TRUXTON TRUST
A PRIVATE BANK

Dear Shareholder: April 15, 2020

The company delivered its tenth consecutive year of rising earnings in 2019 and a seventh straight year of increasing dividends. We earned a 15.8% return on average equity for the year and 1.92% on average assets. Both numbers are the best ever for Truxton and place us at the very top of our industry. Dilutive earnings per share for 2019 were $3.46, an 17% increase from 2018. The growth reflected increases in both private banking and wealth management revenue in addition to efficient management of our expenses.

The U.S and Nashville economies continued to grow in 2019. Stock markets globally rose strongly with the S&P 500 increasing by 30.4%. Real property in our core market also appreciated during the year. Nashville was named in survey after survey as one of the hottest growth markets in the United States. This strength bolstered Truxton's performance. We are keenly aware that trends can and will reverse and that banks, being highly levered, are particularly vulnerable to downturns in real estate and public equity valuations. We underwrite loans and manage securities portfolios in ways that should mitigate the impact of a downturn, but not eliminate potential challenges.

High returns on equity capital allow a bank to finance its growth internally and pay significant dividends to shareholders. In 2019, Truxton was able to pay regular dividends of $1.00 per share and to declare a $1.00 special dividend for payment in early 2020. The tax cuts passed by the Congress in late 2017 made the special dividend possible. We are aware that tax policy can change, but if our profitability remains high and taxes remain low, the board can consider additional special dividends in the future, while keeping the growth of the regular dividend moderate and sustainable in a variety of tax scenarios.

Truxton saw some changes in management at the end of 2019. Tom Snyder, who has headed our Private Banking business since the company was formed, stepped back from his management responsibility, though he remains a key, full-time member of the team. Bryant Tirrill and Hank Stuart have agreed to co-head the business each as Managing Director, Private Banking. Hank and Bryant have both been successful private bankers for decades and have shouldered part of the management at Truxton for years. We are very excited that they have added to their leadership roles and confident in their ability to lead and motivate our team of lenders.

Truxton Trust owes a debt of fiduciary service to our shareholders, clients, and employees. We meet the obligation to <u>shareholders</u> by retaining a remarkable team of <u>professionals</u> who deliver exceptional service to the <u>customers</u>. Meeting each duty advances the goal of meeting the others, a virtuous cycle. We have not altered our strategy or our core tactics in the sixteen-year history of the firm.

We appreciate your continued commitment of capital to our company and will endeavor to continue delivering attractive returns.

Thomas S. Stumb

Chairman of the Board
and Chief Executive Officer

Andrew L. May

President
and Chief Financial Officer

TRUXTON CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

TRUXTON CORPORATION
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Truxton Corporation
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Truxton Corporation, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Truxton Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Franklin, Tennessee
January 29, 2020

TRUXTON CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018
(Dollars in thousands except share and per share amounts)

	2019	2018
ASSETS		
Cash and due from financial institutions	$ 8,868	$ 7,139
Interest bearing deposits in other financial institutions	19,519	3,660
Federal funds sold	8,808	6
Cash and cash equivalents	37,195	10,805
Time deposits in other financial institutions	5,157	18,268
Securities available for sale	116,032	109,696
Loans held for sale	350	-
Gross loans	363,784	331,809
Allowance for loan losses	(3,409)	(3,356)
Net loans	360,725	328,453
Bank owned life insurance	9,973	9,755
Restricted equity securities	2,599	2,578
Premises and equipment, net	273	429
Accrued interest receivable	1,842	1,804
Deferred tax asset, net	520	1,022
Other assets	4,448	2,323
Total assets	$ 538,764	$ 485,133
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 119,999	$ 93,464
Interest bearing	328,077	311,218
Total deposits	448,076	404,682
Federal funds purchased	-	1,282
Federal Home Loan Bank advances	18,411	19,249
Other liabilities	8,914	3,525
Total liabilities	475,401	428,738
Shareholders' equity		
Preferred stock, $0.10 par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, $0.10 par value; 40,000,000 shares authorized; 2,774,655 shares issued and outstanding in 2019 and 2,728,975 shares issued and outstanding in 2018	277	273
Additional paid-in capital	29,493	28,254
Retained earnings	33,511	29,283
Accumulated other comprehensive income (loss)	82	(1,415)
Total shareholders' equity	63,363	56,395
Total liabilities and shareholders' equity	$ 538,764	$ 485,133

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME
Years ended December 31, 2019 and 2018
(Dollars in thousands except share and per share amounts)

	2019	2018
Non-interest income		
Wealth management services	$ 10,746	$ 9,843
Service charges on deposit accounts	303	344
Gain (loss) on sale of securities, net	131	(74)
Bank owned life insurance income	218	220
Other	271	220
Total non-interest income	11,669	10,553
Interest income		
Loans, including fees	16,083	13,828
Taxable securities	2,060	1,673
Tax-exempt securities	887	982
Interest bearing deposits	744	656
Federal funds sold	34	53
Other interest income	153	156
Total interest income	19,961	17,348
Interest expense		
Deposits	4,120	2,596
Short-term borrowings	17	11
Long-term borrowings	412	374
Total interest expense	4,549	2,981
Net interest income	15,412	14,367
Provision for loan losses	55	283
Net interest income after provision for loan losses	15,357	14,084
Total revenue, net	27,026	24,637
Non-interest expense		
Compensation and employee benefits	10,700	10,339
Occupancy	808	764
Furniture and equipment	108	157
Data processing	1,209	1,135
Wealth management processing fees	461	442
Advertising and public relations	198	111
Professional services	596	602
FDIC insurance assessments	32	124
Other	879	942
Total non-interest expense	14,991	14,616
Income before income taxes	12,035	10,021
Income tax expense	2,293	1,827
Net income	$ 9,742	$ 8,194
Earnings per share:		
Basic	$ 3.53	$ 3.02
Diluted	$ 3.46	$ 2.95

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2019 and 2018
(Dollars in thousands except share and per share amounts)

	2019	2018
Net income	$ 9,742	$ 8,194
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	2,788	(1,544)
Reclassification adjustment for losses included in net income as (gain) loss on sale of securities	(131)	74
Tax effect, income tax (expense) benefit included in net income related to reclassification adjustments ($34) and $20, respectively	(694)	355
Unrealized gains/losses on cash flow hedging activities:		
Unrealized holding loss arising during the period	(630)	(357)
Tax effect	164	93
Total other comprehensive income (loss), net of tax	1,497	(1,379)
Comprehensive income	$ 11,239	$ 6,815

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2019 and 2018
(Dollars in thousands except share and per share amounts)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2018	2,683,496	$ 268	$ 26,985	$ 23,569	$ (45)	$ 50,777
Effect of adoption of new accounting standard (note 1 – Securities)	-	-	-	(84)	-	(84)
Effect of adoption new accounting standard (note 1 – Income Taxes)	-	-	-	(9)	9	-
Exercise of stock options, net of forfeitures	28,976	3	519	-	-	522
Issuance of restricted shares of common stock, net	16,503	2	(2)	-	-	-
Stock based compensation expense	-	-	752	-	-	752
Cash dividends paid ($0.88 per share)	-	-	-	(2,387)	-	(2,387)
Net income	-	-	-	8,194	-	8,194
Other comprehensive loss	-	-	-	-	(1,379)	(1,379)
Balance at December 31, 2018	2,728,975	273	28,254	29,283	(1,415)	56,395
Exercise of stock options, net of forfeitures	26,870	2	489	-	-	491
Issuance of restricted shares of common stock, net	18,810	2	(2)	-	-	-
Stock based compensation expense	-	-	752	-	-	752
Cash dividends paid and declared ($2.00 per share)	-	-	-	(5,514)	-	(5,514)
Net income	-	-	-	9,742	-	9,742
Other comprehensive income	-	-	-	-	1,497	1,497
Balance at December 31, 2019	2,774,655	$ 277	$ 29,493	$ 33,511	$ 82	$ 63,363

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018
(Dollars in thousands except share and per share amounts)

	2019	2018
Cash flows from operating activities		
Net income	$ 9,742	$ 8,194
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	231	313
Net amortization of securities	897	861
Deferred income tax benefit	(28)	(182)
Provision for loan losses	55	283
Net (gain) loss on securities	(131)	74
Gain on sale of loans held for sale	(46)	(25)
Loans originated and held for sale	(4,355)	(2,334)
Proceeds from sale of loans held for sale	4,051	2,359
Stock based compensation expense	752	752
Bank owned life insurance income	(218)	(220)
Net change in:		
Accrued interest receivable	(38)	(360)
Other assets	(651)	(333)
Other liabilities	533	488
Net cash from operating activities	10,794	9,870
Cash flows from investing activities		
Net increase (decrease) in time deposits in other financial institutions	13,111	(6,724)
Available for sale securities:		
Purchases	(43,514)	(35,898)
Maturities, calls and paydowns	17,887	11,587
Sales	21,182	21,391
Net increase in loans	(31,977)	(38,693)
Purchase of restricted equity securities	(21)	(22)
Additions of premises and equipment, net	(75)	(11)
Net cash from investing activities	(23,407)	(48,370)
Cash flows from financing activities		
Repayments of Federal Home Loan Bank advances	(838)	(949)
Net increase in deposits	43,394	41,727
Net change in federal funds purchased	(1,282)	211
Proceeds from exercise of stock options	491	522
Cash dividends paid	(2,762)	(2,387)
Net cash from financing activities	39,003	39,124
Net change in cash and cash equivalents	26,390	624
Cash and cash equivalents at beginning of year	10,805	10,181
Cash and cash equivalents at end of year	$ 37,195	$ 10,805
Supplemental cash flow information:		
Cash paid during year for interest	$ 4,478	$ 2,945
Cash paid during year for income taxes	2,150	1,355
Supplemental non cash disclosure:		
Lease liabilities arising from right of use asset	1,855	-
Cash dividends declared not yet paid	2,752	-

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Truxton Corporation and its wholly owned subsidiaries, Truxton Trust Company and Truxton Risk Management, together referred to as "the Corporation." Intercompany transactions and balances are eliminated in consolidation.

Truxton Trust Company, referred to as "the Bank", represents substantially all the operations in the consolidated financial statements and it provides a variety of banking, investment management and trust administration services to individuals, businesses and charitable institutions. Its primary deposit products are demand, money market and certificates of deposit and its primary lending products are residential and commercial real estate mortgages, commercial loans and loans to individuals.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through January 29, 2020, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, premises and equipment, and time deposits in other financial institutions.

Time Deposits in Other Financial Institutions: Time deposits in other financial institutions are carried at cost. These accounts are maintained at several financial institutions and are all within the insurance limits provided by the Federal Deposit Insurance Corporation "FDIC" and have maturities ranging from 2019 to 2024.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in accumulated other comprehensive income (loss), net of tax.

Interest income includes net amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment "OTTI" on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In 2018, the Corporation adopted ASU 2017-08 "Premium Amortization Period for Purchased Callable Debt Securities." As a result of the adoption, the Corporation recognized a cumulative effect adjustment to retained earnings totaling $84.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sales in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued, but not received, for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Most of the Corporation’s business activity is with customers located within Nashville, Tennessee. Therefore, the Corporation’s exposure to credit risk is significantly affected by changes in the economy in the Nashville, Tennessee metropolitan area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using historical loan loss experience of both the bank and the banking industry, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are collectively evaluated for impairment and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of the allowance on the loan in accordance with the accounting policy for the allowance for loan losses individually evaluated as impaired.

The historical loss experience used in management's analysis of the general component for the allowance for loan losses is determined by portfolio segment and is based on the average loss history experienced by the bank and banking industry over the most recent 3-year periods. The Corporation used the loss history of its peers, as it has experienced very few losses on its own during the entire history of the Corporation. Management evaluates 3 years of peer losses in order to align with what management expects normalized probable incurred losses to be for the Corporation. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified:

- Commercial loans include loans for commercial, industrial or agricultural purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

- Commercial Real Estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Adverse economic conditions in the Corporation's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

- Construction and Land Development loans include loans to finance the process of improving properties preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction and land development loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Furthermore, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans.

- Consumer loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate.

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

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease terms or the useful lives. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to five years.

Restricted Equity Securities: The Bank is a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems. Members are required to own a certain amount of stock based on the level of borrowings and on their level of equity and may invest in additional amounts. FHLB and FRB stock are carried at cost, classified as restricted equity securities and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Prepaid Long-term Compensation: The Corporation paid retention bonuses in cash to certain key employees. These cash bonuses are considered long-term compensation to be earned over a 36 to 60-month requisite service period. The amount of the contracts is earned pro rata by the employees and expensed pro rata by the Corporation over the contractual term of the agreements. In the event that the employee leaves during the life of the contract, the employee is obligated to repay the unearned amount. Prepaid long-term compensation amounts of $183 and $167 were included in other assets as of December 31, 2019 and 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Assets Under Management: Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Corporation.

Wealth Management Services Income Recognition: Income from Wealth Management Services is calculated by multiplying each investment management account's market value, determined on a specific date each month, by a static or tiered percentage, according to the investment management agreement. The income resulting from Wealth Management Services accounts is recognized monthly.

Derivatives: The Corporation has entered into derivative contracts designated as a) a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), and b) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earning as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction effects earnings. For both types of hedges, changes in the fair values of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking hedge's to specific assets and liabilities on the balance sheet. The Corporation also formally assesses, both at the hedges inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or expected cash flows of hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in fair value of the hedged item, the derivative is settled or terminates, or the treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized, on a straight-line basis over the requisite service period for the entire award generally defined as the vesting period.

Retirement Plans: Employee 401(k) benefit plan expense is the amount of matching contributions for the period.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of shareholders' equity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: Income tax expense or benefit is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income*, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Act. The amendments eliminate the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. The effect of adopting this standard was a reclassification of $9 from accumulated other comprehensive loss to retained earnings as of December 31, 2018.

Earnings Per Share: Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under stock options.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank is required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. 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.

Off Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded as loans when funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Adopted Accounting Standards:

ASU 2016-02, *Leases (Topic 842)*
In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The Corporation adopted the new guidance on January 1, 2019.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach.

Upon adoption, the Corporation recognized additional operating liabilities and corresponding right of use assets based on the present value of the remaining minimum rental payments for the Corporation's existing operating leases in the amount of $1,855.

Newly Issued, Not Yet Effective Accounting Standards:

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326)
In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

Transition:
- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The standard will be effective for fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. For calendar year-end PBEs that are not SEC filers, it is effective for March 31, 2023 Interim Financial Statements.

The Corporation is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2019 and 2018 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Asset backed securities	14,993	-	(293)	14,700
Corporate bonds	8,327	106	(5)	8,428
State and political subdivisions	40,769	1,490	(385)	41,874
Collateralized mortgage obligations	21,665	280	(161)	21,784
Mortgage-backed securities: residential	7,868	160	(1)	8,027
Mortgage-backed securities: commercial	21,295	44	(120)	21,219
Total available for sale	$ 114,917	$ 2,080	$ (965)	$ 116,032

2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US treasury	$ 4,973	$ -	$ (7)	$ 4,966
Asset backed securities	5,838	-	(2)	5,836
US government sponsored entities and agencies	3,002	-	(10)	2,992
Corporate bonds	11,846	-	(439)	11,407
State and political subdivisions	34,149	50	(402)	33,797
Collateralized mortgage obligations	12,722	53	(205)	12,570
Mortgage-backed securities: residential	15,759	19	(378)	15,400
Mortgage-backed securities: commercial	22,949	19	(240)	22,728
Total available for sale	$ 111,238	$ 141	$ (1,683)	$ 109,696

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

Sales of available for sale securities were as follows for the years ending December 31, 2019 and 2018:

	2019	2018
Proceeds	$ 21,182	$ 21,391
Gross gains	285	145
Gross losses	(154)	(219)

Securities pledged at year-end 2019 and 2018 had a carrying value of $5,732 and $6,764 and were pledged to secure public deposits, interest rate swaps, and one of the bank's federal fund line of credit. The Corporation had no holdings of securities of any one issuer, other than the U.S. government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2019	
	Amortized Cost	Fair Value
Within one year	$ 1,279	$ 1,283
One to five years	5,035	5,097
Five to ten years	8,564	8,444
Beyond ten years	49,211	50,178
Collateralized mortgage obligations	21,665	21,784
Mortgage-backed securities: residential	7,868	8,027
Mortgage-backed securities: commercial	21,295	21,219
Total	$ 114,917	$ 116,032

The following table summarizes the investment securities with unrealized losses at December 31, 2019 and 2018 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
Asset backed securities	$ 9,028	$ (115)	$ 5,672	$ (179)	$ 14,700	$ (293)
Corporate bonds	-	-	2,009	(5)	2,009	(5)
State and political subdivisions	13,557	(385)	-	-	13,557	(385)
Collateralized mortgage obligation	8,074	(112)	2,100	(48)	10,174	(161)
Mortgage-backed securities: residential	260	-	214	(1)	474	(1)
Mortgage-backed securities: commercial	9,133	(23)	5,392	(97)	14,525	(120)
Total available for sale	$ 40,052	$ (635)	$ 15,387	$ (330)	$ 55,439	$ (965)

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

December 31, 2018	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale						
US treasury	$ 4,966	$ (7)	$ -	$ -	$ 4,966	$ (7)
Asset backed securities	5,836	(2)	-	-	5,836	(2)
US government sponsored entities and agencies	-	-	2,992	(10)	2,992	(10)
Corporate bonds	2,811	(205)	7,596	(234)	10,407	(439)
State and political subdivisions	9,186	(64)	16,358	(338)	25,544	(402)
Collateralized mortgage obligation	1,902	(12)	7,889	(193)	9,791	(205)
Mortgage-backed securities: residential	1,423	(5)	12,251	(373)	13,674	(378)
Mortgage-backed securities: commercial	8,689	(37)	9,654	(203)	18,343	(240)
Total available for sale	$ 34,813	$ (332)	$ 56,740	$ (1,351)	$ 91,553	$ (1,683)

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2019.

Restricted equity securities consist of securities which are restricted as to transferability. These securities are recorded at cost. Restricted equity securities consist of the following at December 31, 2019 and 2018:

	2019	2018
Federal Home Loan Bank stock	$ 1,852	$ 1,852
Federal Reserve Bank stock	747	726
	$ 2,599	$ 2,578

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS

Loans at year end were as follows:

	2019	2018
Commercial	$ 39,654	$ 37,003
Commercial real estate	154,714	139,117
Residential real estate:		
Closed-end	79,998	77,917
Open-end	41,503	44,649
Construction and land development:		
Owner occupied	5,053	4,330
Development	17,690	8,577
Consumer	25,513	20,493
Subtotal	364,125	332,086
Net deferred loan fees	(341)	(277)
Gross loans	$ 363,784	$ 331,809

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2019 and 2018:

December 31, 2019	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 500	$ 1,821	$ 676	$ 153	$ 167	$ 39	$ 3,356
Provision (credit) for loan losses	134	(351)	(121)	206	143	44	55
Loans charged-off	-	-	(3)	-	-	-	(3)
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	$ 634	$ 1,470	$ 553	$ 359	$ 310	$ 83	$ 3,409

December 31, 2018	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 358	$ 1,627	$ 695	$ 235	$ 140	$ 19	$ 3,074
Provision (credit) for loan losses	142	194	(18)	(82)	27	20	283
Loans charged-off	-	-	(2)	-	-	-	(2)
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	$ 500	$ 1,821	$ 676	$ 153	$ 167	$ 39	$ 3,356

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2019 and 2018. The recorded investment amounts do not include accrued and unpaid interest or any net deferred loan fees or costs due to immateriality.

December 31, 2019	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	634	1,470	553	359	310	83	3,409
Total ending allowance balance	$ 634	$ 1,470	$ 553	$ 359	$ 310	$ 83	$ 3,409
Loans:							
Individually evaluated for impairment	$ -	$ -	$ 2,877	$ -	$ -	$ -	$ 2,877
Collectively evaluated for impairment	39,654	154,714	118,624	22,743	25,513	-	361,248
Total ending loans balance	$ 39,654	$ 154,714	$ 121,501	$ 22,743	$ 25,513	$ -	$ 364,125

December 31, 2018	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 15	$ -	$ -	$ -	$ 15
Collectively evaluated for impairment	500	1,821	661	153	167	39	3,341
Total ending allowance balance	$ 500	$ 1,821	$ 676	$ 153	$ 167	$ 39	$ 3,356
Loans:							
Individually evaluated for impairment	$ -	$ 107	$ 2,495	$ -	$ -	$ -	$ 2,602
Collectively evaluated for impairment	37,003	139,010	120,071	12,907	20,493	-	329,484
Total ending loans balance	$ 37,003	$ 139,117	$ 122,556	$ 12,907	$ 20,493	$ -	$ 332,086

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

As of December 31, 2019, and 2018, the Corporation has a recorded investment in troubled debt restructurings of $814 and $224. The Corporation has allocated no specific reserves for those loans at December 31, 2019 and 2018.

The modifications in terms associated with troubled debt restructurings that occurred in 2019 included the reduction of near-term interest and/or principal payments as a concession to borrowers experiencing financial stress. These loans are well secured by residential real estate.

The troubled debt restructurings described above had no impact on the allowance for loan losses or charge offs during the year ending December 31, 2019.

	Number Of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2019			
Troubled debt restructurings:			
Residential real estate:			
Closed-end	2	$ 814	$ 814
Total	2	$ 814	$ 814

	Number Of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2018			
Troubled debt restructurings:			
Commercial	1	$ 107	$ 107
Residential real estate:			
Closed-end	1	117	117
Total	2	$ 224	$ 224

There were no loans that were modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2019 and 2018.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2019 and 2018:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2019						
With no related allowance recorded:						
Residential real estate						
Closed-end	$ 2,877	$ 2,877	$ -	$ 2,390	$ 123	$ 123
With an allowance recorded:						
Residential real estate:						
Closed-end	-	-	-	-	-	-
Total	$ 2,877	$ 2,877	$ -	$ 2,390	$ 123	$ 123
December 31, 2018						
With no related allowance recorded:						
Commercial real estate:	$ 107	$ 107	$ -	$ 115	$ 5	$ 5
Residential real estate:						
Closed-end	2,192	2,192	-	1,504	37	37
Construction and land development						
Development	-	-	-	29	-	-
With an allowance recorded:						
Residential real estate:						
Closed-end	303	303	15	320	8	8
Total	$ 2,602	$ 2,602	$ 15	$ 1,968	$ 50	$ 50

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

There were $4 and $0 loans past due over 90 days and still accruing as of December 31, 2019 and 2018, respectively.

There were no loans on non-accrual as of December 31, 2019 and 2018.

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

December 31, 2019	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial	$ -	$ -	$ -	$ -	$ 39,654	$ 39,654
Commercial real estate	-	-	-	-	154,714	154,714
Residential real estate:						
Closed-end	163	7	4	174	79,824	79,998
Open-end	-	-	-	-	41,503	41,503
Construction and land Development:						
Owner occupied	-	-	-	-	5,053	5,053
Development	-	-	-	-	17,690	17,690
Consumer	-	-	-	-	25,513	25,513
Total	$ 163	$ 7	$ 4	$ 174	$ 363,951	$ 364,125
December 31, 2018						
Commercial	$ -	$ -	$ -	$ -	$ 37,003	$ 37,003
Commercial real estate	-	-	-	-	139,117	139,117
Residential real estate:						
Closed-end	40	2	-	42	77,875	77,917
Open-end	-	-	-	-	44,649	44,649
Construction and land Development:						
Owner occupied	-	-	-	-	4,330	4,330
Development	-	-	-	-	8,577	8,577
Consumer	-	-	-	-	20,493	20,493
Total	$ 40	$ 2	$ -	$ 42	$ 332,044	$ 332,086

Credit Quality Indicators:

The Corporation 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 Corporation periodically analyzes loans individually by classifying the loans as to credit risk. The Corporation 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.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2019, and 2018, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful
December 31, 2019				
Commercial	$ 39,654	$ -	$ -	$ -
Commercial real estate	154,714	-	-	-
Residential real estate:				
Closed-end	77,881	55	2,062	-
Open-end	41,503	-	-	-
Construction and land development:				
Owner occupied	5,053	-	-	-
Development	17,690	-	-	-
Consumer	25,513	-	-	-
Total	$ 362,008	$ 55	$ 2,062	$ -
December 31, 2018				
Commercial	$ 37,003	$ -	$ -	$ -
Commercial real estate	139,117	-	-	-
Residential real estate:				
Closed-end	75,842	-	2,075	-
Open-end	44,649	-	-	-
Construction and land development:				
Owner occupied	4,330	-	-	-
Development	8,577	-	-	-
Consumer	20,493	-	-	-
Total	$ 330,011	$ -	$ 2,075	$ -

(Dollars in thousands except share and per share amounts)

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2019	2018
Leasehold improvements	$ 1,124	$ 1,124
Furniture, fixtures and equipment	1,067	1,004
Computer software	1,078	1,067
	3,269	3,195
Less: Accumulated depreciation and amortization	(2,996)	(2,766)
Net premises and equipment	$ 273	$ 429

Depreciation and amortization expense totaled $231 and $313 for 2019 and 2018, respectively.

NOTE 5 – LEASES

The Corporation enters into leases in the normal course of business primarily for the Corporation's office space. The Corporation's main office facility is subject to a five-year lease, terminating June 1, 2023. The Corporation's leases have remaining terms ranging from 6 months to 3 years, some of which include renewal options to extend the lease for up to 2 years. The Corporation's leases do not include residual value guarantees or covenants.

The Corporation has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Corporation has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Corporation's balance sheet.

The Corporation's leases are classified as operating leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-time basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Corporation uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Corporation's incremental borrowing rate is based on FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and associated balance sheet classification, are as follows:

Balance Sheet Classification		December 31, 2019
Right-of-use assets:		
Operating leases	Other assets	$ 1,474
Lease liabilities:		
Operating leases	Other liabilities	$ 1,474

(Dollars in thousands except share and per share amounts)

NOTE 5 – LEASES (Continued)

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

	Operating Leases
2020	$ 416
2021	452
2022	484
2023	202
2024	-
Total undiscounted lease payments	1,554
Less: imputed interest	80
Net lease liabilities	$ 1,474

Supplemental lease Information

Operating lease weighted average remaining lease term (years)	3.3
Operating lease weighted average discount rate	2.89%

NOTE 6 - DEPOSITS

Scheduled maturities of time deposits, included in interest bearing deposits, for the next five years were as follows:

2020	$ 12,355
2021	1,787
2022	301
2023	9
2024	137

Time deposits that meet or exceed the FDIC Insurance limit of $250 at December 31, 2019 and 2018 were $8,726 and $4,302.

(Dollars in thousands except share and per share amounts)

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2019 and 2018, advances from the FHLB were as follows:

For 2019, interest rates ranged from 1.00% to 2.90%, averaging 1.93% with maturities between January 14, 2020 and June 1, 2028.	$ 18,411
For 2018, interest rates ranged from 1.00% to 2.59%, averaging 1.78% with maturities between January 14, 2019 and June 1, 2028.	$ 19,249

The advances are subject to penalties if repaid before scheduled payments are due. The Bank's outstanding borrowings from the FHLB are secured by a blanket pledge agreement of 150% of 1-4 family loans, first lien mortgage loans. The Bank has approximately $45,632 of 1-4 family, first mortgage loans and $21,552 of home equity mortgage loans available to pledge under the blanket pledge arrangement dated March 16, 2006. Based on the collateral and the Corporation's holdings of FHLB Stock, the Bank is eligible to borrow additional advances of approximately $27,279 as of December 31, 2019.

Payments over the next five years are as follows:

2020	$ 3,035
2021	6,147
2022	4,039
2023	2,475
2024	2,377
Thereafter	338

NOTE 8 - INCOME TAXES

Income tax expense was as follows:

	2019	2018
Current expense		
Federal	$ 2,185	$ 1,841
State	136	168
Total current	2,321	2,009
Deferred benefit		
Federal	(25)	(150)
State	(3)	(32)
Total deferred	(28)	(182)
Total	$ 2,293	$ 1,827

(Dollars in thousands except share and per share amounts)

NOTE 8 - INCOME TAXES (Continued)

Effective tax rates differ from federal statutory rate of 21% applied to income before income taxes due to the following:

	2019	2018
Federal statutory rate times financial statement income	$ 2,527	$ 2,104
Effect of:		
State taxes, net of federal benefit	105	107
Tax exempt interest income	(142)	(190)
Bank owned life insurance income	(46)	(46)
Captive insurance premiums and disallowances	(163)	(136)
Other, net	12	(12)
Total income tax expense	$ 2,293	$ 1,827

Year-end deferred tax assets and liabilities were due to the following:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 871	$ 854
Organizational and start-up expenditures	3	3
Loan origination income	146	138
Net unrealized loss on available for sale securities	-	403
Net unrealized loss on cash flow hedges	258	93
Other	398	1
Total deferred tax assets	1,676	1,492
Deferred tax liabilities:		
Prepaid expenses	(187)	(171)
Stock based compensation expense	(198)	(152)
Restricted equity stock dividends	(7)	(7)
Loan origination expenses	(57)	(66)
Net unrealized gains on available for sale securities	(291)	-
Depreciation	(31)	(74)
Other	(385)	-
Total deferred tax liabilities	(1,156)	(470)
Deferred tax asset, net	$ 520	$ 1,022

The Corporation does not have any uncertain tax positions and has minimal interest and penalties recorded or accrued in the consolidated financial statements for the years ended December 31, 2019 and 2018. The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Georgia and Tennessee. The Corporation is no longer subject to examination by taxing authorities for years before 2015.

NOTE 9 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors and their affiliates at December 31, 2019 and 2018 totaled $13,866 and $4,734, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2019 and 2018 totaled $998 and $1,050, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2019 and 2018 totaled $602 and $546, respectively.

NOTE 10 - REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2019, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Dollars in thousands except share and per share amounts)

NOTE 10 - REGULATORY CAPITAL MATTERS (Continued)

Actual and required capital amounts and ratios for the Bank are presented below as of December 31, 2019 and 2018. The capital conservation buffer is not included in the required ratios of the table presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2019	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	$ 61,486	14.51%	$ 33,909	8.00%	$ 42,386	10.00%
Tier 1 (Core) Capital to risk weighted assets	58,077	13.70%	25,432	6.00%	33,909	8.00%
Common Tier 1 (CET1)	58,077	13.70%	19,074	4.50%	27,551	6.50%
Tier 1 (Core) Capital to average assets	58,077	11.30%	20,055	4.00%	25,694	5.00%
2018						
Total Capital to risk weighted assets	$ 55,697	15.14%	$ 29,431	8.00%	$ 36,789	10.00%
Tier 1 (Core) Capital to risk weighted assets	52,341	14.23%	22,073	6.00%	29,431	8.00%
Common Tier 1 (CET1)	52,341	14.23%	16,555	4.50%	23,913	6.50%
Tier 1 (Core) Capital to average assets	52,341	10.71%	19,557	4.00%	24,447	5.00%

Dividend Restrictions - The Corporation’s principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2020, the Bank could, without prior approval, declare dividends of approximately $8,509 plus any 2020 net profits retained to date of declaration.

NOTE 11 - OFF-BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others as long as conditions established in the contract are met. In addition, these agreements usually have expiration dates, and the commitments may expire without being used.

Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at the exercise of the commitment. The majority of the Corporation’s commitments to extend credit have maturities of less than one year and reflect the prevailing market interest rates at the time of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

	2019	2018
Letters of Credit	$ 6,229	$ 6,759
Unused Lines of Credit	97,276	80,880

(Dollars in thousands except share and per share amounts)

NOTE 12 - STOCK BASED COMPENSATION PLAN

Total stock-based compensation expense in 2019 and 2018 was $752 and $752, respectively. Related to the 2019 and 2018 restricted stock grants, some employees made an election, in accordance with Section 83(b) of the Internal Revenue Code, to have the fair value of the awards taxable immediately. In connection with the election, the Corporation allowed the employees to forfeit shares to cover the related personal tax obligation. During 2019 employees forfeited 1,042 shares with a total fair value of $39. During 2018 employees forfeited 1,684 shares with a total fair value of $55. These amounts were recorded in salaries and employee benefits on the Corporation's consolidated statements of income in 2019 and 2018.

The Corporation's 2008 Equity Incentive Plan as modified in 2015 provides for the grant of stock options, restricted stock and other equity-based incentives up to 900,000 shares. As of December 31, 2019, the Corporation had issued grants totaling 810,243 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan.

Stock Option Grants

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant. Option awards have vesting periods of one to six years and have 10-year contractual terms. The Corporation uses newly-issued shares to satisfy share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical trading of the shares of Truxton Corporation common stock for 2019 and 2018. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding taking into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

During 2019 and 2018, the Corporation issued incentive stock options to outside directors and certain employees for the purchase of 15,000 and 3,000 shares of common stock, respectively. The fair value of options granted in 2019 and 2018 was determined using the following assumptions as of grant date:

	2019	2018
Risk-free interest rate	2.70%	2.60%
Expected term	8.0 years	8.0 years
Expected stock price volatility	48.0%	22.0%
Dividend yield	2.46%	2.46%

(Dollars in thousands except share and per share amounts)

NOTE 12 - STOCK BASED COMPENSATION PLAN (Continued)

A summary of the stock option activity for 2019 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	121,068	$ 20.89	5.9	
Granted	15,000	37.00		
Forfeited	(1,058)	23.50		
Exercised	(26,870)	18.94		
Outstanding at end of year	108,140	23.56	5.6	$ 2,696
Vested or expected to vest	108,140	23.56	5.6	2,696
Exercisable at end of year	67,129	19.97	4.7	1,915

Information related to stock options during each year follows:

	2019	2018
Intrinsic value of options exercised	$ 793	$ 520
Cash received from option exercises	491	522
Weighted average fair value of options granted	15.80	7.45

There was a total of $217 in unrecognized compensation cost related to non-vested stock options granted under the Plan as of December 31, 2019. The cost is expected to be recognized over a weighted-average period of 2.9 years.

Restricted Stock Grants

In 2019 and 2018, the Corporation issued 20,200 and 22,597 restricted shares of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These shares vest in 20% increments through 2024.

A summary of the changes in the Corporation's non-vested shares for the year follows:

Non-vested shares	Shares	Weighted-Average Fair Value
Non-vested at January 1, 2019	61,770	$ 30.37
Granted	20,200	37.37
Vested	(21,790)	27.45
Forfeited or expired	(1,390)	37.00
Non-vested at December 31, 2019	58,790	$ 33.87

As of December 31, 2019, there was $1,532 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.0 years.

(Dollars in thousands except share and per share amounts)

NOTE 13 - DERIVATIVES

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Fair Value Hedge

The following table reflects the fair value hedges included in the Consolidated Statements of Net Income as of December 31:

Interest rate contracts	Location	2019	2018
Change in fair value on interest rate swaps hedging loans	Loan interest income	$ 51	$ 497
Change in fair value on loans – hedged item	Loan interest income	$ (20)	$ (367)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2019		2018	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges:				
Interest rate swaps	$ 16,421	$ 1,019	$ 20,377	$ 458
Included in other liabilities:				
Derivatives designated as hedges:				
Interest rate swaps	$ 16,421	$ 774	$ 20,377	$ 590

Cash Flow Hedge

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts totaling $15,000 and $15,000 as of December 31, 2019 and 2018, were designated as cash flow hedges of certain deposit accounts and were determined to be fully effective during the periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of swaps is recorded in other liabilities with changes in fair value recorded in other comprehensive income (loss). The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table presents the net losses recorded in accumulated other comprehensive income and the Consolidated Statements of Net Income relating to the cash flow derivative instruments for the year ended December 31:

	2019:		
	Amount of Gain (Loss) Recognized In OCI (Effective Portion)	Amount of Gain (Loss) Recognized from OCI to Interest Income	Amount of Gain (Loss) Recognized in Non-Interest Income (Ineffective Portion)
Interest rate swaps related to deposits	$ (630)	$ -	$ -

NOTE 13 – DERIVATIVES (Continued)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2019		2018	
Included in other liabilities:	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to deposits	$ 15,000	$ 987	$ 15,000	$ 357

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available "Level 1". For securities where quoted prices are not available, fair values are calculated using a matrix pricing model, which is based on market prices of similar securities "Level 2". Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark securities.

Derivatives: The fair value of the derivatives is based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, prepayment rates, and volatility factors to value the position. The majority of the market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at Using:	
December 31, 2019	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Financial assets:			
Investment securities available for sale			
Asset backed securities	$ 14,700	$ -	$ 14,700
Corporate bonds	8,428	-	8,428
State and political subdivisions	41,874	-	41,874
Collateralized mortgage obligations	21,784	-	21,784
Mortgage backed securities: residential	8,027	-	8,027
Mortgage backed securities: commercial	21,219	-	21,219
Total investment securities available for sale	$ 116,032	$ -	$ 116,032
Derivatives	$ 1,019	$ -	$ 1,019
Financial liabilities:			
Derivatives	$ 1,761	$ -	$ 1,761

		Fair Value Measurements at Using:	
December 31, 2018	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Financial assets:			
Investment securities available for sale			
U.S. Treasury and federal agency	$ 4,966	$ -	$ 4,966
U.S. government sponsored entities and agencies	$ 2,992	-	2,992
Corporate bonds	11,407	-	11,407
State and political subdivisions	33,797	-	33,797
Collateralized mortgage obligations	12,570	-	12,570
Mortgage backed securities: residential	15,400	-	15,400
Mortgage backed securities: commercial	22,728	-	22,728
Asset backed securities	5,836	-	5,836
Total investment securities available for sale	$ 109,696	$ -	$ 109,696
Derivatives	$ 458	$ -	$ 458
Financial liabilities:			
Derivatives	$ 947	$ -	$ 947

There were no transfers between Level 1 and Level 2 during 2019 or 2018.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2019 and December 31, 2018 are as follows:

		Fair Value Measurements Using:			
December 31, 2019	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 37,195	$ 37,195	$ -	$ -	$ 37,195
Time deposits in other financial institutions	5,157	-	5,157	-	5,157
Securities available-for-sale	116,032	-	116,032	-	116,032
Restricted equity securities	2,599	NA	NA	NA	NA
Loans held for sale	350	-	-	350	350
Loans, net	360,375	-	-	360,722	360,722
Accrued interest receivable	1,842	-	724	1,118	1,842
Financial liabilities					
Deposits	$ 448,076	$ -	$ 448,245	$ -	$ 448,245
Federal Home Loan Bank advances	18,411	-	18,378	-	18,378
Accrued interest payable	114	114	-	-	114
December 31, 2018					
Financial assets					
Cash and cash equivalents	$ 10,805	$ 10,805	$ -	$ -	$ 10,805
Time deposits in other financial institutions	18,268	-	18,268	-	18,268
Securities available-for-sale	109,696	-	109,696	-	109,696
Restricted equity securities	2,578	NA	NA	NA	NA
Loans, net	328,453	-	-	328,732	328,732
Accrued interest receivable	1,804	-	791	1,013	1,804
Financial liabilities					
Deposits	$ 404,682	$ -	$ 403,729	$ -	$ 403,729
Federal Home Loan Bank advances	19,249	-	18,689	-	18,689
Accrued interest payable	44	44	-	-	44

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

The carrying amount of cash and cash equivalents approximates fair values and are classified as Level 1. Time deposits in other financial institutions have infrequent repricing or repricing limits and their fair value is based on discounted cash flows using current market rates applied to the estimated life and are classified as Level 2. It is not practical to determine the fair value of restricted equity securities due to the restrictions placed on its transferability.

The fair value of loans is determined based on a discounted cash flow analysis (income approach.) The discounted cash flow was based on contractual maturity of the loan and current market assumptions resulting in a level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The fair values disclosed for demand deposits are by definition, equal to the amount payable on demand at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification. The fair values of the Bank's Federal Home Loan Bank advances are estimated using discounted cash flows based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The carrying amounts of accrued interest approximate fair value resulting in Level 2 or 3 classifications.

NOTE 15 - OTHER BENEFIT PLANS

The Corporation has a 401(k) benefit plan that covers all employees who meet certain eligibility requirements and choose to participate in the plan. The plan allows employee contributions up to the federal limits, which are matched 100% for the first 3% of compensation contributed and then 50% of the next 2% of compensation contributed beginning on the first day of the calendar quarter following the employee's one-year anniversary. The 401(k) benefit plan expense for 2019 and 2018 was $237 and $223, respectively.

NOTE 16 – OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at 12/31/208	Current Period Change	Balance at 12/31/2019
Unrealized gains on securities available for sale	$ (1,151)	$ 1,962	$ 811
Unrealized losses on cash flow hedge	(264)	(465)	(729)
Total	$ (1,415)	$ 1,497	$ 82

(Dollars in thousands except share and per share amounts)

NOTE 17 – EARNINGS PER SHARE

Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share available to common shareholders reflects the potential dilution that could occur if stock options to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The factors used in the earnings per share computation follows:

	2019	2018
Basic		
Net income	$ 9,742	$ 8,194
Less: Undistributed income allocated to participating securities	226	203
Net earnings allocated to common stock	$ 9,516	$ 7,991
Weighted common shares outstanding including participating securities	2,757,021	2,713,980
Less: Participating securities	63,750	67,110
Weighted average shares	2,693,271	2,646,870
Basic earnings per share	$ 3.53	$ 3.02
Diluted earnings allocated to common stock	$ 9,516	$ 7,991
Weighted average shares	2,693,271	2,646,870
Add: Diluted effects of assumed exercises of stock options and warrants	53,971	61,527
Average shares and dilutive potential common shares	2,747,242	2,708,397
Dilutive earnings per share	$ 3.46	$ 2.95

At year-end 2019, there were 15,000 stock options that were not considered in computing diluted earnings per common share for 2019, because they were antidilutive. At year-end 2018, there were 3,000 stock options that were not considered in computing diluted earnings per common share for 2018, because they were antidilutive.