and segmented by loan type, applying two factors: the quantitative loss history by loan type for the previous five year periods at December 31, 2019 and 2018 compared to average loans outstanding for the same period (the "quantitative factor"), and a qualitative factor that is comprised of quantitatively-driven calculations based on historical data, and subjective factors (the "qualitative factors"). The quantitative portion of the ALLL is adjusted for qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance.

The quantitative factor by loan type is applied against the unimpaired loan balances and smaller-balance homogenous impaired loans not in the process of foreclosure for which there is no specific reserve to determine the quantitative reserve. The qualitative factors, including (i) policy underwriting, charge-off and collection, (ii) national and local economic conditions, (iii) nature and volume of the portfolio, (iv) experience, ability, and depth of lending team, (v) trends of past due, classified loans, and restructurings, (vi) quality of loan review and board oversight, (vii) existence, levels, and effect of loan concentrations and (viii) effects of external factors such as competition and regulatory

oversight, are adjusted quarterly based on historical information for any quantifiable factors and qualitative judgments for subjective factors (those considered subjective are policy, underwriting, experience, ability and depth of lending team, quality of loan review and board oversight, and effects of external factors), and applied in total to each loan balance by loan type. The Company continues to enhance its modeling of the portfolio and underlying risk factors through quarterly analytical reviews with the goal of ensuring it captures all pertinent factors contributing to risk of loss inherent in the loan portfolio. Under ASC 310, the non-homogenous impaired loans, homogenous small balance real estate secured loans in process of foreclosure for which the value is less than the loan principal balance, and TDRs, are reviewed individually for impairment.

The process of assessing the adequacy of the ALLL is inherently subjective. Further, and particularly in terms of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for loan losses.

The Company and the Bank are subject to periodic examination by their federal and state banking regulators, and may be required by their regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

Loans are generally placed on non-accrual status when the scheduled payments reach 90 days past due. Loans are charged-off, with Board of Directors' approval, when the Chief Credit Officer and his staff determine that all reasonable means of collection of the outstanding balances, except foreclosure, have been exhausted. The Company continues its collection efforts subsequent to charge-off, which historically has resulted in some recoveries each year.

The composition of the loan portfolio, net of deferred fees and costs, by loan classification as of December 31, 2019 and 2018:

(Dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Commercial	$ 23,827	$ 17,462
Commercial real estate:		
Construction	7,194	11,228
Owner occupied	26,684	25,411
Other	28,429	30,603
Faith-based non-profit:		
Construction	1,677	1,262
Owner occupied	64,062	67,878
Other	316	612
Residential real estate:		
First mortgage	14,782	13,872
Multifamily	9,722	1,908
Home equity	3,874	3,182
Consumer	976	962
Other loans	51	69
Loans, net of deferred fees	181,594	174,449
ALLL	(1,960)	(2,079)
Loans, net of ALLL	$ 179,634	$ 172,370

The Bank has a concentration of loans to faith-based non-profit organizations, in which the Bank has specialized lending experience. At December 31, 2019, the percentage of loans in this segment, which included construction, owner occupied real estate secured and other loans, comprised 36.38% of the total loan portfolio. The reserve allocated for these loans at December 31, 2019 was 36.22% of the total ALLL. Historically the Bank has experienced low levels of loan losses in this segment; however, repayment of these loans is generally dependent on voluntary contributions, some of which had been adversely affected during the economic downturn.

Management has identified its loan-related disclosure classifications in its financial reports to present portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its ALLL. The following tables present the reported investment in loans, net of deferred fees and costs, by portfolio segment and based on impairment method and related ALLL as of December 31, 2019 and 2018, respectively:

	December 31, 2019							
(Dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Faith Based Non-Profit**	**Residential Real Estate**	**Consumer**	**Other Loans**	**Unallocated**	**Total**
ALLL:								
Ending ALLL balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ 306	$ 20	$ -	$ -	$ -	$ 326
Collectively evaluated for impairment	92	783	404	270	15	15	55	1,634
Total ending ALLL balance	$ 92	$ 783	$ 710	$ 290	$ 15	$ 15	$ 55	$ 1,960
Loans:								
Loans individually evaluated for impairment	$ -	$ -	$ 8,181	$ 27	$ -	$ -	$ -	$ 8,208
Loans collectively evaluated for impairment	23,827	62,307	57,874	28,351	976	51	-	173,386
Total ending loans balance	$ 23,827	$ 62,307	$ 66,055	$ 28,378	$ 976	$ 51	$ -	$ 181,594

	December 31, 2018						
(Dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Faith Based Non-Profit**	**Residential Real Estate**	**Consumer**	**Other Loans**	**Total**
ALLL:							
Ending ALLL balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 265	$ -	$ -	$ -	$ 265
Collectively evaluated for impairment	76	975	535	190	20	18	1,814
Total ending ALLL balance	$ 76	$ 975	$ 800	$ 190	$ 20	$ 18	$ 2,079
Loans:							
Loans individually evaluated for impairment	$ -	$ -	$ 10,075	$ 8	$ -	$ -	$ 10,083
Loans collectively evaluated for impairment	17,462	67,242	59,677	18,954	962	69	164,366
Total ending loans balance	$ 17,462	$ 67,242	$ 69,752	$ 18,962	$ 962	$ 69	$ 174,449

(Dollars in thousands)	For the Year Ended December 31, 2019							
	Commercial	Commercial Real Estate	Faith-Based Non-Profit	Residential Real Estate	Consumer	Other Loans	Unallocated	Total
ALLL:								
Total ending ALLL balances as of December 31, 2018	$ 76	$ 975	$ 800	$ 190	$ 20	$ 18	$ -	$ 2,079
For the year ended December 31, 2019								
Charge-offs	-	-	(1)	-	(8)	(31)	-	(40)
Recoveries	-	60	-	32	13	5	-	110
Provision for (reversal of) loan losses	16	(252)	(89)	68	(10)	23	55	(189)
Total ending ALLL balances as of December 31, 2019	$ 92	$ 783	$ 710	$ 290	$ 15	$ 15	$ 55	$ 1,960

(Dollars in thousands)	For the Year Ended December 31, 2018						
	Commercial	Commercial Real Estate	Faith-Based Non-Profit	Residential Real Estate	Consumer	Other Loans	Total
ALLL:							
Total ending ALLL balances as of December 31, 2017	$ 28	$ 911	$ 781	$ 127	$ 30	$ 8	$ 1,885
For the year ended December 31, 2018							
Charge-offs	(992)	-	-	(103)	(15)	(38)	(1,148)
Recoveries	1,293	-	-	9	5	9	1,316
Provision for (reversal of) loan losses	(253)	64	19	157	-	39	26
Total ending ALLL balances as of December 31, 2018	$ 76	$ 975	$ 800	$ 190	$ 20	$ 18	$ 2,079

Net recoveries totaled $70 thousand and $0.2 million for the years ended December 31, 2019 and 2018, respectively. During the first quarter of 2018, a charge-off of $1.0 million occurred to fully remove the loan from Company's books when it appeared there was no further collectability on the loan. During the third quarter of 2018, $1.3 million was recovered on the loan when a third party purchased the Company's position in the outstanding debt.

The following tables show impaired loans with and without valuation allowances as of December 31, 2019 and 2018:

(Dollars in thousands)	**December 31, 2019** Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Interest Earned For the Year	Average Recorded Investment
With no related allowance recorded:					
Faith based non-profit:					
Owner occupied	$ -	$ -	$ -	$ -	$ 310
Residential real estate:					
First mortgage	-	-	-	-	3
Impaired loans with no allowance recorded	$ -	$ -	$ -	$ -	$ 313
With an allowance recorded:					
Faith based non-profit:					
Owner occupied	$ 8,181	$ 8,192	$ 306	$ 424	$ 8,454
Residential real estate:					
Home equity	27	27	20	1	3
Impaired loans with allowance recorded	$ 8,208	$ 8,219	$ 326	$ 425	$ 8,458
Total impaired loans	$ 8,208	$ 8,219	$ 326	$ 425	$ 8,771

	December 31, 2018				
(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Interest Earned For the Year	Average Recorded Investment
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ 34	$ 127
Commercial real estate:					
Owner occupied	-	-	-	1	-
Faith based non-profit:					
Owner occupied	1,241	1,241	-	67	568
Residential real estate:					
First mortgage	8	8	-	2	47
Home equity	-	-	-	3	174
Impaired loans with no allowance recorded	$ 1,249	$ 1,249	$ -	$ 107	$ 916
With an allowance recorded:					
Commercial real estate:					
Owner occupied	$ -	$ -	$ -	$ -	$ 563
Other	-	-	-	137	3,345
Faith based non-profit:					
Owner occupied	8,834	8,850	265	460	9,482
Residential real estate:					
Home equity	-	-	-	-	52
Impaired loans with allowance recorded	$ 8,834	$ 8,850	$ 265	$ 597	$ 13,442
Total impaired loans	$ 10,083	$ 10,099	$ 265	$ 704	$ 14,358

The recorded investment in loan balance includes the outstanding loan balance (net of any charge-offs), accrued interest, deferred fees and costs, and unamortized premium or discount, where applicable.

The Bank modifies certain loans and provides a concession such as a reduced rate, extended terms, or reduction of principal and/or interest, in a TDR where the borrowers are experiencing financial difficulties. These concessions typically result from loss mitigation recommendations developed by the Bank's problem loan team. Concessions could include reductions in below market interest rates, payment extensions, forbearance or other actions. TDRs are generally classified as nonperforming at the time of restructuring and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When loans are modified as TDRs, the Bank evaluates each loan for any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the repayment source is expected to be the liquidation of underlying collateral, in which cases the Bank uses the fair value of the collateral less selling costs, instead of discounted cash flows. If the Bank determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance allocation or a charge-off to the allowance.

The Bank completed no TDRs during the year ended December 31, 2019 and one TDR during the year ended December 31, 2018. The faith-based non-profit TDR was secured by owner occupied commercial real estate. The restructured loan was in compliance with modified terms as of December 31, 2018. Based upon financial analysis and the fair value of collateral, the Bank allocated $0.3 million of specific reserves for TDRs at December 31, 2019 and 2018.

The following table presents details of a TDR loan that was restructured during the year ended December 31, 2018:

		TDR Modifications For the Year Ended December 31, 2018			
(Dollars in thousands)	Number of loans	Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment	
Below market interest rates:					
Faith-based non-profit:					
Owner occupied	1	$	1,362	$	1,362
Total	1	$	1,362	$	1,362

The were no loans modified as a TDR with a payment default occurring within 12 months of the restructure date, during the years ended December 31, 2019 or 2018.

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2019 and 2018:

December 31, 2019 *(Dollars in thousands)*	Non-accrual		Number	90 Days or More Past Due Still Accruing		Number
Faith-based non-profit:						
Owner occupied	$	925	1		-	-
Residential real estate:						
Home equity		27	1		-	-
Total	$	952	2	$	-	-

December 31, 2018 *(Dollars in thousands)*	Non-accrual		Number	90 Days or More Past Due Still Accruing		Number
Commercial real estate:						
Owner occupied	$	-	-	$	47	1
Faith-based non-profit:						
Owner occupied		1,241	2		-	-
Residential real estate:						
First mortgage		8	1		-	-
Total	$	1,249	3	$	47	1

Non-accrual loans and loans past due over 90 days still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. Loans from which principal or interest is in default for 90 days or more are classified as a non-accrual unless they are well secured and in process of collection. Loans past due over 90 days still accruing were matured loans that were well secured and in process of collection. Borrowers have continued to make payments on these loans while administrative and legal due processes are proceeding which will enable the Bank to extend or modify maturity dates.

Unrecognized income on non-accrual loans as of December 31, 2019 and 2018 was $5 thousand.

The following tables present loans not past due, and the aging of past due loans as of December 31, 2019 and 2018 by class of loans:

December 31, 2019 *(Dollars in thousands)*	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or More Past Due**	**Total Past Due**	**Current**	**Total**
Commercial	$ 133	$ -	$ -	$ 133	$ 23,694	$ 23,827
Commercial real estate:						
Construction	-	-	-	-	7,194	7,194
Owner occupied	-	-	-	-	26,684	26,684
Other	-	-	-	-	28,429	28,429
Faith-based non-profit:						
Construction	-	-	-	-	1,677	1,677
Owner occupied	258	-	-	258	63,804	64,062
Other	-	-	-	-	316	316
Residential real estate:						
First mortgage	-	-	-	-	14,782	14,782
Multifamily	-	-	-	-	9,722	9,722
Home equity	-	-	27	27	3,847	3,874
Consumer	42	-	-	42	934	976
Other loans	-	-	-	-	51	51
Total	$ 433	$ -	$ 27	$ 460	$ 181,134	$ 181,594

December 31, 2018 *(Dollars in thousands)*	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or More Past Due**	**Total Past Due**	**Current**	**Total**
Commercial	$ -	$ -	$ -	$ -	$ 17,462	$ 17,462
Commercial real estate:						
Construction	-	-	-	-	11,228	11,228
Owner occupied	-	-	47	47	25,364	25,411
Other	-	-	-	-	30,603	30,603
Faith-based non-profit:						
Construction	-	-	-	-	1,262	1,262
Owner occupied	43	-	225	268	67,610	67,878
Other	-	-	-	-	612	612
Residential real estate:						
First mortgage	144	-	-	144	13,728	13,872
Multifamily	-	-	-	-	1,908	1,908
Home equity	48	-	-	48	3,134	3,182
Consumer	29	5	-	34	928	962
Other loans	-	-	-	-	69	69
Total	$ 264	$ 5	$ 272	$ 541	$ 173,908	$ 174,449

Non-accrual loans decreased $0.3 million to $1.0 million as of December 31, 2019 compared to December 31, 2018, while total loans past due (including delinquent non-accrual loans) decreased by $81 thousand to $0.5 million over the same period. Not reflected in the table above are non-accrual loans past due less than 30 days. As shown in the following tables at December 31, 2019 and 2018, respectively, the Company had $0.9 million and $1.0 million in non-accrual loans that were less than 30 days past due.

The following tables display all non-accrual loans and loans 90 or more days past due and still on accrual for the periods ended December 31, 2019 and 2018.

December 31, 2019

(Dollars in thousands)	Amount	Number
Loans past due over 90 days still on accrual	$ -	-
Non-accrual loans past due		
Less than 30 days	$ 925	1
30-59 days	-	-
60-89 days	-	-
90+ days	27	1
Non-accrual loans	$ 952	2

December 31, 2018

(Dollars in thousands)	Amount	Number
Loans past due over 90 days still on accrual	$ 47	1
Non-accrual loans past due		
Less than 30 days	$ 1,024	2
30-59 days	-	-
60-89 days	-	-
90+ days	225	1
Non-accrual loans	$ 1,249	3

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans for reserves according to the loan's classification as to credit risk.This analysis includes homogenous loans, such as commercial, commercial real estate and faith based non–profit entities, and mortgage loans in process of foreclosure for which the loan to value does not support repayment in full. This analysis is performed on at least a quarterly basis.The Company uses the following definitions for risk ratings:

- Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. These loans exhibit a moderate likelihood of some loss related to those loans and leases that are considered special mention.

- Substandard. Loans classified as substandard are inadequately protected by the current sound financial repayment capacity and service coverage of the debtor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that may jeopardize the liquidation of or repayment according to the original terms of the debt. In addition to commercial and faith-based non-profit loans with identified weaknesses, substandard loans include loans within the mortgage and consumer portfolio segments that are past due 90 days or more as to principal or interest if the loan to value does not support full repayment. Substandard loans are evaluated for impairment on an individual loan basis unless the substandard loan is a smaller balance homogenous loan that is not a TDR and is not in the process of foreclosure. These loan exhibits a distinct possibility that the company will sustain some loss if the deficiencies related to the loans is not corrected in a timely manner.

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

- Pass. Loans are classified as pass in all classes within the commercial, faith-based non-profit, mortgage, consumer, and other portfolio segments that are not identified as special mention, substandard, or doubtful, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. These loans exhibit a low likelihood of loss related to loans that are considered pass.

As of December 31, 2019, the risk category of loans by class of loans was as follows:

December 31, 2019 *(Dollars in thousands)*	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$ 23,827	$ -	$ -	$ -	$ 23,827
Commercial real estate:					
Construction	7,194	-	-	-	7,194
Owner occupied	25,575	1,109	-	-	26,684
Other	28,343	86	-	-	28,429
Faith-based non-profit:					
Construction	1,677	-	-	-	1,677
Owner occupied	59,112	-	4,950	-	64,062
Other	316	-	-	-	316
Residential real estate:					
First mortgage	14,776	-	6	-	14,782
Multifamily	9,701	21	-	-	9,722
Home equity	3,843	31	-	-	3,874
Consumer	976	-	-	-	976
Other loans	51	-	-	-	51
Total	$ 175,391	$ 1,247	$ 4,956	$ -	$ 181,594

As of December 31, 2018, the risk category of loans by class of loans was as follows:

December 31, 2018 *(Dollars in thousands)*	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$ 17,462	$ -	$ -	$ -	$ 17,462
Commercial real estate:					
Construction	11,228	-	-	-	11,228
Owner occupied	24,250	1,161	-	-	25,411
Other	30,476	127	-	-	30,603
Faith-based non-profit:					
Construction	1,262	-	-	-	1,262
Owner occupied	60,683	-	7,195	-	67,878
Other	612	-	-	-	612
Residential real estate:					
First mortgage	13,864	-	8	-	13,872
Multifamily	1,884	24	-	-	1,908
Home equity	3,152	30	-	-	3,182
Consumer	957	-	5	-	962
Other loans	69	-	-	-	69
Total	$ 165,899	$ 1,342	$ 7,208	$ -	$ 174,449

7. BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment, net as of December 31, 2019 and 2018:

(Dollars in thousands)	December 31, 2019	December 31, 2018
Land	$ 278	$ 281
Buildings and leasehold improvements	4,664	4,647
Furniture and equipment	2,561	2,564
Finance leases	325	325
Construction in progress	411	16
Bank premises and equipment	8,239	7,833
Less: accumulated depreciation and amortization	(5,633)	(5,442)
Bank premises and equipment, net	$ 2,606	$ 2,391

Total depreciation expense was $0.4 million and $0.3 million for the years ended December 31, 2019 and 2018, respectively.

8. DEPOSITS

Deposits are the Bank's primary source of funds for making loans and purchasing investments. The Bank offers a variety of deposit account products to commercial and consumer customers. The total deposits that were re-classified to loans due to overdrafts were $29 thousand and $44 thousand at December 31, 2019 and 2018, respectively.

The following shows the maturity schedule of all time deposits:

(Dollars in thousands)	Amount
2020	$ 81,515
2021	5,321
2022	986
2023	163
2024	94
Total	$ 88,079

Principal maturities of time deposits of $250,000 or more as of December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
(Dollars in thousands)	Amount	Average Rate	Amount	Average Rate
Three months or less	$ 4,285	1.26 %	$ 1,240	0.41 %
Over three months to six months	3,523	1.30	2,022	1.47
Over six months to twelve months	9,630	1.98	1,309	0.68
Over one year to five years	1,242	0.58	13,436	1.84
Total	$ 18,680	1.59 %	$ 18,007	1.62 %

For the years ended December 31, 2019 and 2018, the Bank had $0.3 million and $0.2 million, respectively, in interest expense for time deposits greater than $250,000.

In the normal course of business, certain directors and executives of the Company and the Bank, including their immediate families and companies in which they have an interest, are deposit customers. These relationships had aggregate deposits of $0.9 million as of December 31, 2019 and 2018.

The Bank had two deposit relationships for the years ended December 31, 2019 and 2018 with balances in excess of five percent of total deposits totaling $35.0 million.

9. LEASES

Effective January 1, 2019, the Company adopted new accounting guidance regarding *Leases* (Topic 842). Previously, many of the Company's leases qualified as operating leases under prior accounting guidance, and therefore, were not recognized on the Company's Consolidated Balance Sheets. As of December 31, 2019, the Company has operating and finance leases for facilities, land and equipment. Leases have remaining lease terms of 6 months to 12.5 years, some of which include options to extend the leases for up to an additional 10 years.

The components of lease expense are as follows:

(Dollars in thousands)	December 31, 2019
Lease Cost:	
Finance lease cost:	
Amortization of ROU asset	$ 64
Interest on lease liabilities	2
Operating lease cost	234
Short-term lease cost	1
Total lease cost	$ 301

Supplemental balance sheet information related to leases are as follows:

(Dollars in thousands)	December 31, 2019
Finance Leases:	
Finance leases	$ 325
Accumulated depreciation	(265)
Finance leases, net	$ 60
Other Borrowings:	
Total finance lease liabilities	$ 54
Weighted Average Remaining Lease Term:	
Finance leases	1.3 years
Operating leases	12.2 years
Weighted Average Discount Rate:	
Finance leases	1.99%
Operating leases	3.25%

Estimated lease payments for the Company's operating leases with the initial term of one year or more as of December 31, 2019 were as follows:

(Dollars in thousands)	Estimated Amortization Expense
2020	$ 198
2021	182
2022	186
2023	56
2024	49
Thereafter	722
Total estimated lease payments	1,393
Less effect of discounting	(308)
Present value of estimated lease payments (lease liability)	$ 1,085

Estimated lease payments for the Company's finance leases with the initial term of one year or more as of December 31, 2019 were as follows:

(Dollars in thousands)	Estimated Depreciation Expense
2020	$ 41
2021	12
2022	2
2023	-
2024	-
Thereafter	-
Total estimated lease payments	55
Less effect of discounting	(1)
Present value of estimated lease payments (lease liability)	$ 54

The minimum lease payments do not include common area maintenance ("CAM") charges or real estate taxes, which are also required contractual

obligations under our operating leases. CAM charges and real estate taxes are not fixed and are subject to fluctuation. Total CAM charges for the year ended December 31, 2019 was $67 thousand.

10. SALE AND LEASEBACK TRANSACTION:

On December 14, 2017, the Bank sold its headquarters located in Durham, NC for a total purchase price of $3.4 million and recognized a gain of $0.1 million. The buyer was not an affiliate of the Company or the Bank. After selling expenses of $0.2 million, the net proceeds on the transaction were $3.2 million. The sales price for the property was based on an outside appraisal obtained by the Bank. The Bank provided $2.9 million of financing to the buyer for this transaction for a term of five years.

In connection with the sale of the property, the Bank on December 14, 2017 entered into a commercial lease agreement with the buyer for 13,532 square feet of corporate office space, which will allow the Bank to continue to provide operational support to customers. The lease, which commenced on December 15, 2017, provides the Bank with use of the property for an initial term of five years. Base rent payments for the first year are approximately $0.1 million. The base rent payments will increase by 2.50% for years two through five. The Bank has the option to renew the lease two times and each renewal would be for a term of five years. The base rent for the renewals would be negotiated at the time the renewal option is exercised by the Bank. While the cash lease payments were currently $0.1 million during year one, the Bank is required to straight-line expense over the initial term of five years. As a result, the annual lease expense will also be approximately $0.1 million, which is reflected in operating lease details in Note 9.

11. BORROWINGS

Borrowings as of December 31, 2019 consisted of a FHLB borrowing of $0.5 million with a fixed interest rate of 0.50% that matures in 2020 and finance leases of $54 thousand with a weighted average interest rate of 1.99%. See Note 9 for details on leases. Interest expense on advances from FHLB for the years ended December 31, 2019 and 2018 was $10 thousand and $3 thousand, respectively. The maximum FHLB advances outstanding at any month end during the year ended December 31, 2019 were $0.6 million. As of December 31, 2019, the Bank had the borrowing availability of an additional $31.2 million from the FHLB. Pursuant to collateral agreements with the FHLB, advances are secured by FHLB stock, and qualifying loans totaling $31.7 million and $36.0 million as of December 31, 2019 and 2018, respectively.

The Company has federal funds lines of credit with three correspondent banks totaling $10.0 million. No borrowings were outstanding on these lines of credit at December 31, 2019 or 2018. The Company periodically tests its federal funds lines of credit with its correspondent banks. These lines were tested quarterly during the year ended December 31, 2019.

The following is the outstanding principal maturities and interest rate of the Company's FHLB advances as of December 31, 2019:

December 31, 2019

Maturity Date	Amount	Rate
(Dollars in thousands)		
2020	$ 533	0.50%
Total	$ 533	0.50%

12. INCOME TAXES

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

(Dollars in thousands)	2019	2018
Income tax expense		
Current	$ 35	$ 17
Deferred	269	92
Total	$ 304	$ 109

A reconciliation of reported income tax expense for the years ended December 31, 2019 and 2018 to the amount of tax expense computed by multiplying income before income taxes by the statutory federal income tax rate follows:

(Dollars in thousands)	2019	2018
Statutory federal income tax rate	21%	21%
Tax provision at statutory rate	$ 275	$ 121
Increase (decrease) in income taxes resulting from:		
State income taxes net of federal benefit	21	4
Change in deferred tax valuation allowance	2	7
Cash surrender value of life insurance	(54)	(53)
Other	60	30
Total	$ 304	$ 109

The tax effect of the cumulative temporary differences and carry forwards that gave rise to the deferred tax assets and liabilities as of December 31, 2019 and 2018 within the Consolidated Balance Sheets were as follows:

(Dollars in thousands)	December 31,	
	2019	2018
Deferred tax assets:		
Adjustments, defined benefit plans	$ 490	$ 485
Excess book over tax provision for loan loss expense	455	483
Federal net operating loss carryforward	2,007	2,162
State net economic loss carryforward	314	326
Capital loss carryforward	4	3
Deferred gain on sale leaseback	-	12
Premises and equipment	171	152
Unrealized losses on securities available for sale, net	60	470
Other, net	69	104
Total deferred tax assets	3,570	4,197
Valuation allowance for deferred tax assets	(120)	(118)
Net of valuation allowance deferred tax asset	3,450	4,079
Deferred tax liabilities:		
Accrued pension	(210)	(126)
Deferred loan fees	(80)	(75)
Other	(12)	(52)
Total deferred tax liabilities	(302)	(253)
Net deferred tax assets	3,148	3,826
Tax receivable, net	865	909
Deferred tax assets and taxes receivable, net	$ 4,013	$ 4,735

The Company measures deferred income tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The Company has federal net operating loss carry-forwards of approximately $9.6 million at December 31, 2019, which can be used to offset future taxable income, subject to certain Section 382 limitations. Management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant objective piece of positive evidence is that the Company is passing the 3-year cumulative income test, because of profits during 2019 and 2018. Additional positive evidence includes projected future net income and the federal loss carry-forwards do not start to expire until 2027. Management has evaluated all positive and negative evidence regarding the deferred tax assets and determined that it was more likely than not they will realize the deferred tax assets. A valuation allowance is not needed as of December 31, 2019, except for amounts pertaining to the Company's state net operating losses. Accordingly, a valuation allowance has been established for these state loss carry-forward amounts.

The last tax year audited by the Internal Revenue Service was 2006; tax years 2017 – 2019 are open for audit under the statute of limitations. The Company has analyzed the tax position taken or expected to be taken in its tax returns and has concluded it has no uncertain tax positions.

13. EMPLOYEE BENEFIT PLANS

The Bank sponsors a noncontributory defined benefit cash balance pension plan (the "Cash Balance Plan"), covering all employees who qualify under length of service and other requirements. Under the Cash Balance Plan, retirement benefits are based on years of service and average earnings. The Bank's funding policy is to contribute amounts to the Cash Balance Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), plus such additional amounts as the

Bank may determine to be appropriate. The contributions to the Cash Balance Plan paid during the years ended December 31, 2019 and 2018 totaled $0.4 million and none, respectively. The Cash Balance Plan was fully funded as of December 31, 2019. The measurement date for the Cash Balance Plan is December 31 and prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants.

It is expected that the Bank will not contribute to the Cash Balance Plan during 2020.

The following table shows the type of assets held in the Cash Balance Plan:

Asset Category	As of December 31, 2019	2018
Equity securities	56.4%	52.0%
Debt securities	40.1%	45.0%
All other assets	3.5%	3.0%
Total	100.0%	100.0%

The Bank sponsors a nonqualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is unfunded, provides certain individuals with pension benefits, outside the Bank's noncontributory defined-benefit Cash Balance Plan, based on average earnings, years of service and age at retirement. Participation in the SERP is at the discretion of the Bank's Board of Directors. The Company and Bank purchased bank owned life insurance ("BOLI") in 2002 in the aggregate amount of approximately $12.9 million face value covering all the participants in the SERP. Increases in the cash surrender value of BOLI policies totaled $0.3 million for the years ended December 31, 2019 and 2018. The cash surrender value of the BOLI owned by the Bank was $9.2 million and $9.0 million as of December 31, 2019 and 2018, respectively. The Bank has the ability and the intent to keep this life insurance in force indefinitely. The insurance proceeds may be used, at the sole discretion of the Bank, to fund the benefits payable under the SERP.

Since there are no assets in the SERP, contributions are equal to the benefits paid. It is expected that $0.2 million will be paid in benefits during 2020.

The SERP and the Cash Balance Plan service cost components of the net periodic benefit cost reflected in salaries and employee benefits expense and the remaining net periodic benefit cost components reflected in other expenses for the years ended December 31, 2019 and December 31, 2018 were:

(Dollars in thousands)	Cash Balance Plan 2019	2018	SERP 2019	2018	Total 2019	2018
Service cost	$ 103	$ 111	$ -	$ -	$ 103	$ 111
Interest cost	209	181	69	63	278	244
Expected return on Plan assets	(393)	(445)	-	-	(393)	(445)
Amortization of prior service cost and recognized net actuarial gain	134	73	22	28	156	101
Net periodic pension cost	$ 53	$ (80)	$ 91	$ 91	$ 144	$ 11

The following table shows the change in the projected benefit obligations and plan assets for the years ended December 31, 2019 and 2018:

(Dollars in thousands)	Cash Balance Plan 2019	2018	SERP 2019	2018	Total 2019	2018
Change in projected benefit obligations:						
Benefit obligation at beginning of year	$ 5,627	$ 5,866	$ 1,819	$ 2,006	$ 7,446	$ 7,872
Service cost	103	111	-	-	103	111
Interest cost	209	181	69	63	278	244
Actuarial (gain) loss	546	(256)	216	(96)	762	(352)
Benefits and expenses paid	(491)	(275)	(154)	(154)	(645)	(429)
Benefit obligation at end of year	5,994	5,627	1,950	1,819	7,944	7,446
Change in plan assets:						
Fair value of plan assets at beginning of year	6,022	6,599	-	-	6,022	6,599
Actual return on plan assets	978	(302)	-	-	978	(302)
Employer contributions	350	-	154	154	504	154
Benefits and expenses paid	(491)	(275)	(154)	(154)	(645)	(429)
Fair value of plan assets at year end	6,859	6,022	-	-	6,859	6,022
Funded status	$ 865	$ 395	$ (1,950)	$ (1,819)	$ (1,085)	$ (1,424)

The Bank had a prepaid asset for the Cash Balance Plan of $0.9 million and $0.4 million at December 31, 2019 and 2018, respectively. The prepaid asset is carried in Other Assets within the Consolidated Balance Sheets. The accrued liability and accumulated benefits obligations for the SERP was $2.0 million and $1.8 million at December 31, 2019 and 2018, respectively. The balance is included in Other Liabilities within the Consolidated Balance Sheets.

The amounts in accumulated other comprehensive loss that have not been recognized as components of net periodic pension cost were:

	Cash Balance Plan		SERP		Total	
(Dollars in thousands)	2019	2018	2019	2018	2019	2018
Unrecognized net actuarial loss	$ 1,493	$ 1,667	$ 642	$ 447	$ 2,135	$ 2,114
Unrecognized prior service cost	-	-	-	-	-	-
Total amount included in accumulated other comprehensive loss	$ 1,493	$ 1,667	$ 642	$ 447	$ 2,135	$ 2,114
Weighted average assumptions as of December 31:						
Discount rate	2.75%	4.00%	2.75%	4.00%		
Expected return on plan assets	7.00%	7.00%	n/a	n/a		
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%		

Amounts in accumulated other comprehensive loss expected to be recognized in net periodic costs in 2020:

(Dollars in Thousands)	Cash Balance Plan	SERP	Total
Net actuarial loss	$ 107	$ 38	$ 145
Prior service cost	-	-	-
Total expected to be recognized	$ 107	$ 38	$ 145
Assets expected to be returned to the Company in 2020	$ -	$ -	$ -

The estimated expected benefits payments for the Cash Balance Plan and SERP are:

(Dollars in thousands) For the Years Ending December 31:	Cash Balance Plan	SERP	TOTAL
2020	$ 829	$ 154	$ 983
2021	572	151	723
2022	455	148	603
2023	361	145	506
2024	345	141	486
2025-2029	1,922	644	2,566
Total	$ 4,484	$ 1,383	$ 5,867

Retirement Plan Assets— In general, the Cash Balance Plan's investment management organizations make reasonable efforts to control market fluctuations through appropriate techniques including, but not limited to, adequate diversification. The specific investment strategy adopted by the plan referred to as the Long Term Growth of Capital Strategy, attempts to achieve long-term growth of capital with little concern for current income. Typical investors in this portfolio have a relatively aggressive investment philosophy, seeking long-term growth, and are not looking for current dividend income.

Prohibited investments include commodities and futures contracts, private placements, options, transactions which would result in unrelated business taxable income, and other investments prohibited by ERISA.

The target range of allocation percentages for each major category of plan assets was:

Asset Category	Target Weight	Minimum Weight	Maximum Weight
Cash	2%	0%	15%
Equities:			
US	49%	35%	63%
Non-US	6%	0%	12%
Fixed Income	43%	31%	59%

Equity investments must be listed on the New York, American, NASDAQ, or other similar stock exchanges traded in the over-the-counter market with the requirement that such stocks have adequate liquidity relative to the size of the investment.

Fixed income investments must have a credit rating of B or better from Standard and Poor's or Moody's. The fixed income portfolio should be constructed so as to have an average maturity not exceeding 10 years. No more than 5% of the fixed income portfolio should be invested in any one issuer. U.S. Treasury and Agency securities are exempt from this restriction.

Cash and equivalent instruments that are acceptable are repurchase agreements, bankers' acceptances, U.S. treasury bills, money market funds, and certificates of deposit.

The portfolio shall be structured to meet financial objectives over a period of 11 or more years. Over that time horizon, the total rate of return should equal at least 103% of the applicable blended benchmark returns and place in the top half of group performance. Benchmarks which may be used for portfolio performance comparison are as follows:

- U.S. Large Cap Equities: S&P 500, Russell 1000, Russell 1000 Value, Russell 1000 Growth, S&P 500/Citi Value, and S&P 500/Citi Growth
- U.S. Mid Cap Equities: S&P 400 Mid Cap, Russell Mid Cap Value, Russell Mid Cap Growth, S&P MidCap 400 Value, and S&P MidCap 400 Growth
- U.S. Small Cap Equities: Russell 2000, Russell 2000 Value, Russell 2000 Growth, S&P SmallCap 600, S&P SmallCap 600 Value, and S&P SmallCap 600 Growth
- Non-U.S. Equities: MSCI EAFE, and MSCI EM
- Fixed Income: Barclays Capital Intermediate Govt/Corp, Barclays Capital U.S. Aggregate Bond, Barclays Capital U.S. Govt. Intermediate, BarCap U.S. Corporate High Yield and ML Global Govt.
- Real Estate: FTSE NAREIT AII REITs
- Cash: U.S. 3-Month Treasury Bill

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels were:

December 31, 2019 *(Dollars in thousands)* **Asset Category**	**Level 1** **Quoted Prices in Active Markets for Identical Assets** **(Level 1)**	**Level 2** **Significant other Observable Inputs** **(Level 2)**	**Level 3** **Significant Unobservable Inputs** **(Level 3)**
Cash	$ 209	$ -	$ -
Money market fund	-	31	-
Equity Securities:			
Large-Cap	1,783	-	-
Mid-Cap	972	-	-
Small-Cap	669	-	-
Global and International	447	-	-
Fixed Income-Bonds	-	1,475	-
Other	1,273	-	-
Total	$ 5,353	$ 1,506	$ -

December 31, 2018 *(Dollars in thousands)* **Asset Category**	**Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Level 2 Significant other Observable Inputs (Level 2)**	**Level 3 Significant Unobservable Inputs (Level 3)**
Cash	$ 144	$ -	$ -
Money market fund	-	31	-
Equity Securities:			
Large-Cap	1,635	-	-
Mid-Cap	700	-	-
Small-Cap	472	-	-
Global and International	332	-	-
Fixed Income-Bonds	-	1,388	-
Other	1,320	-	-
Total	$ 4,603	$ 1,419	$ -

401(k) Plan —The Bank sponsors a 401(k) plan. Participation in the 401(k) plan is voluntary. Employees become eligible after completing 90 days service and attaining age 21. Employees may elect to contribute up to 12% of their compensation to the 401(k) plan. The Bank matches 100% of each employee's contribution, up to a maximum of 6% of compensation. The Bank's contribution to the 401(k) plan was $0.2 million in each of the years ended December 31, 2019 and 2018.

Post-retirement Benefits —The Bank provides certain post-retirement benefits to select former executive officers. As of December 31, 2019 and 2018, the amount of the liability for these benefits was approximately $0.1 million.

Split Dollar Benefits —In 2002, upon investing in BOLI policies, the Company granted certain executives a split dollar life benefit by which the beneficiaries of the executive would receive a portion of the non-cash surrender value death benefit of the BOLI upon the executive's demise. Thereafter, amounts are accrued by a charge to employee benefits. As of December 31, 2019 and 2018, $0.2 million was recorded in other liabilities for the split dollar benefit.

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain of the Company's and Bank's directors and executive officers, including immediate family members and companies in which they have an interest, are loan customers. Those transactions do not involve more than the normal risk of collection nor do they present any unfavorable features. Total loans to such groups totaled $1.4 million and $1.3 million as of December 31, 2019 and 2018, respectively. Unused lines available to be drawn were $47 thousand and $50 thousand as of December 31, 2019 and 2018, respectively.

(Dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Beginning Balance	$ 1,278	$ 1,199
Draws/Advances	274	1,085
Repayments	(167)	(1,006)
Ending Balance	$ 1,385	$ 1,278

15. REGULATORY MATTERS AND RESTRICTIONS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may initiate certain mandatory and the possibility of additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements. 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 their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are 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 Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Company and the Bank met all capital adequacy requirements to which they are subject. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 leveraged ratios as set forth in the table below.

(Dollars in thousands)	December 31, 2019					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Company	$ 24,182	12.50 %	$ 15,474	8.00 %	n/a	n/a
Bank	23,684	12.26	15,458	8.00	$ 19,322	10.00 %
Tier 1 (to risk weighted assets)						
Company	$ 22,203	11.48 %	$ 11,606	6.00 %	n/a	n/a
Bank	21,705	11.23	11,593	6.00	$ 15,458	8.00 %
Common Equity Tier 1						
Company	$ 22,203	11.48 %	$ 8,704	4.50 %	n/a	n/a
Bank	21,705	11.23	8,695	4.50	$ 12,559	6.50 %
Tier 1 (to average total assets)						
Company	$ 22,203	8.43 %	$ 10,536	4.00 %	n/a	n/a
Bank	21,705	8.25	10,526	4.00	$ 13,158	5.00 %

(Dollars in thousands)	December 31, 2018					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Company	$ 23,175	12.27 %	$ 15,114	8.00 %	n/a	n/a
Bank	22,787	12.07	15,097	8.00	$ 18,872	10.00 %
Tier 1 (to risk weighted assets)						
Company	$ 21,075	11.15 %	$ 11,336	6.00 %	n/a	n/a
Bank	20,687	10.96	11,323	6.00	$ 15,097	8.00 %
Common Equity Tier 1						
Company	$ 21,075	11.15 %	$ 8,502	4.50 %	n/a	n/a
Bank	20,687	10.96	8,492	4.50	$ 12,267	6.50 %
Tier 1 (to average total assets)						
Company	$ 21,075	8.05 %	$ 10,475	4.00 %	n/a	n/a
Bank	20,687	7.91	10,466	4.00	$ 13,082	5.00 %

In July 2013, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency each approved final rules to implement the Basel III regulatory capital reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules apply to all national and state banks, such as the Bank, and savings associations and most bank holding companies and savings and loan holding companies, which we collectively refer to herein as "covered banking organizations." Bank holding companies with less than $500 million in total consolidated assets, such as the Company, are not subject to the final rules, nor are savings and loan holding companies substantially engaged in commercial activities or insurance underwriting. The framework requires covered banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. The approved rules include a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% as well as a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. As of January 1, 2018, the buffer was 1.875%, and increased to 2.50% on January 1, 2019. The rules raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking institutions. In terms of quality of capital, the final rules emphasize common equity Tier 1 capital and implement strict eligibility criteria for regulatory capital instruments. The final rules also changed the methodology for calculating risk-weighted assets to enhance risk sensitivity. The requirements in the rules began to phase in on January 1, 2015 for "standardized approach" banking organizations such as the Bank. The requirements in the rules were fully phased in on January 1, 2019.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Economic Growth Act"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory changes for banks and their holding companies.

The Economic Growth Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and provides for an alternative capital rule for financial institutions and their holding companies with total consolidated assets of less than $10 billion. The Economic Growth Act instructed the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8% and 10%, which has been proposed to be 9% by the federal regulators. The Community Bank Leverage Ratio provides for a simpler calculation of a bank's capital ratio than the Basel III provisions currently in place. Any qualifying depository institution or its holding company that exceeds the Community Bank Leverage Ratio will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying

depository institution that exceeds the new ratio will be considered to be “well capitalized” under the prompt corrective action rules. In addition, the Economic Growth Act includes regulatory relief for community banks of certain sizes regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans. We continue to evaluate the impact that the rules issued thus far under the Economic Growth Act will have on the bank, but we currently do not believe that it will be significant. At this time, we do not expect to opt-in to the ability to utilize the Community Bank Leverage Ratio and will instead continue to use the Basel III standards.

16. HOLDING COMPANY CONDENSED FINANCIAL INFORMATION

The condensed financial data for the Company (holding company only) was:

Condensed Balance Sheets: *(Dollars in thousands)*	**December 31, 2019**	**December 31, 2018**
Assets:		
Cash and cash equivelents	$ 258	$ 141
Investment in subsidiary bank	21,674	19,501
Other assets	519	262
Total Assets	$ 22,451	$ 19,904
Liabilities and Stockholders' Equity:		
Total liabilities	$ 278	$ 15
Stockholders' equity	22,173	19,889
Total Liabilities and Stockholders' Equity	$ 22,451	$ 19,904

Condensed Statements of Operations: *(Dollars in thousands)*	**For the Years Ended December 31, 2019**	**2018**
Undistributed net income of subsidiary bank	$ 1,146	$ 598
Expenses, net	(140)	(132)
Net income	$ 1,006	$ 466

Condensed Cash Flows: *(Dollars in thousands)*	**For the Years Ended December 31, 2019**	**2018**
Cash Flows from operating activities:		
Net income	$ 1,006	$ 466
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed net income of subsidiary	(1,146)	(598)
(Increase) decrease in other assets	(257)	227
Increase (decrease) in other liabilities	263	(194)
Net cash used in operating activities	(134)	(99)
Investing Activities:		
Dividends from subsidiary	372	-
Net cash provided by investing activities	372	-
Financing activities:		
Dividends paid	(121)	-
Net cash used in financing activities	(121)	-
Net increase (decrease) in cash and cash equivalents	117	(99)
Cash and cash equivalents at beginning of year	141	240
Cash and cash equivalents at end of year	$ 258	$ 141

17. COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the Consolidated Balance Sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit losses in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank utilizes the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a 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 credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the counter parties. Collateral varies and may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank 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. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk as of December 31, 2019 and 2018, respectively, are commitments to extend credit (including availability of lines of credit), and standby letters of credit. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral deemed necessary by the Bank is based on management's credit evaluation and underwriting guidelines for the particular loan.

The Bank records a reserve for credit commitments that is adjusted through Other liabilities and Other expense in the Consolidated Balance Sheets and Consolidated Statements of Operations, respectively based on (i) the expected probability of funding and (ii) the loss history by loan type as determined in calculating the ALLL. The reserves included in Other liabilities as of December 31, 2019 and 2018 were $19 thousand and $21 thousand, respectively.

Commitments outstanding at December 31, 2019 are summarized in the following table:

(Dollars in thousands)	Commercial letters of credit	Other loan commitments	Total commitments
Less than one year	$ 41	$ 3,761	$ 3,802
One to three years	53	818	871
Three to five years	122	2,243	2,365
More than five years	-	1,909	1,909
Total	$ 216	$ 8,731	$ 8,947

18. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The Company bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors.

Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment, OREO, and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and

the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U. S. Agencies, state and municipal bonds and MBS.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Assets and Liabilities Measured on a Recurring Basis:

Available-for-sale ("AFS") Investment Securities: Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on nationally recognized securities exchanges, U.S. Treasury securities, and money market funds. Level 2 securities include U.S. Agencies, MBS issued by government sponsored entities, state and municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. The Company did not hold any Level 1 or Level 3 AFS Investment Securities as of December 31, 2019 and 2018.

Assets measured at fair value on a recurring basis as of December 31, 2019 were as follows:

(Dollars in thousands)

Description	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring:				
U.S. Agencies	$ 11,154	$ -	$ 11,154	$ -
MBS	30,742	-	30,742	-
Municipals	1,759	-	1,759	-
Total	$ 43,655	$ -	$ 43,655	$ -

Assets measured at fair value on a recurring basis as of December 31, 2018 were as follows:

(Dollars in thousands)

Description	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring:				
U.S. Agencies	$ 17,673	$ -	$ 17,673	$ -
MBS	31,343	-	31,343	-
Municipals	1,737	-	1,737	-
Total	$ 50,753	$ -	$ 50,753	$ -

Assets and Liabilities Measured on a Nonrecurring Basis:

Impaired loans: Impaired loans are evaluated and valued at the time the loan is identified as impaired, and are carried at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans or net present value of expected future cash flows discounted at the loan's effective interest rate. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The value of business equipment, inventory, and accounts receivable collateral is based on net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's selling costs and other expenses. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. The Company records impaired loans as nonrecurring Level 3, because Management believes the underlying collateral is less than the appraised value.

OREO: Foreclosed assets are adjusted to fair value, less estimated carrying costs and costs to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of the carrying value or the fair value, less estimated carry costs and costs to sell. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. The Company records foreclosed assets as nonrecurring Level 3.

Assets measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018 were:

(Dollars in thousands) **Description**	**December 31, 2019**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Nonrecurring:				
Impaired loans:				
Faith-based non-profit	$ 7,886	$ -	$ -	$ 7,886
Residential real estate	7	-	-	7
Total	$ 7,893	$ -	$ -	$ 7,893

(Dollars in thousands) **Description**	**December 31, 2018**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Nonrecurring:				
Impaired loans:				
Faith-based non-profit	$ 9,826	$ -	$ -	$ 9,826
Residential real estate	8	-	-	8
Total	$ 9,834	$ -	$ -	$ 9,834

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands) **Description**	**December 31, 2019**	**Valuation Technique**	**Significant Unobservable Inputs**	**Significant Unobservable Input Value**
Nonrecurring:				
Impaired loans	$ 7,893	discounted appraisals	collateral discounts	6-20%
Total	$ 7,893			

(Dollars in thousands) **Description**	**December 31, 2018**	**Valuation Technique**	**Significant Unobservable Inputs**	**Significant Unobservable Input Value**
Nonrecurring:				
Impaired loans	$ 9,834	discounted appraisals	collateral discounts	6-20%
Total	$ 9,834			

The Company discloses estimated fair values for its significant financial instruments. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

The Company had no transfers between any of the three levels in 2019 or 2018.

Cash and Cash Equivalents: The carrying amount of cash, due from bank, and federal funds sold approximates fair value, and is therefore considered Level 1 input.

Loans (other than impaired), net of allowances for loan losses: Fair values are estimated for portfolios of loans with similar financial characteristics. The majority of the Company's loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded.

The fair value of performing loans is calculated by discounting scheduled cash flows through their individual contractual maturity, using discount rates that reflect the credit risk, overhead expenses, interest rate earned and again, contractual maturity of each loan less credit component. The maturity is based on contractual maturities for each loan, modified as required by an estimate of the effect of historical prepayments and current economic conditions.

For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk, cash flows, and discount rates are judgmentally determined using specific borrower and other available information, and are therefore considered a Level 3 input.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts and are therefore considered Level 1 input.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities and are therefore considered Level 2 input.

Borrowings: The fair value of borrowings is based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings and are therefore considered Level 3 input.

Off-Balance Sheet Instruments: Since the majority of the Company's off-balance sheet instruments consist of non- fee producing variable rate commitments, the Company has determined they do not have a distinguishable fair value.

As of December 31, 2019 and December 31, 2018, the carrying amounts and associated estimated fair value of financial assets and liabilities of the company are as follows:

(Dollars in thousands)	**December 31, 2019**				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash, cash equivalents and interest-bearing time deposits	$ 22,761	$ 22,761	$ 22,761	$ -	$ -
Investment securities available for sale	43,655	43,655	-	43,655	-
Loans, net of allowances for loan losses	179,634	177,700	-	-	177,700
Accrued interest receivable	679	679	679	-	-
Liabilities:					
Non-maturity deposits	$ 149,949	$ 149,949	$ 149,949	$ -	$ -
Maturity deposits	88,079	88,296	-	88,296	-
Other borrowings	1,672	1,517	-	-	1,517
Accrued interest payable	136	136	136	-	-

(Dollars in thousands)	**December 31, 2018**				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash, cash equivalents and interest-bearing time deposits	$ 15,391	$ 15,391	$ 15,391	$ -	$ -
Investment securities available for sale	50,753	50,753	-	50,753	-
Loans, net of allowances for loan losses	172,370	169,469	-	-	169,469
Accrued interest receivable	699	699	699	-	-
Liabilities:					
Non-maturity deposits	$ 139,879	$ 139,879	$ 139,879	$ -	$ -
Maturity deposits	93,141	92,695	-	92,695	-
Other borrowings	678	662	-	-	662
Accrued interest payable	161	161	161	-	-

19. PREFERRED STOCK

SERIES C JUNIOR PARTICIPATING PREFERRED STOCK

On September 23, 2014, the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of the Company's common stock, to purchase from the Company one one-hundredth of a share of Series C Junior Participating Preferred Stock, par value $0.01 per share, of the Company at a price of $10.00 per one one-hundredth of a share of preferred stock, subject to adjustment as provided in the associated rights agreement.

20. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through February 27, 2020, the date the financial statements were available to be issued, and noted, no subsequent events requiring accrual or disclosure.

BOARDS OF DIRECTORS & OFFICERS

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Chair
Broker/Consultant
Stewart Investment
Properties Inc.
Durham, NC

Connie J. White
Vice Chair
Retired Management Consultant
Durham, NC

Willie T. Closs Jr., CPA
Financial Consultant
Durham, NC

Michael L. Lawrence, CPA
Chief Financial Officer/Treasurer
Alamance Farmers' Mutual
Insurance Company
Graham, NC

Dexter V. Perry, CFP
Managing Principal
The Providence Group of North
Carolina
Cary, NC

James H. Sills, III
President/CEO
M&F Bancorp, Inc. and
Mechanics and Farmers Bank
Durham, NC

M&F Bank
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Chair
Broker/Consultant
Stewart Investment
Properties Inc.
Durham, NC

Connie J. White*
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Retired Management Consultant
Durham, NC

Willie T. Closs Jr.*, CPA
Financial Consultant
Durham, NC

Michael L. Lawrence*, CPA
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Alamance Farmers' Mutual
Insurance Company
Graham, NC

Dexter V. Perry, CFP
Managing Principal
The Providence Group of North
Carolina
Cary, NC

Cedric L. Russell
Funeral Director and General
Manager
Russell Funeral Home
Winston-Salem, NC

James H. Sills, III*
President/CEO
M&F Bancorp, Inc. and
Mechanics and Farmers Bank
Durham, NC

*Executive Committee Member

Corporate Officers

James H. Sills, III
President and CEO

Randall C. Hall, CPA, CRP, CGMA
Executive Vice President/Chief Financial Officer & Chief Operations Officer

Valerie M. Quiett, Esq.
Senior Vice President/Chief Legal Officer/Corporate Secretary

Bank Officers

James H. Sills, III
President and CEO

Randall C. Hall, CPA, CRP, CGMA
Executive Vice President/Chief Financial Officer & Chief Operations Officer

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Senior Vice President/Chief Credit Officer

Travis C. Rouse
Senior Vice President/Chief Sales Officer

Valerie M. Quiett, Esq.
Senior Vice President/Chief Legal Officer/Corporate Secretary

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Senior Vice President/Business Banker
Winston-Salem, NC

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Senior Vice President/Senior Commercial Lender
Raleigh, NC

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Durham, NC

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Vice President/Senior Commercial Lender
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Durham, NC

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Durham, NC

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Durham, NC

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Durham, NC

Keira A. Silver
Vice President/Loan Operations Manager
Durham, NC

Jorge Montano
AVP/MSB Services Manager
Durham, NC

Internal Audit & Risk Management

Patricia A. Bagby, CBA, CCBCO
Audit, Compliance and Risk Manager
Durham, NC

Ingrid Nelson, CCBCO
Assistant Vice President/Audit, Compliance and Risk Manager
Durham, NC

Shelia Winston-Graves
Assistant Vice President/Compliance and Training Manager
Raleigh, NC

SHAREHOLDERS' INFORMATION

Annual Meeting

M&F Bancorp, Inc., a North Carolina Corporation, will convene its Annual Meeting of Shareholders on Thursday, June 4, 2020, at 10:00 a.m. in the ballroom of the DoubleTree Hotel by Hilton at Research Triangle Park, 4810 Page Creek Lane, Durham, NC. All shareholders are cordially invited.

Requests for Information

Requests for information should be directed to Ms. Valerie M. Quiett, Senior Vice President/Chief Legal Officer at M&F Bancorp, Inc., 2634 Durham Chapel Hill Blvd., Durham, NC 27707.

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Brooks, Pierce, McLendon,
Humphrey & Leonard, LLP

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