# Mars Bancorp

ANNUAL REPORT 2018

## Financial Education Initiative

### Commitment to Educating Our Communities

Mars Bank plays a significant role in the communities we serve. We provide financial products and services to help individuals, families, and businesses meet their goals and fulfill their dreams. However, our responsibility goes beyond banking products and services; we must also provide leadership and support in our communities to help maintain their vitality and the quality of life. This effort includes sponsorships, charitable donations, and volunteerism.

In 2018, the bank expanded its focus on education. By making informational and educational resources available, the bank provides knowledge, growth opportunities, and value to our customers and to our communities.

### Home Buyer Education

For the past two years, the bank held First Time Homebuyer Events that are free to the public. Over 100 individuals and families attended these live events in 2018. The information demystifies the homebuying and mortgage process. More sessions are planned for 2019. The resources and video from the live events are also available throughout the year from our mortgage lending team.

### Cybersecurity Training

The bank addresses the critical issue of cybersecurity by maintaining state-of-the-art software and threat monitoring, plus requiring extensive ongoing staff training. In 2018, we also provided free live cybersecurity training events for businesses and individuals. Additionally, free online training for the community and businesses is available at MarsBank.com/Security/.

### Financial Literacy Curriculum

For a third year, the bank sponsored Financial Literacy curriculum in two area high schools. Topics ranged from basic budgeting to financing higher education to understanding investments. The goal is to empower high school students with financial knowledge that can prepare them for the many life-affecting financial decisions they will soon face.

### Relationship Banking

As our mission states, we are committed to relationship building. Through our staff, banking centers, online and mobile connections, social media, and our involvement in the community, we strive to maintain and expand the important human relationships we have with individuals, families, businesses, communities, leaders, and the public.

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# Message to Shareholders

## INTRODUCTION

Our mission, at Mars Bancorp (Company) and subsidiary Mars Bank (Bank), is to be relationship driven, independent, offer competitive, high quality products, services, and needs-based solutions; while delivering an outstanding customer experience, provided by talented and dedicated professionals.

We strongly believe, as a community bank, it is our responsibility to serve our customers, shareholders, staff, and community in a personal, efficient and friendly manner. We consistently focus on delivering for our stakeholders. This includes providing banking products and services for our customers, generating value for our shareholders, providing advancement opportunity for our staff, working to better our community, helping to improve financial literacy, and advocating for our Bank and industry. One example of this commitment in 2018 was our expanded delivery of education and training opportunities highlighted on the inside front cover of this report.

We are pleased to share our key accomplishments for 2018 and to lay out our vision for 2019 and beyond. Our mission is a continual reminder of the balance between the needs of providing a fair return to our shareholders, meeting compliance obligations, adhering to sound fiscal principles, and serving our customers and communities.

## KEY ACCOMPLISHMENTS

During 2018, we accomplished the following key objectives including delivering growth and improved financial results.

**Financial and Sales**

- Retained and grew our core deposits through relationship development, competitive pricing, and external advertising.
- Originated commercial, mortgage and home equity loans totaling $32 million, $40 million and $20 million, respectively, while growing our total loans outstanding.
- Successfully supported sales activities through improved external calling, targeted marketing campaigns, and brand awareness activities utilizing various communication channels.
- Developed and marketed a new home equity term loan product which was more cost effective and simplified the process for customers while fulfilling a market need for longer-term mortgage refinances.
- Completed the roll-out of our VA mortgage product and organized a veterans homebuyer event.
- Maintained strong credit quality through effective and consistent loan underwriting, monitoring and collection practices.
- Conducted research into alternative sales and delivery channels including geographic expansion and digital banking options.

**Customers and Community**

- Expanded our customer service capability including assignment of dedicated staffing, increased training, and planned for a company-wide customer experience initiative.
- Launched a web-based dashboard which simplifies the wire transfer process for commercial customers.
- Expanded our customer and community education program to include four First Time Homebuyer events and two Cybersecurity Awareness events. The Bank also provides free cybersecurity training online at MarsBank.com/Security/.
- Recognized by our community through media contests as the Best Mortgage Lender (Gold award) and Best Bank (Silver award) in the Cranberry Eagle Community Choice Award program and Best Mortgage Company (First place), Best Loan Provider (Second place), and Best Bank (Third place) in the north Fan Favorites voting by readers of the Pittsburgh Post-Gazette.

- Remained committed to the communities we serve through employee volunteerism, financial support, and organizing and promoting activities and initiatives to meet community needs. Our focus evolves as the needs of the communities change. Current priorities include affordable housing, veterans and first responders, women's health and well-being, and financial literacy education and scholarships.

**Staff and Industry**

- Continued our commitment to professional development through in-house training in retail banking and cyber-preparedness for all staff. Again in 2018, we sponsored staff in the School of Banking, Advanced School of Banking, and Leadership Institute of the Pa Bankers Association, various Mortgage Banking Association schools, and a participant in the Leadership Butler County program.
- Took a proactive role in advocating for the Bank and the banking industry through representation at state and federal meetings with legislators and regulators facilitated by the Pa Bankers Association, American Bankers Association, and Federal Home Loan Bank. We also engaged board and staff in personal advocacy efforts including writing letters, sending emails, and making calls to legislators.
- Promoted community banking through leadership roles at the Pa Bankers Association while giving back to our industry by sharing our expertise and experience. Three senior team members serve on key committees, while Jim Dionise is honored to currently chair the Pa Bankers Association board.

**Operations and Administration**

- Continued investment in cybersecurity next-generation technologies and partnerships to protect customer data and reduce fraud with advanced behavioral techniques, training, and awareness.
- Implemented software to streamline Bank Secrecy Act and Anti-Money Laundering compliance processes and reporting utilizing multiple forms of crime detection logic.
- Added functionality to our core operating system which provides better access to data for targeted campaigns and offers while also providing updates to front-line staff regarding customer relationships and potential product needs.
- Developed automated workflow processes to improve operating efficiencies.

## FINANCIAL RESULTS

Net income for the current year totaled $1,803,000 as compared to $1,030,000 for the same period in the prior year, an increase of $773,000 or 75.0%. For 2018, the Company generated earnings per share of $22.54, return on average assets of 0.46% and return on average equity of 5.32%.

On December 22, 2017, the Tax Cuts and Jobs Act, tax reform bill was signed into law and as a result, the Company recorded an additional income tax expense of $469,000. Excluding the impact of this one-time tax reform charge, net income for 2017 would have been $1,499,000, earnings per share $18.74, return on average assets 0.39% and return on average equity 4.30%.

While we continued to operate in an interest rate environment with ongoing pressure on earning asset yields and higher regulatory and information technology costs, we were able to provide for steady loan and deposit growth to deliver improved financial results for 2018.

The key items impacting our financial performance were as follows:

- Net interest income increased by $627,000 or 6.2% for the year ended December 31, 2018, as compared to the same period in 2017. This was primarily due to increases in interest income on loans of $565,000, investment securities of $273,000, interest-bearing deposits with banks of $233,000 and a decrease in borrowing costs of $41,000 which was partially offset by an increase in deposit interest expense of $485,000. The increase in interest income on loans was primarily related to higher average loan receivables of $2.1 million and increased yields earned as a result of short-term market rate increases. The increase in interest income on investment securities was primarily due to market rate increases. The increase in interest income on interest-bearing deposits with banks was primarily related to higher average balances of $9.1 million and higher yields earned due to the increases in the Federal Funds rate over the past year. The increase in deposit costs of $485,000 was primarily related to deposit rate increases resulting from the market rate increases. The net interest spread and net interest margin were 2.78% and 2.94% for the year ended December 31, 2018, respectively, as compared to 2.77% and 2.88% for the same period in the prior year, respectively.

- Loans outstanding increased by $1.3 million, or 0.6% to $247.3 million at December 31, 2018, as compared to $246.0 million at December 31, 2017. Deposits increased by $3.7 million, or 1.1% to $340.5 million at December 31, 2018, as compared to $336.8 million at December 31, 2017.
- The provision for loan losses totaled $4,000 for the year ended December 31, 2018, as compared to $100,000 for the same period in the prior year. The Company's credit quality position at December 31, 2018, remained very strong as evidenced by delinquencies at 0.05% of total loans, nonaccrual loans at 0.03% of total loans, and the allowance for loan losses at 1.04% of total loans.
- Non-interest income increased by $211,000 or 11.0% for the year ended December 31, 2018, as compared to the same period in 2017. The primary reasons for this increase were higher residential mortgage sale and processing income of $107,000, ATM/Debit Card related income of $57,000, Federal Home Loan Bank stock dividends of $37,000 and insurance services income of $25,000. These increases were partially offset by lower service charges on deposits including NSF fees of $14,000.
- Non-interest expense increased by $680,000 or 6.7% for the year ended December 31, 2018, as compared to the same period in 2017, primarily related to increases in salary and benefit costs of $512,000, equipment expense of $55,000, consulting expense of $50,000, marketing expense of $43,000, occupancy expense of $38,000, computer service expense of $27,000, audit expense of $25,000 and ATM/Debit Card processing expense of $11,000. These increases were partially offset by lower corporate insurance expenses of $67,000 and legal costs of $39,000.
- The Company recognized income tax expense of $270,000 for the year ended December 31, 2018, as compared to $789,000 for the same period in the prior year or $320,000 net of the 2017 additional income tax expense resulting from the Tax Cuts and Jobs Act tax reform bill. The effective tax rate for 2018 was 13.0% as compared to 17.6% net of the 2017 additional income tax expense. The effective tax rate decrease in 2018 reflects the reduced corporate tax rate from 34.0% to 21.0%.

## KEY FOCUS

2018 was a successful year that laid the groundwork for important initiatives and projects for 2019 and beyond. These strategic and tactical activities come from our focus on delivering for our Customers, finding and exploiting Opportunities for growth, increasing Revenue, and enhancing Engagement with all of our stakeholders and audiences.

Simplified, this is our **C.O.R.E.** focus for 2019 which will include the following key tactics:

Delivering for Our **Customers**

- Increase customer relationships through product offerings, sales effectiveness, and operational excellence.
- Continue to develop our customer promise in order to deliver a consistent customer experience across all connection points from personal banking to our mobile app.
- Expand our customer service capability through training, additional hours, and communication channels.
- Employ events, online tools, and new technologies to provide a wide range of education experiences that help customers understand their financial lives.
- Continue to diligently improve our information security activities to protect and educate our customers while reducing incidences of fraud.

Finding and Exploiting **Opportunities**

- Evaluate, plan and implement opportunities to expand the Bank's geographic footprint to grow relationships and outstandings.
- Enhance infrastructure to support digital product delivery channels to reach new customers by offering products and services online.
- Recruit professionals in targeted areas to increase the reach of retail, commercial, and mortgage sales.
- Continue to explore partnerships with third-party technology vendors which will keep the Bank competitive with larger financial institutions and non-bank organizations.

Increasing **Revenue**

- Originate new commercial, mortgage, and home equity loans while growing our total loans outstanding.
- Retain and grow core deposits utilizing various sales and marketing techniques and strategies.
- Grow sales to existing customers through data-driven solutions-based strategies with a specific focus on treasury management products to business customers.
- Develop, implement, and market a streamlined and more competitive auto/personal lending program.
- Implement system-based tools to more effectively support business development activities and manage overhead and operating costs.
- Maintain strong and consistent credit underwriting, monitoring, and collection practices.

Enhancing **Engagement**

- Refine our First Time Homebuyer events and broaden the reach of the program geographically and online.
- Evolve our cybersecurity events and online training to help businesses and individuals grow in their understanding of cyber threats.
- Develop champions within the company to advocate for community banking and the banking industry in the company, community, and in Harrisburg and Washington.
- Continue to develop a culture which provides staff with opportunities to grow professionally while impacting the company, industry, and community.

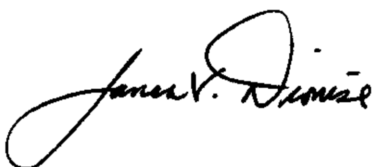
## YEAR AHEAD

While signs that the national economy may be slowing, our service footprint continues to grow in a sustainable and stable manner. An ongoing focus on training and sales effectiveness should continue to yield deeper customer relationships and needs-based growth opportunities. Exploration of new opportunities for lending and deposit growth will utilize the expertise of our management team. Through this expertise, along with our outstanding credit quality and strong capital position, we expect increased loan and deposit growth, a widening net interest margin, and continued improvement in our operating efficiency. We are hopeful the yield curve will steepen and regulatory burdens will continue to be right-sized for community banks in the months and years to come. These positive external forces plus a mix of relationship focus, technology delivery, and competitive products and services will result in growth opportunities for a proactive, capable, independent community bank.

## CLOSING

We are excited for the future of Mars Bank. Although challenges abound, we believe that we are positioned for ongoing growth. We also believe we serve an important need in our community, as the Bank has for nearly 120 years. Our role in the community and the responsibilities which our board, management team, and staff consistently deliver upon makes our work both profitable and purposeful. We look forward to continuing to meet these important responsibilities and delivering an exceptional experience for our customers. We thank our board for their dedication and wisdom, our customers for their loyalty and trust, our employees for their passion and commitment, and our communities for providing a wonderful environment in which to live and work. And as always, we thank you, our shareholders, for your ongoing support and confidence.

Sincerely,

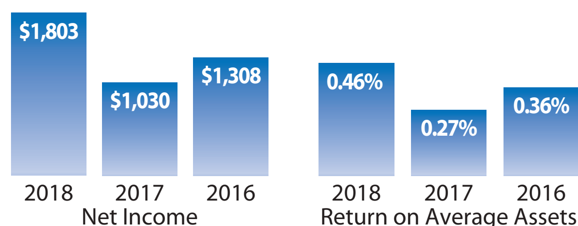


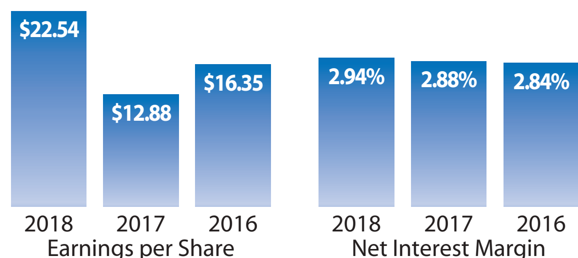
James V. Dionise
President and Chief Executive Officer

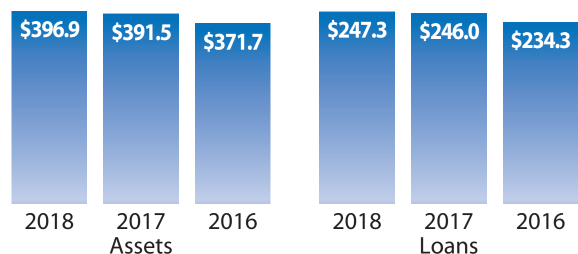
Janet L. van Buskirk Balentine
Chairman of the Board

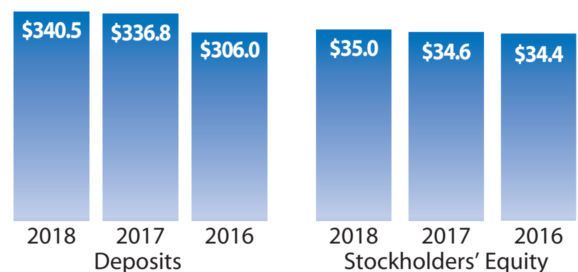
# Financial Highlights

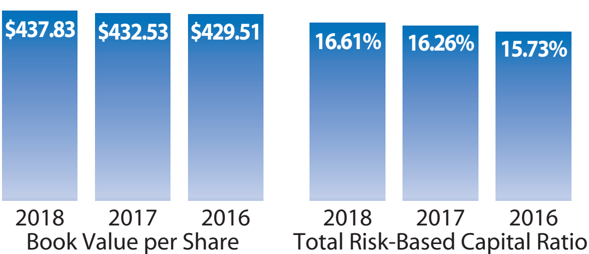
| | 2018 | 2017 | Change |
|---|---|---|---|
| **For the Year Ended December 31,** | | | |
| (dollars in thousands, except per share data) | | | |
| **EARNINGS** | | | |
| Net interest income | **$10,811** | $10,184 | 6.2% |
| Provision for loan losses | **4** | 100 | n/m |
| Non-interest income | **2,140** | 1,929 | 11.0% |
| Non-interest expense | **10,874** | 10,194 | 6.7% |
| Income tax expense | **270** | 789 | -65.8% |
| Net income* | **1,803** | 1,030 | 75.0% |
| **SHARE DATA** | | | |
| Earnings per share* | **$ 22.54** | $ 12.88 | 75.0% |
| **PERFORMANCE RATIOS** | | | |
| Return on average assets* | **0.46%** | 0.27% | 19bps |
| Return on average equity* | **5.32%** | 2.96% | 236bps |
| Net interest margin | **2.94%** | 2.88% | 6bps |
| Efficiency ratio | **83.96%** | 84.16% | -20bps |
| **At December 31,** | | | |
| (dollars in millions, except per share data) | | | |
| **BALANCE SHEET** | | | |
| Assets | **$ 396.9** | $ 391.5 | 1.4% |
| Loans | **247.3** | 246.0 | 0.6% |
| Deposits | **340.5** | 336.8 | 1.1% |
| Stockholders' equity | **35.0** | 34.6 | 1.2% |
| **CAPITAL** | | | |
| Book value per share | **$437.83** | $432.53 | 1.2% |
| Total risk-based capital ratio | **16.61%** | 16.26% | 35bps |
| **CREDIT QUALITY** | | | |
| Delinquent loans | **$ 0.1** | $ 0.2 | n/m |
| Non-accrual loans | **0.1** | 0.1 | n/m |
| Delinquent loans/loans | **0.05%** | 0.08% | -3bps |
| Non-accrual loans/loans | **0.03%** | 0.02% | 1bp |
| Allowance for loan losses/loans | **1.04%** | 1.04% | - |

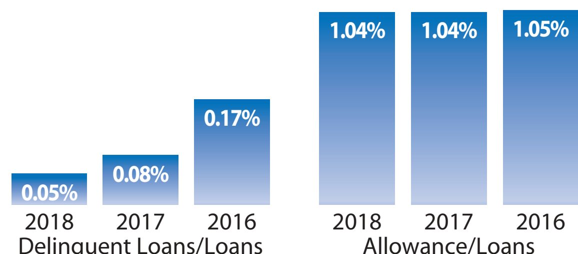



n/m - not meaningful

* - excluding the impact of the Tax Cuts and Jobs Act tax reform bill, net income for 2017 would have been $1,499, earnings per share $18.74, return on average assets 0.39%, and return on average equity 4.30%.

# Independent Auditors' Report

Board of Directors and Stockholders
Mars Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Mars Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

**Opinion**
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mars Bancorp, Inc. and Subsidiaries as of December 31, 2018 and 2017, 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.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
February 21, 2019

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## Consolidated Balance Sheets

*December 31,*

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | **$ 30,440,546** | $ 24,707,904 |
| Interest-bearing deposits with banks | **1,130,402** | 1,213,242 |
| Cash and Cash Equivalents | **31,570,948** | 25,921,146 |
| Securities available for sale | **100,411,536** | 103,767,543 |
| Loans (net of unamortized cost of $105,673 in 2018 and $115,577 in 2017) | **247,319,807** | 245,959,705 |
| Less allowance for loan losses | **2,562,779** | 2,554,729 |
| Net Loans | **244,757,028** | 243,404,976 |
| Premises and equipment, net | **6,344,782** | 6,338,148 |
| Restricted investments in bank stock | **3,466,800** | 3,456,700 |
| Bank-owned life insurance | **7,433,207** | 5,747,399 |
| Accrued interest receivable and other assets | **2,941,583** | 2,860,093 |
| **Total Assets** | **$396,925,884** | $391,496,005 |
| **LIABILITIES** | | |
| Deposits: | | |
| Non-interest-bearing demand | **$ 93,554,137** | $ 88,835,141 |
| Interest-bearing demand | **40,917,875** | 46,516,741 |
| Savings | **80,021,328** | 82,693,577 |
| Money market | **85,819,497** | 82,661,276 |
| Time | **40,182,842** | 36,087,078 |
| Total Deposits | **340,495,679** | 336,793,813 |
| Borrowed funds | **19,391,435** | 18,400,303 |
| Accrued interest payable and other liabilities | **2,012,506** | 1,699,428 |
| **Total Liabilities** | **361,899,620** | 356,893,544 |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, par value $.01 per share; 1,000,000 shares authorized, 80,000 shares issued and outstanding | **800** | 800 |
| Capital surplus | **799,200** | 799,200 |
| Undivided profits | **35,404,176** | 34,436,444 |
| Accumulated other comprehensive loss | **(1,177,912)** | (633,983) |
| **Total Stockholders' Equity** | **35,026,264** | 34,602,461 |
| **Total Liabilities and Stockholders' Equity** | **$396,925,884** | $391,496,005 |

See notes to consolidated financial statements

## Consolidated Statements of Income

*Years Ended December 31,*

| | 2018 | 2017 |
|---|---|---|
| INTEREST INCOME | | |
| Loans, including fees | **$ 9,890,882** | $ 9,325,736 |
| Interest-bearing deposits with banks | **325,551** | 92,574 |
| Securities: | | |
| Taxable | **1,509,545** | 1,384,139 |
| Exempt from federal income tax | **512,261** | 364,295 |
| **Total Interest Income** | **12,238,239** | 11,166,744 |
| INTEREST EXPENSE | | |
| Deposits | **1,129,517** | 644,048 |
| Interest on borrowed funds | **297,569** | 338,456 |
| **Total Interest Expense** | **1,427,086** | 982,504 |
| **Net Interest Income** | **10,811,153** | 10,184,240 |
| **Provision for Loan Losses** | **4,000** | 100,000 |
| **Net Interest Income after Provision for Loan Losses** | **10,807,153** | 10,084,240 |
| NON-INTEREST INCOME | | |
| Service charges on deposits | **151,915** | 162,161 |
| NSF fees | **105,053** | 109,477 |
| ATM processing fees | **472,787** | 415,942 |
| Investment services | **40,800** | 35,740 |
| Gain on sales of mortgages originated for sale | **486,903** | 385,951 |
| Net gain on sales of available for sale securities | **-** | 11,232 |
| Gain on sale of fixed assets | **7,000** | - |
| Restricted investments in bank stock dividends | **226,815** | 189,362 |
| Bank-owned life insurance income | **185,807** | 165,672 |
| Other | **463,013** | 452,962 |
| **Total Non-Interest Income** | **2,140,093** | 1,928,499 |
| NON-INTEREST EXPENSE | | |
| Salaries and employee benefits | **6,299,887** | 5,787,689 |
| Occupancy | **601,428** | 563,363 |
| Furniture and equipment | **914,558** | 859,164 |
| Pennsylvania shares tax | **322,556** | 317,879 |
| FDIC insurance | **118,319** | 120,273 |
| Professional fees | **313,911** | 277,942 |
| Other | **2,303,731** | 2,267,716 |
| **Total Non-Interest Expense** | **10,874,390** | 10,194,026 |
| **Income before Income Taxes** | **2,072,856** | 1,818,713 |
| **Income Tax Expense** | **270,000** | 788,600 |
| **Net Income** | **$ 1,802,856** | $ 1,030,113 |
| **Earnings per Share** | **$ 22.54** | $ 12.88 |

See notes to consolidated financial statements

## Consolidated Statements of Comprehensive Income

*Years Ended December 31,*

| | 2018 | 2017 |
|---|---|---|
| **Net Income** | **$1,802,856** | $1,030,113 |
| **Other Comprehensive (Loss) Income, Net of Tax:** | | |
| Unrealized (losses) gains on securities: | | |
| Unrealized holding (losses) gains arising during period (net of income tax (benefits) expenses of $(111,394) in 2018 and $92,339 in 2017) | **(419,053)** | 179,248 |
| Less: Reclassification adjustment for gains included in net income (net of income taxes of $0 in 2018 and $3,818 in 2017) (1)(2) | - | (7,414) |
| **Other Comprehensive (Loss) Income** | **(419,053)** | 171,834 |
| **Comprehensive Income** | **$1,383,803** | $1,201,947 |

(1) Gross amount included in net gain on sales of available for sale securities on consolidated statements of income was $0 in 2018 and $11,232 in 2017.

(2) The income tax effect included in income tax expense on consolidated statements of income.

See notes to consolidated financial statements

## Consolidated Statements of Stockholders' Equity

| | Common Stock | Capital Surplus | Undivided Profits | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2016** | $800 | $ 799,200 | $ 34,366,331 | $ (805,817) | $ 34,360,514 |
| Net income | - | - | 1,030,113 | - | 1,030,113 |
| Other comprehensive income, net of tax | - | - | - | 171,834 | 171,834 |
| Cash dividends declared on common stock at $12.00 per share | - | - | (960,000) | - | (960,000) |
| **Balance at December 31, 2017** | $800 | $ 799,200 | $ 34,436,444 | $ (633,983) | $ 34,602,461 |
| Net income | - | - | **1,802,856** | - | **1,802,856** |
| Other comprehensive loss, net of tax | - | - | - | **(419,053)** | **(419,053)** |
| Reclassification of certain tax effect (1) | - | - | **124,876** | **(124,876)** | - |
| Cash dividends declared on common stock at $12.00 per share | - | - | **(960,000)** | - | **(960,000)** |
| **Balance at December 31, 2018** | **$800** | **$799,200** | **$35,404,176** | **$(1,177,912)** | **$35,026,264** |

(1) The Company adopted ASU 2018-02. See Note 2 for additional information.

See notes to consolidated financial statements

## Consolidated Statements of Cash Flows

*Years Ended December 31,*

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | **$ 1,802,856** | $ 1,030,113 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | **4,000** | 100,000 |
| Provision for depreciation and amortization | **333,986** | 328,079 |
| Net amortization of securities premiums and discounts | **331,232** | 372,563 |
| Income tax expense due to re-measurement of deferred tax assets/deferred tax liabilities | **-** | 468,675 |
| Deferred income tax expense | **184,615** | 8,022 |
| Amortization of deferred loan fees and costs | **124,104** | 82,398 |
| Net realized gain on sale of securities available for sale | **-** | (11,232) |
| Proceeds from sales of mortgage loans originated for sale | **26,492,923** | 19,076,028 |
| Net gain on sale of mortgage loans originated for sale | **(486,903)** | (385,951) |
| Mortgage loans originated for sale | **(25,589,827)** | (19,111,540) |
| Net gain on disposal of premises and equipment | **(7,000)** | - |
| Earnings on investments in life insurance | **(185,808)** | (165,672) |
| Increase in accrued interest receivable and other assets | **(154,710)** | (66,995) |
| Increase in accrued interest payable and other liabilities | **313,078** | 62,067 |
| **Net Cash Provided by Operating Activities** | **3,162,546** | 1,786,555 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment securities available for sale: | | |
| Purchases of securities | **(48,045,617)** | (15,816,233) |
| Proceeds from maturities, calls and principal repayments of securities | **50,539,944** | 16,286,359 |
| Proceeds from sales of securities | **-** | 5,365,365 |
| Net increase in loans receivable | **(1,896,349)** | (11,316,739) |
| Purchases of restricted bank stock | **(1,179,500)** | (2,879,000) |
| Redemptions of restricted bank stock | **1,169,400** | 3,400,300 |
| Proceeds from sale of bank premises and equipment | **7,000** | - |
| Purchases of premises and equipment | **(340,620)** | (221,896) |
| Purchase of life insurance | **(1,500,000)** | - |
| **Net Cash Used in Investing Activities** | **(1,245,742)** | (5,181,844) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in deposits | **3,701,866** | 30,814,822 |
| Net increase (decrease) in other borrowings | **991,132** | (11,320,738) |
| Cash dividends paid | **(960,000)** | (960,000) |
| **Net Cash Provided by Financing Activities** | **3,732,998** | 18,534,084 |
| **Net Increase in Cash and Cash Equivalents** | **5,649,802** | 15,138,795 |
| **Cash and Cash Equivalents, Beginning of Year** | **25,921,146** | 10,782,351 |
| **Cash and Cash Equivalents, End of Year** | **$ 31,570,948** | $ 25,921,146 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | **$ 1,413,642** | $ 961,652 |
| Income taxes paid | **$ 70,000** | $ 376,241 |

See notes to consolidated financial statements

# Notes to Consolidated Financial Statements

## NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Mars Bancorp, Inc. and its direct and indirect wholly-owned subsidiaries, Mars Bank ("the Bank") and Mars Insurance Services, LLC ("MIS"). All material intercompany transactions have been eliminated in consolidation.

As used in these notes to the consolidated financial statements, Mars Bancorp, Inc. and its consolidated subsidiaries are collectively referred to as the "Company".

In March 2017, the Board of Directors unanimously approved and adopted the Plan of Charter Conversion for Mars National Bank from an Office of the Comptroller of the Currency ("OCC") regulated national bank to a Pennsylvania-charted bank. In addition, Mars National Bancorp, Inc., the sole stockholder, approved the Plan of Charter Conversion by written consent. The charter change was approved and became effective June 2017. In connection with this change, Mars National Bancorp, Inc., Mars National Bank, and Mars National Insurance Services, LLC changed their names to Mars Bancorp, Inc., Mars Bank, and Mars Insurance Services, LLC, respectively.

The Company is incorporated under the laws of the Commonwealth of Pennsylvania and is under the regulatory jurisdiction of the Board of Governors of the Federal Reserve System. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities ("PADBS") and the Federal Deposit Insurance Corporation ("FDIC"). The Company's activity consists of owning and supervising its subsidiary, Mars Bank. The Bank derives its principal sources of revenue from its residential and commercial real estate portfolios, commercial, industrial and consumer loans, investment securities portfolio, as well as a variety of deposit services offered to its customers through five branch offices, which are located primarily in northern Allegheny and southern Butler counties. MIS provides real estate settlement services and title insurance to the Bank's customers in connection with its residential and commercial real estate lending activities. MIS is subject to review and conducts business under the jurisdiction of the FDIC and the Pennsylvania Insurance Department ("PID").

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2018 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through February 21, 2019, the date these financial statements were available to be issued.

## NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

**Estimates**
The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the potential impairment of restricted stock, the valuation of deferred tax assets and the determination of other-than-temporary impairment on securities.

**Significant Concentrations of Credit Risk**
Most of the Company's activities are with customers located within its local trade area. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of loans that the Company originates. The Company does not have any significant concentrations to any one industry or customer. Although the Company has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

**Securities**
Currently, the Bank's investment securities portfolio is classified as available for sale. The portfolio serves principally as a source of liquidity and is carried at fair value, with unrealized gains and losses reported as increases or decreases to other comprehensive income (loss), net of tax, until realized. Debt securities acquired with the intent to hold to maturity would be classified as held to maturity and carried at amortized cost. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on sales of securities available for sale are computed using the specific identification method. Interest and dividends on investment securities are recognized as interest income when earned.

**Restricted Investments in Bank Stock**
The Bank owns restricted stock investments in the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bankers Bank ("ACBB"). The investment in FHLB stock at December 31, 2018 and 2017 totaled $3,386,800 and $3,376,700, respectively. At December 31, 2018 and 2017, the ACBB investment was $80,000. The investments are required by law according to predetermined formulas. These investments are carried at cost.

The FHLB pays a dividend to the Bank for its restricted stock investment in the FHLB. The Bank earned $226,335 and $188,922 in dividends in 2018 and 2017, respectively. In addition, the FHLB continues to repurchase excess capital stock consistent with its practice in past quarters. Repurchase of capital stock totaled $1,169,400 and $3,376,300 in 2018 and 2017, respectively.

Management evaluates the restricted stock for impairment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 942-325-35, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of their cost, rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2018 and 2017.

**Other-Than-Temporary Impairment**
The Company reviews its investment portfolio on a quarterly basis for indications of other-than-temporary impairment ("OTTI"). This review includes analyzing the length of time and the extent to which fair value has been lower than cost, the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer, and the Bank's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market.

The Company recognizes credit-related OTTI on debt securities in earnings while noncredit-related OTTI on debt securities not expected to be sold is recognized in accumulated other comprehensive loss. The Company assesses whether the credit loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that the Company will be required to sell the security before recovery, or (3) the Company does not expect to recover the entire amortized cost basis of the security. The Company can bifurcate the OTTI on securities not expected to be sold or where the entire amortized cost of the security is not expected to be recovered into the components representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss is recognized through earnings.

**Loans**

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses ("ALLL") and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. The loans receivable portfolio is segmented into commercial and industrial, consumer and real estate loans. Real estate loans consist of the following classes: residential and commercial.

For all classes of loans, the accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collection of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collection of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collection of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

**Loan Origination Fees and Costs**

Loan origination fees and certain direct loan origination costs are being deferred for loans held for investment. The net amount is amortized as an adjustment to the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans. As of December 31, 2018 and December 31, 2017, net deferred costs totaled $102,744 and $111,234, respectively.

Commitment fees that are based on a percentage of a customer's unused lines of credit and fees related to standby letters of credit are recognized as income during the commitment period.

**Mortgages Held for Sale**

Mortgages originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Mortgages held for sale are sold with servicing rights released. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related mortgage sold.

**Allowance for Loan Losses**

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All or part of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all or part of the principal balance is highly unlikely. No portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to absorb losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and inherent risk components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance 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 pools of loans by loan type including commercial and commercial real estate loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans and further segmented by risk ratings of pass, special mention, substandard, and doubtful.

An inherent risk component of the Company's allowance for loan losses is maintained to cover uncertainties that could affect management's estimate of probable losses. The inherent risk component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Pass pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in national and local economic and business conditions, including the condition of various market segments;
- Changes in the nature and volume of the portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;
- Changes in the quality of the Company's loan review system and the degree of oversight by the Company's Board of Directors;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- The effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated loan losses in the Company's current portfolio.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Included in the Company's loan assets are loans to business owners of various types. The Company makes commercial loans for real estate development and other business purposes required by the customer base.

The Company's credit policy determines advance rates against the different forms of collateral that can be pledged against commercial and industrial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/

or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversion of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or subordinate lien position. Residential mortgages and home equity loans have varying loan rates depending on the loan to value ratio. Residential mortgages have amortizations up to 30 years and home equity loans have maturities up to 20 years. Other consumer loans include installment loans, car loans, and overdraft lines of credit.

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 borrower, including the length of the delay, reasons for the delay, borrower's prior payment record and amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, loan's obtainable market price or fair value of the collateral if the loan is collateral dependent.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted by the estimated costs to sell the property to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions that would not be granted to other customers and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not criticized or classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and 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, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

**Foreclosed Assets**
Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Such properties are included in other assets. The Company did not have any foreclosed assets at December 31, 2018 and 2017.

Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues are included in other income and expenses from operations and changes in the valuation allowance are included in other expense.

**Premises and Equipment**
Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using both the straight-line and accelerated methods over the estimated useful lives of the premises and equipment. Charges for maintenance and repairs are expensed as incurred.

**Bank-Owned Life Insurance**
The Company purchased insurance on the lives of certain key executive officers. The policies accumulate asset values to meet future liabilities, including the payment of employee benefits. Increases in the cash surrender value and proceeds upon the death of a key employee are recorded as noninterest income in the Consolidated Statements of Income. The cash surrender value of bank-owned life insurance is recorded as an asset on the Consolidated Balance Sheets.

**Advertising Costs**
The Company follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2018 and 2017 was $393,909 and $350,971, respectively.

**Income Taxes**
Certain income and expense items are accounted for in different years for financial reporting purposes than for income tax purposes. Deferred taxes are provided to recognize these temporary differences. The principal items involved are investment securities, provision for loan losses and benefit plans. Income tax expense is not proportionate to earnings before taxes, principally because income from obligations of states and political subdivisions

and increases in the cash surrender value of bank-owned life insurance is nontaxable. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

A tax position is recognized as a benefit at the largest amount that is more-likely-than-not to be sustained in a tax examination based solely on its merits. An uncertain tax position will not be recognized if it has less than 50% likelihood of being sustained. Under the threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of December 31, 2018 and 2017.

**Earnings per Share**
The Company has a simple capital structure. Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during each period. The average weighted shares outstanding were 80,000 for the years ended December 31, 2018 and 2017.

**Cash and Cash Equivalents**
The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions cash and due from banks and interest-bearing deposits with banks.

**Off-Balance Sheet Financial Instruments**
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments, consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

**Comprehensive Income**
Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component in the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The only component of other comprehensive (loss) income for the years ended December 31, 2018 and 2017 is the net unrealized gain and loss on securities available for sale.

**Revenue from Contracts with Customers**
On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU, including ASC Topic 606, (collectively "ASC 606") which created a single framework for the recognition of revenue from contracts with customers which fall within the scope of the standard. The majority of the Company's revenues are derived from interest income and other related sources, primarily loans and investment securities, which are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income on the Consolidated Statements of Income, and primarily include services charges on deposits, NSF fees, and ATM processing fees including interchange fees. The adoption of ASC 606 did not result in a change to the recognition of revenue or in the accounting of the transaction for any of the in-scope revenue streams, and as such no cumulative effect adjustment was recorded or required.

A description of the Company's revenue streams accounted for under ASC 606 is as follows:

Service Charges on Deposit Accounts and NSF Fees: The Company earns fees from its deposit customers for individual account services and transactions, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment fees, and ACH origination fees are recognized at the time the transaction is executed since that is the point in time when the service is performed and the customer's request is completed by the Company. Account maintenance fees, which relate primarily to monthly maintenance and minimum balance requirements, are earned over the course of a month, representing the period over which the Company satisfies its performance obligation. Overdraft and NSF fees are recognized at the point in time that the overdraft/NSF fee occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income: The Company earns interchange fees from its debit cardholder transactions conducted through the payment provider network. Interchange fees from cardholder transactions generally represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

**Reclassifications**

Certain comparative amounts for the prior year have been reclassified to conform to current year classifications. Such reclassifications had no effect on net income or stockholders' equity.

**Recent Accounting Standards**

In February 2018, the FASB issued Accounting Standards Update ("ASU") 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220)—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update affect any entity that is required to apply the provisions of Topic 220, Income Statement—Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. Specifically, the amendments allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update also require certain disclosures about stranded tax effects. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted. The Company elected to early adopt the standard in the first quarter of 2018. The stranded tax effect of the deferred tax assets related to securities available for sale within Accumulated Other Comprehensive Loss of $124,876 were reclassified to retained earnings within the consolidated statement of stockholders' equity in 2018.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)-Premium Amortization on Purchased Callable Debt Securities. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The Update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Earlier application is permitted. Management is evaluating the impact that the adoption of this update will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments ("CECL"), which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses measured at amortized cost and certain other instruments, including loans, held-to-maturity debt securities, net investments in leases, and off-balance sheet credit exposures. In addition, CECL will require the use of a modified available-for-sale debt security impairment model and eliminate the current accounting for purchased credit impaired loans and debt securities. The Update is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Management is evaluating the impact that the adoption of this update will have on its consolidated financial statements; however, due to the significant differences in the revised guidance from existing GAAP, the impact of this guidance may result in material changes in our accounting for credit losses on financial instruments.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), that will require entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The principal difference from previous guidance is that the lease assets and lease liabilities arising from operating

## Notes to Consolidated Financial Statements

leases were not previously recognized in the balance sheet. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Management is evaluating the impact that the adoption of this update will have on its consolidated financial statements, but does not expect it to have a material impact.

### NOTE 3 - SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of securities available for sale at December 31, 2018 and 2017 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | |
| U.S. government agencies and corporations | **$ 48,767,988** | **$ 30,016** | **$ (563,620)** | **$ 48,234,384** |
| Obligations of states and political subdivisions | **20,702,643** | **32,777** | **(246,494)** | **20,488,926** |
| Residential collateralized mortgage obligations guaranteed by U.S. government agencies | **4,189,426** | **54,937** | - | **4,244,363** |
| Mortgage-backed securities | **28,242,504** | - | **(798,641)** | **27,443,863** |
| **Total** | **$101,902,561** | **$117,730** | **$(1,608,755)** | **$100,411,536** |
| DECEMBER 31, 2017 | | | | |
| U.S. government agencies and corporations | $ 57,157,609 | $ 54,804 | $ (547,861) | $ 56,664,552 |
| Obligations of states and political subdivisions | 21,039,546 | 114,830 | (90,188) | 21,064,188 |
| Mortgage-backed securities | 26,530,966 | 10,603 | (502,766) | 26,038,803 |
| **Total** | $ 104,728,121 | $ 180,237 | $ (1,140,815) | $ 103,767,543 |

The majority of the mortgaged-backed securities ("MBS") represent residential mortgages as of December 31, 2018 and 2017. The remainder of the mortgaged-backed securities are comprised of Mortgage-Backed Delegated Underwriting and Servicing ("DUS") Bonds. At December 31, 2018 and 2017, the Company had a fair value of $7,814,566 and $2,952,634 in DUS Bonds, respectively. These MBS securities are issued by Fannie Mae ("FNMA") consisting of a single loan or a pool of loans backed by multifamily properties, which must be income producing and consist of at least five residential units. These bonds carry FNMA backing and an implied government guarantee. The bonds pay timely monthly principal and interest and are structured with 5,7,10,15,18 year fixed-rate balloon maturities and 25 or 30-year amortization schedules, depending on the life of the property. DUS loans include a prepayment deterrent fee, or yield maintenance contract, which mitigates prepayment risk on the securities. The yield maintenance period often encompasses the majority of the life of the loan. The bonds are typically structured with a 7 or 10-year balloon term, and a 6.5 or 9.5 yield maintenance period, respectively.

## Notes to Consolidated Financial Statements

The amortized cost and estimated market value of securities available for sale at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | **$ 17,571,141** | **$ 17,430,498** |
| Due after one year through five years | **36,350,933** | **35,802,216** |
| Due after five years through ten years | **23,891,091** | **23,510,382** |
| Due after ten years | **24,089,396** | **23,668,440** |
| **Total** | **101,902,561** | **$100,411,536** |

Investment securities available for sale with a fair value of $34,538,593 and $41,567,126 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits as required by law.

Sales of securities generated proceeds of $0 and $5,365,365 in 2018 and 2017, respectively. No gross gains or losses on sales of securities were realized in 2018. The Company realized gross gains and losses on sales of these securities of $14,629 and $3,397, respectively in 2017.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2018 and 2017:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| DECEMBER 31, 2018 | | | | | | |
| U.S. government agencies and corporations | **$ 5,666,228** | **$ 30,808** | **$37,419,249** | **$ 532,812** | **$43,085,477** | **$ 563,620** |
| Obligations of states and political subdivisions | **1,644,316** | **2,407** | **11,537,051** | **244,087** | **13,181,367** | **246,494** |
| Mortgage-backed securities | **4,800,697** | **47,152** | **22,643,165** | **751,489** | **27,443,862** | **798,641** |
| **Total** | **$12,111,241** | **$ 80,367** | **$71,599,465** | **$1,528,388** | **$83,710,706** | **$1,608,755** |
| DECEMBER 31, 2017 | | | | | | |
| U.S. government agencies and corporations | $ 16,076,968 | $ 86,932 | $ 33,912,230 | $ 460,929 | $ 49,989,198 | $ 547,861 |
| Obligations of states and political subdivisions | 8,499,140 | 61,685 | 1,984,440 | 28,503 | 10,483,580 | 90,188 |
| Mortgage-backed securities | 4,298,446 | 42,018 | 20,202,862 | 460,748 | 24,501,308 | 502,766 |
| **Total** | $ 28,874,554 | $190,635 | $ 56,099,532 | $ 950,180 | $ 84,974,086 | $ 1,140,815 |

There has been an increase in the number but a decrease in the fair value dollar amount from December 31, 2017 to December 31, 2018 of securities that have unrealized losses. At December 31, 2018, one hundred six securities totaling $83.7 million were in an unrealized loss position compared to ninety-one securities totaling $85.0 million in an unrealized loss position at December 31, 2017. The individual losses ranged from $1 to $64,370 at December 31, 2018 as compared to losses that ranged from $2 to $52,734 at December 31, 2017 and the total unrealized loss increased from $1.1 million at December 31, 2017 to $1.6 million at December 31, 2018. The primary driver behind the market value changes of these securities relate to various changes in interest rates. There was an increase in the number and dollar amount of securities with unrealized losses more than 12 months. At December 31, 2018, eighty-eight securities totaling $71.6 million were in an unrealized loss position more than twelve months compared to forty-seven securities totaling $56.1 million in an unrealized loss position at December 31, 2017. The main reason some of these bonds still have unrealized losses relates to their original purchase date and the interest rate/spreads that were in effect at that date. Furthermore, there has been no material negative change in credit issues in the portfolio. Sixty-five of the securities with principal balances totaling $70.5 million have the explicit or implicit guarantee of the U.S. Government. The remaining forty-one securities relates to obligations of states and political subdivisions. The Company has performed an analysis of these securities as summarized in the "OTTI" accounting policy. Management believes that the unrealized losses are temporary in nature and are a result of the current interest rate environment and not a reflection of credit quality.

## NOTE 4 - LOANS

The Company's loan portfolio is segmented to enable management to monitor risk and performance. The real estate loans are further classified into two classes. Residential mortgages include those secured by first and second lien residential properties while commercial mortgages are comprised of loans to commercial customers for self-use or income-producing commercial or residential real estate. The commercial and industrial segment consists of loans to finance the activities of commercial customers. The consumer segment consists primarily of auto loans and personal loans.

Residential mortgage loans are typically longer-term loans which generally entail greater interest rate risk than consumer and commercial loans. Under certain economic conditions, housing values may decline, which may increase the risk that the collateral values are insufficient. Commercial real estate loans generally present a higher level of risk than loans secured by residences. This greater risk is due to several factors including but not limited to concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty in monitoring these types of loans. Furthermore, the repayment of commercial real estate loans is typically dependent upon successful operation of the related real estate project. If the cash flow from the project is reduced by such occurrences as leases not being obtained, renewed or not entirely fulfilled, the borrower's ability to repay the loan may be impaired. Commercial and industrial loans are primarily secured by business assets, inventories and accounts receivable which present collateral risk. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans, however, they have additional credit risk due to the type of collateral securing the loan.

Major classifications of loans receivable at December 31, 2018 and 2017 are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Real Estate: | | |
| Residential | **$139,325,795** | $133,039,643 |
| Commercial | **90,501,067** | 90,307,542 |
| Commercial and industrial | **17,189,984** | 20,969,740 |
| Consumer | **197,288** | 1,527,203 |
| **Total** | **247,214,134** | 245,844,128 |
| Less unamortized cost | **(105,673)** | (115,577) |
| | **247,319,807** | 245,959,705 |
| Less allowance for loan losses | **2,562,779** | 2,554,729 |
| **Net Loans** | **$244,757,028** | $243,404,976 |

In the normal course of business, loans are extended to directors, executive officers and their related interests and affiliates. In management's opinion, all of these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable creditworthiness. The aggregate amount of credit extended to these directors and executive officers at December 31, 2018 and 2017 was $181,178 and $269,694, respectively. During 2018, $30,800 of new loans and principal advances were made and repayments totaled $119,316.

Mortgages held for sale totaled $287,270 and $703,463 as of December 31, 2018 and 2017, respectively, and are included in the residential real estate balances above.

## NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2018 and 2017:

| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | | |
| Real Estate: | | | | | |
| Residential | **$138,659,934** | **$ -** | **$ 665,861** | **$ -** | **$139,325,795** |
| Commercial | **89,985,413** | **-** | **515,654** | **-** | **90,501,067** |
| Commercial and industrial | **17,109,583** | **-** | **80,401** | **-** | **17,189,984** |
| Consumer | **197,288** | **-** | **-** | **-** | **197,288** |
| **Total** | **$245,952,218** | **$ -** | **$1,261,916** | **$ -** | **$247,214,134** |
| DECEMBER 31, 2017 | | | | | |
| Real Estate: | | | | | |
| Residential | $ 131,947,415 | $1,011,286 | $ 80,942 | $ - | $ 133,039,643 |
| Commercial | 89,680,396 | 614,615 | 12,531 | - | 90,307,542 |
| Commercial and industrial | 20,253,921 | 715,819 | - | - | 20,969,740 |
| Consumer | 1,527,203 | - | - | - | 1,527,203 |
| **Total** | $ 243,408,935 | $2,341,720 | $ 93,473 | $ - | $ 245,844,128 |

## Notes to Consolidated Financial Statements

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2018 and 2017:

| | Current | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days | Total Past Due | Total Loans Receivable | Non-Accrual Loans | Loans Receivable 90 Days Past Due and Accruing |
|---|---|---|---|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | | | | | |
| Real Estate: | | | | | | | | |
| Residential | **$139,198,202** | **$104,243** | **$23,350** | **$ -** | **$127,593** | **$139,325,795** | **$68,981** | **$ -** |
| Commercial | **90,501,067** | **-** | **-** | **-** | **-** | **90,501,067** | **-** | **-** |
| Commercial and industrial | **17,189,984** | **-** | **-** | **-** | **-** | **17,189,984** | **-** | **-** |
| Consumer | **197,288** | **-** | **-** | **-** | **-** | **197,288** | **-** | **$ -** |
| **Total** | **$247,086,541** | **$104,243** | **$23,350** | **$ -** | **$127,593** | **$247,214,134** | **$68,981** | **$ -** |
| DECEMBER 31, 2017 | | | | | | | | |
| Real Estate: | | | | | | | | |
| Residential | $ 132,955,971 | $ 42,377 | $ 41,295 | $ - | $ 83,672 | $ 133,039,643 | $ 61,378 | $ - |
| Commercial | 90,295,011 | 12,531 | - | - | 12,531 | 90,307,542 | - | - |
| Commercial and industrial | 20,969,740 | - | - | - | - | 20,969,740 | - | - |
| Consumer | 1,418,036 | 67,953 | - | 41,214 | 109,167 | 1,527,203 | - | $41,214 |
| **Total** | $ 245,638,758 | $ 122,861 | $ 41,295 | $41,214 | $ 205,370 | $ 245,844,128 | $ 61,378 | $41,214 |

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2018 and 2017:

| | Recorded Investment | Related Allowance | Unpaid Principal Balance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | | |
| With no related allowance recorded: | | | | | |
| Real Estate: | | | | | |
| Residential | **$55,258** | **$ -** | **$64,621** | **$58,411** | **$ -** |
| **Total** | **$55,258** | **$ -** | **$64,621** | **$58,411** | **$ -** |
| Total | | | | | |
| Real Estate: | | | | | |
| Residential | **$55,258** | **$ -** | **$64,621** | **$58,411** | **$ -** |
| **Total** | **$55,258** | **$ -** | **$64,621** | **$58,411** | **$ -** |
| DECEMBER 31, 2017 | | | | | |
| With no related allowance recorded: | | | | | |
| Real Estate: | | | | | |
| Residential | $ 61,378 | $ - | $ 68,127 | $ 64,028 | $ - |
| **Total** | $ 61,378 | $ - | $ 68,127 | $ 64,028 | $ - |
| Total | | | | | |
| Real Estate: | | | | | |
| Residential | $ 61,378 | $ - | $ 68,127 | $ 64,028 | $ - |
| **Total** | $ 61,378 | $ - | $ 68,127 | $ 64,028 | $ - |

The Company did not have any impaired loans with an allowance recorded at December 31, 2018 and 2017.

The primary segments of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for potential losses as of December 31, 2018 and 2017:

| | Beginning Balance | Charge-Offs | Recoveries | Provisions | Ending Balance | Ending Balance Individually Evaluated For Impairment | Ending Balance Collectively Evaluated For Impairment |
|---|---|---|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | | | | |
| Real Estate: | | | | | | | |
| Residential | **$1,283,585** | **$ -** | **$ -** | **$ 86,135** | **$1,369,720** | **$ -** | **$1,369,720** |
| Commercial | **876,433** | **-** | **4,050** | **(10,758)** | **869,725** | **-** | **869,725** |
| Commercial and industrial | **192,570** | **-** | **-** | **(62,263)** | **130,307** | **-** | **130,307** |
| Consumer | **1,183** | **-** | **-** | **(647)** | **536** | **-** | **536** |
| Inherent risk | **200,958** | **-** | **-** | **(8,467)** | **192,491** | **-** | **192,491** |
| **Total** | **$2,554,729** | **$ -** | **$4,050** | **$ 4,000** | **$2,562,779** | **$ -** | **$2,562,779** |
| DECEMBER 31, 2017 | | | | | | | |
| Real Estate: | | | | | | | |
| Residential | $ 1,295,466 | $ - | $ - | $ (11,881) | $ 1,283,585 | $ - | $ 1,283,585 |
| Commercial | 795,093 | - | 3,900 | 77,440 | 876,433 | - | 876,433 |
| Commercial and industrial | 172,581 | - | - | 19,989 | 192,570 | - | 192,570 |
| Consumer | 2,282 | - | - | (1,099) | 1,183 | - | 1,183 |
| Inherent risk | 185,407 | - | - | 15,551 | 200,958 | - | 200,958 |
| **Total** | $ 2,450,829 | $ - | $ 3,900 | $100,000 | $ 2,554,729 | $ - | $ 2,554,729 |

## Notes to Consolidated Financial Statements

The following table summarizes loans evaluated both individually and collectively for impairment as of December 31, 2018 and 2017:

| | Ending Balance | Ending Balance Individually Evaluated For Impairment | Ending Balance Collectively Evaluated For Impairment |
|---|---|---|---|
| **DECEMBER 31, 2018** | | | |
| Real Estate: | | | |
| Residential | **$139,325,795** | **$55,258** | **$139,270,537** |
| Commercial | **90,501,067** | - | **90,501,067** |
| Commercial and industrial | **17,189,984** | - | **17,189,984** |
| Consumer | **197,288** | - | **197,288** |
| **Total** | **$247,214,134** | **$55,258** | **$247,158,876** |
| **DECEMBER 31, 2017** | | | |
| Real Estate: | | | |
| Residential | $ 133,039,643 | $ 61,378 | $ 132,978,265 |
| Commercial | 90,307,542 | - | 90,307,542 |
| Commercial and industrial | 20,969,740 | - | 20,969,740 |
| Consumer | 1,527,203 | - | 1,527,203 |
| **Total** | $ 245,844,128 | $ 61,378 | $ 245,782,750 |

The Company has not acquired any loans with deteriorated credit quality.

In the normal course of business, the Company modifies loan terms for various reasons. These reasons may include as a retention strategy to compete in the current interest rate environment, and to re-amortize or extend a loan term to better match the loan's payment stream with the borrower's cash flows. A modified loan is considered to be a troubled debt restructuring ("TDR") when the Company has determined that the borrower is troubled (i.e. experiencing financial difficulties) and a concession is made by the Company that would not otherwise be considered for a borrower or collateral with similar credit risk characteristics. The Company evaluates the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. To make this determination, the Company performs a global financial review of the borrower and loan guarantors to assess their current ability to meet their financial obligations.

When the Company restructures a loan to a troubled borrower, the loan terms (i.e. interest rate, payment, amortization period and/or maturity date) are modified in such a way to enable the borrower to cover the modified debt service payments based on current financials and cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Company obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Company in the best possible position if the borrower is not able to meet the modified terms. To date, the Company has not forgiven any principal as a restructuring concession. The Company will not offer modified terms if it believes that modifying the loan terms will only delay an inevitable permanent default.

All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for

interest recognition. Accordingly, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. If the loan was accruing at the time of the modification, then it continues to be in accruing status subsequent to the modification. Non-accrual TDRs may return to accruing status when there has been sufficient payment performance for a period of at least six months. TDRs are considered to be in payment default if, subsequent to modification, the loans are transferred to non-accrual status. Loans may be removed from TDR status in the calendar year following the modification if the interest rate at the time of modification was consistent with the interest rate for a loan with comparable credit risk and the loan has performed according to its modified terms for at least six months.

There was one loan totaling $55,258 and $61,378 that was classified as a TDR at December 31, 2018 and December 31, 2017, respectively. At December 31, 2018 and 2017, this one TDR loan was classified as non-accrual. There were no modifications made in 2018 and 2017 that resulted in a TDR at year-end.

If a loan was considered to be impaired prior to modification as a TDR, then there is no impact on the ALLL as a result of the modification because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a TDR, then there could be an impact on the ALLL as a result of the modification because of the movement of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment. Since there were no new modifications in 2018 and 2017, there was no additional ALLL analysis needed. The volume and type of TDR activity are considered in the assessment of the local economic trends qualitative factor used in the determination of the ALLL for loans that are evaluated collectively for impairment.

The Company did not charge off any loan that was classified as a troubled debt restructuring at December 31, 2017 and December 31, 2016 in either 2018 or 2017, respectively. There were no other troubled debt restructurings that subsequently defaulted during the years ended December 31, 2018 and 2017.

## NOTE 6 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table identifies the contract or notional amount of those instruments at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to grant loans | **$13,122,495** | $ 5,424,576 |
| Unfunded commitments under lines of credit | **24,188,347** | 28,696,056 |
| Standby letters of credit | **793,087** | 825,777 |

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. Some of the commitments are expected to expire without being drawn upon. The total commitment amounts do not necessarily represent future cash requirements. The Company

evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. At December 31, 2018 and 2017, the Company's fixed rate loan commitments totaled $5,094,650 and $610,000, respectively.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2018 and 2017 for guarantees under standby letters of credit issued is not material.

### NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31, 2018 and 2017 are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Land | **$ 2,105,339** | $ 2,105,339 |
| Buildings and leasehold improvements | **7,805,612** | 7,777,998 |
| Furniture and fixtures | **4,685,198** | 4,405,170 |
| Computer software | **1,352,985** | 1,349,560 |
| | **15,949,134** | 15,638,067 |
| Accumulated depreciation and amortization | **(9,604,352)** | (9,299,919) |
| **Total** | **$ 6,344,782** | $ 6,338,148 |

Depreciation and amortization charged to operations was $333,986 and $328,079 in 2018 and 2017, respectively.

### NOTE 8 - DEPOSITS

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $17,548,471 and $14,838,973 at December 31, 2018 and 2017, respectively.

The following schedule represents the maturity of time deposits at December 31, 2018:

| | |
|---|---|
| 2019 | **$25,881,153** |
| 2020 | **10,926,442** |
| 2021 | **1,678,045** |
| 2022 | **635,288** |
| 2023 | **1,061,914** |
| **Total** | **$40,182,842** |

Deposit overdrafts reclassified to loans receivable at December 31, 2018 and 2017 were $732 and $1,184, respectively.

## Notes to Consolidated Financial Statements

### NOTE 9 - BORROWED FUNDS AND AVAILABLE CREDIT ARRANGEMENTS

The Bank maintains a credit arrangement, which includes a revolving line of credit with the FHLB. Under this credit arrangement, the Bank has a borrowing limit of approximately $146.0 million at December 31, 2018 that is subject to annual renewal and typically incurs no service charges. Any loans or letters of credit generated with this credit facility are secured by a blanket security agreement on outstanding residential mortgage loans, other real estate related collateral and U.S. government agencies and mortgage-backed securities. As of December 31, 2018, FHLB borrowed funds totaled $19.4 million. The borrowings bear interest rates ranging from 1.03% to 2.99% and mature at dates ranging from January 4, 2019 to June 10, 2024. As of December 31, 2017, FHLB borrowed funds totaled $18.4 million. The borrowings bear interest rates ranging from .92% to 2.18% and mature at dates ranging from January 26, 2018 to August 08, 2022. During 2018 and 2017, interest expense on FHLB borrowings totaled $297,569 and $338,456, respectively. The Bank also utilized and had outstanding a $27 million standby letter of credit. These letters of credit are issued by the FHLB to a third-party beneficiary on the Bank's behalf to function as an independent guarantee of the Bank's obligation to collateralize and secure public deposits. The letter of credit matures on January 17, 2019.

The Bank has borrowing access capabilities through the Federal Reserve Bank ("FRB") discount window. This access allows the Bank to borrow money, usually on a short-term basis, to meet temporary liquidity needs. As of December 31, 2018, the Bank had a borrowing capacity of approximately $1.9 million. Discount window borrowings are fully secured through a pledge of mortgage-backed and U.S. government agency securities to the FRB of Cleveland. The Bank had no FRB discount window outstanding borrowings as of December 31, 2018 and 2017.

In addition, the Bank has an established $10,000,000 guidance line of credit with SunTrust Bank for repurchase and reverse repurchase transactions and a $4,000,000 guidance line of credit for the purchase of federal funds. The $4,000,000 guidance line of credit has no prescribed termination date and is not a committed facility, as SunTrust Bank reserves the right to cancel the line at any time at its sole discretion. The Bank also has an $8,800,000, $7,500,000 and $5,000,000 federal funds purchase lines of credit with Zions First National Bank, Atlantic Community Bankers Bank and PNC Bank, respectively, all of which has no prescribed termination date and is not a committed facility. Mars Bancorp Inc. has a credit facility line of credit of $3,000,000 with ACBB. These facilities are intended to provide for short-term liquidity needs for the Bank and Mars Bancorp Inc. For the years ended December 31, 2018 and 2017, there were no borrowings outstanding under these credit facilities.

Borrowed funds have scheduled payments as follows:

| | |
|---|---|
| 2019 | **$ 7,849,806** |
| 2020 | **4,528,929** |
| 2021 | **2,155,000** |
| 2022 | **2,022,450** |
| 2023 | **1,790,450** |
| 2024 | **1,044,800** |
| **Total** | **$19,391,435** |

### NOTE 10 - INCOME TAXES

The provision for federal income taxes for the years ended December 31, 2018 and 2017 is summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Current | **$ 85,387** | $311,903 |
| Deferred | **184,613** | 476,697 |
| **Total** | **$270,000** | $788,600 |

## Notes to Consolidated Financial Statements

The components of the net deferred tax asset at December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Allowance for loan losses | **$421,755** | $420,915 |
| Net unrealized loss on securities | **313,116** | 201,722 |
| Post-retirement benefit plan | **226,560** | 184,116 |
| Non-accrual loan interest | **18,710** | 17,197 |
| Alternative Minimum Tax credit carry forward | - | 155,401 |
| Charitable Contributions | - | 20,263 |
| Other | **113** | 111 |
| **Total Deferred Tax Assets** | **980,254** | 999,725 |
| Deferred origination fees and costs | **21,576** | 23,359 |
| Investment securities accretion | **10,101** | 11,670 |
| Depreciation | **109,307** | 52,207 |
| **Total Deferred Tax Liabilities** | **140,984** | 87,236 |
| **Net Deferred Tax Asset** | **$839,270** | $912,489 |

As of December 31, 2018, the Company had no unrecognized tax benefits as defined by FASB ASC 740-10-25, Accounting for Uncertainty in Income Taxes. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. As of December 31, 2018, and 2017, the Company has not incurred any interest or penalties associated with its tax position. Any amount, if applicable, would be included as part of other non-operating expense. The Company is subject to federal income tax as well as a capital-based state franchise tax.

The Tax Cuts and Jobs Act of 2017 became effective on December 22, 2017. The Act reduced the corporate tax rate from 34% to 21% effective January 1, 2018. Consequently, the Company recorded a decrease related to its deferred tax assets and its deferred tax liabilities of $522,678 and $54,003, respectively, with a corresponding net adjustment to deferred income tax expense of $468,675 at December 31, 2017.

The Company establishes a valuation allowance when it is more-likely-than-not that the Company will not be able to realize the benefit of the deferred tax assets or when future deductibility is uncertain. Periodically, the need for a valuation allowance is reviewed and adjusted based on management's assessment of realizable deferred tax assets.

As of December 31, 2018 and 2017, the Company had charitable contribution carry forward of $0 and $96,489, respectively. These carry forwards from 2017 were used in 2018.

The Company is no longer subject to examination by taxing authorities for years before 2015.

The total tax provision for financial reporting purposes differed from the amount computed by applying the federal statutory income tax rate of 21% in 2018 and 34% in 2017 to income before income taxes. The differences are as follows:

| | 2018 | 2017 |
|---|---|---|
| Tax at statutory rate | **$ 435,300** | $ 618,362 |
| Effect of tax reform rate change | - | 468,675 |
| Effect of tax-exempt income | **(185,239)** | (245,870) |
| Other | **19,939** | (52,567) |
| **Income Tax Expense** | **$ 270,000** | $ 788,600 |

## NOTE 11 - CONTINGENCIES AND COMMITMENTS

There are no material legal proceedings to which the Company is party to except proceedings which arise in the normal course of business and, in the opinion of management, will not have any material effect on the consolidated financial position of the Company.

Currently, the Bank does not have any lease arrangements.

## NOTE 12 - EMPLOYEE BENEFITS

**401(k) Profit Sharing Plan**
The Company has a non-contributory profit sharing and integrated contributory 401(k) plan in which eligible employees participate. The Company is required to make a "safe harbor" contribution to the plan of at least three percent of eligible employee's compensation. This "safe harbor" contribution is fully vested and is referred to as a non-elective contribution. The Bank also makes a matching contribution equal to 100% of each participant's contributions up to a maximum of 3% of their salary. In addition, the Company may make discretionary contributions to the profit-sharing plan as determined by the Board of Directors. The total plan contribution expense for the years ended 2018 and 2017 was $260,000.

**Post-Retirement Life Insurance Benefits**
The Company provides term life insurance benefits for its retired employees. All employees may become eligible for these benefits, provided they do not retire prior to reaching age sixty-five.

The projected accumulated post-retirement benefit obligation, which is unfunded, totaled $137,216 and $151,794 as of December 31, 2018 and 2017, respectively. It is computed using various actuarially determined assumptions regarding participant mortality, withdrawal and retirement rates, salary scales, discount rates and disabled mortality rates. The Company has the right to amend or terminate these benefits.

The net periodic post-retirement benefit cost, which consists primarily of service costs and interest on the accumulated benefit obligation, totaled $6,874 and $4,406 in 2018 and 2017, respectively. For 2018 and 2017, interest cost was computed using a discount rate of 3.55% and 4.10%, respectively.

**Supplemental Employee Retirement Plan**
The Company also maintains a nonqualified Supplemental Employee Retirement Plan ("SERP"). The SERP was established to provide a full level of retirement benefit for certain executives who otherwise would have been bound by existing qualified plan limitations. As of December 31, 2018, the obligations of the SERP totaled $759,815. The obligations under the retirement benefit portion of the plan are unfunded; however, Company has purchased a life insurance policy on the covered executives which is actuarially designed to offset the annual expenses associated with the plan and will, given reasonable actuarial assumptions, offset all of the plan's costs during the life of the executives and provide a complete recovery of all plan costs at the executive's death. Company is the sole owner and beneficiary of all policies. Net periodic expense for the SERP for 2018 and 2017 included in noninterest expense was $179,218 and $153,956, respectively.

## Notes to Consolidated Financial Statements

### NOTE 13 - OTHER EXPENSES

The following is an analysis of other expenses for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Computer services | **$ 469,688** | $ 442,867 |
| ATM processing expense | **279,169** | 262,376 |
| Advertising | **393,909** | 350,971 |
| Director fees | **209,650** | 205,950 |
| Corporate insurance | **76,208** | 143,395 |
| Regulatory assessments | **68,798** | 62,583 |
| Telecommunications | **111,276** | 110,412 |
| Charitable contributions | **31,319** | 38,272 |
| Other | **663,714** | 650,890 |
| **Total** | **$2,303,731** | $2,267,716 |

### NOTE 14 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial instruments subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

## Notes to Consolidated Financial Statements

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 and 2017 are as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | |
| U.S. government agencies and corporations | **$ 48,234,384** | **$ -** | **$ 48,234,384** | **$ -** |
| Obligations of states and political subdivisions | **20,488,926** | **-** | **20,488,926** | **-** |
| Residential collateralized mortgage obligations guaranteed by U.S. government agencies | **4,244,363** | **-** | **4,244,363** | |
| Mortgage-backed securities | **27,443,863** | **-** | **27,443,863** | **-** |
| **Total** | **$100,411,536** | **$ -** | **$100,411,536** | **$ -** |
| DECEMBER 31, 2017 | | | | |
| U.S. government agencies and corporations | $ 56,664,552 | $ - | $ 56,664,552 | $ - |
| Obligations of states and political subdivisions | 21,064,188 | 883,951 | 20,180,237 | - |
| Mortgage-backed securities | 26,038,803 | - | 26,038,803 | - |
| **Total** | $ 103,767,543 | $883,951 | $ 102,883,592 | $ - |

There were no financial assets measured at fair value on a non-recurring basis at December 31, 2018 and 2017.

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2018 and 2017:

**Cash and Due from Banks and Interest-Bearing Deposits with Banks (Carried at Cost)**
The carrying amount of cash and short-term instruments approximate their fair value.

**Securities Available for Sale (Carried at Fair Value)**
The fair value of securities available for sale is determined by obtaining quoted market prices in nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. The entire Company's available for sale securities used valuation methodologies associated with Level 1 and Level 2 techniques at December 31, 2018 and 2017.

**Loans (Carried at Cost)**
For 2018, the loan portfolio fair value analysis consists of two segments: (1) a "credit adjustment" to reflect the estimated adjustment to the carrying value of the loans due to credit-related factors; and, (2) a "yield adjustment" to reflect the estimated adjustment to the carrying value of the loans due to a differential in yield between the portfolio loan yields and estimated current market rate yields on loans with similar characteristics.

To determine a credit adjustment, the loan portfolio was divided into two segments: (1) performing loans and (2) non-accrual loans. The credit adjustment was calculated on the portfolio of performing loans to account for the estimated credit losses that could expect to be realized over the remaining life of the subject loan portfolio, in the absence of a liquid market or direct quotes for loans comparable to the performing loans in the Company's loan portfolio. In this regard, three primary sources of information were considered in developing a market-based credit adjustment: (1) The Company's recent loan charge-off history for loans with similar collateral characteristics and/or purposes; (2) annual loan charge-off data by type of loan for FDIC-insured financial institutions in the Commonwealth of Pennsylvania; and, (3) The Company's internal allowance for loan and lease losses analysis for performing loans.

Loans classified as "non-accruing" were segregated and an estimated credit adjustment reserve level was assumed from a third-party perspective.

To determine a yield adjustment, future cash flows were projected based on remaining term, weighted average coupon, estimated months until maturity or repricing and an estimated rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate. The risk-adjusted market rate reflects the approximate risk-adjusted market rate in existence at the valuation date for similar loans, taking into account regional market conditions, including a premium applied, based on the Company's assessment reflecting the lack of marketability and liquidity of the loans relative to a base index. The fair value adjustment was then calculated as the difference between the current principal balance and the present value of future cash flows.

For 2017, the fair value of loans, excluding impaired loans subject to specific loss allowances, is estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates,

projected repayments and repayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, the fair value is based on carrying value.

**Mortgages Held for Sale (Carried at Lower of Cost or Fair Value)**
The carrying amount of mortgages held for sale approximate their fair value.

**Impaired Loans With Specific Loss Allowances (Carried at Fair Value)**
The fair value of impaired loans with specific loss allowances is measured using the estimated fair market value of the collateral less the estimated costs to sell. Fair value of the collateral is typically determined by appraisal. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

**Foreclosed Real Estate (Net Realizable Value)**
The fair value of foreclosed real estate is measured using the estimated fair value of the collateral less the estimated costs to sell. Fair value is typically determined by an appraisal. As of December 31, 2018, and 2017, the Company had no foreclosed real estate.

**Restricted Investments in Bank Stock (Carried at Cost)**
The carrying amount of restricted investments in bank stock approximates fair value and considers the limited marketability of such securities.

**Accrued Interest Receivable and Payable (Carried at Cost)**
The carrying amount of accrued interest receivable and accrued interest payable approximates their fair value.

**Deposits (Carried at Cost)**
The fair value disclosed for non-interest and interest-bearing checking, statement and passbook savings and money market accounts is, by definition, equal to the amount payable on demand at the reporting date (i.e., the carrying amounts). Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered in the marketplace on similar certificates to a schedule of aggregated expected monthly maturities on time deposits.

**Borrowed Funds (Carried at Cost)**
The fair value for borrowings are estimated using discounted cash flow analyses using interest rates for instruments for similar terms.

**Off-Balance Sheet Financial Instruments (Disclosed at Cost)**
The fair value of the Company's off-balance sheet financial instruments (lending commitments and letters of credit) is based on fees currently charged in the market to enter similar agreements, taking into account the remaining term of the agreements and the counterparties' credit score standing.

## Notes to Consolidated Financial Statements

The carrying amount and fair values of the Company's financial instruments were as follows at December 31, 2018 and 2017:

| | Carrying Amount | Fair Value | (Level 1) Quoted Prices in Active Market for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|---|
| DECEMBER 31, 2018 | | | | | |
| Financial Assets | | | | | |
| Cash and due from banks | **$ 30,440,546** | **$ 30,440,546** | **$30,440,546** | **$ -** | **$ -** |
| Interest-bearing deposits with banks | **1,130,402** | **1,130,402** | **1,130,402** | - | - |
| Securities available for sale | **100,411,536** | **100,411,536** | - | **100,411,536** | - |
| Net loans (1) | **244,757,028** | **238,402,807** | - | - | **238,402,807** |
| Restricted investments in bank stock | **3,466,800** | **3,466,800** | - | **3,466,800** | - |
| Accrued interest receivable | **988,760** | **988,760** | - | **988,760** | - |
| Financial Liabilities | | | | | |
| Deposits | **$340,495,679** | **$340,629,071** | **$ -** | **$340,629,071** | **$ -** |
| Borrowed Funds | **19,391,435** | **19,274,459** | - | **19,274,459** | - |
| Accrued interest payable | **59,972** | **59,972** | - | **59,972** | - |
| Off-Balance Sheet Financial Instruments | | | | | |
| Commitments to extend credit | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| Standby letters of credit | - | - | - | - | - |
| DECEMBER 31, 2017 | | | | | |
| Financial Assets | | | | | |
| Cash and due from banks | $ 24,707,904 | $ 24,707,904 | $ 24,707,904 | $ - | $ - |
| Interest-bearing deposits with banks | 1,213,242 | 1,213,242 | 1,213,242 | - | - |
| Securities available for sale | 103,767,543 | 103,767,543 | 883,951 | 102,883,592 | - |
| Net loans (1) | 243,404,976 | 247,184,713 | - | - | 247,184,713 |
| Restricted investments in bank stock | 3,456,700 | 3,456,700 | - | 3,456,700 | - |
| Accrued interest receivable | 981,173 | 981,173 | - | 981,173 | - |
| Financial Liabilities | | | | | |
| Deposits | $ 336,793,813 | $ 336,926,275 | $ - | $ 336,926,275 | $ - |
| Borrowed Funds | 18,400,303 | 18,247,445 | - | 18,247,445 | - |
| Accrued interest payable | 46,528 | 46,528 | - | 46,528 | - |
| Off-Balance Sheet Financial Instruments | | | | | |
| Commitments to extend credit | $ - | $ - | $ - | $ - | $ - |
| Standby letters of credit | - | - | - | - | - |

(1) In accordance with the prospective adoption of Accounting Standards Update 2016-01, the fair value of loans at December 31, 2018 was measured using an exit price notion. The fair value of loans at December 31, 2017 was measured using an entry price notion.

### NOTE 15 - REGULATORY MATTERS

**Cash and Due from Banks**

The Federal Reserve Board requires the Bank to maintain a reserve requirement against specified deposit liabilities. As of December 31, 2018 and 2017, the Bank's reserve requirement was $4,516,000 and $5,255,000, respectively. The Bank satisfied the reserve requirement with a combination of vault cash and a depository account held with the FRB of Cleveland.

**Dividends**

Banks are subject to dividend payout restrictions, which generally limits the amount of dividends that can be paid by an FDIC insured bank. In addition to the minimum risk-based requirements outlined below, banks must hold common equity tier 1 capital in an amount greater than 2.50% of total risk-weighted assets ("the capital conservation buffer") to avoid being subject to limits on capital distributions such as dividend payments. At December 31, 2018, the Bank's capital conservation buffer was 8.61%.

**Capital Requirements**

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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's 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.

Effective January 1, 2015, the Bank became subject to new capital requirements (Basel III) adopted by the FDIC. These requirements create a new required ratio for common equity Tier 1 ("CET 1") risk-based capital, increase the Tier 1 capital ratio requirements, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Under the Basel III reporting requirements, CET 1 risk-based capital with a minimum capital requirement of 4.50% of risk weighted assets was established. Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018 and 2017, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

## Notes to Consolidated Financial Statements

The Bank's actual capital amounts and ratios and the minimum amounts and ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are as follows:

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| DECEMBER 31, 2018 | | | | | | |
| Total risk-based capital to risk-weighted assets | **$38,704,000** | **16.61%** | **≥$18,638,800** | **≥ 8.00%** | **≥$23,298,500** | **≥10.00%** |
| Tier 1 capital to risk-weighted assets | **36,141,000** | **15.51%** | **≥ 13,979,100** | **≥ 6.00%** | **≥ 18,638,800** | **≥ 8.00%** |
| CET 1 risk-based capital | **36,141,000** | **15.51%** | **≥ 10,484,325** | **≥ 4.50%** | **≥ 15,144,025** | **≥ 6.50%** |
| Tier 1 capital to average assets | **36,141,000** | **9.04%** | **≥ 15,998,880** | **≥ 4.00%** | **≥ 19,998,600** | **≥ 5.00%** |
| DECEMBER 31, 2017 | | | | | | |
| Total risk-based capital to risk-weighted assets | $ 37,598,000 | 16.26% | ≥ $18,499,760 | ≥ 8.00% | ≥ $23,124,700 | ≥10.00% |
| Tier 1 capital to risk-weighted assets | 35,039,000 | 15.15% | ≥ 13,874,820 | ≥ 6.00% | ≥ 18,499,760 | ≥ 8.00% |
| CET 1 risk-based capital | 35,039,000 | 15.15% | ≥ 10,406,115 | ≥ 4.50% | ≥ 15,031,055 | ≥ 6.50% |
| Tier 1 capital to average assets | 35,039,000 | 8.98% | ≥ 15,611,560 | ≥ 4.00% | ≥ 19,514,450 | ≥ 5.00% |

## Community Reinvestment Act Program

Mars Bank is dedicated to help our local communities prosper. We are committed to serving the credit and banking needs of the communities in which we do business. We recognize this requires us to take a proactive, rather than a passive approach in determining and meeting community credit needs, including those of creditworthy low- and moderate-income areas and individuals while helping to foster development in those area. We are committed to working with community organizations to promote the availability of credit and other banking services as needed in the communities that we serve. This philosophy of commitment to our stakeholders and communities means we participate not to meet a requirement, but to fulfill a purpose.

From the boardroom to our banking centers, our purpose and goal is to help individuals, families and businesses thrive. We accomplish this through:

- Delivery of consumer and commercial banking products and services to our communities we serve;
- Participating in and promoting grant programs to help meet the needs of low to moderate income borrowers and helping individuals in our communities to become first-time homeowners;
- Meeting with community-based organizations to understand their needs;
- Providing financial education opportunities to students, customers, and the public;
- Commitment to the community through sponsorships, charitable donations, volunteerism and promoting charitable organizations;
- Investment in the professional development of our staff and management to encourage active participation in professional associations and encouraging involvement in the community; and
- Developing, implementing and measuring our CRA activities.

It is the policy of the Bank to make an active effort to determine the credit needs of our entire community, including those of low- and moderate-income areas and individuals. The Bank will work to ensure that this is done by identifying people who can speak to these needs, such as community organizations, government officials, non-profit groups, businesses, trade associations and church and educational leaders.

The Bank will make an active effort to know the people in local organizations concerned with community development and the needs of low-income and moderate-income people. Our needs assessment contacts will be a regular vehicle for ensuring good communication with them.

The Bank provides time for and encourages our team members to participate in charitable, civic and educational events. Throughout the year, varying forms of outreach activities are planned and scheduled by management that include offsite service days to campaigns for donations of goods or money. Management is also encouraged to identify organizations and community centers of influence to connect, serve on boards and keep abreast of the changes and needs of the community. Each year, dozens of organizations benefit from the expertise of Bank participation and we look to continue this important purpose as we move forward.

Regulatory agencies perform periodic evaluations of the performance of banks under CRA. Mars Bank received a "Satisfactory" rating for our last CRA Performance Evaluation dated February 13, 2017. Copies of the Performance Evaluation are available from the Bank upon request or can be obtained at www.occ.treas.gov.

## Mars Bancorp and Mars Bank Board of Directors

**Janet L. van Buskirk Balentine**
Chairman
Everest Settlement - Retired

**J. Jay Thier**
Vice Chairman
Stirling Capital

**Harry G. Austin, III**
James Austin Company

**Dr. Daniel J. Cole**
Three Rivers Urology - UPMC

**James V. Dionise**
Mars Bank

**Kenneth R. Fleeson**
Lectromat, Inc.

**Dianne Dobson Howard**
Lord Corporation - Retired

**Gregory B. Mensch**
Naval Nuclear Laboratory

**Steven D. Thompson**
Schneider Downs & Co., Inc.

**Dallas C. Hipple**
Emeritus

**R. Bruce Mensch**
Emeritus

**Charles A. Norton**
Emeritus

**H. Paul Starr, Jr.**
Emeritus

**Patricia Sutton van Buskirk**
Emeritus

Left to Right - Kenneth R. Fleeson, Gregory B. Mensch, Steven D. Thompson, Janet L. van Buskirk Balentine, J. Jay Thier, James V. Dionise, Dianne Dobson Howard, Dr. Daniel J. Cole, Harry G. Austin III

## Mars Bancorp and Mars Bank Executive Leadership Team

**James V. Dionise**
President
Chief Executive Officer

**Michael J. Kirk**
Executive Vice President
Chief Financial Officer, Treasurer and Secretary

## Mars Bank Senior Leadership Team

**Daniel F. Doyle**
Vice President
Administrative Services

**Mark D. Drenchko**
Senior Vice President
Commercial and Retail Banking

**James M. Hein**
Senior Vice President
Finance

**Lisa M. Kooker**
Senior Vice President
Chief Credit Officer

**Michael W. McGraw**
Senior Vice President
Information Technology

**Shawn R. Proper**
Senior Vice President
Mortgage and Consumer Lending

**Mark R. Schoen**
Senior Vice President
Risk Management

**Tracie L. Williams**
Vice President
Human Resources

## Mars Bancorp

**HEADQUARTERS**
145 Grand Avenue | Mars, PA 16046
724.625.1555

**MAILING ADDRESS**
P.O. Box 927 | Mars, PA 16046

## Mars Bank

**COMMERCIAL LENDING**
145 Grand Avenue | Mars, PA 16046
724.625.1555

**MORTGAGE, HOME EQUITY AND PERSONAL LENDING**
20246 Route 19 | Cranberry Township, PA 16066
724.776.3803

**RETAIL BANKING CENTERS**

**Cranberry**
20246 Route 19
Cranberry Township, PA 16066
724.776.3800

**Heritage Creek**
211 Scharberry Lane
Mars, PA 16046
724.742.2800

**Mars**
145 Grand Avenue
Mars, PA 16046
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**Penn**
600 Pittsburgh Road
Butler, PA 16002
724.586.6767

**Richland**
5552 William Flynn Highway
Gibsonia, PA 15044
724.443.5901

Mars Bank is committed to remaining a relationship driven, independent community bank offering competitive, high quality products, services, and needs-based solutions; provided by talented and dedicated professionals who are passionate about delivering an outstanding customer experience in a personal, efficient and friendly manner.

Mars Bank

YOUR ONE TRUE COMMUNITY BANK℠

www.MarsBank.com