



First  
Neighborhood  
Bank

2019

ANNUAL REPORT

# 2019



## Message from the Chairman of the Board

During the past few years, Senior Management and the Board of Directors have been working to plan for the future of First Neighborhood Bank and West-Central Bancorp, Inc. Areas of consideration have included asset growth, market expansion, and succession planning to address the pending retirements of members of our Senior Management Team.

In 2019, the bank experienced some unanticipated challenges. Previous bank examinations performed by the West Virginia Division of Financial Institutions and the FDIC showed positive results with minimal recommendations. Unfortunately, in the FDIC exam in March of 2019, several apparent deficiencies in the bank's BSA program were identified. The Bank Secrecy Act governs anti-money laundering and terrorist financing. These areas of deficiency included personnel, training, and automated tracking systems, along with external auditing and validation. Although the Board of Directors and Management weren't in complete agreement with the exam findings, they entered in to an agreement with the regulators in July of this year that these issues would be addressed in a timely manner. As of the date of this letter, Senior Management and the Board of Directors feel that all items have been fully addressed and submitted to both state and federal regulators for their approval.

Unfortunately, as a result of the BSA exam findings and the related costs of personnel, external audits and validation testing, training, equipment, and software, earnings were below budget for 2019. During the fourth quarter of 2019, management decided to be proactive in their approach and make additional expenditures in this year that were planned for 2020 and beyond. Management feels this approach will position the bank for increased earnings in the years to come.

The Board of Directors and Senior Management are excited for 2020 as we anticipate improved earnings, moving younger talent in to Senior Management positions, and focusing on other growth opportunities such as expanding in to other markets. As a shareholder of West-Central Bancorp, Inc., you should feel confident & excited about your investment. We feel confident that all issues regarding the exam have been resolved and have continued payment of our semi-annual dividend in the amount of \$0.50/share

We look forward to seeing you at our Annual Shareholders' Meeting on Tuesday, March 26, 2019 at 10:00 a.m. in our Spencer Office at 216 Market Street.

Our audited financial statement prepared by Suttle & Stalnaker PLLC is available on our website. Printed copies may be obtained by contacting any of our offices.



**David M. Righter**

*Chairman of the Board and  
Chief Executive Officer*

The annual report can be viewed on our website:

<https://www.firstneighborhoodbank.com/investor-relations.htm>

Under About Us/Investor Relations/Annual Reports, click on 2019 FNB Annual Report (pdf).

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**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**

**SPENCER, WEST VIRGINIA**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2019**



**Suttle &  
Stalnaker**

Certified  
Public  
Accountants

A Professional Limited Liability Company



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
West-Central Bancorp, Inc. and Subsidiaries  
Spencer, West Virginia

We have audited the accompanying consolidated financial statements of West-Central Bancorp, Inc. and its Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

The Virginia Center  
1411 Virginia Street, East | Suite 100  
Charleston, WV 25301

MAIN (304) 343-4126  
FAX (304) 343-8008

Towne Square | 201 Third Street  
PO Box 149  
Parkersburg, WV 26102

MAIN (304) 485-6584  
FAX (304) 485-0971

Wharf District  
68 Clay Street | Suite C  
Morgantown, WV 26501

MAIN (304) 554-3371  
FAX (304) 554-3410

suttlecpas.com  
cpa@suttlecpas.com

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 West-Central Bancorp, Inc. and its Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Suttle & Stalaker, PLLC".

Charleston, West Virginia  
February 17, 2020

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2019 AND 2018**

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|  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |
| Cash and due from banks  | \$ 4,832,250          | \$ 4,791,082          |
| Interest-earning deposits in other banks   | 408,270               | 396,795               |
| Federal funds sold   | 7,880,000             | 2,535,000             |
| Cash and cash equivalents  | 13,120,520            | 7,722,877             |
| Time deposits  | 5,000,000             | 3,500,000             |
| Investment securities  |                       |                       |
| Securities available-for-sale, at fair value   | 29,233,636            | 17,823,202            |
| Other securities   | 66,300                | 66,800                |
| Loans  | 90,177,276            | 99,660,049            |
| Less: allowance for loan losses  | (897,930)             | (1,062,056)           |
| Loans - net  | 89,279,346            | 98,597,993            |
| Accrued interest receivable  | 388,884               | 339,229               |
| Premises and equipment - net   | 2,350,659             | 2,515,391             |
| Other real estate owned  | 35,000                | -                     |
| Cash surrender value - bank owned life insurance   | 3,281,811             | 3,226,277             |
| Deferred income taxes  | 457,175               | 579,770               |
| Other assets   | 372,526               | 188,466               |
| <b>Total assets</b>  | <b>\$ 143,585,857</b> | <b>\$ 134,560,005</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                       |                       |
| Deposits   |                       |                       |
| Demand - noninterest-bearing   | \$ 40,102,161         | \$ 37,780,861         |
| Demand - interest-bearing  | 27,719,853            | 24,196,347            |
| Savings  | 20,256,613            | 22,701,618            |
| Time   | 38,344,953            | 33,251,853            |
| Total deposits   | 126,423,580           | 117,930,679           |
| Advance payments from borrowers for taxes and insurance  | 97,223                | 102,151               |
| Accrued interest payable   | 82,818                | 47,849                |
| Other liabilities  | 1,424,123             | 1,414,404             |
| Total liabilities  | 128,027,744           | 119,495,083           |
| Shareholders' equity   |                       |                       |
| Common stock (par value \$1.00; 5,000,000 shares authorized; 350,860 shares issued; 184,453 shares outstanding as of December 31, 2019 and 2018, respectively) | 350,860               | 350,860               |
| Additional paid in capital   | 1,597,246             | 1,597,246             |
| Retained earnings  | 17,801,596            | 17,475,938            |
| Less: treasury stock, at cost (166,407 shares as of December 31, 2019 and 2018, respectively)  | (4,208,079)           | (4,208,079)           |
| Accumulated other comprehensive income (loss)  | 16,490                | (151,043)             |
| Total shareholders' equity   | 15,558,113            | 15,064,922            |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 143,585,857</b> | <b>\$ 134,560,005</b> |

The accompanying notes are an integral part of these financial statements.



**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

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**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019**

|  | 2019                     | 2018                     | 2017                     |
|--|--------------------------|--------------------------|--------------------------|
| Interest income  |                          |                          |                          |
| Interest and fees on loans   | \$ 4,520,016             | \$ 4,622,843             | \$ 4,661,960             |
| Interest on deposits in other banks  | 125,117                  | 76,587                   | 33,350                   |
| Interest on federal funds sold   | 117,628                  | 87,206                   | 79,832                   |
| Interest and dividends on investment securities                                    | 464,945                  | 382,377                  | 392,919                  |
| Total interest income  | <u>5,227,706</u>         | <u>5,169,013</u>         | <u>5,168,061</u>         |
| Interest expense   |                          |                          |                          |
| Interest on deposits   | 742,466                  | 379,670                  | 301,008                  |
| Total interest expense   | <u>742,466</u>           | <u>379,670</u>           | <u>301,008</u>           |
| Net interest income  | 4,485,240                | 4,789,343                | 4,867,053                |
| Provision for loan losses  | 285,000                  | 232,000                  | 232,000                  |
| Net interest income after provision for loan losses                                | <u>4,200,240</u>         | <u>4,557,343</u>         | <u>4,635,053</u>         |
| Noninterest income   |                          |                          |                          |
| Service charges and fees   | 553,162                  | 517,726                  | 534,843                  |
| Increase in cash surrender value - bank owned life insurance                       | 55,534                   | 56,100                   | 56,509                   |
| Net realized gains (losses) from sales of investment securities available-for-sale | (6,211)                  | -                        | -                        |
| Other income   | 68,072                   | 37,173                   | 31,955                   |
| Total noninterest income   | <u>670,557</u>           | <u>610,999</u>           | <u>623,307</u>           |
| Noninterest expense  |                          |                          |                          |
| General and administrative   |                          |                          |                          |
| Compensation and benefits  | 2,278,055                | 2,267,622                | 2,330,729                |
| Occupancy and equipment  | 583,935                  | 534,296                  | 583,249                  |
| FDIC assessment  | 24,000                   | 36,000                   | 36,000                   |
| Data processing  | 502,361                  | 473,476                  | 467,913                  |
| Other expenses   | 880,874                  | 845,048                  | 854,525                  |
| Total noninterest expense  | <u>4,269,225</u>         | <u>4,156,442</u>         | <u>4,272,416</u>         |
| Income before income tax expense   | 601,572                  | 1,011,900                | 985,944                  |
| Income tax expense   | 91,461                   | 158,756                  | 496,654                  |
| <b>Net income</b>  | <b><u>\$ 510,111</u></b> | <b><u>\$ 853,144</u></b> | <b><u>\$ 489,290</u></b> |
| Net income available for common shareholders                                       | \$ 510,111               | \$ 853,144               | \$ 489,290               |
| Per common share data  |                          |                          |                          |
| Net income   | 2.77                     | 4.09                     | 2.33                     |
| Cash dividends declared  | 1.00                     | 1.00                     | 1.00                     |
| Average common shares outstanding  | 184,453                  | 208,828                  | 209,926                  |

The accompanying notes are an integral part of these financial statements.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019**

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|   | <u>2019</u>                     | <u>2018</u>                     | <u>2017</u>                     |
|---|---------------------------------|---------------------------------|---------------------------------|
| Net income  | <u>\$ 510,111</u>               | <u>\$ 853,144</u>               | <u>\$ 489,290</u>               |
| Other comprehensive income (loss)   |                                 |                                 |                                 |
| Unrealized gains (losses) on investment securities<br>available-for-sale arising during the period                      | 222,322                         | (82,733)                        | (11,599)                        |
| Adjustment for income tax (expense) benefit   | <u>(59,323)</u>                 | <u>23,000</u>                   | <u>3,000</u>                    |
|   | <u>162,999</u>                  | <u>(59,733)</u>                 | <u>(8,599)</u>                  |
| Reclassification adjustment for (gains) losses on<br>investment securities available-for-sale included<br>in net income | 6,211                           | -                               | -                               |
| Adjustment for income tax expense (benefit)   | <u>(1,677)</u>                  | <u>-</u>                        | <u>-</u>                        |
|   | <u>4,534</u>                    | <u>-</u>                        | <u>-</u>                        |
| Other comprehensive income (loss), net of income tax  | <u>167,533</u>                  | <u>(59,733)</u>                 | <u>(8,599)</u>                  |
| <b>Comprehensive income</b>   | <b><u><u>\$ 677,644</u></u></b> | <b><u><u>\$ 793,411</u></u></b> | <b><u><u>\$ 480,691</u></u></b> |

The accompanying notes are an integral part of these financial statements.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019**

|  | Common<br>Stock   | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Treasury<br>Stock     | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|--|-------------------|----------------------------------|----------------------|-----------------------|--|----------------------------------|
| Balance at December 31, 2016   | \$ 350,860        | \$ 1,597,246                     | \$ 16,524,564        | \$ (2,627,711)        | \$ (66,711)  | \$ 15,778,248                    |
| Comprehensive income   | -                 | -                                | 489,290              | -                     | (8,599)  | 480,691                          |
| Reclassification of certain tax effects from<br>accumulated other comprehensive income | -                 | -                                | 16,000               | -                     | (16,000)   | -                                |
| Purchases of treasury stock (72 shares)  | -                 | -                                | -                    | (3,600)               | -  | (3,600)                          |
| Cash dividends declared (\$1.00 per share)   | -                 | -                                | (209,900)            | -                     | -  | (209,900)                        |
| Balance at December 31, 2017   | 350,860           | 1,597,246                        | 16,819,954           | (2,631,311)           | (91,310)   | 16,045,439                       |
| Comprehensive income   | -                 | -                                | 853,144              | -                     | (59,733)   | 793,411                          |
| Purchases of treasury stock (25,436 shares)  | -                 | -                                | -                    | (1,576,768)           | -  | (1,576,768)                      |
| Cash dividends declared (\$1.00 per share)   | -                 | -                                | (197,160)            | -                     | -  | (197,160)                        |
| Balance at December 31, 2018   | 350,860           | 1,597,246                        | 17,475,938           | (4,208,079)           | (151,043)  | 15,064,922                       |
| Comprehensive income   | -                 | -                                | 510,111              | -                     | 167,533  | 677,644                          |
| Cash dividends declared (\$1.00 per share)   | -                 | -                                | (184,453)            | -                     | -  | (184,453)                        |
| <b>Balance at December 31, 2019</b>  | <b>\$ 350,860</b> | <b>\$ 1,597,246</b>              | <b>\$ 17,801,596</b> | <b>\$ (4,208,079)</b> | <b>\$ 16,490</b>                                       | <b>\$ 15,558,113</b>             |

The accompanying notes are an integral part of these financial statements.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019**

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|   | 2019                 | 2018                | 2017                 |
|---|----------------------|---------------------|----------------------|
| Cash flows from operating activities  |                      |                     |                      |
| Net income  | \$ 510,111           | \$ 853,144          | \$ 489,290           |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |                      |                     |                      |
| Depreciation  | 191,867              | 213,633             | 234,922              |
| Provision for loan losses   | 285,000              | 232,000             | 232,000              |
| Provision for deferred income tax   | 61,595               | (75,860)            | 289,905              |
| Amortizations (accretions) on investment securities - net                               | 132,532              | 128,456             | 117,701              |
| Net realized (gains) losses from sales of investment securities available-for-sale      | 6,211                | -                   | -                    |
| Amortization of deferred gain on sale-leaseback transaction                             | (16,920)             | -                   | -                    |
| Net realized (gains) losses from disposal of premises and equipment                     | -                    | -                   | 13,340               |
| Net realized (gains) losses from sales of other real estate owned                       | -                    | 15,000              | -                    |
| Other real estate owned writedown   | 25,000               | -                   | -                    |
| (Increase) decrease in accrued interest receivable                                      | (49,655)             | 59,712              | (25,718)             |
| (Increase) decrease in cash surrender value - bank owned life insurance                 | (55,534)             | (56,100)            | (56,509)             |
| (Increase) decrease in other assets   | (184,060)            | (34,338)            | 121,850              |
| Increase (decrease) in accrued interest payable   | 34,969               | 19,396              | (4,709)              |
| Increase (decrease) in other liabilities  | (142,183)            | 138,481             | 45,469               |
| Total adjustments   | 288,822              | 640,380             | 968,251              |
| Net cash provided (used) by operating activities  | 798,933              | 1,493,524           | 1,457,541            |
| Cash flows from investing activities  |                      |                     |                      |
| Net (increase) decrease in time deposits  | (1,500,000)          | (250,000)           | (2,500,000)          |
| Purchases of investment securities available-for-sale                                   | (21,605,695)         | (1,000,000)         | (4,082,657)          |
| Proceeds from maturities and calls of investment securities available-for-sale          | 6,985,000            | 3,050,000           | 5,865,000            |
| Proceeds from principle payments on investment securities available-for-sale            | 306,651              | -                   | -                    |
| Proceeds from sales of investment securities available-for-sale                         | 2,993,400            | -                   | -                    |
| Redemptions of Federal Home Loan Bank stock   | 500                  | 2,800               | 1,400                |
| Net (increase) decrease in loans  | 9,123,647            | (23,753)            | (289,172)            |
| Proceeds from sales of other real estate owned  | -                    | 65,000              | -                    |
| Proceeds from sale-leaseback transaction  | 100,000              | -                   | -                    |
| Capital expenditures  | (108,313)            | (125,762)           | (86,190)             |
| Net cash provided (used) by investing activities  | (3,704,810)          | 1,718,285           | (1,091,619)          |
| Cash flows from financing activities  |                      |                     |                      |
| Net increase (decrease) in total deposits   | 8,492,901            | (6,102,226)         | (6,894,482)          |
| Net increase (decrease) in advance payments from borrowers for taxes and insurance      | (4,928)              | (12,014)            | (6,519)              |
| Purchases of treasury stock   | -                    | (1,576,768)         | (3,600)              |
| Cash dividends paid   | (184,453)            | (197,160)           | (209,900)            |
| Net cash provided (used) by financing activities  | 8,303,520            | (7,888,168)         | (7,114,501)          |
| Net increase (decrease) in cash and cash equivalents                                    | 5,397,643            | (4,676,359)         | (6,748,579)          |
| Cash and cash equivalents at beginning of year  | 7,722,877            | 12,399,236          | 19,147,815           |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 13,120,520</b> | <b>\$ 7,722,877</b> | <b>\$ 12,399,236</b> |

The accompanying notes are an integral part of these financial statements.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019**  
**(Continued)**

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|   | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|-------------|
| Supplemental schedule of noncash investing and financing activities |             |             |             |
| Loans transferred to other real estate owned                        | \$ 60,000   | \$ 80,000   | \$ -        |
| Loan origination from sale-leaseback transaction                    | \$ 150,000  | \$ -        | \$ -        |
| Supplemental disclosure of cash flows information                   |             |             |             |
| Cash paid during the year for                                       |             |             |             |
| Interest  | \$ 707,497  | \$ 360,274  | \$ 305,717  |
| Income taxes  | \$ 276,866  | \$ 107,616  | \$ 103,749  |

The accompanying notes are an integral part of these financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

Nature of operations - West-Central Bancorp, Inc. (the Bancorp) is a bank holding company whose wholly owned bank subsidiary, First Neighborhood Bank, Inc. (the Bank), is a commercial bank with operations in Spencer and Parkersburg, West Virginia. The Bank provides retail and commercial loans and deposit services principally to customers in Roane and Wood counties in West Virginia and surrounding counties. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the West Virginia Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bancorp's other subsidiary, West Central Insurance, LLC, had no significant operations during the years ended December 31, 2019, 2018, and 2017.

Basis of financial statement presentation - The accounting and reporting policies of the Bancorp and its Subsidiaries conform with accounting principles generally accepted in the United States of America and with general practices followed within the banking industry.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of West-Central Bancorp, Inc. and its Subsidiaries, First Neighborhood Bank, Inc. and West Central Insurance, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates, such as the allowance for loan losses, are based on known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. In addition, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other-than-temporary impairment on investments. Actual results could differ from those estimates.

Comprehensive income - Accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheets. Such items, along with net income, are components of comprehensive income.

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. Since early adoption is permitted, the Bancorp and its Subsidiaries' elected to reclassify \$16,000 from accumulated other comprehensive income to retained earnings as of December 31, 2017.

Presentation of cash flows - For the purpose of reporting cash flows, the Bancorp and its Subsidiaries have defined cash and cash equivalents as those amounts included in the consolidated balance sheets captions "Cash and due from banks" and "Interest-earning deposits in other banks," which have original maturities of ninety (90) days or less, and "Federal funds sold." Generally, federal funds are sold for one-day periods.

Investment securities - It is the policy of the Bank to prohibit the use of their respective investment accounts to maintain a trading account or to speculate in securities that would demonstrate management's intent to profit from short-term price movements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Debt securities are classified as held-to-maturity when management has both the intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts computed by the interest method from purchase date to maturity. There are no securities classified as held-to-maturity in the accompanying consolidated financial statements.

Securities not classified as held-to-maturity or as trading are classified as available-for-sale. Securities available-for-sale are carried at estimated fair value based on information provided by a third party pricing service, with unrealized gains and losses, net of the deferred income tax effect, reported in accumulated other comprehensive income. Realized gains and losses on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of income tax, in other comprehensive income. The cost of securities sold is determined on the specific-identification method. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the contractual terms of the securities.

Declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans - The Bank grants commercial, mortgage, and installment loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout West Virginia. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans are stated at the amount of unpaid principal balances, less the allowance for loan losses.

Interest on loans is accrued based on principal amounts outstanding.

Allowance for loan losses - The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio. The Bank uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to the (1) commercial portfolio, (2) mortgage portfolio, and (3) installment portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to, or release balances from, the allowance for loan losses. The Bank's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Troubled debt restructurings (TDRs) - A restructuring of debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The determination of whether a concession has been granted includes an evaluation of the debtor's ability to access funds at a market rate for debt with similar risk characteristics and among other things, the significance of the modification relative to unpaid principal or collateral value of the debt, and/or the significance of a delay in the timing of payments relative to the frequency of payments, original maturity date or the expected duration of the loan. The most common concessions granted generally include one or more modifications to the terms of the debt such as a reduction in the interest rate for the remaining life of the debt, an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reduction of the unpaid principal or interest. All TDRs are considered impaired loans.

Premises and equipment - Land is carried at cost. Bank buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed primarily using the straight-line, 150% declining balance, or double declining balance methods for financial reporting purposes over the estimated useful lives of the respective assets, which range from 3 to 10 years for equipment and 10 to 50 years for buildings and improvements. Useful lives are revised when a change in life expectancy becomes apparent.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations as realized.

Other real estate owned - Real estate acquired through, or in lieu of, loan foreclosure is held-for-sale and is initially recorded at the lower of the Bank's cost (book value) or fair value less estimated selling costs at the date of foreclosure. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower new fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed. The portion of interest costs relating to development of real estate is capitalized.

Advertising - The Bancorp and its Subsidiaries' policy is to expense advertising costs as incurred. Advertising expense for the years ended December 31, 2019, 2018, and 2017 were \$74,489, \$75,996, and \$85,965, respectively.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Income taxes - Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of securities available-for-sale, supplemental employee benefit plans, subsequent loss writedowns on other real estate owned, the allowance for loan losses, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Valuation limitation reserves are established, as deemed necessary, and adjusted periodically on certain deferred tax assets to reflect estimated recoverability of the asset in a reasonable time period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Bancorp and its Subsidiaries file consolidated federal and state tax returns. Tax allocation arrangements between the Bancorp and its Subsidiaries follow the policy of determining federal and state income taxes as if the Subsidiaries filed separate federal and state income tax returns.

Employee benefit plans - The Bank has a profit-sharing plan and an employee stock ownership plan (ESOP) which covers substantially all employees. The amount of the contributions to the plans is at the discretion of the Bank's Board of Directors.

Earnings per share - Earnings per share of common stock are computed based upon the weighted average number of shares of common stock outstanding during the period. The weighted-average shares outstanding were 184,453, 208,828, and 209,926 shares for the years ended December 31, 2019, 2018, and 2017, respectively. During each of the three years in the period ended December 31, 2019, the Bancorp did not have any potentially dilutive securities.

Fair value measurements - The Bancorp and its Subsidiaries follow the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurements and Disclosures*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques 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).

Revenue from contracts with customers - The Bancorp and its Subsidiaries record revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. Under Topic 606, the Bancorp and its Subsidiaries must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Bancorp and its Subsidiaries satisfy a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

The majority of the Bancorp and its Subsidiaries' revenues come from interest and dividend income on loans, investment securities, and other financial instruments that are outside the scope of Topic 606. The Bancorp and its Subsidiaries have evaluated the nature of contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Bancorp and its Subsidiaries generally fully satisfy performance obligations on contracts with customers as services are rendered and the transaction prices, which are charged on a periodic basis or based on activity, are typically fixed. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Sale-leaseback transaction - The Bank is party to an arrangement in which it sold assets to a related party and immediately leased a portion of those assets back from the related party. Because the Bank has continued involvement in the assets sold, the transaction is accounted for as a sale-leaseback whereby the gain on the sale of the assets is deferred and will be recognized over the term of the related lease agreement. Under the arrangement, the Bank pays a fixed minimum lease payment.

Date of management's review of subsequent events - Management has evaluated the accompanying consolidated financial statements for subsequent events and transactions through February 17, 2020, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

The Bank met the requirement to maintain reserve funds by either cash on hand or cash on deposit with the Federal Reserve Bank as of December 31, 2019 and 2018.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of December 31, 2019 and 2018 are summarized as follows:

|   | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value        |
|---|----------------------|------------------------------|-------------------------------|----------------------|
| <u>December 31, 2019</u>                  |                      |                              |                               |                      |
| Securities available-for-sale             |                      |                              |                               |                      |
| U.S. government and federal agencies      | \$ 7,000,000         | \$ 3,843                     | \$ (54,525)                   | \$ 6,949,318         |
| Mortgage-backed securities                | 7,880,013            | 23,896                       | (13,741)                      | 7,890,168            |
| State, county, and municipal – nontaxable | 12,687,758           | 81,655                       | (36,011)                      | 12,733,402           |
| State, county, and municipal – taxable    | <u>1,643,375</u>     | <u>17,373</u>                | <u>-</u>                      | <u>1,660,748</u>     |
| Total                                     | <u>\$ 29,211,146</u> | <u>\$ 126,767</u>            | <u>\$ (104,277)</u>           | <u>\$ 29,233,636</u> |
| <u>December 31, 2018</u>                  |                      |                              |                               |                      |
| Securities available-for-sale             |                      |                              |                               |                      |
| U.S. government and federal agencies      | \$ 7,999,251         | \$ -                         | \$ (160,582)                  | \$ 7,838,669         |
| State, county, and municipal – nontaxable | 8,409,694            | 25,826                       | (57,371)                      | 8,378,149            |
| State, county, and municipal – taxable    | <u>1,620,300</u>     | <u>5,837</u>                 | <u>(19,753)</u>               | <u>1,606,384</u>     |
| Total                                     | <u>\$ 18,029,245</u> | <u>\$ 31,663</u>             | <u>\$ (237,706)</u>           | <u>\$ 17,823,202</u> |

The caption “Other securities” in the consolidated balance sheets consists of Federal Home Loan Bank stock. This restricted equity security is carried at cost since it may only be sold back to the Federal Home Loan Bank or another member at par value.

NOTE 3 - INVESTMENT SECURITIES (Continued)

Information pertaining to investment securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

|   | Less Than 12 Months  |                         | 12 Months or Greater |                         | Total                |                         |
|---|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|   | Fair Value           | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses |
| <u>December 31, 2019</u>                  |                      |                         |                      |                         |                      |                         |
| Securities available-for-sale             |                      |                         |                      |                         |                      |                         |
| U.S. government and federal agencies      | \$ 5,945,475         | \$ (54,525)             | \$ -                 | \$ -                    | \$ 5,945,475         | \$ (54,525)             |
| Mortgage-backed securities                | 3,526,016            | (13,741)                | -                    | -                       | 3,526,016            | (13,741)                |
| State, county, and municipal – nontaxable | <u>4,947,298</u>     | <u>(36,011)</u>         | <u>-</u>             | <u>-</u>                | <u>4,947,298</u>     | <u>(36,011)</u>         |
| Total                                     | <u>\$ 14,418,789</u> | <u>\$ (104,277)</u>     | <u>\$ -</u>          | <u>\$ -</u>             | <u>\$ 14,418,789</u> | <u>\$ (104,277)</u>     |
| <u>December 31, 2018</u>                  |                      |                         |                      |                         |                      |                         |
| Securities available-for-sale             |                      |                         |                      |                         |                      |                         |
| U.S. government and federal agencies      | \$ 994,296           | \$ (5,704)              | \$ 6,844,373         | \$ (154,878)            | \$ 7,838,669         | \$ (160,582)            |
| State, county, and municipal – nontaxable | 1,322,320            | (6,417)                 | 4,029,420            | (50,954)                | 5,351,740            | (57,371)                |
| State, county, and municipal – taxable    | <u>-</u>             | <u>-</u>                | <u>1,278,983</u>     | <u>(19,753)</u>         | <u>1,278,983</u>     | <u>(19,753)</u>         |
| Total                                     | <u>\$ 2,316,616</u>  | <u>\$ (12,121)</u>      | <u>\$ 12,152,776</u> | <u>\$ (225,585)</u>     | <u>\$ 14,469,392</u> | <u>\$ (237,706)</u>     |

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment is evaluated considering numerous factors and their relative significance varies from case to case. Factors considered include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in fair value.

As of December 31, 2019, the fourteen (14) debt securities with unrealized losses have depreciated approximately 0.72% from the Bank's amortized cost basis. These securities are predominately rated investment grade securities and the unrealized losses are due to the current interest rate environment and not due to any underlying credit concerns of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies or by a state or political subdivision, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, if classified as available-for-sale, no declines are deemed to be other-than-temporary.

NOTE 3 - INVESTMENT SECURITIES (Continued)

The amortized cost and fair values of securities as of December 31, 2019, are summarized by contractual maturity as follows:

|  | Securities<br>Available-for-sale |                   |
|--|----------------------------------|-------------------|
|  | Amortized<br>Cost                | Fair<br>Value     |
| Due in one year or less                | \$ 320,930                       | \$ 324,253        |
| Due after one year through five years  | 5,754,683                        | 5,794,474         |
| Due after five years through ten years | 9,543,989                        | 9,515,195         |
| Due after ten years                    | 13,591,544                       | 13,599,714        |
| <br>Total                              | <br>\$ 29,211,146                | <br>\$ 29,233,636 |

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities pledged to secure public deposits and for other purposes required or permitted by law had a carrying value of \$3,990,603 and \$3,604,798 as of December 2019 and 2018, respectively.

NOTE 4 - BANK OWNED LIFE INSURANCE

The Bank invested in whole life insurance contracts on the lives of four (4) current and former officers who have provided positive consent allowing the Bank to be named beneficiary of these insurance contracts. These policies are recorded at their cash surrender values, which are presented in the consolidated balance sheets as "Cash surrender value - bank owned life insurance." These contracts are insurance products of Nationwide Insurance and NFP Executive Benefits and consist of seven (7) policies. These policies have a stated aggregate death benefit as of December 31, 2019 and 2018 of \$5,622,005 and \$5,645,757, respectively, and aggregate cash surrender values of \$3,281,811 and \$3,226,277 as of December 31, 2019 and 2018, respectively.

These policies were funded by premium payments of \$2,292,680. Cash surrender value increases to the carrying amounts of the policies are recognized as income of \$55,534, \$56,100, and \$56,509 for the years ended December 31, 2019, 2018, and 2017, respectively.

NOTE 5 - LOANS

The composition of recorded investment in loans by segment is as follows:

|                                 | December 31,  |               |
|---------------------------------|---------------|---------------|
|                                 | 2019          | 2018          |
| Commercial                      | \$ 50,634,403 | \$ 58,878,185 |
| Mortgage                        | 36,349,078    | 38,568,322    |
| Installment                     | 3,193,795     | 2,213,542     |
| Total loans                     | 90,177,276    | 99,660,049    |
| Less: allowance for loan losses | (897,930)     | (1,062,056)   |
| Loans - net                     | \$ 89,279,346 | \$ 98,597,993 |

As of December 31, 2019 and 2018, overdrafts from deposit accounts of \$43,044 and \$38,180, respectively, are included within the appropriate loan segment above.

As of December 31, 2019 and 2018, the Bank had direct extensions of credit to entities in the oil and gas industry totaling approximately \$1,854,234 and \$1,439,660, respectively, and unfunded commitments to lend totaling \$2,966,382 and \$3,592,577, respectively. These outstanding loans consist of installment contracts repayable over periods ranging from 1 to 120 months, generally secured by liens on equipment; and line-of-credit arrangements payable upon demand, secured primarily by one or more of the following: pledges of accounts receivable or inventories, real estate, or personal guarantees. The Bank evaluates each such customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based upon management's credit evaluation.

In the ordinary course of business, the Bancorp and its Subsidiaries have and expect to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions were on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time of comparable transactions with other customers and did not involve more than a normal credit risk of collectability or present any other unfavorable features to the Bancorp and its Subsidiaries. Loans to such borrowers are summarized as follows:

|                              | December 31, |              |
|------------------------------|--------------|--------------|
|                              | 2019         | 2018         |
| Balance at beginning of year | \$ 7,965,656 | \$ 6,896,396 |
| Repayments                   | (2,422,748)  | (1,355,740)  |
| Borrowings                   | 811,400      | 2,425,000    |
| Balance at end of year       | \$ 6,354,308 | \$ 7,965,656 |

NOTE 6 - CREDIT QUALITY

Management monitors the credit quality of loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of the loan.

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest, unless the loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days). When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. The Bank's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Bank's age analysis of its past due loans, segregated by class of loans:

|                              | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>Or More<br>Past Due | Total<br>Past Due | Total<br>Current     | Total<br>Financing<br>Receivables | Recorded<br>Investment<br>>90 Days &<br>Accruing |
|------------------------------|---------------------------|---------------------------|--------------------------------|-------------------|----------------------|-----------------------------------|--|
| <u>December 31, 2019</u>     |                           |                           |                                |                   |                      |                                   |  |
| Secured by real estate       |                           |                           |                                |                   |                      |                                   |  |
| Construction                 | \$ 156,250                | \$ -                      | \$ -                           | \$ 156,250        | \$ 1,121,154         | \$ 1,277,404                      | \$ -   |
| Farmland                     | -                         | 9,265                     | -                              | 9,265             | 558,375              | 567,640                           | -  |
| Residential                  | -                         | 61,315                    | 65,090                         | 126,405           | 49,743,917           | 49,870,322                        | 65,090   |
| Commercial                   | -                         | -                         | -                              | -                 | 25,147,281           | 25,147,281                        | -  |
| Commercial and<br>industrial | 11,484                    | -                         | -                              | 11,484            | 8,903,414            | 8,914,898                         | -  |
| Consumer                     | 10,908                    | 14                        | 1,161                          | 12,083            | 3,942,832            | 3,954,915                         | 1,161  |
| Government                   | -                         | -                         | -                              | -                 | 444,816              | 444,816                           | -  |
| <b>Total</b>                 | <b>\$ 178,642</b>         | <b>\$ 70,594</b>          | <b>\$ 66,251</b>               | <b>\$ 315,487</b> | <b>\$ 89,861,789</b> | <b>\$ 90,177,276</b>              | <b>\$ 66,251</b>                                 |
| <u>December 31, 2018</u>     |                           |                           |                                |                   |                      |                                   |  |
| Secured by real estate       |                           |                           |                                |                   |                      |                                   |  |
| Construction                 | \$ -                      | \$ 4,940                  | \$ -                           | \$ 4,940          | \$ 342,782           | \$ 347,722                        | \$ -   |
| Farmland                     | -                         | -                         | -                              | -                 | 768,077              | 768,077                           | -  |
| Residential                  | 7,784                     | 107,630                   | 58,033                         | 173,447           | 52,280,414           | 52,453,861                        | 58,033   |
| Commercial                   | 98,785                    | -                         | 450,000                        | 548,785           | 32,998,352           | 33,547,137                        | -  |
| Commercial and<br>industrial | -                         | -                         | 29,170                         | 29,170            | 8,071,132            | 8,100,302                         | -  |
| Consumer                     | 7,407                     | -                         | -                              | 7,407             | 3,006,143            | 3,013,550                         | -  |
| Government                   | -                         | -                         | -                              | -                 | 1,429,400            | 1,429,400                         | -  |
| <b>Total</b>                 | <b>\$ 113,976</b>         | <b>\$ 112,570</b>         | <b>\$ 537,203</b>              | <b>\$ 763,749</b> | <b>\$ 98,896,300</b> | <b>\$ 90,660,049</b>              | <b>\$ 58,033</b>                                 |

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due.

NOTE 6 - CREDIT QUALITY (Continued)

The following table sets forth the Bank's nonaccrual loans, segregated by class of loans:

|                           | December 31, |            |
|---------------------------|--------------|------------|
|                           | 2019         | 2018       |
| Secured by real estate    |              |            |
| Construction              | \$ -         | \$ -       |
| Farmland                  | -            | -          |
| Residential               | -            | -          |
| Commercial                | -            | 450,000    |
| Commercial and industrial | -            | 29,170     |
| Consumer                  | -            | -          |
| Government                | -            | -          |
| Total                     | \$ -         | \$ 479,170 |

The following table sets forth the Bank's troubled debt restructurings (TDRs) modified during the year ended December 31, 2019, segregated by class of loans:

|                          | Number of<br>Modifications | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|--------------------------|----------------------------|---|--|
| <u>December 31, 2019</u> |                            |   |  |
| Consumer                 | 2                          | \$ 17,297   | \$ 17,297  |
| Total                    | 2                          | \$ 17,297   | \$ 17,297  |

There were no loans modified as TDRs during the year ended December 31, 2018.

The two loans restructured during 2019 were for a single borrower. The loans were modified by a consolidation of credit to extend the term of the loan.

There have been no loans modified as TDRs within the previous twelve months that have subsequently defaulted as of December 31, 2019.

As of December 31, 2019, there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.



NOTE 6 - CREDIT QUALITY (Continued)

The Bank assigns credit quality indicators of pass, special mention, substandard, doubtful, and loss to its loans. The loans are internally assigned a grade based on a combination of the known creditworthiness of the borrower and on the loan's delinquency status. The Bank updates these grades on a quarterly basis.

A loan classified as pass has strong asset quality and liquidity along with a multi-year track record of profitability.

A loan classified as special mention has potential weaknesses that deserve management's close attention. If left unmonitored, these potential weaknesses may result in deterioration of the repayment prospects for such loans or in the borrower's credit position at some future date. Adverse economic or market conditions may also support a special mention rating. Other nonfinancial reasons for rating a credit exposure as special mention can include known borrower problems, pending litigation, or lending agreement issues.

A loan classified as substandard contains weaknesses that, if left uncorrected, create some degree of doubt as to the likelihood of full collection of principal and interest. These loans require intensive supervision by management. Such loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants.

A loan classified as doubtful exhibits all the weaknesses inherent in one classified as substandard with the additional characteristic that the weaknesses make its collection in full, based on currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the credit, its classification as loss is deferred at the present time. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain operationally solvent. Specific pending events may include mergers, acquisitions, liquidations, capital injections, the perfection of liens of additional collateral, the valuation of collateral, and refinancing. Loans classified as doubtful are also considered impaired. Generally, consumer credit exposures are charged off prior to being classified as doubtful.

A loan classified as a loss is considered uncollectible. This classification does not guarantee that the loan has no recovery or salvage value, but rather it is not practical or desirable to defer charging off the loan even though partial recovery may be affected in the future.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6 - CREDIT QUALITY (Continued)

The following table sets forth the Bank's credit quality indicators information, segregated by class of loans:

|                              | Pass                 | Special<br>Mention | Substandard         | Doubtful    | Loss        | Total                |
|------------------------------|----------------------|--------------------|---------------------|-------------|-------------|----------------------|
| <u>December 31, 2019</u>     |                      |                    |                     |             |             |                      |
| Secured by real estate       |                      |                    |                     |             |             |                      |
| Construction                 | \$ 1,276,403         | \$ 1,001           | \$ -                | \$ -        | \$ -        | \$ 1,277,404         |
| Farmland                     | 567,640              | -                  | -                   | -           | -           | 567,640              |
| Residential                  | 49,635,531           | -                  | 234,791             | -           | -           | 49,870,322           |
| Commercial                   | 24,374,664           | -                  | 772,617             | -           | -           | 25,147,281           |
| Commercial and<br>industrial | 8,586,731            | 328,167            | -                   | -           | -           | 8,914,898            |
| Consumer                     | 3,954,915            | -                  | -                   | -           | -           | 3,954,915            |
| Government                   | 444,816              | -                  | -                   | -           | -           | 444,816              |
| <b>Total</b>                 | <b>\$ 88,840,700</b> | <b>\$ 329,168</b>  | <b>\$ 1,007,408</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 90,177,276</b> |
| <u>December 31, 2018</u>     |                      |                    |                     |             |             |                      |
| Secured by real estate       |                      |                    |                     |             |             |                      |
| Construction                 | \$ 342,782           | \$ 4,940           | \$ -                | \$ -        | \$ -        | \$ 347,722           |
| Farmland                     | 768,077              | -                  | -                   | -           | -           | 768,077              |
| Residential                  | 52,256,456           | -                  | 197,405             | -           | -           | 52,453,861           |
| Commercial                   | 32,291,824           | -                  | 1,255,313           | -           | -           | 33,547,137           |
| Commercial and<br>industrial | 8,071,132            | -                  | 29,170              | -           | -           | 8,100,302            |
| Consumer                     | 3,013,550            | -                  | -                   | -           | -           | 3,013,550            |
| Government                   | 1,429,400            | -                  | -                   | -           | -           | 1,429,400            |
| <b>Total</b>                 | <b>\$ 98,173,221</b> | <b>\$ 4,940</b>    | <b>\$ 1,481,888</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 99,660,049</b> |

NOTE 6 - CREDIT QUALITY (Continued)

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, such loans have exhibited a sustained period of delinquency or there have been significant events (such as bankruptcy, eminent foreclosure, or natural disasters) that impact repayment probability. Impairment is evaluated on an individual loan basis. Consistent with the Bank's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The following table sets forth the Bank's impaired loans information, segregated by class of loan:

|                                    | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| <u>December 31, 2019</u>           |                        |                                |                      |                                   |                                  |
| With no related allowance recorded |                        |                                |                      |                                   |                                  |
| Secured by real estate             |                        |                                |                      |                                   |                                  |
| Construction                       | \$ -                   | \$ -                           | \$ -                 | \$ -                              | \$ -                             |
| Farmland                           | -                      | -                              | -                    | -                                 | -                                |
| Residential                        | -                      | -                              | -                    | -                                 | -                                |
| Commercial                         | 641,100                | 641,100                        | -                    | 340,142                           | 34,908                           |
| Commercial and industrial          | -                      | -                              | -                    | -                                 | -                                |
| Consumer                           | 17,650                 | 17,650                         | -                    | 8,825                             | -                                |
| Government                         | -                      | -                              | -                    | -                                 | -                                |
| With an allowance recorded         |                        |                                |                      |                                   |                                  |
| Secured by real estate             |                        |                                |                      |                                   |                                  |
| Construction                       | -                      | -                              | -                    | -                                 | -                                |
| Farmland                           | -                      | -                              | -                    | -                                 | -                                |
| Residential                        | -                      | -                              | -                    | -                                 | -                                |
| Commercial                         | -                      | -                              | -                    | -                                 | -                                |
| Commercial and industrial          | -                      | -                              | -                    | -                                 | -                                |
| Consumer                           | -                      | -                              | -                    | -                                 | -                                |
| Government                         | -                      | -                              | -                    | -                                 | -                                |
| <b>Total</b>                       | <u>\$ 658,750</u>      | <u>\$ 658,750</u>              | <u>\$ -</u>          | <u>\$ 348,967</u>                 | <u>\$ 34,908</u>                 |

NOTE 6 - CREDIT QUALITY (Continued)

|                                    | <u>Recorded<br/>Investment</u> | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Related<br/>Allowance</u> | <u>Average<br/>Recorded<br/>Investment</u> | <u>Interest<br/>Income<br/>Recognized</u> |
|------------------------------------|--------------------------------|---|------------------------------|--|---|
| <u>December 31, 2018</u>           |                                |   |                              |  |   |
| With no related allowance recorded |                                |   |                              |  |   |
| Secured by real estate             |                                |   |                              |  |   |
| Construction                       | \$ -                           | \$ -                                    | \$ -                         | \$ -                                       | \$ -                                      |
| Farmland                           | -                              | -                                       | -                            | -  | -   |
| Residential                        | -                              | -                                       | -                            | -  | -   |
| Commercial                         | 39,184                         | 39,184                                  | -                            | 42,891                                     | 3,387                                     |
| Commercial and industrial          | 29,170                         | 29,170                                  | -                            | 43,408                                     | 1,450                                     |
| Consumer                           | -                              | -                                       | -                            | -  | -   |
| Government                         | -                              | -                                       | -                            | -  | -   |
| With an allowance recorded         |                                |   |                              |  |   |
| Secured by real estate             |                                |   |                              |  |   |
| Construction                       | -                              | -                                       | -                            | -  | -   |
| Farmland                           | -                              | -                                       | -                            | -  | -   |
| Residential                        | -                              | -                                       | -                            | -  | -   |
| Commercial                         | 450,000                        | 889,734                                 | 80,000                       | 450,000                                    | -   |
| Commercial and industrial          | -                              | -                                       | -                            | -  | -   |
| Consumer                           | -                              | -                                       | -                            | -  | -   |
| Government                         | -                              | -                                       | -                            | -  | -   |
| Total                              | <u>\$ 518,354</u>              | <u>\$ 958,088</u>                       | <u>\$ 80,000</u>             | <u>\$ 536,299</u>                          | <u>\$ 4,837</u>                           |

NOTE 7 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for the years ended:

|  | December 31,      |                     |                   |
|--|-------------------|---------------------|-------------------|
|  | <u>2019</u>       | <u>2018</u>         | <u>2017</u>       |
| Balance at beginning of year               | \$ 1,062,056      | \$ 846,317          | \$ 1,048,086      |
| Loans charged off                          | (453,914)         | (140,230)           | (445,251)         |
| Recoveries of loans previously charged off | 4,788             | 123,969             | 11,482            |
| Provision for loan losses                  | <u>285,000</u>    | <u>232,000</u>      | <u>232,000</u>    |
| Balance at end of year                     | <u>\$ 897,930</u> | <u>\$ 1,062,056</u> | <u>\$ 846,317</u> |

NOTE 7 - ALLOWANCE FOR LOAN LOSSES (Continued)

The allowance for loan losses is management's estimate of the probable loan losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for loan losses is based upon a quarterly evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. Allocations are made for specific loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectability. Other loans not specifically reviewed are segregated by portfolio segment and allocations are made based upon historical loss percentages adjusted for current environmental factors. The environmental factors considered for each of the portfolio segments include estimated probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance account is for the inherent imprecision in the allowance for loan losses analysis. During 2019, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged off amounts are credited to the allowance for loan losses. When a loan or a portion of a loan is identified to contain a loss, a charge-off recommendation is directed to management to charge off all or a portion of that loan.

Generally, any unsecured commercial loan that has reached 180 days delinquent in payment of interest must be charged off in full. If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is six months delinquent. Any commercial loan, secured or unsecured, on which a principal or interest payment has not been made within 90 days, is reviewed monthly for appropriate action.

First mortgage residential real estate loans, which are well-secured and in process of collection are to be charged off on or before becoming 365 days past due. Home equity and improvement loans are to be reviewed before they become 180 days past due, and are to be charged off unless they are well-secured and in process of collection. If well-secured and in process of collection, charge-off can be deferred until the loan is 365 days past due.

Consumer loans that are past due 120 cumulative days from the contractual due date are charged off. Any consumer loan on which a principal or interest payment has not been made within 90 days is reviewed monthly for appropriate action.

The Bank considers the allowance for loan losses of \$897,930 and \$1,062,056 adequate to cover loan losses inherent in the loan portfolio as of December 31, 2019 and 2018, respectively. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 7 - ALLOWANCE FOR LOAN LOSSES (Continued)

|  | <u>Commercial</u>    | <u>Mortgage</u>      | <u>Installment</u>  | <u>Unallocated</u> | <u>Total</u>         |
|--|----------------------|----------------------|---------------------|--------------------|----------------------|
| <u>December 31, 2019</u>                               |                      |                      |                     |                    |                      |
| Allowance for loan losses                              |                      |                      |                     |                    |                      |
| Beginning balance                                      | \$ 726,440           | \$ 181,271           | \$ 14,720           | \$ 139,625         | \$ 1,062,056         |
| Charge-offs  | (448,441)            | -                    | (5,473)             | -                  | (453,914)            |
| Recoveries   | 4,788                | -                    | -                   | -                  | 4,788                |
| Provision  | 391,225              | 18,649               | 19,020              | (143,894)          | 285,000              |
| Ending balance   | <u>674,012</u>       | <u>199,920</u>       | <u>28,267</u>       | <u>(4,269)</u>     | <u>897,930</u>       |
| Ending balance - individually evaluated for impairment | <u>-</u>             | <u>-</u>             | <u>-</u>            | <u>-</u>           | <u>-</u>             |
| Ending balance - collectively evaluated for impairment | <u>674,012</u>       | <u>199,920</u>       | <u>28,267</u>       | <u>(4,269)</u>     | <u>897,930</u>       |
| Financing receivables                                  |                      |                      |                     |                    |                      |
| Ending balance   | <u>50,634,403</u>    | <u>36,349,078</u>    | <u>3,193,795</u>    |                    | <u>90,177,276</u>    |
| Ending balance - individually evaluated for impairment | <u>641,100</u>       | <u>-</u>             | <u>17,650</u>       |                    | <u>658,750</u>       |
| Ending balance - collectively evaluated for impairment | <u>\$ 49,993,303</u> | <u>\$ 36,349,078</u> | <u>\$ 3,176,145</u> |                    | <u>\$ 89,518,526</u> |
| <u>December 31, 2018</u>                               |                      |                      |                     |                    |                      |
| Allowance for loan losses                              |                      |                      |                     |                    |                      |
| Beginning balance                                      | \$ 617,145           | \$ 192,524           | \$ 13,747           | \$ 22,901          | \$ 846,317           |
| Charge-offs  | (116,620)            | -                    | (23,610)            | -                  | (140,230)            |
| Recoveries   | 123,969              | -                    | -                   | -                  | 123,969              |
| Provision  | 101,946              | (11,253)             | 24,583              | 116,724            | 232,000              |
| Ending balance   | <u>726,440</u>       | <u>181,271</u>       | <u>14,720</u>       | <u>139,625</u>     | <u>1,062,056</u>     |
| Ending balance - individually evaluated for impairment | <u>80,000</u>        | <u>-</u>             | <u>-</u>            | <u>-</u>           | <u>80,000</u>        |
| Ending balance - collectively evaluated for impairment | <u>646,440</u>       | <u>181,271</u>       | <u>14,720</u>       | <u>139,625</u>     | <u>982,056</u>       |
| Financing receivables                                  |                      |                      |                     |                    |                      |
| Ending balance   | <u>58,878,185</u>    | <u>38,568,322</u>    | <u>2,213,542</u>    |                    | <u>99,660,049</u>    |
| Ending balance - individually evaluated for impairment | <u>518,354</u>       | <u>-</u>             | <u>-</u>            |                    | <u>518,354</u>       |
| Ending balance - collectively evaluated for impairment | <u>\$ 58,359,831</u> | <u>\$ 38,568,322</u> | <u>\$ 2,213,542</u> |                    | <u>\$ 99,141,695</u> |

**NOTE 8 - ACCRUED INTEREST RECEIVABLE**

Accrued interest receivable consists of the following:

|                       | December 31,      |                   |
|-----------------------|-------------------|-------------------|
|                       | 2019              | 2018              |
| Time deposits         | \$ 25,693         | \$ 16,101         |
| Investment securities | 177,789           | 122,718           |
| Loans                 | 185,402           | 200,410           |
| <b>Total</b>          | <b>\$ 388,884</b> | <b>\$ 339,229</b> |

**NOTE 9 - PREMISES AND EQUIPMENT**

The major categories of premises and equipment are as follows:

|                                    | December 31,        |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2019                | 2018                |
| Land                               | \$ 812,555          | \$ 819,305          |
| Building and improvements          | 2,780,395           | 4,268,287           |
| Furniture, fixtures, and equipment | 2,436,880           | 2,456,388           |
| Automobile                         | 53,407              | 53,407              |
| <b>Total cost</b>                  | 6,083,237           | 7,597,387           |
| Less: accumulated depreciation     | (3,732,578)         | (5,081,996)         |
| <b>Net</b>                         | <b>\$ 2,350,659</b> | <b>\$ 2,515,391</b> |

Depreciation expense for the years ended December 31, 2019, 2018, and 2017 totaled \$191,867, \$213,633, and \$234,922, respectively.

**NOTE 10 - OTHER REAL ESTATE OWNED**

The following is a summary of activity of other real estate owned, expected to be disposed of in the near term, for the years ended:

|  | December 31, |        |
|--|--------------|--------|
|  | 2019         | 2018   |
| Balance at beginning of year                   | \$ -         | \$ -   |
| Loan foreclosures and in lieu of foreclosures  | 60,449       | 80,000 |
| Adjustment to carrying value                   |              |        |
| At date of foreclosed or repossession          | (449)        | -      |
| Subsequent fair value adjustment               | (25,000)     | -      |
| Total foreclosed properties for disposition    | 35,000       | 80,000 |
| Proceeds from sales of other real estate owned | -            | 65,000 |
| Net realized (gains) losses on sales           | -            | 15,000 |
| Total basis of other real estate owned sold    | -            | 80,000 |
| Balance at end of year                         | \$ 35,000    | \$ -   |

Subsequent writedowns and realized gains and losses on the sale of other real estate owned are recognized in the "Other expense" caption in the consolidated statements of income.

**NOTE 11 - DEPOSITS**

Time deposits issued in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 or more totaled \$4,222,167 and \$2,333,590 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, the maturity distribution of time deposits is as follows:

|                     |               |
|---------------------|---------------|
| 2020                | \$ 16,243,617 |
| 2021                | 17,268,828    |
| 2022                | 3,001,390     |
| 2023                | 1,395,382     |
| 2024 and thereafter | 435,736       |
| Total               | \$ 38,344,953 |

The Bank held related party deposits of approximately \$8,838,000 and \$9,655,000 as of December 31, 2019 and 2018, respectively.



**NOTE 12 - SHORT-TERM BORROWINGS**

The Bank has obtained unsecured, uncommitted, borrowing facilities for the purchase of federal funds in the amounts of \$4,500,000 from CenterState Bank of Florida, N.A. and \$2,000,000 from Pacific Coast Bankers' Bank (PCBB). Any borrowings bear an interest rate which is determined at the time of each advance. Requests for advances under these facilities are subject to CenterState Bank and PCBB's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings outstanding as of December 31, 2019 and 2018, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has an open line of credit commitment from the FHLB. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and are subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 to 4 family mortgages made by the Bank and other eligible collateral. As of December 31, 2019, no loans were pledged for collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately \$55,310,450 based on qualifying loan collateral. As of December 31, 2019 and 2018, there were no borrowings outstanding.

**NOTE 13 - SALE-LEASEBACK TRANSACTION**

During 2019, the Bank entered into a sales arrangement with a related party for the sale of the Spencer main bank building. Certain owners of the related party are either directors or shareholders of the Bank. Simultaneous with the closing of the sale, the Bank entered into a lease transaction with the related party to lease a portion of the building. Under the arrangement, the building, with a net book value of \$81,178, was sold for \$250,000 and leased back under a five year operating lease. The Bank received cash of \$100,000 at the time of sale and the remaining purchase price of \$150,000 was financed by the Bank. As a result of the transaction, a gain in the amount of \$168,822 has been deferred and will be recognized over the term of the related lease agreement. As of December 31, 2019, a deferred gain in the amount of \$151,902 is reported in the "Other liabilities" caption on the consolidated balance sheets. The portion of the gain recognized by the Bank for the year ended December 31, 2019 was \$16,920.

Under the terms of the operating lease agreement, the Bank is required to make a monthly rental payment of \$9,000 over the term of five years. Rent expense under the lease was \$54,000 for the year ended December 31, 2019. Future minimum payments under the operating lease are as follows:

|              |    |                |
|--------------|----|----------------|
| December 31, |    |                |
| 2020         | \$ | 108,000        |
| 2021         |    | 108,000        |
| 2022         |    | 108,000        |
| 2023         |    | 108,000        |
| 2024         |    | <u>54,000</u>  |
| Total        | \$ | <u>486,000</u> |

NOTE 14 - INCOME TAXES

The consolidated provision for income taxes consists of the following for the years ended:

|                          | December 31,     |                   |                   |
|--------------------------|------------------|-------------------|-------------------|
|                          | 2019             | 2018              | 2017              |
| Current                  |                  |                   |                   |
| Federal                  | \$ 12,946        | \$ 190,101        | \$ 176,343        |
| State                    | 16,920           | 44,515            | 30,406            |
|                          | <u>29,866</u>    | <u>234,616</u>    | <u>206,749</u>    |
| Deferred                 |                  |                   |                   |
| Federal                  | 49,750           | (61,275)          | 283,565           |
| State                    | 11,845           | (14,585)          | 6,340             |
|                          | <u>61,595</u>    | <u>(75,860)</u>   | <u>289,905</u>    |
| Total income tax expense | <u>\$ 91,461</u> | <u>\$ 158,756</u> | <u>\$ 496,654</u> |

The consolidated provision for income taxes differs from the amounts computed by applying the U.S. federal statutory income tax rates to income before income tax expense as a result of the following:

|   | December 31,     |              |                   |              |                   |              |
|---|------------------|--------------|-------------------|--------------|-------------------|--------------|
|   | 2019             |              | 2018              |              | 2017              |              |
|   | Amount           | %            | Amount            | %            | Amount            | %            |
| Federal statutory tax rate                                  | \$ 126,330       | 21.0%        | \$ 212,499        | 21.0%        | \$ 322,727        | 34.0%        |
| Tax-exempt interest   | (51,577)         | (8.6)        | (49,333)          | (4.9)        | (81,255)          | (8.3)        |
| Increase in cash surrender value of life insurance          | (11,662)         | (1.9)        | (11,781)          | (1.1)        | (19,213)          | (2.0)        |
| State income taxes, net of federal tax benefit              | 22,724           | 3.8          | 23,645            | 2.3          | 24,252            | 1.3          |
| Nondeductible expenses                                      | 2,003            | 0.3          | 1,735             | 0.2          | 3,103             | 0.3          |
| Adjustment of deferred taxes for change in federal tax rate | -                | -            | -                 | -            | 240,457           | 24.4         |
| Effect of other items                                       | 3,643            | 0.6          | (18,009)          | (1.8)        | 6,583             | 0.7          |
| Reported effective tax rate                                 | <u>\$ 91,461</u> | <u>15.2%</u> | <u>\$ 158,756</u> | <u>15.7%</u> | <u>\$ 496,654</u> | <u>50.4%</u> |

Deferred income taxes reflect the impact of “temporary differences” between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

NOTE 14 - INCOME TAXES (Continued)

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the need for a valuation allowance and will recognize tax benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was enacted. As a result, the adjustment of deferred taxes in the amount of \$240,457, due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate of 21%, was required to be included in income from continuing operations.

The tax effects of temporary differences which give rise to the Bancorp's deferred tax assets and liabilities are as follows:

|   | December 31, |            |
|---|--------------|------------|
|   | 2019         | 2018       |
| Deferred tax assets   |              |            |
| Allowance for loan losses                                     | \$ 168,242   | \$ 210,915 |
| Employee benefit plans  | 275,044      | 268,769    |
| Accumulated depreciation                                      | -            | 45,086     |
| Unrealized losses on investment securities available-for-sale | -            | 55,000     |
| Deferred gain on sale-leaseback                               | 39,495       | -          |
| Other real estate owned                                       | 6,500        | -          |
|   | 489,281      | 579,770    |
| Deferred tax liabilities                                      |              |            |
| Unrealized gains on investment securities available-for-sale  | (6,000)      | -          |
| Accumulated depreciation                                      | (26,106)     | -          |
|   | (32,106)     | -          |
| Total deferred tax liabilities                                | (32,106)     | -          |
| Net deferred tax assets                                       | \$ 457,175   | \$ 579,770 |

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Bancorp and its Subsidiaries and recognize a tax liability (or asset) if the Bancorp and its Subsidiaries have taken an uncertain position that more-likely-than-not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Bancorp and its Subsidiaries, and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Bancorp files income tax returns in the United States federal jurisdiction and West Virginia state jurisdiction, and is subject to examination of those filings by the authorities representing those jurisdictions. There are no current examinations in process for any filings, and management believes that the Bancorp is not subject to audit for any years prior to 2016.

NOTE 15 - EMPLOYEE BENEFIT PLANS

Profit sharing and employee stock ownership plans - The Bank has a defined contribution profit sharing plan covering substantially all employees. The Bank's contributions under the profit sharing plan are funded with a trustee and are contingent upon the Bank achieving a minimum earnings level.

The Bank has an Employee Stock Ownership Plan (ESOP) which enables eligible employees to acquire shares of the Bancorp's common stock. The cost of the ESOP is borne by the Bank through annual contributions to an Employee Stock Ownership Trust, the trustees of which are also members of the Bancorp and its Subsidiary Bank's Board of Directors. The expense recognized by the Bank is based on cash contributed or committed to be contributed by the Bank to the ESOP during the year. Dividends made by the Bancorp to the ESOP are reported as a reduction to retained earnings. The ESOP owns 20,722 shares of the Bancorp's common stock as of December 31, 2019, all of which are considered outstanding for earnings per share computations.

The amount of the contributions to the profit-sharing plan and the ESOP are determined at the discretion of the Bank's Board of Directors in compliance with Internal Revenue Service limitations. Contributions have historically been made in the amount of 10% of the Bank's income before profit-sharing, ESOP, and income taxes. In the event this calculated contribution exceeds the amount allowable under current Internal Revenue Service regulations, the excess is distributed to the employees in the form of a cash bonus. Contributions to the plans, for the years ended December 31, 2019, 2018, and 2017, were \$64,000, \$111,000, and \$108,000, respectively.

Executive supplemental income plan - The Bank has entered into a nonqualified supplemental income plan with certain current and former senior officers that provide these participating officers with an income benefit payable at retirement age or death. The liabilities accrued for the Executive Supplemental Income Plan as of December 31, 2019 and 2018, were \$1,057,862 and \$1,033,727, respectively, which are included in other liabilities in the accompanying consolidated balance sheets. In addition, the Bank has purchased certain insurance contracts to fund the liabilities arising under this plan. As of December 31, 2019 and 2018, the cash surrender value of these insurance contracts was \$3,281,811 and \$3,226,277, respectively.

NOTE 16 - RESTRICTIONS ON BANK DIVIDENDS

The payment of dividends to shareholders by the Bancorp is not encumbered by any restrictive provisions. There are, however, limitations set by law on the amount of funds available to the Bancorp from its Subsidiary Bank. Dividends may be paid out of funds legally available therefore subject to the restrictions set forth in West Virginia Code, Section 31-A-4-25, which provides that prior approval of the West Virginia Commissioner of Financial Institutions is required if the total of all dividends declared by a state bank in any calendar year will exceed the bank's net profits for that year combined with its retained net profits for the preceding two years. As of December 31, 2019, there were no additional funds legally available for distribution of dividends by the Bank to the Bancorp without prior approval from regulatory authorities.

**NOTE 17 – REGULATORY CAPITAL MATTERS**

The Bancorp is a bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. As a bank holding company, the Company's activities and those of its Subsidiary Bank are limited to the business of banking and activities closely related or incidental to banking.

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bancorp and its Subsidiary Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory reporting requirements. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, tier 1 capital, and common equity tier 1 capital to risk-weighted assets (as defined in the regulations), and leverage capital, which is tier 1 capital to adjusted average total assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2019 and 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total capital, common equity tier 1 capital, tier 1 capital, and leverage capital ratios as disclosed in the following table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 17 - REGULATORY CAPITAL MATTERS (Continued)

The following table outlines the regulatory components of the Bancorp and the Bank's capital and capital ratios as of December 31, 2019 and 2018, respectively.

|  | Actual             |        | For Capital Adequacy Purposes |         | To Be Well Capitalized Under Prompt Corrective Action Provisions |          |
|--|--------------------|--------|-------------------------------|---------|--|----------|
|  | Amount (Thousands) | Ratio  | Amount (Thousands)            | Ratio   | Amount (Thousands)   | Ratio    |
| <u>As of December 31, 2019</u>                         |                    |        |                               |         |  |          |
| Total capital (to risk-weighted assets)                |                    |        |                               |         |  |          |
| Consolidated   | \$ 16,440          | 19.07% | \$ 6,895                      | ≥ 8.00% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 16,368          | 19.00% | \$ 6,892                      | ≥ 8.00% | \$ 8,614   | ≥ 10.00% |
| Tier I capital (to risk-weighted assets)               |                    |        |                               |         |  |          |
| Consolidated   | \$ 15,542          | 18.03% | \$ 5,171                      | ≥ 6.00% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 15,470          | 17.96% | \$ 5,169                      | ≥ 6.00% | \$ 6,892   | ≥ 8.00%  |
| Common equity tier 1 capital (to risk-weighted assets) |                    |        |                               |         |  |          |
| Consolidated   | \$ 15,542          | 18.03% | \$ 3,879                      | ≥ 4.50% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 15,470          | 17.96% | \$ 3,876                      | ≥ 4.50% | \$ 5,599   | ≥ 6.50%  |
| Leverage capital (to adjusted average total assets)    |                    |        |                               |         |  |          |
| Consolidated   | \$ 15,542          | 10.86% | \$ 5,725                      | ≥ 4.00% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 15,470          | 10.81% | \$ 5,723                      | ≥ 4.00% | \$ 7,154   | ≥ 5.00%  |
| <u>As of December 31, 2018</u>                         |                    |        |                               |         |  |          |
| Total capital (to risk-weighted assets)                |                    |        |                               |         |  |          |
| Consolidated   | \$ 16,278          | 18.19% | \$ 7,160                      | ≥ 8.00% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 16,227          | 18.14% | \$ 7,156                      | ≥ 8.00% | \$ 8,945   | ≥ 10.00% |
| Tier I capital (to risk-weighted assets)               |                    |        |                               |         |  |          |
| Consolidated   | \$ 15,216          | 17.00% | \$ 5,370                      | ≥ 6.00% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 15,165          | 16.95% | \$ 5,367                      | ≥ 6.00% | \$ 7,156   | ≥ 8.00%  |
| Common equity tier 1 capital (to risk-weighted assets) |                    |        |                               |         |  |          |
| Consolidated   | \$ 15,216          | 17.00% | \$ 4,028                      | ≥ 4.50% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 15,165          | 16.95% | \$ 4,025                      | ≥ 4.50% | \$ 5,815   | ≥ 6.50%  |
| Leverage capital (to adjusted average total assets)    |                    |        |                               |         |  |          |
| Consolidated   | \$ 15,216          | 11.22% | \$ 5,424                      | ≥ 4.00% | \$ N/A   | ≥ N/A    |
| Subsidiary Bank  | \$ 15,165          | 11.19% | \$ 5,422                      | ≥ 4.00% | \$ 6,777   | ≥ 5.00%  |

**NOTE 18 - LEASES**

The Bank leases equipment and premises under noncancellable operating lease agreements, including the sale-leaseback arrangement described in Note 13. Rent expense under those noncancellable operating leases approximated \$74,568, \$22,822 and \$26,327, for the years ended December 31, 2019, 2018, and 2017, respectively.

Future minimum payments under noncancellable operating lease with initial or remaining terms of one year or more are as follows:

|              |                   |
|--------------|-------------------|
| December 31, |                   |
| 2020         | \$ 128,568        |
| 2021         | 117,720           |
| 2022         | 108,000           |
| 2023         | 108,000           |
| 2024         | <u>54,000</u>     |
| Total        | <u>\$ 516,288</u> |

**NOTE 19 - COMMITMENTS AND CONTINGENT LIABILITIES**

The Bancorp and its Subsidiary Bank have an executive benefit agreement with the current Chief Executive Officer. This agreement contains change in control provisions that would entitle the officer to receive a multiple of his annual compensation if there is a change in control in the Bancorp (as defined) and a termination of his employment under certain circumstances. The maximum contingent liability under this agreement approximates \$649,000 as of December 31, 2019.

The Bank has contracted with a third-party service center to perform substantially all electronic data processing services for the Bank. Pursuant to this agreement, certain payments may become due if the agreement is terminated before April 2023. As of December 31, 2019, the contingent liability to the Bank's service center is estimated to be approximately \$801,000 plus the actual costs incurred in connection with the termination.

The Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, there are no legal actions pending at the time of the audit report.

From time to time, the Bank maintains cash balances in other financial institutions exceeding the Federal Deposit Insurance Corporation's insured balance of up to \$250,000.

**NOTE 20 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In the normal course of business, the Bank has outstanding commitments, contingent liabilities, and other financial instruments that are not reflected in the accompanying consolidated financial statements. These include commitments to extend credit, standby letters of credit, and overdraft protection, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for these commitments is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

NOTE 20 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

Commitments to extend credit - The Bank has outstanding firm commitments to extend credit as follows:

|                               | December 31, 2019   |                     |                      | December 31, 2018   |                      |                      |
|-------------------------------|---------------------|---------------------|----------------------|---------------------|----------------------|----------------------|
|                               | Fixed<br>Rate       | Variable<br>Rate    | Total                | Fixed<br>Rate       | Variable<br>Rate     | Total                |
| Real estate loans             | \$ 56               | \$ 2,046,312        | \$ 2,046,368         | \$ -                | \$ -                 | \$ -                 |
| Installment loans             | 57,490              | -                   | 57,490               | -                   | -                    | -                    |
| Commercial loans              | 1,406,149           | -                   | 1,406,149            | 1,048,061           | -                    | 1,048,061            |
| Home equity loans             | -                   | 1,970,213           | 1,970,213            | -                   | 1,854,782            | 1,854,782            |
| Commercial lines of<br>credit | 2,153,456           | 5,107,135           | 7,260,591            | 2,852,130           | 11,059,395           | 13,911,525           |
| <b>Total</b>                  | <b>\$ 3,617,151</b> | <b>\$ 9,123,660</b> | <b>\$ 12,740,811</b> | <b>\$ 3,900,191</b> | <b>\$ 12,914,177</b> | <b>\$ 16,814,368</b> |

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. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon, accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment, or real estate.

Standby letters of credit - The Bank has commitments under standby letters of credit that totaled \$418,913 and \$468,589 as of December 31, 2019 and 2018, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. These letters of credit are generally uncollateralized.

Overdraft protection - The Bank has an overdraft privilege product with qualified individual transaction account holders providing automatic payment of overdrafts up to a specified amount based on the type of account, charging the standard overdraft fee. The Bank had commitments of \$1,027,432 and \$1,082,564 as of December 31, 2019 and 2018, respectively.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques 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 this guidance are described below.



NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets and liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Accordingly, investment securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or writedowns of individual assets.

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

Investment securities available-for-sale - Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or traded by dealers or brokers in active over-the-counter markets. Level 2 securities include securities issued by government sponsored entities, mortgage-backed securities, and municipal bonds. Level 3 securities include those with unobservable inputs. Transfers between levels can occur due to changes in the observability of significant inputs.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following are assets and liabilities that were accounted for or disclosed at fair value on a recurring basis:

|  | Fair Value           | Fair Value Measurements at Reporting Date Using:  |   |  |
|--|----------------------|---|---|--|
|  |                      | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets/<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>December 31, 2019</u>                     |                      |   |   |  |
| Securities available-for-sale                |                      |   |   |  |
| U.S. government and federal agencies         | \$ 6,949,318         | \$ -  | \$ 6,949,318  | \$ -   |
| Mortgage-backed securities                   | 7,890,168            | -   | 7,890,168   | -  |
| State, county, and municipal -<br>nontaxable | 12,733,402           | -   | 12,733,402  | -  |
| State, county, and municipal - taxable       | <u>1,660,748</u>     | -   | <u>1,660,748</u>  | -  |
| Total securities available-for-sale          | <u>\$ 29,233,636</u> | <u>\$ -</u>   | <u>\$ 29,233,636</u>                                      | <u>\$ -</u>  |
| <u>December 31, 2018</u>                     |                      |   |   |  |
| Securities available-for-sale                |                      |   |   |  |
| U.S. government and federal agencies         | \$ 7,838,669         | \$ -  | \$ 7,838,669  | \$ -   |
| State, county, and municipal -<br>nontaxable | 8,378,149            | -   | 8,378,149   | -  |
| State, county, and municipal - taxable       | <u>1,606,384</u>     | -   | <u>1,606,384</u>  | -  |
| Total securities available-for-sale          | <u>\$ 17,823,202</u> | <u>\$ -</u>   | <u>\$ 17,823,202</u>                                      | <u>\$ -</u>  |

The following describes the valuation techniques used to measure certain financial assets and liabilities recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses may need to be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. As of December 31, 2019, the fair value of substantially all of the impaired loans was estimated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of the collateral, require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Other real estate owned (OREO) - OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the consolidated balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

The following are assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis:

|                               | Fair Value        | Fair Value Measurements at Reporting Date Using:                           |   |   |
|-------------------------------|-------------------|--|---|---|
|                               |                   | Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>December 31, 2019</u>      |                   |  |   |   |
| Other real estate owned:      |                   |  |   |   |
| Residential                   | \$ 35,000         | \$ -   | \$ -  | \$ 35,000                                 |
| Total other real estate owned | <u>\$ 35,000</u>  | <u>\$ -</u>  | <u>\$ -</u>                                   | <u>\$ 35,000</u>                          |
| <u>December 31, 2018</u>      |                   |  |   |   |
| Impaired loans:               |                   |  |   |   |
| Secured by real estate        |                   |  |   |   |
| Commercial                    | \$ 370,000        | \$ -   | \$ -  | \$ 370,000                                |
| Total impaired loans          | <u>\$ 370,000</u> | <u>\$ -</u>  | <u>\$ -</u>                                   | <u>\$ 370,000</u>                         |

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The quantitative information about Level 3 fair value measurements for financial assets and liabilities measured at fair value on a nonrecurring basis is as follows:

| Description              | Fair Value | Valuation Technique     | Significant<br>Unobservable Input | Range |
|--------------------------|------------|-------------------------|-----------------------------------|-------|
| <u>December 31, 2019</u> |            |                         |                                   |       |
| Other real estate owned: |            |                         |                                   |       |
| Residential              | \$ 35,000  | Appraisal of property   | Appraisal adjustment              | 42%   |
| <u>December 31, 2018</u> |            |                         |                                   |       |
| Impaired loans:          |            |                         |                                   |       |
| Secured by real estate   |            |                         |                                   |       |
| Commercial               | \$ 370,000 | Appraisal of collateral | Appraisal adjustment              | 18%   |

The following methods and assumptions were used to estimate the fair value disclosures for other financial instruments as of December 31, 2019 and 2018:

Cash and cash equivalents - The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Time deposits - The fair value of time deposits is estimated to approximate the carrying amounts.

Other securities - Other securities consist of restricted equity securities in the Federal Home Loan Bank (FHLB) and are carried at cost. Because there is no market, the carrying value of restricted equity securities approximate fair value based on the redemption provisions of the FHLB.

Loans - The fair value of loans is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Accrued interest receivable and payable - The fair value of accrued interest approximates the carrying amounts.

Bank owned life insurance - The fair value of bank owned life insurance approximates the cash surrender value of the policies.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing and interest-bearing demand deposits, regular savings, and certain types of money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Advance payments from borrowers for taxes and insurance - The fair value of escrow accounts is estimated to approximate the carrying amount.

Off-balance-sheet instruments - The fair values of commitments to extend credit, standby letters of credit, and overdraft protection are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments to extend credit, standby letters of credit, and overdraft protection are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown.

The estimated fair value of the financial instruments is as follows:

|  | December 31, 2019  |               | December 31, 2018  |               |
|--|--------------------|---------------|--------------------|---------------|
|  | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value    |
| Financial assets   |                    |               |                    |               |
| Cash and cash equivalents                                  | \$ 13,120,520      | \$ 13,120,520 | \$ 7,722,877       | \$ 7,722,877  |
| Time deposits  | 5,000,000          | 5,000,000     | 3,500,000          | 3,500,000     |
| Securities available-for-sale                              | 29,233,636         | 29,233,636    | 17,823,202         | 17,823,202    |
| Other securities   | 66,300             | 66,300        | 66,800             | 66,800        |
| Loans  | 89,279,346         | 89,183,351    | 98,597,993         | \$ 98,408,014 |
| Accrued interest receivable                                | 388,884            | 388,884       | 339,229            | 339,229       |
| Bank owned life insurance                                  | 3,281,811          | 3,281,811     | 3,226,277          | 3,226,277     |
| Financial liabilities                                      |                    |               |                    |               |
| Deposits   | 126,423,580        | 126,619,174   | 117,930,679        | 117,949,203   |
| Advance payments from borrowers<br>for taxes and insurance | 97,223             | 97,223        | 102,151            | 102,151       |
| Accrued interest payable                                   | 82,818             | 82,818        | 47,849             | 47,849        |

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The following financial statements reflect the financial position, results of operations, and cash flows of West-Central Bancorp, Inc. (Parent Company Only).

CONDENSED BALANCE SHEETS

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2019          | 2018          |
| <b>Assets</b>  |               |               |
| Cash and due from banks (all from subsidiary bank)   | \$ 25,798     | \$ 4,203      |
| Investment in subsidiaries (equity basis)  | 15,532,315    | 15,060,719    |
| <b>Total assets</b>  | \$ 15,558,113 | \$ 15,064,922 |
| <b>Liabilities and shareholders' equity</b>  |               |               |
| Total liabilities  | \$ -          | \$ -          |
| <b>Shareholders' equity</b>  |               |               |
| Common stock (par value \$1.00; 5,000,000 shares authorized; 350,860 shares issued; 184,453 shares outstanding as of December 31, 2019 and 2018) | 350,860       | 350,860       |
| Additional paid in capital   | 1,597,246     | 1,597,246     |
| Retained earnings  | 17,801,596    | 17,475,938    |
| Less: treasury stock, at cost (166,407 shares as of December 31, 2019 and 2018)  | (4,208,079)   | (4,208,079)   |
| Accumulated other comprehensive income (loss)  | 16,490        | (151,043)     |
| <b>Total shareholders' equity</b>  | 15,558,113    | 15,064,922    |
| <b>Total liabilities and shareholders' equity</b>  | \$ 15,558,113 | \$ 15,064,922 |

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF INCOME

|   | Years Ended December 31, |              |            |
|---|--------------------------|--------------|------------|
|   | 2019                     | 2018         | 2017       |
| Income  |                          |              |            |
| Dividend income from subsidiaries   | \$ 206,100               | \$ 1,717,739 | \$ 226,333 |
| Total income  | 206,100                  | 1,717,739    | 226,333    |
| Expenses  |                          |              |            |
| Other expenses  | 52                       | 52           | 50         |
| Total expenses  | 52                       | 52           | 50         |
| Income before income tax expense and equity in undistributed earnings of subsidiaries | 206,048                  | 1,717,687    | 226,283    |
| Income tax expense  | -                        | -            | -          |
| Income before equity in undistributed earnings of subsidiaries                        | 206,048                  | 1,717,687    | 226,283    |
| Equity in undistributed earnings of subsidiaries                                      | 304,063                  | -            | 263,007    |
| Equity distributions from subsidiaries  | -                        | (864,543)    | -          |
| Net income  | \$ 510,111               | \$ 853,144   | \$ 489,290 |

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

|   | Years Ended December 31, |             |            |
|---|--------------------------|-------------|------------|
|   | 2019                     | 2018        | 2017       |
| Cash flows from operating activities  |                          |             |            |
| Net income  | \$ 510,111               | \$ 853,144  | \$ 489,290 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |                          |             |            |
| Equity in undistributed earnings of subsidiaries  | (304,063)                | -           | (263,007)  |
| Equity distributions from subsidiaries  | -                        | 864,543     | -          |
| Total adjustments   | (304,063)                | 864,543     | (263,007)  |
| Net cash provided (used) by operating activities  | 206,048                  | 1,717,687   | 226,283    |
| Cash flows from financing activities  |                          |             |            |
| Purchases of treasury stock   | -                        | (1,576,768) | (3,600)    |
| Cash dividends paid   | (184,453)                | (197,160)   | (209,900)  |
| Net cash provided (used) by financing activities  | (184,453)                | (1,773,928) | (213,500)  |
| Net increase (decrease) in cash and cash equivalents                                    | 21,595                   | (56,241)    | 12,783     |
| Cash and cash equivalents at beginning of year  | 4,203                    | 60,444      | 47,661     |
| Cash and cash equivalents at end of year  | \$ 25,798                | \$ 4,203    | \$ 60,444  |

Principal sources of income for the Bancorp are dividends received from its Subsidiaries. State law imposes limitations on the payment of dividends by the Subsidiary Bank of the Bancorp. A dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net profits combined with the retained net profits of the two preceding years unless the bank obtains regulatory approval.

Loans and extensions of credit must be secured in specified amounts. The Bancorp had no borrowings outstanding from its Subsidiary Bank as of December 31, 2019.



NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

The Bancorp accounts for its investments in its Subsidiaries by the equity method. During the years ended December 31, 2019, 2018, and 2017, changes in the investments were as follows:

|   | West Central<br>Insurance, LLC | First<br>Neighborhood<br>Bank, Inc. |
|---|--------------------------------|-------------------------------------|
| Percent to total shares                     | 100%                           | 100%                                |
| Balance at December 31, 2016                | \$ 46,610                      | \$ 15,683,977                       |
| Add (deduct)                                |                                |                                     |
| Equity in net income                        | 16,433                         | 472,907                             |
| Equity in other comprehensive income (loss) | -                              | (8,599)                             |
| Dividends declared                          | (16,433)                       | (209,900)                           |
| Balance at December 31, 2017                | 46,610                         | 15,938,385                          |
| Add (deduct)                                |                                |                                     |
| Equity in net income                        | 20,613                         | -                                   |
| Equity in distributions                     | -                              | 832,583                             |
| Equity in other comprehensive income (loss) | -                              | (59,733)                            |
| Dividends declared                          | (20,613)                       | (1,697,126)                         |
| Balance at December 31, 2018                | 46,610                         | 15,014,109                          |
| Add (deduct)                                |                                |                                     |
| Equity in net income                        | 21,647                         | 488,516                             |
| Equity in other comprehensive income (loss) | -                              | 167,533                             |
| Dividends declared                          | (21,647)                       | (184,453)                           |
| Balance at December 31, 2019                | \$ 46,610                      | \$ 15,485,705                       |

**SUPPLEMENTARY INFORMATION**



INDEPENDENT AUDITOR'S REPORT ON  
CONSOLIDATING INFORMATION

To the Board of Directors  
West-Central Bancorp, Inc. and Subsidiaries  
Spencer, West Virginia

We have audited the consolidated financial statements of West-Central Bancorp, Inc. and its Subsidiaries as of and for the year ended December 31, 2019, and have issued our report thereon dated February 17, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Suttle & Stalnaker, PLLC*

Charleston, West Virginia  
February 17, 2020

The Virginia Center  
1411 Virginia Street, East | Suite 100  
Charleston, WV 25301

MAIN (304) 343-4126  
FAX (304) 343-8008

Towne Square | 201 Third Street  
PO Box 149  
Parkersburg, WV 26102

MAIN (304) 485-6584  
FAX (304) 485-0971

Wharf District  
68 Clay Street | Suite C  
Morgantown, WV 26501

MAIN (304) 554-3371  
FAX (304) 554-3410

suttlecpas.com  
cpa@suttlecpas.com

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2019**

|   | West-Central<br>Bancorp, Inc. | First<br>Neighborhood<br>Bank, Inc. | West Central<br>Insurance, LLC | Consolidating<br>Eliminations | Consolidated<br>Totals |
|---|-------------------------------|-------------------------------------|--------------------------------|-------------------------------|------------------------|
| <b>ASSETS</b>   |                               |                                     |                                |                               |                        |
| Cash and due from banks                                 | \$ 25,798                     | \$ 4,832,250                        | \$ -                           | \$ (25,798)                   | \$ 4,832,250           |
| Interest-earning deposits in other banks                | -                             | 408,270                             | -                              | -                             | 408,270                |
| Federal funds sold                                      | -                             | 7,880,000                           | -                              | -                             | 7,880,000              |
| Cash and cash equivalents                               | 25,798                        | 13,120,520                          | -                              | (25,798)                      | 13,120,520             |
| Time deposits   | -                             | 5,000,000                           | -                              | -                             | 5,000,000              |
| Investment securities                                   |                               |                                     |                                |                               |                        |
| Securities available-for-sale, at fair value            | -                             | 29,233,636                          | -                              | -                             | 29,233,636             |
| Other securities  | -                             | 66,300                              | -                              | -                             | 66,300                 |
| Investment in subsidiaries                              | 15,532,315                    | -                                   | -                              | (15,532,315)                  | -                      |
| Loans   | -                             | 90,177,276                          | -                              | -                             | 90,177,276             |
| Less: allowance for loan losses                         | -                             | (897,930)                           | -                              | -                             | (897,930)              |
| Loans - net   | -                             | 89,279,346                          | -                              | -                             | 89,279,346             |
| Accrued interest receivable                             | -                             | 388,884                             | -                              | -                             | 388,884                |
| Premises and equipment - net                            | -                             | 2,350,659                           | -                              | -                             | 2,350,659              |
| Other real estate owned                                 | -                             | 35,000                              | -                              | -                             | 35,000                 |
| Cash surrender value - bank owned life insurance        | -                             | 3,281,811                           | -                              | -                             | 3,281,811              |
| Deferred income taxes                                   | -                             | 457,175                             | -                              | -                             | 457,175                |
| Other assets  | -                             | 325,916                             | 46,610                         | -                             | 372,526                |
| <b>Total assets</b>                                     | <b>\$ 15,558,113</b>          | <b>\$ 143,539,247</b>               | <b>\$ 46,610</b>               | <b>\$ (15,558,113)</b>        | <b>\$ 143,585,857</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>             |                               |                                     |                                |                               |                        |
| Deposits  |                               |                                     |                                |                               |                        |
| Demand - noninterest-bearing                            | \$ -                          | \$ 40,127,959                       | \$ -                           | \$ (25,798)                   | \$ 40,102,161          |
| Demand - interest-bearing                               | -                             | 27,719,853                          | -                              | -                             | 27,719,853             |
| Savings   | -                             | 20,256,613                          | -                              | -                             | 20,256,613             |
| Time  | -                             | 38,344,953                          | -                              | -                             | 38,344,953             |
| Total deposits  | -                             | 126,449,378                         | -                              | (25,798)                      | 126,423,580            |
| Advance payments from borrowers for taxes and insurance | -                             | 97,223                              | -                              | -                             | 97,223                 |
| Accrued interest payable                                | -                             | 82,818                              | -                              | -                             | 82,818                 |
| Other liabilities                                       | -                             | 1,424,123                           | -                              | -                             | 1,424,123              |
| Total liabilities                                       | -                             | 128,053,542                         | -                              | (25,798)                      | 128,027,744            |
| Shareholders' equity                                    |                               |                                     |                                |                               |                        |
| Common stock  | 350,860                       | 545,669                             | -                              | (545,669)                     | 350,860                |
| Additional paid in capital                              | 1,597,246                     | 1,500,000                           | -                              | (1,500,000)                   | 1,597,246              |
| Retained earnings                                       | 17,801,596                    | 13,423,546                          | 46,610                         | (13,470,156)                  | 17,801,596             |
| Less: treasury stock, at cost                           | (4,208,079)                   | -                                   | -                              | -                             | (4,208,079)            |
| Accumulated other comprehensive income                  | 16,490                        | 16,490                              | -                              | (16,490)                      | 16,490                 |
| Total shareholders' equity                              | 15,558,113                    | 15,485,705                          | 46,610                         | (15,532,315)                  | 15,558,113             |
| <b>Total liabilities and shareholders' equity</b>       | <b>\$ 15,558,113</b>          | <b>\$ 143,539,247</b>               | <b>\$ 46,610</b>               | <b>\$ (15,558,113)</b>        | <b>\$ 143,585,857</b>  |

Refer to the auditor's report on consolidating information.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2019**

|  | West-Central<br>Bancorp, Inc. | First<br>Neighborhood<br>Bank, Inc. | West Central<br>Insurance, LLC | Consolidating<br>Eliminations | Consolidated<br>Totals   |
|--|-------------------------------|-------------------------------------|--------------------------------|-------------------------------|--------------------------|
| <b>Interest income</b>   |                               |                                     |                                |                               |                          |
| Interest and fees on loans   | \$ -                          | \$ 4,520,016                        | \$ -                           | \$ -                          | \$ 4,520,016             |
| Interest on deposits in other banks  | -                             | 125,117                             | -                              | -                             | 125,117                  |
| Interest on federal funds sold   | -                             | 117,628                             | -                              | -                             | 117,628                  |
| Interest and dividends on investment securities                                    | -                             | 464,945                             | -                              | -                             | 464,945                  |
| <b>Total interest income</b>   | <u>-</u>                      | <u>5,227,706</u>                    | <u>-</u>                       | <u>-</u>                      | <u>5,227,706</u>         |
| <b>Interest expense</b>  |                               |                                     |                                |                               |                          |
| Interest on deposits   | -                             | 742,466                             | -                              | -                             | 742,466                  |
| <b>Total interest expense</b>  | <u>-</u>                      | <u>742,466</u>                      | <u>-</u>                       | <u>-</u>                      | <u>742,466</u>           |
| <b>Net interest income</b>   | <u>-</u>                      | <u>4,485,240</u>                    | <u>-</u>                       | <u>-</u>                      | <u>4,485,240</u>         |
| <b>Provision for loan losses</b>   | <u>-</u>                      | <u>285,000</u>                      | <u>-</u>                       | <u>-</u>                      | <u>285,000</u>           |
| <b>Net interest income after provision for loan losses</b>                         | <u>-</u>                      | <u>4,200,240</u>                    | <u>-</u>                       | <u>-</u>                      | <u>4,200,240</u>         |
| <b>Noninterest income</b>  |                               |                                     |                                |                               |                          |
| Service charges and fees   | -                             | 553,162                             | -                              | -                             | 553,162                  |
| Increase in cash surrender value - bank owned life insurance                       | -                             | 55,534                              | -                              | -                             | 55,534                   |
| Net realized gains (losses) from sales of investment securities available-for-sale | -                             | (6,211)                             | -                              | -                             | (6,211)                  |
| Dividend income from subsidiaries  | 206,100                       | -                                   | -                              | (206,100)                     | -                        |
| Equity in undistributed earnings of subsidiaries                                   | 304,063                       | -                                   | -                              | (304,063)                     | -                        |
| Other income   | -                             | 46,425                              | 21,647                         | -                             | 68,072                   |
| <b>Total noninterest income</b>  | <u>510,163</u>                | <u>648,910</u>                      | <u>21,647</u>                  | <u>(510,163)</u>              | <u>670,557</u>           |
| <b>Noninterest expense</b>   |                               |                                     |                                |                               |                          |
| <b>General and administrative</b>  |                               |                                     |                                |                               |                          |
| Compensation and benefits  | -                             | 2,278,055                           | -                              | -                             | 2,278,055                |
| Occupancy and equipment  | -                             | 583,935                             | -                              | -                             | 583,935                  |
| FDIC assessment  | -                             | 24,000                              | -                              | -                             | 24,000                   |
| Data processing  | -                             | 502,361                             | -                              | -                             | 502,361                  |
| Other expenses   | 52                            | 880,822                             | -                              | -                             | 880,874                  |
| <b>Total noninterest expense</b>   | <u>52</u>                     | <u>4,269,173</u>                    | <u>-</u>                       | <u>-</u>                      | <u>4,269,225</u>         |
| <b>Income before income tax expense</b>  | <u>510,111</u>                | <u>579,977</u>                      | <u>21,647</u>                  | <u>(510,163)</u>              | <u>601,572</u>           |
| <b>Income tax expense</b>  | <u>-</u>                      | <u>91,461</u>                       | <u>-</u>                       | <u>-</u>                      | <u>91,461</u>            |
| <b>Net income</b>  | <u><u>\$ 510,111</u></u>      | <u><u>\$ 488,516</u></u>            | <u><u>\$ 21,647</u></u>        | <u><u>\$ (510,163)</u></u>    | <u><u>\$ 510,111</u></u> |

Refer to the auditor's report on consolidating information.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2019**

|   | West-Central<br>Bancorp, Inc. | First<br>Neighborhood<br>Bank, Inc. | West Central<br>Insurance, LLC | Consolidating<br>Eliminations | Consolidated<br>Totals |
|---|-------------------------------|-------------------------------------|--------------------------------|-------------------------------|------------------------|
| Cash flows from operating activities  |                               |                                     |                                |                               |                        |
| Net income  | \$ 510,111                    | \$ 488,516                          | \$ 21,647                      | \$ (510,163)                  | \$ 510,111             |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |                               |                                     |                                |                               |                        |
| Equity in undistributed earnings of subsidiaries  | (304,063)                     | -                                   | -                              | 304,063                       | -                      |
| Depreciation  | -                             | 191,867                             | -                              | -                             | 191,867                |
| Provision for loan losses   | -                             | 285,000                             | -                              | -                             | 285,000                |
| Provision for deferred income tax   | -                             | 61,595                              | -                              | -                             | 61,595                 |
| Amortizations (accretions) on investment securities - net                               | -                             | 132,532                             | -                              | -                             | 132,532                |
| Net realized (gains) losses from sales of investment securities available-for-sale      | -                             | 6,211                               | -                              | -                             | 6,211                  |
| Amortization of deferred gain on sale-leaseback transaction                             | -                             | (16,920)                            | -                              | -                             | (16,920)               |
| Other real estate owned writedown   | -                             | 25,000                              | -                              | -                             | 25,000                 |
| (Increase) decrease in accrued interest receivable                                      | -                             | (49,655)                            | -                              | -                             | (49,655)               |
| (Increase) decrease in cash surrender value - bank owned life insurance                 | -                             | (55,534)                            | -                              | -                             | (55,534)               |
| (Increase) decrease in other assets   | -                             | (184,060)                           | -                              | -                             | (184,060)              |
| Increase (decrease) in accrued interest payable   | -                             | 34,969                              | -                              | -                             | 34,969                 |
| Increase (decrease) in other liabilities  | -                             | (142,183)                           | -                              | -                             | (142,183)              |
| Total adjustments   | (304,063)                     | 288,822                             | -                              | 304,063                       | 288,822                |
| Net cash provided (used) by operating activities  | 206,048                       | 777,338                             | 21,647                         | (206,100)                     | 798,933                |
| Cash flows from investing activities  |                               |                                     |                                |                               |                        |
| Net (increase) decrease in time deposits  | -                             | (1,500,000)                         | -                              | -                             | (1,500,000)            |
| Purchases of investment securities available-for-sale                                   | -                             | (21,605,695)                        | -                              | -                             | (21,605,695)           |
| Proceeds from maturities and calls of investment securities available-for-sale          | -                             | 6,985,000                           | -                              | -                             | 6,985,000              |
| Proceeds from principle payments on investment securities available-for-sale            | -                             | 306,651                             | -                              | -                             | 306,651                |
| Proceeds from sales of investment securities available-for-sale                         | -                             | 2,993,400                           | -                              | -                             | 2,993,400              |
| Redemptions of Federal Home Loan Bank stock   | -                             | 500                                 | -                              | -                             | 500                    |
| Net (increase) decrease in loans  | -                             | 9,123,647                           | -                              | -                             | 9,123,647              |
| Proceeds from sale-leaseback transaction  | -                             | 100,000                             | -                              | -                             | 100,000                |
| Capital expenditures  | -                             | (108,313)                           | -                              | -                             | (108,313)              |
| Net cash provided (used) by investing activities  | -                             | (3,704,810)                         | -                              | -                             | (3,704,810)            |

Refer to the auditor's report on consolidating information.

**WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2019**  
**(Continued)**

|  | West-Central<br>Bancorp, Inc. | First<br>Neighborhood<br>Bank, Inc. | West Central<br>Insurance, LLC | Consolidating<br>Eliminations | Consolidated<br>Totals |
|--|-------------------------------|-------------------------------------|--------------------------------|-------------------------------|------------------------|
| Cash flows from financing activities   |                               |                                     |                                |                               |                        |
| Net increase (decrease) in total deposits  | \$ -                          | \$ 8,514,496                        | \$ -                           | \$ (21,595)                   | \$ 8,492,901           |
| Net increase (decrease) in advance payments from borrowers for taxes and insurance | -                             | (4,928)                             | -                              | -                             | (4,928)                |
| Cash dividends paid  | (184,453)                     | (184,453)                           | (21,647)                       | 206,100                       | (184,453)              |
| Net cash provided (used) by financing activities                                   | (184,453)                     | 8,325,115                           | (21,647)                       | 184,505                       | 8,303,520              |
| Net increase (decrease) in cash and cash equivalents                               | 21,595                        | 5,397,643                           | -                              | (21,595)                      | 5,397,643              |
| Cash and cash equivalents at beginning of year                                     | 4,203                         | 7,722,877                           | -                              | (4,203)                       | 7,722,877              |
| <b>Cash and cash equivalents at end of year</b>                                    | <b>\$ 25,798</b>              | <b>\$ 13,120,520</b>                | <b>\$ -</b>                    | <b>\$ (25,798)</b>            | <b>\$ 13,120,520</b>   |
| Supplemental schedule of noncash investing and financing activities                |                               |                                     |                                |                               |                        |
| Loans transferred to other real estate owned                                       | \$ -                          | \$ 60,000                           | \$ -                           | \$ -                          | \$ 60,000              |
| Loan origination from sale-leaseback transaction                                   | \$ -                          | \$ 150,000                          | \$ -                           | \$ -                          | \$ 150,000             |
| Supplemental disclosure of cash flows information                                  |                               |                                     |                                |                               |                        |
| Cash paid during the year for  |                               |                                     |                                |                               |                        |
| Interest   | \$ -                          | \$ 707,497                          | \$ -                           | \$ -                          | \$ 707,497             |
| Income taxes   | \$ -                          | \$ 276,866                          | \$ -                           | \$ -                          | \$ 276,866             |

Refer to the auditor's report on consolidating information.