Pioneer Bankshares, Inc.

2019 Annual
Financial Report

INDEX

Market Data

The Common Stock of the Company trades on the OTC Bulletin Board under the symbol "PNBI" and transactions generally involve a small number of shares. The Company's transfer agent is Computershare, Inc. located at 480 Washington Boulevard, 29th Floor, in Jersey City, New Jersey, 07013. The following table shows actual trade prices during the year. Other transactions may have occurred which were not included in the table.

COMMON STOCK TRADE PRICES

2018	High	Low
First Quarter	$ 30.75	$ 27.00
Second Quarter	32.00	30.00
Third Quarter	32.00	31.40
Fourth Quarter	32.98	29.15

2019	High	Low
First Quarter	$ 30.25	$ 26.41
Second Quarter	28.55	27.25
Third Quarter	28.50	27.15
Fourth Quarter	29.31	27.38

The Company has declared dividends on its Common Stock as follows:

Declared Date	Record Date	Payment Date	Per Share Amount
2/08/18	3/20/18	3/30/18	$ .21
5/17/18	6/19/18	6/29/18	.21
8/16/18	9/18/18	9/28/18	.21
12/20/18	12/21/18	12/31/18	.21
Total for 2018			$ .84
2/21/19	3/19/19	3/29/19	$ .22
5/16/19	6/18/19	6/28/19	.22
8/15/19	9/20/19	9/30/19	.22
11/21/19	12/20/19	12/31/19	.22
Total for 2019			$ .88

The Company's ability to pay dividends is subject to certain restrictions imposed by the Federal Reserve and capital requirements of Federal and Virginia banking statutes and regulations. Additionally, the Company intends to follow a policy of retaining sufficient earnings in order to maintain the net worth and reserves of the Bank at adequate levels and to provide for the Company's growth and ability to compete in its market area.

FINANCIAL HIGHLIGHTS
(In thousands, except for per share information)

	2019	2018
Results of Operations		
Interest and dividend income	$ 10,973	$ 10,137
Interest expense	1,361	1,032
Net interest income	9,612	9,105
Provision for loan losses	288	354
Net interest income after provision for loan losses	9,324	8,751
Noninterest income	1,806	1,157
Noninterest expense	8,208	7,477
Income before income taxes	2,922	2,431
Income tax expense	286	202
Net Income	$ 2,636	$ 2,229
Financial Condition, At Year End		
Assets	$ 232,389	$ 213,514
Deposits	195,884	177,491
Loans, net of allowance	189,889	167,201
Stockholders' Equity	31,022	28,862
Per Share Data		
Net income per share, basic and diluted	$ 2.69	$ 2.29
Dividends per share	.88	.84
Book value per share	31.56	29.53
Performance Ratios		
Return on average assets [1]	1.20%	1.08%
Return on average equity [1]	8.82%	7.93%
Dividend payout ratio	32.76%	36.78%
Average equity to average assets [1]	13.61%	13.62%

[1]Ratios are based primarily on daily average balances

General Business Description

Pioneer Bankshares, Inc. (the "Company"), a Virginia one bank holding company headquartered in Stanley, Virginia, was incorporated under the laws of the Commonwealth of Virginia on November 4, 1983. The Company's wholly-owned subsidiary, Pioneer Bank, Inc. (the "Bank") was established as a national bank in 1909. The Bank converted from a national bank to a state chartered bank, effective April 1994, and changed its name to Pioneer Bank, effective April 1999.

Pioneer Bank's main branch and corporate office are located in Stanley, Virginia, with other branch locations in Shenandoah, Luray, Harrisonburg, Stanardsville, Ruckersville, and Charlottesville, Virginia. The Bank also operates a small finance company known as Valley Finance Services, a Division of Pioneer Bank, which specializes in consumer and auto lending.

Pioneer Bank also owns and operates two subsidiaries, one of which is Pioneer Financial Services, LLC. Income received from insurance services and non-banking investment services is handled through Pioneer Financial Services, LLC. The second subsidiary owned by Pioneer Bank is Pioneer Special Assets, LLC, which is generally used in conjunction with foreclosed properties, as a means of minimizing the risk of liability to the Bank.

The assets of the Company consist primarily of all of the stock of the Bank, real estate holdings leased to the Bank, a portfolio of equity investment securities, and minimal cash accounts.

The Bank is engaged in the general commercial banking business, primarily serving the counties of Page, Greene, Rockingham, and Albemarle, Virginia. In addition, the close proximity and mobile nature of individuals and businesses in adjoining Virginia counties and nearby cities places these markets within the Bank's targeted trade area. The Bank also anticipates serving some individuals and businesses from other areas, including, but not limited to, the counties surrounding Page County.

The Bank offers a full range of banking and related financial services focused primarily towards serving individual consumers, small to medium size commercial businesses, and the professional community. The Bank strives to serve the banking needs of its customers while developing personal, hometown relationships. The Bank's Board of Directors and management believe that the marketing of customized banking services will enable the Bank to continue its position in the financial services marketplace.

The Bank provides individual consumers, professionals and small and medium size commercial businesses in its market area with responsive and technologically advanced banking services. These services include competitively priced loans that are based on deposit relationships, easy access to the Bank's decision-makers, and quick and innovative action necessary to meet a customer's banking needs. The Bank's capitalization and lending limit enables it to satisfy the credit needs of a large portion of the targeted market segment. In the event there are customers whose loan requirements exceed the Bank's lending limit, the Bank will seek to arrange such loans on a participation basis with other financial institutions or private investors. The Board of Directors and management believe the Bank's present capitalization will support substantial growth in deposits and loans.

Independent Auditor's Report

To the Board of Directors and Stockholders
Pioneer Bankshares, Inc.
Stanley, Virginia

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

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

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

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

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

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

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 16, 2020

PIONEER BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

(In Thousands, except share and per share data)

	2019	2018
ASSETS		
Cash and due from banks	$ 4,019	$ 8,035
Interest-bearing deposits in other banks	12,127	10,429
Federal funds sold	2,424	2,369
Securities available for sale, at fair value	10,096	13,974
Equity securities, at fair value	3,397	357
Restricted securities, at cost	563	553
Loans receivable, net of allowance of $2,158 in 2019 and $2,148 in 2018	189,889	167,201
Bank premises and equipment, net	4,770	4,831
Accrued interest receivable	1,079	1,093
Other real estate owned, net of valuation allowance	---	487
Other assets	4,025	4,185
Total Assets	$ 232,389	$ 213,514
LIABILITIES		
Deposits		
Noninterest bearing:	$ 57,221	$ 54,747
Interest bearing:		
Demand	35,904	34,253
Savings	45,868	41,515
Time deposits	56,891	46,976
Total Deposits	195,884	177,491
Accrued expenses and other liabilities	1,108	1,286
Borrowings	4,375	5,875
Total Liabilities	201,367	184,652
STOCKHOLDERS' EQUITY		
Common stock; $.50 par value, authorized 5,000,000 shares; outstanding – 982,820 and 977,419 shares in 2019 and 2018, respectively	491	489
Retained earnings	30,422	28,498
Accumulated other comprehensive income (loss)	109	(125)
Total Stockholders' Equity	31,022	28,862
Total Liabilities and Stockholders' Equity	$ 232,389	$ 213,514

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

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

(In Thousands, except per share data)

	2019	2018
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 10,244	$ 9,511
Interest on securities – taxable	274	255
Interest on securities – nontaxable	26	29
Deposits and federal funds sold	328	209
Dividends	101	133
Total Interest and Dividend Income	10,973	10,137
INTEREST EXPENSE:		
Deposits	1,240	960
Borrowings	121	72
Total Interest Expense	1,361	1,032
NET INTEREST INCOME	9,612	9,105
PROVISION FOR LOAN LOSSES	288	354
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,324	8,751
NONINTEREST INCOME:		
Service charges on deposit accounts	1,264	1,183
Commission income	86	82
Other income	85	83
Change in fair value of equity securities	371	(191)
Total Noninterest Income	1,806	1,157
NONINTEREST EXPENSES:		
Salaries and employee benefits	3,772	3,485
Occupancy expenses	468	560
Equipment expenses	335	368
ATM expenses	338	337
Contributions	17	23
Sales and franchise tax	170	172
Director compensation and fees	153	154
Loss (Gain) on other real estate owned	116	(59)
Liability bond insurance	90	115
Professional and audit fees	484	362
Data processing fees	497	503
Telephone	307	211
Amortization expenses of housing fund investments	210	210
Other expenses	1,251	1,036
Total Noninterest Expenses	8,208	7,477
INCOME BEFORE INCOME TAXES	2,922	2,431
INCOME TAX EXPENSE	286	202
NET INCOME	$ 2,636	$ 2,229
PER SHARE DATA:		
Net income, basic and diluted	$ 2.69	$ 2.29
Dividends	$ 0.88	$ 0.84

See Notes to Consolidated Financial Statements.

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

(In Thousands of Dollars)

	2019	2018
Net Income	$2,636	$2,229
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during period, (net of tax of $(62) and $13 for 2019 and 2018, respectively)	234	(49)
Other comprehensive income (loss)	234	(49)
Comprehensive income	$ 2,870	$ 2,180

See Notes to Consolidated Financial Statements.

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

(In Thousands of Dollars)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE DECEMBER 31, 2017	$ 487	$ 26,812	$ 115	$ 27,414
Cumulative effect adjustment – ASU 2016-01		191	(191)	---
Net Income		2,229		2,229
Other Comprehensive Loss			(49)	(49)
Cash Dividends		(820)		(820)
Stock issued for compensation	2	86		88
BALANCE DECEMBER 31, 2018	$ 489	$ 28,498	$ (125)	$ 28,862
Net Income		2,636		2,636
Other Comprehensive Income			234	234
Cash Dividends		(863)		(863)
Stock issued for compensation	2	151		153
BALANCE DECEMBER 31, 2019	$ 491	$ 30,422	$ 109	$ 31,022

See Notes to Consolidated Financial Statements.

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,636	$ 2,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	288	354
Net amortization on securities	---	20
Fair Value adjustment on equity securities	(371)	191
Purchases of equity securities	---	(7,156)
Proceeds from sales of equity securities	---	11,592
Deferred income tax (benefit) expense	133	(18)
Depreciation	326	333
Amortization of low income housing investments	210	210
Stock based compensation	153	88
Amortization of right-of-use asset	63	---
(Gain) Loss on other real estate owned	116	(59)
(Gain) Loss on sales and disposals of equipment, net	(3)	29
Loss on charitable contribution of other real estate owned	---	3
Net change in:		
Accrued interest receivable	14	(17)
Other assets	(18)	(54)
Accrued expenses and other liabilities	(468)	(294)
Net Cash Provided by Operating Activities	3,079	7,451
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in interest-bearing deposits in other banks	(1,698)	(1,795)
Net change in federal funds sold	(55)	507
Net change in restricted securities	(10)	152
Proceeds from calls, maturities, sales, and principal payments of securities available for sale	4,174	1,737
Purchase of securities available for sale	---	(4,481)
Purchases of equity securities	(3,011)	---
Proceeds from sales of equity securities	342	---
Net (increase) in loans	(22,976)	(7,024)
Proceeds on sale of other real estate	371	332
Purchase of bank premises and equipment	(262)	(571)
Proceeds from sales of equipment	---	9
Net Cash (Used in) Investing Activities	(23,125)	(11,134)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Demand and savings deposits	8,478	8,268
Time deposits	9,915	2,290
Proceeds from borrowings	5	2,501
Curtailments of borrowings	(1,505)	(4,151)
Dividends paid	(863)	(820)
Net Cash Provided by Financing Activities	16,030	8,088
CASH AND CASH EQUIVALENTS		
Net (decrease) increase in cash and cash equivalents	(4,016)	4,405
Cash and cash equivalents, beginning of year	8,035	3,630
Cash and cash equivalents, end of year	$ 4,019	$ 8,035
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 1,309	$ 953
Income taxes	196	281
Supplemental Disclosure of non-cash activity:		
Unrealized gain (loss) on securities available for sale	$ 296	(62)
Other real estate acquired in settlement of loans	---	428
Lease liabilities arising from right-of-use assets	290	---

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
The accounting and reporting policies of Pioneer Bankshares, Inc. ("Company"), and its subsidiary Pioneer Bank ("Bank"), conform to accounting principles generally accepted in the United States of America and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

Consolidation Policy - The consolidated financial statements of the Company include the Bank and Pioneer Financial Services, LLC, and Pioneer Special Assets, LLC which are wholly-owned subsidiaries of the Bank. All significant inter-company balances and transactions have been eliminated.

Use of Estimates – In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Reclassifications **-** Certain reclassifications have been made to prior period balances to conform to the current year presentation. None were of a material nature and had no effect on prior year net income or stockholders equity.

Subsequent Events **-** In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 16, 2020, which is the date the financial statements were available to be issued. On January 30, 2020, the World Health Organization declared the Coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the Coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The Coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the Coronavirus pandemic. It is unknown how long the adverse conditions associated with the Coronavirus will last and what the complete financial effect will be to the Company. To date, the Company has experienced an increase in requests for short-term payment deferrals from loan customers and, as a result of the recent decline in the stock market, losses on equity securities have totaled $(478) thousand for the year-to-date period in 2020. As these equity securities have readily determinable fair values, this aggregate adjustment to fair value is reflected in earnings for 2020. The Company's conduct of day-to-day operations has also been affected by the Coronavirus, with all locations transitioning primarily to drive-up service and lobby access by appointment only.

Additionally, it is reasonably possible that estimates made in the financial statements will be materially and adversely impacted in the near term as a result of these conditions, which most notably includes allowance for loan losses.

Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debit securities which the Company intends to hold for indefinite periods of time, including securities used as part of the Company's asset/liability management strategy are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. At December 31, 2019 and 2018, all debt securities were classified as available for sale.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on debt securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Company intends to sell the security or (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-than-likely that the Company will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Company regularly reviews each debt security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, a best estimate of the present value of cash flows expected to be collected from debt securities, the institution's intention with regard to holding the security and the likelihood that the Company would be required to sell the security before recovery.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Restricted equity securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

On January 1, 2018, the Company adopted ASU 2016-01, which requires equity investments with readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The adoption of this standard resulted in a $191,000 increase to beginning retained earnings and a $191,000 decrease to beginning other comprehensive income. Changes in fair value subsequent to the date of adoption are recorded in noninterest income.

Gains and losses on sales of securities are recorded on the trade date and determined using the specific identification method.

Loans Receivable - Loans receivable are intended to be held until maturity and are reported at their outstanding principal balance net of any adjustments for charge-offs, unearned income, the allowance for loan losses, and deferred loan fees and costs. Interest is computed by methods which generally result in level rates of return on principal. Interest income is generally not recognized on nonaccrual loans and payments received on such loans are applied as a reduction of the loan principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The Company classifies all loans as past due when the payment of principal and interest based upon contractual terms is 30 or more days delinquent.

The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection for all loan classes. Commercial non-real estate classes are placed on nonaccrual status when it is probable that principal or interest is not fully collectible, or generally when principal or interest becomes 90 days past due, whichever occurs first. Real estate loans, which includes the residential, commercial, construction and land categories, are generally placed on nonaccrual status when principal and interest becomes 90 days past due. Consumer non-real estate loans, including personal automobile loans and all other individual loans are placed on nonaccrual status at varying intervals, based on the type of product, generally when principal and interest becomes between 90 days and 120 days past due. Revolving consumer credit card loans are not placed on nonaccrual but are generally charged-off if they reach 120 days past due, with unpaid fees and finance charges reversed against interest income. Consumer non-real estate loans are typically charged off between 90 and 120 days past due unless the loan is well secured and in the process of collection and are subject to mandatory charge-off at a specified delinquency date consistent with regulatory guidelines. In most cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All other loan classes are generally charged off within the range of 90 to 180 days, unless there are specific or extenuating circumstances that warrant further collection or legal actions.

Interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these 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. Payments received on nonaccrual loans are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal. Loans are generally removed from nonaccrual status when the concern no longer exists as to the collectability of principal and interest and the borrower has been able to demonstrate a specific period of payment performance.

Allowance for Loan Losses – The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb probable losses inherent in the portfolio. This evaluation process is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance evaluation process also gives consideration to risk characteristics associated with each segment of the loan portfolio, which are further defined in Note 6 of this report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Loans are generally charged against the allowance when management believes the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on the evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, concentrations of credit within the portfolio, loan growth trends, levels of adversely classified loans, past due trends, as well as other factors related to the knowledge and experience of lending personnel and legal, regulatory, or compliance issues related to lending practices. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

The allowance consists of specific and various general components. The specific component relates to loans classified as impaired. Specific allowances on an impaired loan is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large commercial real estate loans and construction land loans are reviewed and evaluated on an annual basis or as they become delinquent so as to determine any possible impairment. Residential real estate loans are specifically evaluated for possible impairment on a case by case basis as they become delinquent or are identified as a potential problem credit. The majority of smaller balance homogeneous loans are collectively evaluated for impairment.

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

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

Bank Premises and Equipment – Land values are carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over estimated useful lives ranging from 3 to 40 years, on a straight-line method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Other Real Estate Owned- Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned. There was no other real estate owned or formal foreclosure proceedings in process as of December 31, 2019. At December 31, 2018, the balance of other real estate owned consisted of a commercial real estate property with an approximate value of $381,000 and a consumer real estate property with an approximate value of $106,000. These were recorded as a result of obtaining physical possession of the property. At December 31, 2018, there were no formal foreclosure proceedings in process.

Income Taxes – Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under income tax laws. Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period 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 processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no such liabilities recorded as of December 31, 2019 or December 31, 2018.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the Company's consolidated statements of income.

Financial Instruments - In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit-card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for other loans. Commitments to extend credit are generally made for a period of one year or less and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the contract or notional amounts do not necessarily represent future cash requirements.

Cash Flow Reporting – For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. Cash flows from purchases and sales of equity securities are classified based on intent, with consideration given to the nature and purpose for which the securities are acquired. In 2018, these cash flows were classified as operating to reflect the Company's active short-term buying and selling strategy. Beginning with the new year in 2019, cash flows were classified as investing as the Company's investment strategy no longer focused on active and short-term buying and selling.

Advertising Costs - The Company follows the policy of charging the production costs of advertising to expense as incurred. Advertising expense amounted to $44,000 and $59,000, for the years ended December 31, 2019 and 2018, respectively.

Earnings Per Share – Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company are determined using the treasury stock method.

Stock Compensation –On an annual basis, the company pays two-thirds of its board of director fees and retainer fees in the form of stock compensation. Additionally, a portion of certain officers' bonuses are periodically paid with stock compensation. The fair market value of the Company's stock at the time of the stock issuance is used as the pricing factor to arrive at the appropriate number of shares issued.

There were no stock options or other stock awards outstanding at December 31, 2019 and 2018.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale.

Bank Owned Life Insurance – The Company has purchased life insurance policies on certain individuals. 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.

Recently Adopted Standards – On January 1, 2019, the Company adopted ASU 2016-02 "Leases (Topic 842)" and all subsequent amendments thereto. Adoption of the leasing standard resulted in the recognition of right-of-use assets and lease liabilities of $290 thousand. Refer to "Note 9. Leases" for further discussion of the standard's adoption and the Company's accounting for its lease agreements.

Recent Accounting Pronouncements– In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities that meet the definition of a U.S. Securities and Exchange Commission (SEC) filer, excluding smaller reporting companies, the standard is effective for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years. All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements and has begun the data gathering and collection phase relating to its loan portfolio and credit losses. Additionally, a committee has been established to evaluate the methodologies and to further analyze the requirements of this standard.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are not SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various Transition Resource Group (TRG) Meetings. The effective date of each of the amendments depends on the adoption date of ASU 2016-01, ASU 2016-13, and ASU 2017-12. The Company is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

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

In November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities. The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Company is currently assessing the impact that ASU 2019-11 will have on its consolidated financial statements.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 NATURE OF OPERATIONS:

The Company operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services to its customers through its subsidiary bank. As a state chartered member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Board of Governors of the Federal Reserve Banking System. As of December 31, 2019, the Bank had seven physical locations available to customers with 3 branches being located in Page County, 2 in Greene County, 1 in Rockingham County, and 1 in Albemarle County. The Bank also operates two separate subsidiaries, one being known as Pioneer Financial Services, LLC, which offers a variety of consumer investment and insurance services. The second subsidiary owned by Pioneer Bank is Pioneer Special Assets, LLC, which is generally used in conjunction with certain foreclosed properties. The Bank also operates a small consumer loan finance company known as Valley Finance Services, a Division of Pioneer Bank, which specializes in consumer and auto lending.

NOTE 3 CASH AND DUE FROM BANKS:

The Bank is required to maintain average reserve balances based on a percentage of deposits. The average balance of cash, which the Federal Reserve Bank required to be on reserve, was $1.4 million and $1.7 million at December 31, 2019 and December 31, 2018, respectively. These reserve requirements were satisfied by available vault cash and/or funds on deposit with the Federal Reserve Bank at December 31, 2019 and 2018. The Bank also maintains required deposit relationships with 3 separate correspondent banks in accordance with their separate and individual Fed Funds Credit Line Agreements. The amount on deposit with these correspondent banks was $677,000 and $791,000, as of December 31, 2019 and 2018, respectively.

NOTE 4 DEPOSITS IN AND FEDERAL FUNDS SOLD TO BANKS:

The Bank had cash deposited in and federal funds sold to other banks, most of which exceed federally insured limits, totaling approximately $4.4 million and $9.9 million at December 31, 2019 and 2018, respectively. Management has established acceptable risk tolerances relating to uninsured deposits in other banks and diversifies these funds in accordance with policy guidelines.

NOTE 5 INVESTMENT SECURITIES:

The amortized cost and fair value of securities available for sale at December 31, 2019 and 2018 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2019				
Available for Sale				
U.S. treasury securities	$ 2,590	$ 7	$ (9)	$ 2,588
Mortgage-backed securities	3,623	87	(2)	3,708
Agency securities	1,999	19	---	2,018
State and municipals	1,746	36	---	1,782
	$ 9,958	$ 149	$ (11)	$ 10,096

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2018				
Available for Sale				
U.S. treasury securities	$ 3,581	$ ---	$ (56)	$ 3,525
Mortgage-backed securities	4,387	5	(33)	4,359
Agency securities	4,000	---	(71)	3,929
State and municipals	2,164	7	(10)	2,161
	$ 14,132	$ 12	$ (170)	$ 13,974

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

There were no sales of securities available for sale during the years ended December 31, 2019 and 2018.

Equity securities consisted of investments in mutual funds and the common stock of certain community banking institutions at December 31, 2019 and 2018. The following table presents information on the change in the fair value of equity securities that was recognized in earnings during the years ended December 31, 2019 and 2018, as well as the portion of those balances which relate to equity securities still held at December 31, 2019 and 2018.

	For the Years Ended December 31, 2019	2018
	(in thousands)	
Net gains (losses) recognized during the year on equity securities	$ 371	$ (191)
Less: Net gains and losses recognized on equity securities sold	(1)	(193)
Net unrealized gains (losses) recognized on equity securities still held at the balance sheet date	$ 370	$ 2

The amortized cost and fair value of securities available for sale at December 31, 2019, by contractual maturity, are shown in the following schedule. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$ 2,200	$ 2,200
Due after one year through five years	3,567	3,616
Due five years through ten years	1,509	1,518
Due after ten years	2,682	2,762
	$ 9,958	$ 10,096

Securities available for sale with an amortized cost of $23,000 and $45,000 and fair value of $24,000 and $45,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required by law.

Management recognizes that current economic conditions and market trends may result in other than temporary impairment on securities in the Company's portfolio. Management's evaluation of the individual securities within the investment portfolio is performed on a quarterly basis and assesses the unrealized loss positions that exist to determine whether there is potential other than temporary impairment. The key factors considered during this evaluation process are the amount of unrealized loss, percentage decline in value, length of time in loss position, near-term prospects of the issuer, current market activity, financial strength ratings from industry reports, credit quality, credit ratings, as well as management's intent and ability to hold securities until such time that they can recover in value and further assessment and determination that the institution will not be required to sell such investments to meet operational cash flow needs in the near future. In analyzing an issuer's financial condition, management also considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As of December 31, 2019 and 2018, the Company's evaluation concluded there was no other-than-temporary impairment present.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

As of December 31, 2019, there were 2 securities available for sale that had unrealized losses, which were considered to be temporary. The schedule of unrealized losses on these securities by category and length of time that individual securities have been in a continuous loss position was as follows (in thousands):

		Mortgaged Backed Securities	Agency Securities	State and Municipal Securities	US Treasury Securities	Total
Less than 12 Months	Fair Value	$ ---	$---	$ ---	$ ---	$---
	Unrealized Losses	---	---	---	---	---
More than 12 Months	Fair Value	341	---	---	91	432
	Unrealized Losses	(2)	---	---	(9)	(11)
Total	Fair Value	341	---	---	91	432
	Unrealized Losses	(2)	---	---	(9)	(11)

As of December 31, 2018, there were 21 securities available for sale that had unrealized losses, which were considered to be temporary. The schedule of unrealized losses on these securities by category and length of time that individual securities have been in a continuous loss position was as follows (in thousands):

		Mortgaged Backed Securities	Agency Securities	State and Municipal Securities	US Treasury Securities	Total
Less than 12 Months	Fair Value	$ 1,371	$---	$ 161	$ ---	$1,532
	Unrealized Losses	(2)	---	(1)	---	(3)
More than 12 Months	Fair Value	1,141	2,929	1,103	3,525	8,698
	Unrealized Losses	(31)	(71)	(9)	(56)	(167)
Total	Fair Value	2,512	2,929	1,264	3,525	10,230
	Unrealized Losses	(33)	(71)	(10)	(56)	(170)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

The Bank also holds additional investments in the Federal Home Loan Bank of Atlanta ("FHLB") in the form of FHLB stock, which is a membership requirement. Loan advances from FHLB are subject to additional stock purchase requirements, which are generally redeemed as outstanding loan balances are repaid, subject to FHLB's quarterly excess capital evaluation process. FHLB evaluates the excess capital stock of its members on a quarterly basis to determine stock repurchase activities. Additionally, the FHLB generally pays quarterly dividends on the outstanding stock investment of each of its members.

FHLB stock is generally viewed as a long term investment and is considered to be a restricted security, which is carried at cost, because there is no market for the stock other than FHLB or other member institutions. As of December 31, 2019 and 2018 the Bank's investment in FHLB stock totaled approximately $438,000 and $428,000, respectively, and was included in restricted securities on the consolidated balance sheets.

Management's evaluation of FHLB stock for possible impairment is based on the ultimate recoverability of par value rather than recognizing temporary declines in value. Management's evaluation of FHLB stock as of December 31, 2019 and 2018 did not consider this investment to be other than temporarily impaired, and therefore, no impairment has been recognized.

NOTE 6 LOANS:

Loans are stated at their face amount, net of deferred loan fees, and are classified as follows:

	December 31, 2019	December 31, 2018
	(In Thousands)	
Real estate loans		
Construction & land loans	$ 6,271	$ 6,440
Residential equity lines of credit	1,386	1,343
Residential 1-4 family	60,931	61,236
Residential second mortgages 1 - 4 family	1,803	2,600
Residential multifamily	4,603	5,350
Commercial agricultural loans	5,017	4,179
Commercial municipal loans	192	228
Commercial owner & non-owner occupied	54,780	53,879
Total real estate loans	134,983	135,255
Commercial non real estate loans	11,199	10,192
Loans to nondepository financial institutions	18,758	---
Consumer non real estate loans		
Personal installments	26,481	23,251
Credit cards	626	651
Total consumer installment loans	27,107	23,902
Gross loans (1)	192,047	169,349
Less allowance for loan losses	(2,158)	(2,148)
Net loans receivable	$ 189,889	$ 167,201

(1)Gross loans are presented net of deferred loan fees and discounts of $472,000 and $392,000 respectively for December 31, 2019 and 2018.

The Bank grants commercial, real estate and consumer installment loans to its customers. Collateral requirements for loans are determined on a case by case basis depending upon the purpose of the loan and the financial condition of the borrower. The ultimate collectability of the Bank's loan portfolio and the ability to realize the value of any underlying collateral, if needed, are influenced by the economic conditions of its market service area.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The Bank's loan portfolio is concentrated in real estate loans, including those secured by residential consumer properties and small business commercial properties. The residential real estate loans, including equity lines of credit, residential 1 – 4 family first and second mortgages, and multifamily loans totaled $68.7 million as of December 31, 2019 as compared to $70.5 million at December 31, 2018. The small business commercial real estate loans, including commercial construction and land loans, agricultural/farm loans, and other business properties totaled $65.5 million as of December 31, 2019 as compared to $62.9 million at December 31, 2018. Management has established specific lending criteria relating to real estate loans as a means of assessing the risk inherent in the portfolio.

Deposit account overdrafts are also classified as loans and totaled $79,000 and $48,000 as of December 31, 2019 and 2018, respectively.

The following table reflects the detailed breakdown of impaired loans with and without a recorded allowance by loan class for the year ended December 31, 2019 (in thousands):

Impaired Loans with a Recorded Allowance December 31, 2019	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Residential Real Estate					
1-4 Family Residences	$ 98	$ 98	$ 18	$ 141	$ ---
Commercial Real Estate					
Owner Occupied	---	---	---	466	---
Consumer					
Automobile Loans	111	111	83	56	13
Totals	$ 209	$ 209	$ 101	$ 663	$ 13

Impaired Loans without a Recorded Allowance December 31, 2019	Recorded Investment	Unpaid Principal	Average Recorded Investment	Interest Income Recognized
Residential Real Estate				
Equity Lines of Credit	59	59	30	2
1-4 Family Residences	2,202	2,202	2,132	95
Commercial Real Estate				
Owner Occupied	1,675	1,675	2,422	125
Non-owner Occupied	234	234	242	9
Agricultural Loans	490	490	360	22
Commercial – Non Real Estate				
Industrial loans	121	121	179	5
Totals	$ 4,781	$ 4,781	$5,365	$ 258

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the detailed breakdown of impaired loans with and without a recorded allowance by loan class for the year ended December 31, 2018 (in thousands):

Impaired Loans with a Recorded Allowance December 31, 2018		Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Residential Real Estate						
1-4 Family Residences		$ 183	$ 183	$ 32	$ 192	$ ---
Commercial Real Estate						
Owner Occupied		932	932	195	446	46
Commercial – Non Real Estate						
Industrial loans		---	---	---	22	---
	Totals	$ 1,115	$ 1,115	$ 227	$ 660	$ 46

Impaired Loans without a Recorded Allowance December 31, 2018		Recorded Investment	Unpaid Principal	Average Recorded Investment	Interest Income Recognized
Construction & Land Loans					
Commercial		$ ---	$ ---	$ 195	$ ---
Other – land only		---	---	8	---
Residential Real Estate					
1-4 Family Residences		2,061	2,061	2,098	68
Commercial Real Estate					
Owner Occupied		3,169	3,169	3,855	167
Non-owner Occupied		250	250	254	15
Agricultural Loans		229	229	230	--
Commercial – Non Real Estate					
Industrial loans		237	237	216	5
	Totals	$ 5,946	$ 5,946	$6,856	$ 255

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the amounts of outstanding delinquencies by loan class as of December 31, 2019 (in thousands):

Past Due Loans by Class	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Total Current	Total Loans
Construction & Land Loans						
Residential	$ ---	$ ---	$ ---	$ ---	$ 735	$ 735
Other – Land only	---	---	---	---	5,536	5,536
Residential Real Estate						
Equity Lines of Credit	---	---	59	59	1,327	1,386
1-4 Family Residences	1,604	992	133	2,729	60,005	62,734
Multifamily Dwellings	---	---	---	---	4,603	4,603
Loans to Nondepository Financial Institutions	---	---	---	---	18,758	18,758
Commercial Real Estate						
Owner occupied	60	---	---	60	41,914	41,974
Non-owner occupied	---	---	234	234	12,572	12,806
Agricultural / Farm loans	---	---	---	---	5,017	5,017
Municipals	---	---	---	---	192	192
Commercial – Non Real Estate						
Agricultural	12	---	---	12	177	189
Industrial	34	---	48	82	10,550	10,632
Municipals	---	---	---	---	378	378
Consumer – Non Real Estate						
Credit Cards	6	13	16	35	591	626
Automobile loans	807	281	114	1,202	18,542	19,744
Other personal loans	53	16	22	91	6,646	6,737
Totals Gross Loans	$ 2,576	$ 1,302	$ 626	$ 4,504	$ 187,543	$ 192,047

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the amounts of outstanding delinquencies by loan class as of December 31, 2018 (in thousands):

Past Due Loans by Class	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Total Current	Total Loans
Construction & Land Loans						
Residential	$ ---	$ ---	$ ---	$ ---	$ 1,787	$ 1,787
Commercial	---	---	---	---	423	423
Other – Land only	---	---	---	---	4,230	4,230
Residential Real Estate						
Equity Lines of Credit	---	---	62	62	1,281	1,343
1-4 Family Residences	2,759	674	86	3,519	60,317	63,836
Multifamily Dwellings	---	---	---	---	5,350	5,350
Commercial Real Estate						
Owner occupied	379	---	431	810	39,811	40,621
Non-owner occupied	---	---	---	---	13,258	13,258
Agricultural / Farm loans	---	---	---	---	4,179	4,179
Municipals	---	---	---	---	228	228
Commercial – Non Real Estate						
Agricultural	5	---	---	5	215	220
Industrial	78	---	---	78	9,377	9,455
Municipals	---	---	---	---	517	517
Consumer – Non Real Estate						
Credit Cards	6	1	1	8	643	651
Automobile loans	758	272	185	1,215	15,413	16,628
Other personal loans	78	7	54	139	6,484	6,623
Totals Gross Loans	$ 4,063	$ 954	$ 819	$ 5,836	$ 163,513	$ 169,349

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table represents loans 90 days delinquent and still accruing interest and loans in a nonaccrual status as of December 31, 2019 by loan class (in thousands):

	90 days past due & still accruing interest	Nonaccrual Loans
Residential Real Estate		
Equity Lines of Credit	$ 59	$ ---
1-4 Family Residences	133	1,014
Commercial Real Estate		
Non-Owner occupied	234	---
Agricultural / Farm loans	---	204
Commercial Non-Real Estate		
Industrial	---	48
Consumer – Non Real Estate		
Automobile loans	114	---
Other personal loans	22	---
Totals Gross Loans	$ 562	$ 1,266

The following table represents loans 90 days delinquent and still accruing interest and loans in a nonaccrual status as of December 31, 2018 by loan class (in thousands):

	90 days past due & still accruing interest	Nonaccrual Loans
Construction & Land Loans		
Other- Land Only	$ ---	$ 13
Residential Real Estate		
Equity Lines of Credit	61	---
1-4 Family Residences	86	1,174
Commercial Real Estate		
Owner occupied	---	1,092
Agricultural / Farm loans	---	229
Commercial Non-Real Estate		
Industrial	---	67
Consumer – Non Real Estate		
Automobile loans	186	---
Other personal loans	44	10
Totals Gross Loans	$ 377	$ 2,585

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Loans past due greater than 90 days and still accruing interest at December 31, 2019 and 2018 totaled $562,000 and $377,000, respectively. Management continually monitors past due accounts and places these accounts in nonaccrual status if the payment plans are not adhered to. Nonaccrual loans excluded from impaired loan disclosure amounted to $172,000 and $219,000, at December 31, 2019 and 2018, respectively. The nonaccrual loans excluded from impaired loan disclosure at December 31, 2019 and 2018 consisted of three real estate loans which were in the process of collection.

The loan portfolio is comprised of various categories or segments, each of which have certain risk characteristics that are evaluated at the time of loan origination and periodically thereafter. Construction loans carry risks associated with whether or not the project will be completed according to schedule and within its original budget, as well as valuation risk associated with the overall value of the collateral upon completion. Residential real estate loans carry risks associated with continued credit-worthiness and financial stability of the borrower, as well as potential valuation changes relating to collateral. Commercial real estate loans carry risks associated with the continued operations of the business, as well as sufficient cash flow and profitability to service the debt. Additionally, commercial real estate loans are subject to risks associated with potential collateral valuation changes.

Commercial non-real estate loans, including those in the industrial and agricultural categories, carry similar risks to the commercial real estate loans, as they are dependent upon the continued successful business operations and cash flow. Commercial non-real estate loans also carry a risk associated with collateral being more difficult to assess. Consumer loans carry risks associated with the continued credit-worthiness and financial stability of the borrower, as well as potential for rapid depreciation or reduced value of the collateral, especially in automobile lending.

Loans to nondepository financial institutions include loans made by the Bank through its participation in the Northpointe Bank Mortgage Participation Program ("Northpointe MPP"). The Bank began funding loans through the Northpointe MPP in 2019. The Northpoint MPP provides interim financing to mortgage originators who originate mortgage loans for sale in the secondary market. The Bank, as a participant in the Northpointe MPP, funds 95% of each advance to the originators with Northpointe Bank funding the remainder and acting as the lead bank in the lending relationships with the originators. Each advance is secured by the underlying mortgage note between the originator and their mortgage customer. These loans carry risks associated with the successful delivery of the mortgage loans by the originators to their secondary market investors; however, sale commitments are in place at origination which limit these risks. Loan advances under the Northpointe MPP are generally funded and repaid within 30 days of origination. The maximum amount of loans the Bank will fund at any given time through the Northpointe MPP is $20.0 million. The outstanding balance of loans can fluctuate significantly due to the timing of funding and repayments, which varies based on mortgage origination volumes.

Management has developed an internal loan risk rating system as part of its credit analysis process which serves as the credit quality indicator for loans in the portfolio. Non-retail loans (i.e. all loans, excluding loans to consumers for home mortgages or other consumer purposes) are assigned an appropriate risk rating at the time of origination based on specific assessment factors relating to the borrower’s ability to meet contractual obligations under the loan agreement. This process includes reviewing borrowers’ financial information, historical payment experience, credit documentation, public information, and other information specific to each borrower. Loan rating assessments also include consideration of business cash flow and debt obligations. Risk ratings are generally reviewed on an annual basis for credit relationships with total credit exposure of $500,000 or more, or at any point management becomes aware of information affecting the borrower’s ability to fulfill their obligations. Management utilizes both internal and external loan review processes as a means of monitoring the appropriateness of risk ratings across the loan portfolio. Retail credits are assigned a pass rating at the time of their origination. Updates to risk ratings assigned to retail credits are made primarily on the basis of the payment activity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The Bank's internal rating system includes multiple ratings considered to be indicative of pass rated credits, as well as several non-pass or classified ratings consisting of special mention, substandard, doubtful, and loss. Pass credits generally consist of loans secured by cash or cash equivalents and loans to borrowers with a strong cash flow ratio, stable financial net worth and above average sources of liquidity to meet financial obligations and may also include loans to borrowers that may have minor, yet manageable, weaknesses related to the stability of cash flow and repayment sources and may require periodic monitoring. Special mention credits are loans that have identified weaknesses or adverse trends in the borrower's financial position that could potentially impact the Bank's credit position at some future date if not monitored closely. Substandard credits are those loans that have been identified as having a well-defined, specific, or major weakness in the primary cash flow sources or upon which significant reliance is being placed on secondary sources of repayment due to the borrower's financial difficulties. Potential for losses related to substandard credits is evaluated on a regular basis with specific allocations being made as needed, as well as other corrective actions necessary to protect the institution. Loans categorized as doubtful also have well defined weaknesses with the added characteristic of the likelihood that collection of payment in full is highly questionable or perhaps improbable. Loans classified as loss are considered to be totally uncollectible or of such little value that their continuance on the Bank's books as an asset is not warranted. Retail credits 90 or more days past due are generally classified as substandard, with residential real estate loans being evaluated for individual impairment on a case by case basis as they become delinquent or are identified as a potential problem credit.

The following tables represent summaries of the Bank's loan portfolio by class and credit quality indicator as of December 31, 2019 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans
Construction & Land Loans						
Residential	$ 735	$ ---	$ ---	$ ---	$ ---	$ 735
Other – Land only	5,519	---	17	---	---	5,536
Residential Real Estate						
Equity Lines of Credit	1,327	---	59	---	---	1,386
1-4 Family Residences	60,540	252	1,942	---	---	62,734
Multifamily Dwellings	4,603	---	---	---	---	4,603
Loans to Nondepository Financial Institutions	18,758	---	---	---	---	18,758
Commercial Real Estate						
Owner occupied	36,883	3,664	1,427	---	---	41,974
Non-owner occupied	9,947	2,626	233	---	---	12,806
Agricultural / Farm loans	3,637	890	490	---	---	5,017
Municipals	192	---	---	---	---	192
Commercial – Non Real Estate						
Agricultural	189	---	---	---	---	189
Industrial	10,511	1	120	---	---	10,632
Municipals	378	---	---	---	---	378
Consumer – Non Real Estate						
Credit Cards	597	13	16	---	---	626
Automobile loans	19,582	---	162	---	---	19,744
Other personal loans	6,699	---	38	---	---	6,737
Totals Gross Loans	$180,097	$7,446	$ 4,504	$ ---	$ ---	$ 192,047

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following tables represent summaries of the Bank's loan portfolio by class and credit quality indicator as of December 31, 2018 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans
Construction & Land Loans						
Residential	$ 1,787	$ ---	$ ---	$ ---	$ ---	$ 1,787
Commercial	423	---	---	---	---	423
Other – Land only	4,230	---	---	---	---	4,230
Residential Real Estate						
Equity Lines of Credit	1,281	---	62	---	---	1,343
1-4 Family Residences	62,232	786	818	---	---	63,836
Multifamily Dwellings	5,350	---	---	---	---	5,350
Commercial Real Estate						
Owner occupied	32,699	3,923	3,999	---	---	40,621
Non-owner occupied	10,276	2,732	250	---	---	13,258
Agricultural / Farm loans	2,895	1,055	229	---	---	4,179
Municipals	228	---	---	---	---	228
Commercial – Non Real Estate						
Agricultural	220	---	---	---	---	220
Industrial	9,201	16	238	---	---	9,455
Municipals	517	---	---	---	---	517
Consumer – Non Real Estate						
Credit Cards	649	1	1	---	---	651
Automobile loans	16,171	272	185	---	---	16,628
Other personal loans	6,562	7	54	---	---	6,623
Totals Gross Loans	$154,721	$8,792	$ 5,836	$ ---	$ ---	$ 169,349

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Loans classified as troubled debt restructurings are monitored for payment default on an on-going basis. There were no accounts that defaulted within 12 months of the original modification date during the year ended December 31, 2019. There were 3 accounts that defaulted within 12 months of the original modification date during the year ended December 31, 2018. Those accounts consisted of one commercial real estate loan in the amount of $309,000 and two commercial non-real estate accounts totaling $56,000. The Bank defines default as those accounts having payments 90 days or more past due as of December 31, 2019 and December 31, 2018.

At December 31, 2019, there were a total of $2.5 million in loans classified as troubled debt restructurings. There were no accounts added to the troubled debt restructuring category during 2019. There were approximately $1.4 million in restructured loan balances classified as performing and in compliance with their modified terms at December 31, 2019. Restructured loans classified as nonperforming based on their past due or nonaccrual status at December 31, 2019 totaled $1.1 million. There were no unfunded commitments for loans classified as troubled debt restructures as of December 31, 2019.

At December 31, 2018, there were a total of $3.4 million in loans classified as troubled debt restructurings. There were no accounts added to the troubled debt restructuring category during 2018. There were approximately $1.6 million in restructured loan balances classified as performing and in compliance with their modified terms at December 31, 2018. Restructured loans classified as nonperforming based on their past due or nonaccrual status at December 31, 2018 totaled $1.8 million. There were unfunded commitments in the amount of $40,000 for loans classified as troubled debt restructures as of December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 ALLOWANCE FOR LOAN LOSSES (ALLL):

The summary table below includes the allowance allocations and total loans evaluated both individually and collectively for impairment, as well as a roll-forward representation of the activity that has occurred in the allowance account during the period ending December 31, 2019 (in thousands):

	Construction & Land Loans	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Consumer Non-Real Estate	Loans to Non depository Financial Institutions	Total
ALLL ending balance 12/31/2018	$ 39	$ 648	$ 752	$ 74	$ 635	$ ---	$ 2,148
Charge-offs	---	---	---	---	(471)	---	(471)
Recoveries	---	16	12	14	151	---	193
Provision	(6)	(24)	(200)	1	426	91	288
ALLL ending Balance 12/31/2019	$ 33	$ 640	$ 564	$ 89	$ 741	$ 91	$ 2,158
Evaluated individually for impairment	--	18	---	---	83	---	101
Evaluated collectively for impairment	33	622	564	89	658	91	2,057
Total Gross Loans 12/31/2019	$ 6,271	$ 68,723	$ 59,989	$ 11,199	$ 27,107	$ 18,758	$ 192,047
Evaluated individually for impairment	---	2,647	2,113	119	111	---	4,990
Evaluated collectively for impairment	6,271	66,076	57,876	11,080	26,996	18,758	187,057

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 ALLOWANCE FOR LOAN LOSSES (ALLL): (continued)

The summary table below includes the allowance allocations and total loans evaluated both individually and collectively for impairment, as well as a roll-forward representation of the activity that has occurred in the allowance account during the period ending December 31, 2018 (in thousands):

	Construction & Land Loans	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Consumer Non-Real Estate	Total
ALLL ending balance 12/31/2017	$ 31	$ 700	$ 589	$ 97	$ 588	$ 2,005
Charge-offs	---	---	(13)	---	(439)	(452)
Recoveries	---	5	17	4	215	241
Provision	8	(57)	159	(27)	271	354
ALLL ending Balance 12/31/2018	$ 39	$ 648	$ 752	$ 74	$ 635	$ 2,148
Evaluated individually for impairment	--	32	195	---	---	227
Evaluated collectively for impairment	39	616	557	74	635	1,921
Total Gross Loans 12/31/2018	$ 6,440	$ 70,529	$ 58,286	$ 10,192	$ 23,902	$ 169,349
Evaluated individually for impairment	---	2,244	4,580	237	---	7,061
Evaluated collectively for impairment	6,440	68,285	53,706	9,955	23,902	162,288

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 BANK PREMISES and EQUIPMENT:

Bank premises, equipment and computer software included in the financial statements at December 31, 2019 and 2018 are as follows:

	2019	2018
	(In Thousands)	
Land	$ 1,627	$ 1,627
Land improvements and buildings	6,049	6,017
Furniture and equipment	5,131	5,789
Computer software	1,699	1,777
	14,506	15,210
Less accumulated depreciation	9,736	10,379
Net	$ 4,770	$ 4,831

Depreciation and amortization related to bank premises, equipment and software included in operating expense was $326,000 and $333,000 for December 31, 2019 and 2018, respectively.

NOTE 9 LEASES:

On January 1, 2019, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. There was no cumulative effect adjustment at adoption. The Company also elected certain practical expedients within the standard and did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases and did not reassess any initial direct costs for existing leases. The Company's only long-term lease reflected below was classified as an operating lease prior to adoption and it remained classified as such at adoption. As stated in the Company's 2018 Annual Report, the implementation of the new standard resulted in recognition of a right-of-use asset and lease liability of $290,000 for the lease existing at the date of adoption, which is related to the Company's lease of premises in Charlottesville, Virginia. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

There are no options to renew included in the lease agreement for the Company's Charlottesville location. This lease agreement also does not provide for a residual value guarantee and has no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases:

(Dollars in thousands)	At December 31, 2019
Lease liability	$ 230
Right-of-use asset	$ 227
Weighted average remaining lease term	3.4 years
Weighted average discount rate	2.81%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 LEASES: (continued)

(Dollars in thousands)		For the Year Ended December 31, 2019
Cash paid for amounts included in lease liabilities	$	67
Operating lease cost	$	70

A maturity analysis of operating lease liability and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

For the years ending December 31		Lease Payments Due (in thousands)
2020	$	69
2021		70
2022		72
2023		30
Total undiscounted cash flows	$	241
Discount		(11)
Lease liability	$	230

NOTE 10 DEPOSITS:

The Bank's total deposit portfolio consists primarily of demand checking accounts, savings accounts and time deposit accounts. Total deposits were $195.9 million and $177.5 million as of December 31, 2019 and 2018, respectively. CDARs deposits, excluding reciprocal deposits, included in this total were $8.3 million and $3.3 million as of December 31, 2019 and 2018, respectively. Customer time deposit balances that met or exceeded the $250,000 FDIC insurance limit totaled $3.9 million and $4.5 million as of December 31, 2019 and 2018, respectively. At December 31, 2019, time deposit scheduled maturities (in thousands) are as follows:

2020		$	35,050
2021			13,363
2022			6,207
2023			1,163
2024			1,055
Thereafter			53
	Total	$	56,891

The Bank has one customer with large deposit balances exceeding 5% of total deposits as of December 31, 2019. The total deposit balances for this customer as of December 31, 2019 were $20.5 million or 10.49% of total deposits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 BORROWINGS:

The Bank has a line of credit with the Federal Home Loan Bank of Atlanta upon which credit advances can be made up to 40% of total Bank assets, subject to certain eligibility requirements. This represents a total credit line of approximately $91.3 million and $83.6 million as of December 31, 2019 and 2018, respectively. FHLB advances bear interest at a fixed or floating rate depending on the terms and maturity of each advance and numerous renewal options are available. These advances are secured by first lien 1-4 family residential mortgages totaling $60.9 million at December 31, 2019. On certain fixed rate advances, the FHLB may convert the advance to an indexed floating rate at some set point in time for the remainder of the term. If the advance converts to a floating rate, the Bank may repay all or part of the advance without a prepayment penalty. At December 31, 2019 and December 31, 2018, total outstanding borrowings with FHLB were $4.4 million and $5.9 million, respectively. Outstanding FHLB advances at December 31, 2019 consisted of two fixed rate advances of $1.9 million and $2.5 million carrying interest rates of 1.36% and 3.37%, respectively. The $2.5 million advance requires quarterly interest payments with the full amount of principal due at maturity in December 2028. The $1.9 million advance matures in January 2021 and requires monthly interest payments with quarterly principal payments. The remaining scheduled principal repayments on this advance at December 31, 2019 were as follows:

(In thousands)		
Due in 2020	$	1,500
Due in 2021		375
Total	$	1,875

The Bank also has available credit lines with other correspondent banks totaling $14.0 million, which can be used for short-term liquidity purposes, if necessary. Any funds borrowed on these credit lines are required to be repaid within 7 to 30 consecutive business days. The interest rate on such borrowings is set in accordance with the then current daily market rate. As of December 31, 2019, there were no outstanding borrowings against these credit facilities.

NOTE 12 DIVIDEND LIMITATION ON SUBSIDIARY BANK:

A principal source of funds of the Company is dividend transfers paid by the Bank. The amount of dividends the Bank may pay to the Company is regulated by the Federal Reserve. As of December 31, 2019, the maximum amount of dividends the Bank could pay to the Company was $5.8 million or 18.80% of the consolidated net assets, without requesting permission from the Federal Reserve Bank. There are additional regulatory guidelines, which establishes further limitations for banks based on quarterly earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 INCOME TAXES:

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2016. The components of income tax expense are as follows:

	2019	2018
	(In Thousands)	
Current income tax expense	$ 153	$ 220
Deferred income tax expense (benefit)	133	(18)
Income Tax Expense	$ 286	$ 202

The reasons for the differences between income tax expense and the amount computed by applying the statutory federal income tax rate are as follows:

	2019	2018
	(In Thousands)	
Income taxes computed at the applicable federal income tax rate	$ 614	$ 510
Increase (decrease) resulting from:		
Tax-exempt income and dividends	(16)	(18)
Low income housing investments	(324)	(315)
Other	12	25
Income Tax Expense	$ 286	$ 202

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 INCOME TAXES: (continued)

At December 31, the net deferred tax asset was made up of the following:

	2019	2018
	(In Thousands)	
Deferred Tax Assets:		
Allowance for loan losses	$ 362	$ 347
Lease liability	48	---
Other real estate owned	---	11
Nonaccrual interest	133	172
Securities available for sale	---	33
Deferred loan fees	95	70
Other	4	3
Total	$ 642	$ 636
Deferred Tax Liabilities:		
Depreciation	$ 165	$ 121
Right-of-use asset	48	---
Cash surrender value of life insurance	47	44
Securities available for sale	29	---
Goodwill	76	76
Equity securities	76	2
Other	8	5
Total	$ 449	$ 248
Net Deferred Tax Assets	$ 193	$ 388

NOTE 14 REGULATORY MATTERS:

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

The regulatory capital requirements under Basel III became effective January 1, 2015, with full compliance with all of the requirements to be phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of the requirements, the Common Equity Tier I Capital ratio is calculated and utilized in the assessment of capital for all institutions. In addition, a capital conservation buffer must be maintained in excess of the minimum capital requirements to allow an institution to avoid restrictions on dividend payments, share repurchase transactions, and discretionary bonus payments. The capital conservation buffer requirement began its phase-in on January 1, 2016, at 0.625% of risk-weighted assets, and increased by the same percentage in each successive year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is applicable to all ratios with the exception of the leverage ratio, which is noted below as Tier I Capital to Average Assets.

The quantitative measures established by regulation ensure capital adequacy and require the Bank to maintain minimum amounts and ratios as set forth in the table below. Management believes, as of December 31, 2019 and 2018, the Bank met all capital adequacy requirements to which it was subject. As of December 31, 2019, the most recent notification from the Bank's primary federal regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I, and Tier I leverage ratios as set forth in the table. The Bank's actual capital amounts and ratios are also presented below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 REGULATORY MATTERS: (continued)

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2019:						
Total Capital to Risk Weighted Assets:						
Pioneer Bank	$ 28,173	15.7%	$ 14,378	≥ 8.0%	$ 17,973	≥10.0%
Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 26,015	14.5%	$ 10,784	≥ 6.0%	$ 14,378	≥ 8.0%
Common Equity Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 26,015	14.5%	$ 8,088	≥ 4.5%	$ 11,682	≥ 6.5%
Tier I Capital to Average Assets:						
Pioneer Bank	$ 26,015	11.7%	$ 8,905	≥ 4.0%	$ 11,132	≥ 5.0%
As of December 31, 2018:						
Total Capital to Risk Weighted Assets:						
Pioneer Bank	$ 25,924	16.3%	$ 12,713	≥ 8.0%	$ 15,891	≥10.0%
Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 23,936	15.1%	$ 9,535	≥ 6.0%	$ 12,713	≥ 8.0%
Common Equity Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 23,936	15.1%	$ 7,151	≥ 4.5%	$ 10,329	≥ 6.5%
Tier I Capital to Average Assets:						
Pioneer Bank	$ 23,936	11.7%	$ 8,214	≥ 4.0%	$ 10,267	≥ 5.0%

NOTE 15 EARNINGS PER SHARE:

The following shows the weighted average number of shares used in computing earnings per share for the years ended December 31, 2019 and 2018.

	2019		2018	
	Weighted Average Shares	Per Share Amount	Weighted Average Shares	Per Share Amount
Basic and diluted earnings per share	980,515	$2.69	975,427	$ 2.29

There were no potentially dilutive securities outstanding during the years ended December 31, 2019 and 2018
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 OFF-BALANCE SHEET COMMITMENTS:

The contract or notional amount of financial instruments with off-balance sheet risks are as follows:

	December 31,	
	2019	2018
	(In Thousands)	
Unfunded lines of credit (commercial and personal)	$ 8,012	$ 7,718
Loan commitments and letters of credit (commercial and personal)	7,899	5,799
Credit card unused credit limits	1,523	1,606

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the counter-party.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit generally are un-collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments for which collateral is deemed necessary.

NOTE 17 TRANSACTIONS WITH RELATED PARTIES:

During the year, executive officers and directors (and companies controlled by them) were customers of and had transactions with the Company in the normal course of business. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk. Deposit account balances of executive officers and directors totaled $24.8 million as of December 31, 2019 and $23.7 million for the year ended December 31, 2018. Loan transactions, including all extensions of credit to such related parties are shown in the following schedule:

	2019	2018
	(In Thousands)	
Total loans, beginning of year	$ 2,139	$ 2,228
New loans	75	---
Payments	(62)	(89)
Total loans, end of year	$ 2,152	$ 2,139

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS:

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

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

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices in active markets, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

Equity securities: Equity securities are recorded at fair value on a recurring basis. Fair values for equity securities are based upon quoted market prices for identical securities in active markets (Level 1) or quoted prices for identical securities in markets not deemed to be active due to the volume of shares transferred and frequency of trades (Level 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

The following table presents the balances of financial assets measured at fair value on a recurring basis as of December 31, 2019 and December 31, 2018:

		Fair Value Measurements Using:		
Description	Balances Outstanding (In Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019				
U.S. treasury securities	$ 2,588	$ ---	$ 2,588	$ ---
Mortgage-backed Securities	3,708	---	3,708	---
Agency securities	2,018	---	2,018	---
State & Municipals	1,782	---	1,782	---
Total Available –for-sale securities	$ 10,096	$ ---	$ 10,096	$ ---
Equity Securities	$ 3,397	$ 3,389	$ 8	$ ---
As of December 31, 2018				
U.S. treasury securities	$ 3,525	$ ---	$ 3,525	$ ---
Mortgage-backed Securities	4,359	---	4,359	---
Agency securities	3,929	---	3,929	---
State & Municipals	2,161	---	2,161	---
Total Available –for-sale securities	$ 13,974	$ ---	$ 13,974	$ ---
Equity Securities	$ 357	$ 352	$ 5	$ ---

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: The Fair Value Measurement accounting standard also applies to loans measured for impairment including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

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

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old, not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business financial statement if not considered significant using observable market data. Internal collateral evaluations relating to commercial loans secured by business assets such as inventory and equipment are generally performed on an annual basis. However, since this is not a formalized or certified valuation, these evaluations are considered to be level 3 for fair value disclosure and reporting purposes. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

For residential and commercial real estate loans considered to be collateral dependent, appraisals or updated collateral evaluations are generally obtained in conjunction with specific allowance allocations and/or anticipated foreclosure proceedings, on a case by case basis, depending upon the strength of additional mitigating arrangements with individual borrowers. The outstanding principal balance of impaired loans net of specific reserves considered to be collateral dependent in the level 3 category as of December 31, 2019 totaled approximately $107,000 compared to $888,000 at December 31, 2018. These loans primarily consisted of consumer real estate and consumer installment loans. As a general rule, management utilizes a significant discount factor for outdated appraisals when calculating its allowance allocation estimates and making specific reserves. Local professional realtors are also contacted regarding potential fair market values in an effort to ensure that the discounted values are within reasonable ranges on individual properties. Additionally, updated tax assessed values are also considered in this evaluation process on a case by case basis.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair market value less selling expenses. Fair value of OREO properties held are generally based on current appraisal values, as previously defined above. .

The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis during the period.

		Carrying values		
Description of Assets:	Balances Outstanding (In Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019				
Impaired Loans, net of allowance	$ 107	$---	$ ---	$ 107
As of December 31, 2018				
Impaired Loans, net of allowance	$ 888	$----	$ ---	$ 888
Other Real Estate Owned	$ 487	$----	$ ---	$ 487

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2019 (dollars in thousands):

	Quantitative information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired loans	$ 107	Discounted appraised value or recent tax assessment values	Selling cost	10% - 30% (15%)

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2018 (dollars in thousands):

	Quantitative information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired loans	$ 888	Discounted appraised value or recent tax assessment values	Selling cost	0% - 10% (7%)
OREO properties	$ 487		Discount for lack of marketability, Age of appraisal, or Condition of property	10% - 25% (15%)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial statements, including those financial assets and financial liabilities that are not required to be measured at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value. Fair values for December 31, 2019 and 2018 were estimated using an exit price notion.

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

		Fair Value Measurements at December 31, 2019 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Balance
Assets		(In thousands)			
Cash and cash equivalents	$4,019	$ 4,019	$ ---	$ ---	$4,019
Interest bearing deposits in other banks	12,127	11,727	398	---	12,125
Federal funds sold	2,424	2,424	---	---	2,424
Securities available for sale	10,096	---	10,096	---	10,096
Equity securities	3,397	3,389	8	---	3,397
Loans, net	189,889	---	---	190,567	190,567
Bank owned life insurance	422	---	422	---	422
Accrued interest receivable	1,079	---	1,079	---	1,079
Liabilities					
Non-interest bearing deposits	57,221	---	57,221	---	57,221
Interest bearing deposits	35,904	---	35,904	---	35,904
Savings deposits	45,868	---	45,868	---	45,868
Time deposits	56,891	---	---	57,327	57,327
Borrowings	4,375	---	4,604	---	4,604
Accrued interest payable	240	---	240	---	240

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

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

		Fair Value Measurements at December 31, 2018 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Balance
Assets			(In thousands)		
Cash and cash equivalents	$8,035	$ 8,035	$ ---	$ ---	$8,035
Interest bearing deposits in other banks	10,429	10,029	387	---	10,416
Federal funds sold	2,369	2,369	---	---	2,369
Securities available for sale	13,974	---	13,974	---	13,974
Equity securities	357	352	5	---	357
Loans, net	167,201	---	---	165,806	165,806
Bank owned life insurance	406	---	406	---	406
Accrued interest receivable	1,093	---	1,093	---	1,093
Liabilities					
Non-interest bearing deposits	54,747	---	54,747	---	54,747
Interest bearing deposits	34,253	---	34,253	---	34,253
Savings deposits	41,515	---	41,515	---	41,515
Time deposits	46,976	---	---	47,269	47,269
Borrowings	5,875	---	5,963	---	5,963
Accrued interest payable	188	---	188	---	188

NOTE 19 BENEFIT PLANS:

The Bank has a 401(k) Profit Sharing Plan available to employees at least 18 years of age on the first day of the month following their start date. Employees may contribute compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 3 percent of an employee's eligible annual compensation contributed to the Profit Sharing Plan. Additional amounts may be contributed, at the option of the Bank's Board of Directors. Employer contributions vest to the employee at 100% after six years of service. A year of vesting service is a plan year during which an employee is credited with at least 1,000 hours of service. Total expense attributable to this 401(k) plan amounted to approximately $64,000 and $55,000 for years ending December 31, 2019 and 2018.

The Bank also provides a cafeteria insurance plan including medical, life, and long-term disability coverage for eligible employees. The net expense attributable to this insurance plan was approximately $359,000 and $320,000, for the years ending December 31, 2019 and 2018, respectively.

NOTE 20 LOW INCOME HOUSING TAX CREDIT INVESTMENTS:

The Bank has invested in seven separate housing equity funds at December 31, 2019. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The investments in these funds were recorded as other assets on the consolidated balance sheets and were $2.1 million and $2.3 million at December 31, 2019 and 2018, respectively. The expected terms of these investments and the related tax benefits run through 2033. Tax credits and other tax benefits recognized as a component of income tax expense during the years ended December 31, 2019 and 2018 were $324,000 and $315,000 respectively, related to these investments. Additional capital calls expected for the funds totaled $50,000 thousand and $472,000 thousand December 31, 2019 and 2018, respectively, and are included in other liabilities on the consolidated balance sheets.

NOTE 21 REVENUE RECOGNITION:

On January 1, 2018, the company adopted ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606", and all subsequent amendments to the ASU No. 2014-09. Using Topic 606 guidelines, the company concluded that Topic 606 primarily applies to the Company's noninterest income excluding certain out-of-scope revenue streams (e.g. gains on sales of securities available for sale, change in fair value of equity securities, etc.).

Service Charges on Deposit Accounts

The majority of the company's noninterest income is derived from short term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM and interchange fees, and fees for various services such as stop payments, wire transfers, and cashiers checks. The Company's performance obligations on revenue generated from deposit accounts and other related services are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized. The company earns interchange fees from debit and credit cardholder transactions conducted through the Visa and MasterCard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are generally recognized daily, concurrently with the transaction processing services provided to the cardholder.

Commission Income

Commissions are primarily received on the brokerage of investment and insurance services to customers. Brokerage fee commissions are earned when a financial instrument trade is completed or an insurance contract is signed. Revenue from these services is recognized monthly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 REVENUE RECOGNITION (continued):

Noninterest income disaggregated by major source, for the years ended December 31, 2019 and 2018, consisted of the following:

	Years Ended December 31,	
Noninterest income (in thousands):	2019	2018
Service charges on deposit accounts {1]:		
Overdrawn account and nonsufficient funds charges	$ 512	$ 512
ATM fees	627	557
Monthly service charges	106	97
Other service charges	20	17
Commission income [1]	86	82
Gains on sales of available for sale securities, net	-	-
Change in fair value of equity securities	371	(191)
Other operating income [2]	84	83
Total noninterest income	$ 1,806	$ 1,157

[1] Income within the scope of Topic 606.
[2] For the years ended December 31, 2019 and 2018, includes other income within the scope of Topic 606 amounting to $64 thousand and $66 thousand, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

BALANCE SHEETS

	December 31, 2019	2018
	(In Thousands)	
ASSETS		
Cash and cash equivalents	$ 824	$ 3,830
Investment in subsidiary	26,495	24,182
Equity securities, at fair value	3,397	357
Bank premises and equipment, net	391	416
Other assets	7	85
Total Assets	$ 31,114	$ 28,870
LIABILITIES		
Accrued expenses and other liabilities	$ 92	$ 8
Total Liabilities	92	8
STOCKHOLDERS' EQUITY		
Common stock	491	489
Retained earnings	30,422	28,498
Accumulated other comprehensive income (loss)	109	(125)
Total Stockholders' Equity	31,022	28,862
Total Liabilities and Stockholders' Equity	$ 31,114	$ 28,870

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS: (continued)

STATEMENTS OF INCOME

	December 31, 2019	December 31, 2018
	(In Thousands)	
INCOME		
Dividends from subsidiary	$ 270	$ ---
Interest income	8	7
Dividend income	61	92
Change in fair value of equity securities	371	(191)
Rent income	82	82
Total Income (Loss)	792	(10)
EXPENSES		
Compensation expense	66	66
Occupancy expenses	37	34
Other operating expenses	53	59
Total Expenses	156	159
Net income (loss) before income tax expense (benefit) and undistributed income of subsidiary	636	(169)
INCOME TAX EXPENSE (BENEFIT)	79	(32)
Net income (loss) before undistributed income of subsidiary	557	(137)
Undistributed income of subsidiary	2,079	2,366
NET INCOME	$ 2,636	$ 2,229

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS: (continued)

STATEMENTS OF CASH FLOWS

	December 31,	
	2019	**2018**
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,636	$ 2,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed subsidiary income	(2,079)	(2,366)
Fair value adjustment on equity securities	(371)	191
Proceeds from sales of equity securities	---	11,592
Purchase of equity securities	---	(7,156)
Depreciation	25	25
Stock based compensation	153	88
Net change in:		
Other assets	78	(83)
Accrued expenses and other liabilities	84	(110)
Net Cash Provided by Operating Activities	526	4,410
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equity securities	342	---
Purchase of equity securities	(3,011)	---
Net Cash Used In Investing Activities	(2,669)	---
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(863)	(820)
Net Cash Used in Financing Activities	(863)	(820)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,006)	3,590
Cash and Cash Equivalents, Beginning of Year	3,830	240
Cash and Cash Equivalents, End of Year	$ 824	$ 3,830

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Pioneer Bankshares, Inc.